It's Here: Retail Convergence of Fuels from a Single Provider

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ABSTRACT

Many research dollars have been spent investigating hypothetical customer choices of multiple fuels being offered from a single supplier. With retail energy markets opening across the nation, these are no longer hypothetical questions. There have already been numerous offers of one marketer delivering multiple fuels. Examples include:

- DTE Edison America offering both electricity and gas in western Pennsylvania markets.
- Fuel oil and propane dealers in various sections of Pennsylvania and New York offering electricity to their existing customers, and in Georgia these type of dealers adding piped natural gas to their menu.
- The affiliates of gas distribution companies Columbia Gas and PG Energy both entering the Pennsylvania Electric market.
- Aggregation RFPs from Massachusetts to California requiring delivery of both gas and electricity.
- Offer of Oil and Electricity by Amerada Hess in the Con Edison market.
- Shell Oil's natural gas offer to retail customers in the Georgia market.
- The joint ventures between Georgia Electric Membership Cooperatives and various gas marketers to co-brand gas and electricity sales.

In this paper we plan to explore the significance of these types of activities and how they are likely to shape future energy markets based on our experience in assessing the market offerings and customer choices in deregulated energy markets across the country. We will categorize the different convergence offers to date. This would include background of retailer, fuels offered, offer terms and conditions including price, overview of competitive market where convergent offer has been made. Where possible, we will assess the success of such offers, either through publicly released market share information, or review of various print and electronic publications. We will characterize the strategies employed to date along with any insights into their success or failure. In addition, we will compare the propensity to choose convergent fuels to published studies based on hypothetical choices of convergent offerings. Finally we will predict where, to what degree, and how much success we will see convergent offering in soon to be open markets.

Introduction

The advent of electricity and natural gas competition as a result of the deregulation of these markets has spawned many new and creative marketing campaigns and strategies from energy service providers. In addition to the typical value added services related to the commodity they are providing such as a choice of pricing and billing options, metering, energy audits and other energy efficiency products, some marketers have also offered multiple fuels. This paper focuses on actual multiple fuel offerings in retail energy markets. The offerings in this paper are not meant to be an exhaustive list, but are mentioned merely to illustrate how the offers are being made and to facilitate a discussion of the significance and effectiveness of the offers.

The multi-fuel offers have come on the heels of opening electric and natural gas markets. Typically, the marketer has been a provider one fuel to its customers and begins offering the newly deregulated fuel as the markets open. The types of bundling that will be described in this paper include:

- Electricity with Other Fuels
- Natural Gas with Other fuels, and
- Other Bundling Activities.

The activities within deregulated electric and natural gas markets will be discussed separately. In addition, we will describe other activities that have suggested that marketers are positioning themselves to be able to offer bundled, multiple fuel offers to customers in the future.

Electricity with Other Fuels

The deregulation of electric business has prompted a number of suppliers to begin to market electricity with their products. This has been primarily done in New York, Pennsylvania and Massachusetts. Among the companies offering them include:

- Fuel oil dealers in PA and NY
- Peoples Gas in Pennsylvania
- An industrial deal in NW Pennsylvania that combined electric with gas
- Metromedia in NY (with Telecommunications)
- AllEnergy in Massachusetts

The types of bundling which includes the background on supplier and type of offer will each be described below.

Amerada Hess

Amerada Hess Corporation, with headquarters in New York City, is an integrated oil company with its core business in petroleum exploration, transportation and refining. It's refineries produce fuel oils, gasoline and other petroleum products and it has the largest storage capacity in terminals along the East Coast. From these terminals it distributes their products to customers from Boston to Houston. Amerada Hess markets its fuel oil and natural gas to industry and its gasoline to consumers. It entered the electricity business in Pennsylvania and the Con Edison area of New York and is poised to offer electricity in New Jersey when its market opens to competition. Currently, it is offering electricity only to commercial and industrial users, although it seems to preparing a residential offering in the future. For the commercial and industrial customers, it is offering a customized analysis of their electricity use and the projected savings with electricity from Hess. It is too early to tell how successful it has been with its offer.

AllEnergy Marketing

AllEnergy Marketing is an independent , wholly owned subsidiary of the New England Electric System (NEES) the parent of electric distribution companies in Massachusetts, Rhode Island, and New Hampshire. As its name suggests, AllEnergy is an energy marketing company which offers electricity, natural gas, propane, oil and related energy services to customers in New England and New York. AllEnergy was formed in 1996 initially by combining the unregulated energy marketing companies of Eastern Enterprises and NEES. Its began by transporting and selling natural gas to wholesale customers in Massachusetts with a goal for it to be a one stop shop for energy by adding electricity and other fuels to its offering. It purchased Texas Liquids to provide fuel oil, propane and other natural gas liquids. With the opening of the electric market in Massachusetts it now also offers electricity, completing its portfolio of energy products to live up to its name. It currently offers "competitive prices" and pricing options tailored to the customer to help manage energy expenses but it is not clear what the benefits for bundled services are. Given the high market price for power in Massachusetts compared to the standard offer, it is likely that their bundled services are off to a slow start until the price differential between market price and the standard offer allows room to compete. Among the products it is offering is a balanced billing "WeatherProof Bill" with no true up based on weather.

Gas with Other Fuels

Arguably the most active of the deregulated energy markets is that of the natural gas service territory of Atlanta Gas Light Company (AGL) of Georgia. Competition came to the natural gas market in Geiger with a bang in October of 1998. This market is unique for two reasons: 1.) it is not a pilot so all customers are eligible to participate, and 2.) customers will be assigned to marketers if they fail to switch within a particular time frame determined by the PSC. This is the first energy market with customer assignment. Because of these features, it has been among the fastest moving markets yet to date. Of the 1.4 million AGL customers eligible to choose new suppliers, after eight months over 800,000 (58%) have already dons so. Marketers have employed many innovative marketing strategies, with several bundling gas service with other fuels or adding gas to their offerings. Among the companies doing this include:

- SCANA Energy
- Peachtree Natural Gas
- Columbia Gas, and
- Shell Energy.

Each of these companies and their offering will be described below.

SCANA Energy

SCANA Energy is the Georgia marketing arm of SCANA Corp. whose principal subsidiary is the South Carolina Electric and Gas Co. (SCE&G). Before the deregulation of the AGL market, SCANA had been serving more than 100 industrial customers in Georgia on a wholesale level. Among other customers, however, SCANA had virtually no name recognition in the state prior to their marketing campaign. Based on a survey they had done, customers had more awareness of a fictitious company than SCANA. They clearly had a way to go to raise the consciousness among customers in Georgia. As part of their marketing strategy, they formed alliances with two of the largest electric membership cooperatives (EMC) in Georgia: Cobb EMC and Snapping Shoals EMC. Customers of these EMCs who chose SCANA to provide natural gas would receive one bill a month which included both electric and gas charges.

In addition to the cost saving benefit of combined billing, the alliance gave SCANA direct access to the co-ops' 240,000 electric customers. SCANA's advertising campaign included monthly bill inserts with the EMC bills and other direct mail pieces. One of their offers early in the campaign was a $50 credit on either the customer's electric bill or gas for signing up with SCANA.

SCANA's expectations in the Georgia market were modest. They initially stated a goal of 75,000 customers within four months and an ultimate market share of 10 percent, or 140,000 customers. They far surpassed their targets and currently claim a market share of 38-40 percent, or over 300,000 customers as of the beginning of June 1999. Clearly many of the customers are not members of the electric cooperatives with which it had formed alliances. SCANA had a comprehensive print and television campaign and it is not possible to predict the effect of the alliances with the EMCs.

Peachtree Natural Gas

Peachtree Natural Gas is another natural gas marketer in Georgia that teamed with electric membership cooperatives. Originally called Optimum Energy Sources, it is a small privately held company that began by supplying propane, diesel and gasoline to large industrial customers. In 1996 it started selling natural gas as well and its customers include Lockheed Martin, Georgia Tech and Coca-Cola.

Among the EMCs Peachtree has teamed with include: Carroll, Jackson, Walton, Sawnee, and Jefferson EMCs. Together the alliances with the cooperatives has given Peachtree Natural Gas access to nearly 300,000 customers. They offer combined billing for the EMC member customers for which Peachtree pays the EMCs a monthly fee for billing and customer service. The customers were reached via a direct mail marketing campaign.

The goal that Peachtree set in the Georgia market was an 11 percent market share or 154,000 customers while budgeting $2.5 million on its campaign. As of May 1999 they claim to have 8.5% of the market and 60,000 customers. While short of its goal so far, the acquisition cost of $8 per customer is half of what it originally planned to spend and low enough that it should experience positive cash flows in a shorter time than other marketers. In the view of Peachtree's president, Deborah Latham, the important things the EMC affiliations provided were: direct access to customers, a positive and safe image (the image of the EMC), and trained customer service representatives. The most important of these items is the customer access. The response rate to Peachtree's mailings bears this out: the EMC bill inserts had a 13% response rate versus a 1% response rate for other direct mailings.

Shell Energy

Shell Energy is the retail marketing subsidiary of the giant Royal Dutch/Shell group of companies. Shell is a marketer in the Georgia natural gas market and is certified to market both natural gas and electricity in Pennsylvania. It is significant that Shell, a familiar household name for most consumers through their gasoline stations is experimenting with entering the retail natural gas and electricity business. With its vast resources and the power of its brand name it is sure to be a formidable player in the market. In Georgia, initial rumors of Shell offering customers the ability to pay their natural gas bills at gasoline stations or with their Shell credit cards have not been proven but these services are certain to be on their radar screen.

In the Georgia market, Shell Energy has launched an aggressive marketing campaign using television and direct mail to reach the customers. Part of their direct mail campaign seems to have targeted Shell credit card holders with the introduction letter recognizing the recipient "as a valued Shell customer . . ". Currently only natural gas is being offered but other services are surely to follow.

Columbia Energy

Columbia Energy is the retail gas marketer of the Columbia Energy Group which includes gas distribution companies in Ohio, Pennsylvania, Kentucky Maryland and Virginia. In the Georgia market, they have formed an alliance with Marietta Power to provide gas for the customers of Marietta Power, a municipal electric utility. This alliance seems to have been formed based on the success of SCANA's and Peachtree's deals with the EMCs.

As with the other alliances, the only significant benefit from the customers' perspective is that both electric and gas charges are on one bill. The price Columbia is charging for Marietta Power customers is the same for other customers. The benefit for Columbia is the access to Marietta's customers.

Other Bundling/Market Convergence Activities

In addition to the offers of other activities in the marketplace have signaled that the bundling of energy products is expected to be the wave of the future. Internet companies already are beginning to offer bundled services and the mergers and acquisitions of electric and natural gas companies also indicate that energy packages will soon be offered.

Internet Sites

At least two internet sites offer energy and telecommunications packages: Essential.com and Telenergy.com, both located in Massachusetts. ,Essential.com, a start-up company, began using the internet to offer consumers a 10 percent discount on a portion of their electric bills, provided they also switch their local and long-distance telephone service. Customers who sign up will eventually receive a single, detailed bill for all of their utilities, which they can pay by credit or debit card. The company is also handling billing by mail, but the goal is to handle invoicing and collection over the Internet to reduce marketing and customer service costs.

Essential.com will resell lower-priced electricity under a contract with AllEnergy Marketing. It will also resell Bell Atlantic local phone service at a 5 percent discount, so customers don't have to change phone numbers or switch services. Long-distance charges are a flat 9.9 cents a minute, seven days a week, with no minimum buy, under contracts Essential.com has with AT&T, MCI/WorldCom, Cable and Wireless, and Sprint. The company makes its money from the various utilities for reselling their services.

Another internet site is TelEnergy.com, which has been marketing local and long-distance telephone services to Massachusetts consumers since January. Currently it also provides electricity billing services as a convenience to its telephone service customers. It expects to offer a bundle of services similar to Essential.com shortly. The plan is to offer a single bill for all utility services, including telephones, electricity, natural gas, and heating oil. Whether the third party internet resellers will be more successful than the Energy service providers offering similar bundles the marketplace will be left to sort out.

Mergers/Acquisitions

The ongoing mergers and acquisition of energy companies, especially among electric and gas companies, indicates that the bundling of these services may not be far off. Two examples are: Northeast Utilities acquiring Yankee Gas, and Carolina Power and Light purchasing North

Carolina Natural Gas. In both of these instances, the service territories of the distribution companies overlap. Anticipating deregulation, it is conceivable that the marketing of gas and electricity of these companies may be combined with other energy services.

Effectiveness of Offers

The success of the bundled offers is difficult to measure but the results look promising. In the Georgia market, it appears that the teaming of gas marketers with electricity providers has given the gas marketers quicker customer access that has lowered customers acquisition costs and increased market share. The other open energy markets are slower in developing and it is too early to tell how effective bundling of services has been. One thing is certain: expect more of it in the future. As the utilities develop and exploit their communications networks, telecommunications and internet access will be added to the energy offerings. The internet companies with their combined services may be showing us what the energy marketplace will be like after deregulation.