

Be Utility Wise in a Restructured Utility Industry

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Good morning. It's a pleasure to be here this morning. Just so you know what's going on – I won't just be standing up here and talking at you. I'll be asking a bunch of questions and – let's be very clear about this – I expect you to answer. I know it's early in the morning, but grab your coffee and get ready!

Now, before we get into that, one thing I've learned over the years is the power of the acronym. A good acronym, I believe, is essential to getting people's attention or to help them to remember something easily. And a really great acronym will take on a life of its own – people will use it and forget that it's even an acronym. Who can give me an example?

One of my favorites is snafu, which is a military term that means – I'll clean it up a little – situation normal, all *fouled* up. And, to me, that describes a lot of what's happening with the restructuring of the utility industries right now.

So, today, in the spirit of these examples of great acronyms, I offer you an acronym that won't become famous, but that is the key to being utility wise in this world where utilities are being deregulated, merged, and dramatically changing the way they do business. Simply, we all need to get LIT!

LIT – it's short, easy to remember, and it stands for the three keys to success if you're trying to figure out this new utility world: Learn, Inquire, and Think.

First, Learn. Learn what's happening out there in the telephone and energy industries. Learn some of the history of regulation and deregulation. Why? Because it will help you to understand what's going on. Learn what happened when other industries deregulated. What do I mean by other industries?

Think back about 25 years or so. Who can think of another industry that was deregulated? [airlines, trucking, buses, savings & loans, long distance telephone] What lessons have we learned from those earlier efforts at deregulation

Learn what happens when we goof and don't regulate a monopoly. Does anyone here have cable television? How's your service? What's happened to your prices in the past few years? What would you do if another company came to your neighborhood and offered you an alternative?

You also need to learn what's happening in other parts of Pennsylvania and even in other states. Why? Because sooner or later, it's going to happen here too. So, what's happening out there with electricity deregulation? Has anyone been following what's happened with electricity in California this summer? How about in New York City? Montana? Does anyone here own stock in GPU – the company that owns Penelec in the Erie and Johnstown areas?

What's happening out there is a mess. In California this summer, the state has declared almost two dozen electric emergencies because, simply, California doesn't have enough electricity. And if you're unfortunate enough to live in the San Diego area, not only isn't there enough electricity, but your electric bills have more than doubled – and in some cases tripled – since last year. The promise of deregulation is not being met in California. There is a severe shortage of electricity, new power plants are not being built and prices are going sky high.

This is real important. San Diego is the first place in the United States where average consumers are paying market prices for electricity. And the bills have more than doubled this summer. Businesses are closing or raising their prices dramatically because they can't afford to pay the electric bill.

How about New York City? New York City had one of the coolest summers on record this year. The temperature never hit 90 degrees in Central Park this summer, which has happened only once or twice before since they started keeping records.

You would think that such cool weather would mean low energy prices, but during the last year, the price of electricity was deregulated in New York City. And in June of this year, the price of electricity was more than 40% higher than it was last year.

Montana? Does anyone have a clue what's happening in Montana this summer with electricity? Can anyone find Montana on a map? Well, what's happening in Montana this year is very important. Montana was one of the first states to deregulate electricity, even though they had some of the cheapest electricity in the country. They did it because the large industries in Montana thought that they could save a lot of money on their electric bills. And they did, for the first couple of years. But this year, the price of electricity in the whole Western United States went sky high, and all of a sudden those big industries in the Big Sky State found that the cost of electricity exceeded the value of the products they were making. Several of the large mining operations in Montana closed their doors this summer. Other businesses are shutting down and, needless to say, the people who worked in the mines and related businesses are not real happy about deregulation right now.

Where are my GPU stockholders? What's happened to the price of your stock this year? [gone down about 50%] Why has this happened to GPU? It has happened primarily because GPU made a bet about deregulation and lost big. GPU bet that it would make lots of money by selling its power plants and encouraging its customers to buy power from another company. Last year that looked pretty smart. This year, GPU lost its shirt – and it would have been much worse if we'd had a normal summer with those hazy, hot, and humid 95 degree days. GPU lost tens of millions of dollars this year because it was buying power at wholesale prices that were higher than its retail prices. You don't have to be Donald Trump to know that you don't stay in business long if you pay more at wholesale than you can sell it for at retail.

Believe me, if GPU could have passed on those higher prices to its customers, it would have. That's what the utilities did in San Diego, Montana, and New York. But in Pennsylvania we're still in a transition period on deregulation, and part of that transition prohibits utilities from raising their prices. But that price protection will come to an end. In fact, in Duquesne Light's service area, that price protection is scheduled to end this coming June. Duquesne and others are hoping to extend that price protection by a year or two.

But whether those price guarantees end in 2001 or 2002 or 2003, believe me, they will end. And then, what will happen? We'll be paying market-based prices for electricity, just like they did this summer in San Diego, Montana, and New York City. Neither the PUC nor anyone else in Harrisburg will be able to protect you against high prices for electricity. The only person that will protect your electric bill is you.

And that brings us to our second key to success: Inquire. Ask lots of questions. Get lots of information and participate in the market. Be an informed, assertive consumer, and don't take "no" or "I don't know" for an answer.

Have any of you bought a new home appliance in the past year – a new TV, refrigerator, microwave, stove, computer, anything like that? Did you go to one store and buy the first one you saw? Or did you look at the ads in the paper, maybe check Consumer Reports, talk to your friends, check a couple of different stores and look at several models in each store? Sure you did. You're talking about spending hundreds of dollars of your hard-earned money. And you're going to ask questions and make sure you know what you're buying.

You should be doing the same thing with electricity, natural gas, fuel oil, and telephone services. If you take the typical home energy bill and the typical telephone bill, you're basically buying one of those monster, big-screen tvs – every six months. Or you're buying a new computer or refrigerator – every 3 or 4 months. Your energy and telephone service purchases are a big deal and should not be taken for granted.

So do the same thing you would do with any other large purchase – inquire – ask questions, find out what your options are, and try to find the best deal that you can.

I have to tell you a quick “inquire” story. About 2 years ago, I decided that I needed a cell phone. I was spending a lot of time in Harrisburg, and I live and work about 50 miles from there. I needed to check messages back in the office, call my kids when they got home from school, and so on. So I found the cheapest cell phone deal I could – it was about \$25 a month for 60 minutes of service. Not real fancy, but it’s all I needed.

Well, the service contract was up after a year, so I called the company and asked what my options were. I didn’t threaten to leave or anything – I didn’t even know what other options were available. And they said something like this: “I’m so glad you called. We want to keep you as a customer and we know it must be frustrating to see those special deals we offer for new customers. So, if you agree to sign up for another year of service, we can offer you 70 minutes a month for just \$20. We don’t offer this to everyone whose contract expires, just people who call us and ask.” Of course I took the deal – more minutes and a 20% price break from what I was paying.

But did you catch what they said. We don’t offer this deal to everyone – only to people who call and ask. That’s almost word-for-word what they told me. Basically, we’ll keep screwing you unless you call and ask. If I hadn’t inquired, I would have kept paying more money for less service.

Inquire, inquire, inquire. You have to keep asking questions to be an informed consumer. Don’t think about your phone bill as that \$20 or \$30 or \$40 a month you spend. Think about it as a new television every few months or a new computer once a year. The same thing with your electricity and gas bills – when you add them together for a year, they’re huge. Put some care into shopping for that service. Take the time to inquire.

And, finally, we’ve come to the last part of getting LIT – think. One of those over-worn buzzwords in business these days is “think outside the box.” That’s an awful way of saying, “don’t think about things the same old way; look for new solutions; be innovative.”

Some of the best advice I can give you, particularly when you’re out there trying to help low-income families and senior citizens find ways to reduce their costs, is to think. Think about what they’re doing with energy and phone service and see if there are ways to provide the same functions at a lower cost. Do people care about electricity and natural gas? No, they care about being able to heat the house, heat the water, and cook the food. Do they care about their telephone? Not really – they care about being able to contact their friends, being able to call their parents or children, being able to contact a doctor or an ambulance in an emergency. People are buying particular functions or capabilities – they don’t care too much about what you call it. So think about different ways to provide those same capabilities at lower cost.

Can a cell phone take the place of a regular, wired phone at lower cost? Maybe. Can a new hot water heater lower energy bills enough to pay for itself in a few months. Sometimes. How much hot water will a new shower head save? Enough to pay for the shower head in a few months, sometimes.

People will tell you that they don’t make many long distance calls and it’s not worth the trouble to switch. Let me tell you another quick story. One of the biggest mistakes a phone company can make is slamming me. But it happened to me last month. As it turns out, it was an honest mistake, someone at AT&T typed in the wrong phone number – my number is just one digit off from a local hotel that actually did change its long distance company. But what it did was open my eyes to what some people are paying for long distance phone service. My bill came and I had been switched to AT&T’s basic phone service. I had just 35 minutes of calls in the couple of weeks I was on that service. And the charge for those 35 minutes of calls was \$10. If I had been charged by my regular long distance company, the charge would have been \$1.75. That’s just 35 minutes of calls. The average home makes more like 60 or 90 minutes of long distance calls per month. If you’re still on AT&T’s basic service, you could be talking about saving \$20 or \$30 per month by switching to another plan. And millions of people are still paying the outrageous rates for AT&T’s local service – they never thought it was worth the trouble to switch.

So think about helping people shop for the best price they can find. Here’s my last question for you: What do you need to get the best price on long distance phone service and electricity? Here’s my list: you need access to the Internet, an e-mail address, and a credit card. If you have those, I you can get some very good deals – how about long distance phone service for 5 cents a minute, 24 hours a day, 7 days a week, with no monthly fee? It’s provided by Qwest Communications, a reputable, multi-billion dollar company, with a nationwide network. But you can only get that deal if you sign up over the Internet, have an e-mail address, and pay with a credit card.

How about buying electricity at a discount of 20% off your utility's prices? That's the deal that utility.com offers, but only if you sign up over the Internet, have an e-mail address, and pay with a credit card.

Are these the best deals out there? I don't know – it depends on what you need and where you live, plus I haven't checked in a couple of months. But there's no question that these are very good deals, even if they're not the best ones out there. And there's also no question that these deals are not targeted to low-income families and senior citizens. You need the Internet, an e-mail address, and a credit card.

So, think. How hard is that? Every public library in Pennsylvania has at least one computer with a free, public Internet connection. So do lots of senior centers and community centers. Free e-mail accounts? Those are easy – dozens of places offer free e-mail accounts. So, you've got free Internet access and free e-mail. How about a credit card? I don't know – I'm a utility guy not a bank guy. But I know that most banks offer a check card that looks just like a VISA or MasterCard and that's tied directly to your checking account. It's usually free because the bank isn't taking any risk – it's just taking money out of your account. I'm guessing it's also pretty easy to get a credit card with a low credit limit – say \$200 or so, more than enough to cover the typical long distance phone and electricity supply bills. So I'm guessing that even for people with lousy credit ratings, it wouldn't be too hard to get a free or very low cost VISA or MasterCard that could be used to sign up for these low-cost utility services – and especially if a community-based organization went to a local bank and started talking about their obligations to the local community.

So, think – be creative – I've given you just one example. There are some very good deals out there, but you have to get LIT to find them. You have to Learn, Inquire, and Think – not just to help yourself, but also to help the people in our communities who need help the most.

Thank you again for having me here today. I think we have a few minutes for some questions.