

**VIRGINIA STATE CORPORATION COMMISSION**  
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By  
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**Competition for Electric Metering and Billing**

I. Introduction

- A. The Virginia Electric Utility Restructuring Act (SB 1269) of 1999 directed the State Corporation Commission to evaluate potential competition in metering, billing and other services not made competitive by the Act, and report to the General Assembly by September 1, 1999. On that date, the Commission issued its report.
- B. The report has two key conclusions:
  - 1. Changes in the metering and billing industries increase the possibilities for the competitive provision of these services at retail.
  - 2. Competitive metering and billing can promote the development of a competitive electricity market, by lowering market barriers and by enhancing customer choice.
- C. Based on these conclusions we therefore recommend that the General Assembly direct the Commission to implement competition in metering and billing services after the Commission makes findings, based on legislative criteria, that such competition is appropriate.

II. Recent Changes in the Metering and Billing Businesses

- A. For many years, the local utility has been the sole provider of basic metering and billing services. For most customers today, the utility owns, installs and maintains a simple electromechanical device, measuring cumulative usage, and utility employees read this meter manually once a month. Most customers receive the same bill type and have few, if any, billing service options.
- B. In recent years, the metering and billing industries have changed significantly, however, these changes include:

1. New products, such as (1) automated metering reading ("AMR") technology, which uses communications systems to provide the benefits of frequent meter readings from a remote location and access to other home services, and (2) new billing services, including Internet access to billing information and a single bill for various services and locations.
  2. New providers, as new entrants come to developing retail markets, and as utilities "outsource" both standardized and specialized services, which utilities then resell to their retail customers.
- C. Our report examines the potential for these changes to advance the cause of competition in Virginia.

### III. The Potential for Competition in Billing Services

- A. Competitive billing means allowing the marketplace, rather than a regulated monopoly, to determine who communicates billing information to the customer, what that information consists of and how it is displayed.
- B. At present, most utilities send their customers monthly bills that are standard in format, information and payment terms. This single format, determined by a regulated utility, is not compatible with a competitive marketplace. Electricity bills are not mere invoices. They help establish a competitor's market presence and brand identity. They allow the seller to educate the consumer and offer other key services such as energy management, Internet, or home security services. Given the commodity nature of electricity, seller differentiation through brand and product diversification is key to a working market.
- C. As stated in our report: "[T]o invite a business to come to Virginia, but then require [that business] to rely on a third party to bill and collect for its services, is inconsistent with customary practice. It is particularly inappropriate where the third party -- the utility -- is a competitor of the seller."
- D. Commercial electricity customers emphasized to Commission staff that the contractual relationship between customer and supplier must be confidential. They view direct billing communications as essential to that confidentiality. These important customers also seek choices on timing, information content and formatting of bills.
- E. The Report examines different types of billing options. In those states implementing billing competition, the main options include:
1. two bills: one from the competitive electric service provider (ESP), and one from the local distribution company (LDC);

2. one consolidated bill for generation and distribution services furnished by the LDC; and
  3. a consolidated bill furnished by the ESP.
- F. The majority of those restructuring states that have considered the competitive billing issues have adopted a competitive market structure that provides at least two of these options. Examples are Maryland, Pennsylvania, Delaware and Texas.
- G. The Commission identified concerns such as consumer readiness, billing accuracy, coordination with the implementation of retail generation competition, economies of scale and communications protocol. The Commission concluded that these concerns can be and must be managed to make competition effective.
- H. Additionally, the report notes that any potential change in the provision of billing and metering services that results in new parties (suppliers other than LDCs) performing these services will require an assessment of the need for statutory clarification or revisions with respect to the billing and collection of state and local consumption taxes. The Commission staff, of course, will be available to provide assistance to the General Assembly as this issue is studied.

#### IV. The Potential for Competition in Metering Services

- A. Metering services is no longer a single product. The potential for competition exists in several related services, including (i) meter ownership, (ii) meter installation, (iii) meter maintenance and repair, (iv) meter reading, and (v) meter data management. Meter data management, in turn, includes validation, editing, estimation, accumulation and communication.
- B. More specifically, new technologies like automated metering reading use communications networks that allow electricity suppliers to do two essential things:
1. predict demand more accurately and avoid financial penalties associated with contracting for the delivery of too little or too much generation
  2. compete for customers by offering creative pricing programs based upon time of usage and value-added services, such as Internet access, home security and appliance control.
- C. The present metering process is not readily compatible with a competitive electricity market. The typical Virginia electricity customer's meter is a simple, mechanical device measuring cumulative usage, and read manually once a month.
- D. But, in competitive electricity markets, a key means of comparing sellers will be not only monthly charges but time-differentiated prices. The reason lies in the

operation of wholesale generation markets. These markets are progressing toward hourly pricing and hourly settlements of transactions. If retail meters cannot track the changes in wholesale markets, retail customers cannot shop for the lowest cost power, and the very goal of competition -- lower costs -- is endangered. Absent hourly data, marketers will have to conclude wholesale settlements on the basis of customers' estimated load profiles, a process which is inaccurate. Competition is about creating efficient price signals; and without hourly metering price signals will be missing.

- E. Thus, without hourly metering data, a competitive ESP with access to off-peak generation, for example, would be unable to pass along the full benefits of off-peak pricing to a Virginia commercial customer looking to cut its electricity costs during nighttime operations. The reason? The ESP's wholesale financial settlement would be concluded on the customer's estimated load profile, and not on the basis of the customer's actual, hourly usage.
- F. In short, without hourly meters there cannot be time-differentiated retail prices, and without such price signals the development of effective competition may be hampered severely. New meters, meter providers, pricing plans and billing strategies are all interrelated and all are critical to the effective development of competition.
- G. Finally, metering competition will require care. Concerns include (i) billing data accuracy, (ii) safety, (iii) economies of scope and scale, (iv) interjurisdictional coordination and (v) consumer readiness. However, the Commission's investigation indicates that these concerns can be resolved in a manner that is compatible with the public interest and with effective competition.

## V. Recommendation

- A. The General Assembly has directed the commencement of retail competition beginning January 1, 2002. Essential to an orderly and successful phase-in is clarification of the future of metering and billing services. Competitive providers investigating Virginia's potential as a market soon will need to see the broad outlines, and then the details, of how we will treat metering and billing. Consumers will need to learn about their options and make decisions about what new equipment to acquire.
- B. Competitive providers and consumers -- those are the groups that will make competition work. To satisfy their needs in time, the Commission needs to start its work right away. For that reason, we will be requesting from the General Assembly in 2000 a legislative directive, to the Commission, to introduce

competition when and where appropriate in metering and billing, subject to specific legislative criteria.

- C. Waiting until 2001 to enact this authority would leave the Commission, and the market, with less than a year to get the job done. That is too short a time to identify the services, determine which should be subjected to competition, hold public hearings to develop rules, and still leave the new entrants with time to prepare their products, develop customer loyalty, create a supply network and comply with new rules. Suppliers need to know, in advance, how they will be communicating with customers and what products they may sell.
- D. We will suggest the General Assembly specify criteria which the Commission must apply in determining whether and when to authorize metering or billing competition. These criteria might include: (i) the potential for lower prices for the service or some other service, (ii) the potential for increased product or service choices for customers, (iii) the potential for competition in other markets, (iv) customer preparedness, (v) effects on reliability and safety, and (vi) the readiness of new competitors to enter the relevant market.
- E. This approach will result in a reasonable mix of legislative and Commission decision making. The factors affecting the desirability of metering and billing competition are likely to change. Innovative technologies are emerging, costs are falling and third-party providers are supplying more services. Other states are opening retail metering and billing markets to competition on varying schedules. Different customer classes, different utilities and different regions may reach readiness for metering and billing competition at different times.
- F. Given this dynamic nature of the business, the Commission will need flexibility in its mandate to implement competition. We will need to reassess the changes in the benefits and costs of competition for a given service on a more frequent basis than the annual recommendations that the new statute requires. Directing the Commission to make these decisions will, therefore, (1) allow timely responsiveness to changing facts, and (2) enable the Commission to coordinate the metering and billing decisions with its other restructuring decisions.
- G. This result also is consistent with statutes in several other states that are introducing competition in the retail market for electricity.

## VI. Conclusion

- A. The implementation of competition in a historically monopolistic industry is a difficult task. Competition in metering and billing services will be central to success. Metering and billing provide a direct communication link to customers. Direct communication with customers is essential to establishing commercial

relationships. Commercial relationships are, in turn, necessary to capture and maintain a long-term market share.

- B. On the other hand, forcing customers to take metering and billing services from the incumbent utility would deprive the new energy service providers of a key competitive tool: offering new products and communicating directly with consumers about them.
- C. Effective competition -- the only type of competition that benefits consumers by lowering prices and increasing product quality and diversity -- cannot exist unless new competitors enter the market, gain market share and stay in that market. To do so, the new competitors need to be able to offer their own versions of metering and billing services.