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Trend toward Reexamination of Full Liberalization of the Retail Electricity Market in Massachusetts, the United States

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In Massachusetts in the northeastern United States, full liberalization of the retail electricity market was introduced in 1998 but in recent years the electricity pricing of competitive suppliers has been set higher than the regulated pricing of the electric companies, and it has been pointed out that poor customers in particular have borne economic losses. For this reason, currently the state legislature is advancing legislative procedures in the direction of reexamining the liberalization of the retail electricity market targeting the electricity supply for residential retail customers.

Regarding the fully liberalized retail electricity market, it is thought that problems exist from the perspectives of “symmetry of information” and “literacy” in the household sector, unlike in the industrial sector and commercial sector. For example, customers have not obtained sufficient information from the retail electricity suppliers, do not appropriately carry out comparative examinations of the levels of pricing presented by retail electricity suppliers, and do not confirm the details of the contract conditions. In a market environment with these kinds of problems, room is created for retail electricity suppliers to engage in the opportunistic behavior of presenting to customers slightly more expensive pricing when executing contracts.

Going forward, if full liberalization of the retail electricity market is abolished in Massachusetts, there is a strong possibility that this kind of reform will spill over into other states. At a time when retail electricity prices are being raised in Western countries, the strengthening of regulations in the retail electricity market has become a global trend.

Moves to reexamine the full liberalization of the retail electricity market in Massachusetts

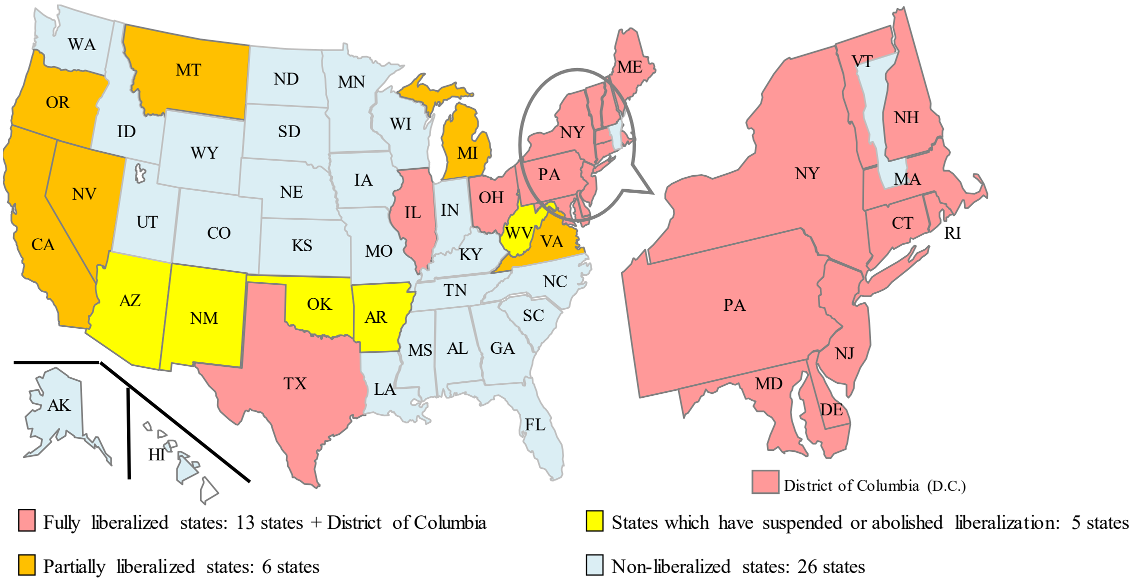
In the United States, currently full liberalization of the retail electricity market has been introduced in 13 states, including Massachusetts, and in Washington D.C. In Massachusetts, pursuant to the Massachusetts Electric Industry Restructuring Act established in 1997, electric companies were required to sell off their power-generating facilities, and then full liberalization of the retail electricity market was introduced from 1998.

In recent years, it has been seen as a problem that the market pricing of competitive suppliers is more expensive than the basic service pricing (regulated pricing) of the electric companies, and since 2018 the reexamination of full liberalization of the retail electricity market has been raised in the Massachusetts legislature. For this reason, legislative procedures are being advanced in Massachusetts for a Senate bill incorporating the provision that "beginning on January 1, 2023, no competitive suppliers shall execute a new contract or renew an existing contract for generation services with any individual residential retail customer" (S.2842).[1] Supposing the above prohibition is adopted, the customers receiving supply from a competitive supplier will switch in stages to supply from the electric companies.

In an on-line survey of residential retail customers in Massachusetts conducted by a consulting company, 79% of the respondents wanted to be able to choose their retail electricity supplier, so the bill does not necessarily have content which matches the wishes of the customers.[2] Furthermore, effects are anticipated such as customers becoming unable to select the options provided by the competitive suppliers for 100% renewable energy pricing.

[1] https://malegislature.gov/Bills/192/S2842.pdf
[2] https://www.surveyusa.com/client/PollReport.aspx?g=80ba68b1-e967-4ebb-a0e3-eecdc5272928

Figure-1 The status of liberalization of the retail electricity market in each state of the United States



[Source] Prepared by The Institute of Energy Economics, Japan (IEEJ)

The pricing structure in Massachusetts

In Massachusetts, there are electric companies in each of four regions and they supply electricity at the basic service pricing to customers who have not switched to competitive suppliers.[3]

The basic service pricing of the electric companies for residential retail customers in Massachusetts is normally revised every six months and the approval of the state government is necessary when raising prices. The basic service pricing is comprised of (1) the wholesale electricity procurement cost, (2) Renewable Energy Portfolio Standard (RPS) system compliance costs, and (3) administrative costs. Regarding (1), these are the costs incurred when the electric companies procure electricity from electricity producers based on competitive bidding. Regarding (2), these are the costs of the renewable energy value which is necessary to comply with the RPS stipulated by Massachusetts. Note that the basic service pricing constitutes the supply cost part while the power transmission and distribution pricing and taxes and other public charges, etc. are included in the final electricity pricing.

On the other hand, the market pricing of the competitive suppliers differs from the basic

[3] https://www.mass.gov/info-details/basic-service-information-and-rates#basic-service-pricing-

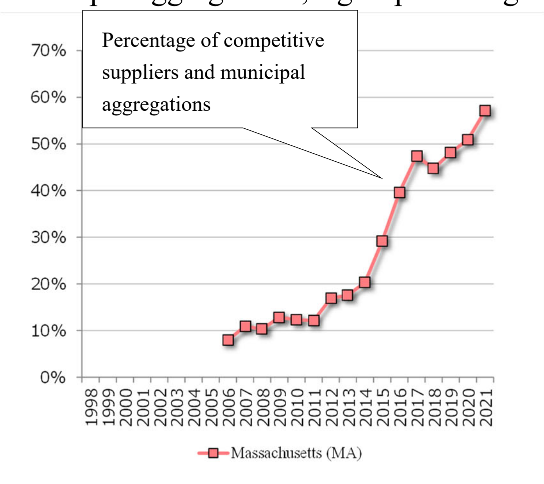
service pricing of the electric companies regarding the following points: (1) regarding prices, fixed prices and variable prices are applied, (2) regarding the contract term, a variety of terms such as 6 months, 12 months, 24 months, etc. are established, and (3) regarding the renewable energy ratio, the ratio that is mandatory under the RPS or a higher renewable energy ratio is established, etc.

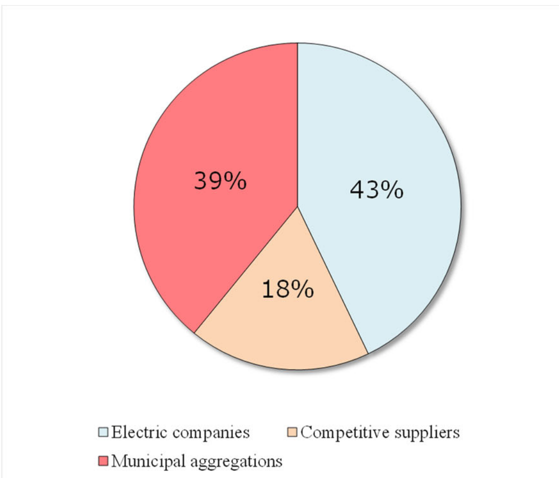
The situation in the retail electricity market in Massachusetts

In Massachusetts, since full liberalization of the retail electricity market was introduced in 1998 the percentage of household electricity supply accounted for by the competitive suppliers (municipal aggregations) has been increasing year by year. In 2021 the percentage of electric companies was 43%, the percentage of competitive suppliers was 18%, and the percentage of municipal aggregations was 39%.

A municipal aggregation is a system under which municipalities purchase electricity in bulk from competitive retail electricity suppliers on behalf of the customers. Note that the aforementioned phasing out of the electricity supply to residential retail customers by competitive suppliers does not apply to municipal aggregations.

Figure-2 Percentage of the household electricity supply of Massachusetts accounted for by each supplier type (left: the trend in the percentage of competitive suppliers and municipal aggregations; right: percentage by supplier type in 2021)





[Source] https://www.mass.gov

[Note] The market share of the amount of electricity sold (kWh) in December each year

Problems with the full liberalization of the retail electricity market in Massachusetts

The National Customer Law Center (NCLC), a nonprofit organization which handles customer problems, indicated in a report it published in 2018 that residential retail customers who had switched to competitive suppliers were charged more expensive electricity prices than the electricity prices of the electric companies.[4]

According to the report, the approval of the state government is necessary for the electric companies to raise electricity prices but competitive suppliers are able to freely change their electricity prices, so they are excessively raising their electricity prices during the contract terms. It indicated that there is a particular tendency for low-income customers to be paying excessive electricity prices, so there is a possibility that some of the competitive suppliers are deliberately providing misinformation to low-income customers in order to execute unfair contracts.

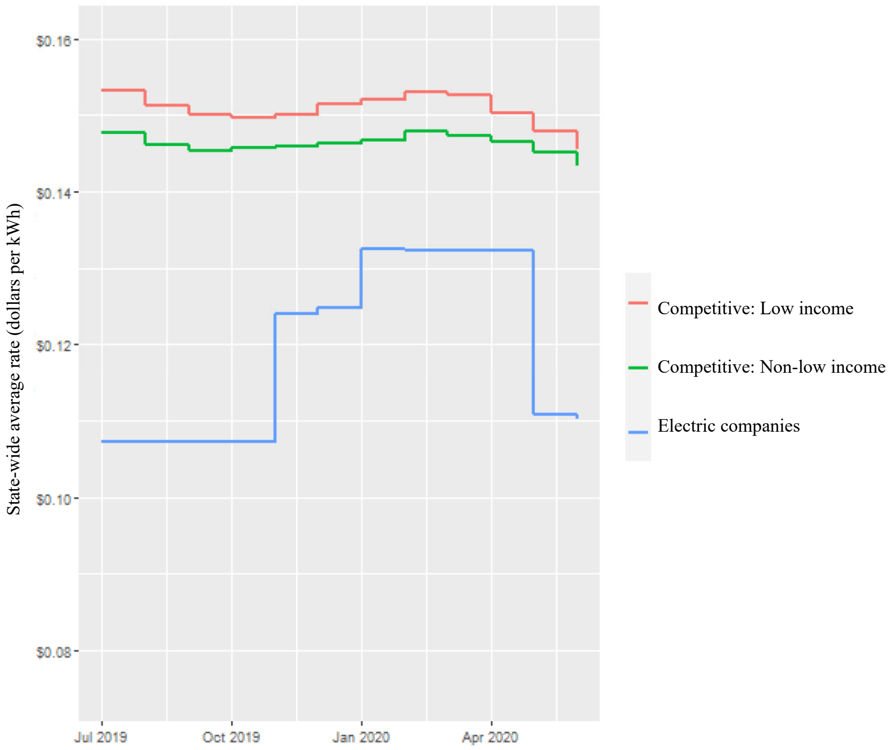
In response to this situation, the NCLC has recommended to the state government that it consider limiting the target of liberalization of the retail electricity market to the electricity supply to industrial and commercial customers and the electricity supply via the municipal aggregations system and then removing residential retail customers from the target of liberalization of the retail electricity market, etc.

Furthermore, the Massachusetts Attorney General's Office, in a report analyzing the benefits of retail electricity market liberalization for residential retail customers in Massachusetts in 2021, stated that Massachusetts consumers in the individual residential electric supply market paid $425.7 million more than they would have paid if they had received electric supply from their electric company during the five-year period from July 2015 to June 2020.[5] Moreover, it reported that in Massachusetts there was a tendency for low-income residential retail customers to choose competitive suppliers more, with low-income households at 31% while non-low-income households are only at 17%.

The report reaches the conclusion that industrial customers and commercial customers which have negotiating power may have benefited from liberalization of the retail electricity market but residential retail customers do not have negotiating power so they may incur economic losses if they switch from electric companies to competitive suppliers.

[4] https://www.nclc.org/images/pdf/pr-reports/competitive-energy-supply-report.pdf
[5] https://www.mass.gov/doc/2021-competitive-electric-supply-report/download

Figure-3 Trend in the average rates of retail electricity suppliers in Massachusetts (July 2019 to June 2020)



[Source] https://www.mass.gov/doc/2021-competitive-electric-supply-report/download

Hints obtained from the example of Massachusetts

Unlike with regulated pricing, the market pricing of retail electricity suppliers is not subjected to pricing reviews, etc. by regulatory authorities, and the suppliers are able to set whatever prices they like. Therefore, retail electricity suppliers carry out business streamlining and rationalization in an attempt to present cheaper prices than the regulated prices to their customers. Under normal conditions, this kind of behavior by retail electricity suppliers is expected to be the benefit of electricity liberalization.

However, it is thought that in any fully liberalized retail electricity market, not only in Massachusetts, there are problems from the perspectives of "symmetry of information" and the "literacy (of the customers)" in the household sector, unlike in the industrial sector and commercial sector. For example, customers have not obtained sufficient information from the retail electricity suppliers, do not appropriately carry out comparative examinations of the levels of pricing presented by retail electricity suppliers, and do not confirm the details of the contract conditions.

In a market environment with these kinds of problems, room is created for retail electricity suppliers to engage in the opportunistic behavior of presenting to customers slightly more expensive pricing when executing contracts. For that reason, regulatory authorities are required to take measures from the perspective of customer protection such as including provisions in the licenses, etc. of retail electricity suppliers and formulating guidelines, etc. for retail electricity suppliers. Furthermore, it is deemed to be necessary for the regulatory authorities to monitor the business activities of the retail electricity suppliers and take rectification measures as needed as after-the-fact regulation.

In Massachusetts as well, it is mandatory to submit the summaries of the electricity sales contracts for residential retail customers and the sales-related materials, etc. to the regulatory authorities, to record the sales calls made to residential retail customers and, in the case of carrying out door-to-door sales to residential retail customers, to notify the regulatory authorities of the contact information and door-to-door sales area, etc. of the person in charge at the retail electricity supplier, etc. Furthermore, measures such as imposing fines, etc. on retail electricity suppliers which have engaged in unfair sales activities have been taken in the past. We are forced to take seriously the fact that despite these kinds of rectification measures being taken on this occasion, it has been revealed that retail electricity suppliers have engaged in unfair sales activities with respect to residential retail customers, and in particular low-income households, and their electricity pricing levels continue to be more expensive.

Summary

If the full liberalization of the retail electricity market is abolished in Massachusetts going forward, it will be the biggest development since California abolished full liberalization due to the Californian electricity crisis at the beginning of the 2000s. In the United States, it has been indicated that excessive electricity prices are being paid to competitive suppliers not only in Massachusetts but also in Connecticut, Illinois, and New York State, etc., so this is becoming a social problem. For this reason, if full liberalization of the retail electricity market is abolished in Massachusetts, there is a possibility that this kind of reform will spill over into other states.

On the other hand, recently electricity prices have been rising globally due to fuel shortages, etc. against the background of the rebound from the decline in electricity demand due to the COVID-19 pandemic and the invasion of Ukraine by Russia. For this reason, customers have become more sensitive to rises in electricity prices than previously.

In Japan too, in the context of wholesale electricity market prices steeply rising, problems are emerging such as retail electricity suppliers greatly raising electricity prices, many competitive suppliers going bankrupt, and customers receiving electricity supply at the final guaranteed supply pricing because they are unable to execute new contracts or renew contracts, among others. On the other hand, it is also a fact that as a consequence of introduction of liberalization of the retail electricity market the competitive suppliers use their originality and ingenuity to create new business models.

In Japan, currently discussions are under way in national councils aimed at ensuring that retail electricity suppliers carry out risk-hedging appropriately and carry out sound business operation and that the customers can choose appropriate retail electricity suppliers. Moves for which there is a possibility that fundamental changes could be made to business regulations as in Massachusetts, the United States, are still limited, but the strengthening of regulations in the retail electricity market has become a global trend, so it is important to monitor this closely going forward.

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