Utility-Wind Energy Marketer Partnerships: A New Model for Building Wind Facilities

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Abstract

Utility partnerships with green power marketers are increasingly becoming an attractive approach for utilities to market wind energy to end-use retail electric customers. Through these partnerships, utilities can obtain national expertise about green marketing, reduce risk, and enhance their brand image typically with far less out-of-pocket expenses than implementing a program by themselves.

In New York State, wind energy production costs exceed the price of conventional energy on the New York wholesale market. Selling wind energy as a premium product to residential and non- residential customers who are willing to pay a little more for clean energy can provide an additional credit-worthy revenue stream for wind farms. Once the output from existing wind farms have sold out, retail wind energy purchases are expected to quickly drive the development of new wind farms in the New York market.

In mid-2001, Community Energy Inc. (CEI) and NYSEG began discussions to form a cooperative relationship to market wind energy wind energy to residential and commercial customers in New York State. This partnership is a unique new approach for developing budgets, allocating work, and splitting margins. About the same time, Community Energy also participated in a regulatory mandated wind energy program with Niagara Mohawk, a neighboring utility, which allows competitive electric suppliers to place their product offerings on the Niagara Mohawk bill and take advantage of Niagara Mohawk bill inserts and the utility name. In the first bill insert that went out in the fall of 2002, over 5,000 customers responded to purchase a green energy product from a single bill insert. The result of the CEI initiative was to sell over 10 MW of wind energy in New York State within a six-month period

This paper examines the issues associated with the development of utility-green marketer partnerships and the lessons learned in implementing them. Based on these experiences, the paper will identify factors that are likely to be associated with successful partnerships**.**

Background

In 2001 Community Energy approached NYSEG about the possibility of co marketing wind energy to its customers. NYSEG was receptive since it had been interested in offering renewable energy for some time. Periodically that had received comments from their customers suggesting that they provide renewable energy. Research shows that customer satisfaction is related to the number of services offered to customers and that customers expect utilities to be stewards of the environmental. Providing customers appropriate renewable energy products would enable NYSEG to address these areas and improve customer satisfaction.

CEI believes that the most successful formula for marketing renewable energy is to combine the reliability and dependability associated with the utility with the recognized environmental credibility of a recognized green marketer. It does not believe that the renewable energy offering needs to be focused on or limited to switching customers to competitive electricity suppliers.

With both companies' interests aligned, NYSEG and Community Energy were able to work through the challenges and develop a successful partnership. NYSEG and CEI successfully obtained a grant from the New York State Energy Research and Development Authority (NYSERDA) in April 2002. NYSERDA is responsible for distributing system benefit charge funds for research and development activities in the state. NYSERDA has provided funds for renewable energy projects and determined that it was important to also support green marketing efforts. The NYSERDA grant is incentive based dependent upon on the sale of wind energy to customers. The NYSERDA grant was awarded to CEI in April and the program was started in August after finalizing discussions with the PSC.

At the same time, in mid-2001 the NYSEG –CEI partnership was evolving, the National Grid Company acquired Niagara Mohawk a utility in northern New York State. Environmental considerations associated with this merger, resulted in among other things the requirement to offer renewable energy to its customers. The PSC negotiated the settlement among the parties and established the details of the renewable program. This settlement was the subject to a filing with the PSC. After approval of the filing, the Niagara Mohawk program was launched in September 2002 with three renewable energy suppliers participating, one of which was CEI.

Successful Partnerships: Goals and Challenges

A cooperative marketing agreement brings together entities that have aligned interests but different views and perspectives. It is often easy to agree on the primary goal -- cost-effective sales of renewable energy products to customers. The challenge to achieving this goal is addressing the differences between the partner organizations and being able to effectively combine the strengths and interests of each.

The two organizations are likely to be of different size, structure and culture. The green marketer is going to be a smaller organization and have less but more focused resources. The challenge is developing the program/partnership organizational structure to most effectively implement the program.

The utility will generally be more deliberate in decision-making and will assign less importance to the program than the green marketer. The utility is concerned about its primary mission—supply and delivery of electricity. The renewable program will have a lower priority than many activities and cannot have any adverse impact on the customer relationship. The challenge is developing a decision making process for the program with these constraints.

It is also possible that the utility and the green marketer will have different views on the relationship. For example, the utility might completely embrace the program and view the green marketer as an outsourcing agent rather than a co-marketer. As a result, the utility may tend to brand the renewable product over the brand of the green marketer. One challenge is for the green marketer to be sure it retains brand integrity.

The culture of the green marketer is likely to be more "green" than that of the utility. The challenge is finding a language and outreach strategy that both are comfortable with in approaching customers. Preferred characteristics of a successful renewable energy program, such as allowing payments for the wind energy premium along with the normal bill payment may not always be feasible. The challenge is finding the most effective way to handle these logistical issues. In addition to these challenges, there are some specific issues that need to be addressed to form a marketing partnership.

Partnerships: Key Drivers

The Utility Perspective

Selecting the Right Partner

From a utility perspective, there is a due diligence that is needed before a decision can be made to proceed. One initial concern is the financial viability of the green marketing partner, and an assessment of the principals of the organization and prior partnerships. An additional part of due diligence is to confirm that the green marketer has a positive image in the environmental community, as brand images will be linked. CEI was able to demonstrate positive support from the environmental community by obtaining letters of support for the NYSERDA proposal from both the Sierra Club and National Resources Defense Council (NRDC).

New York State is a retail access state, and utilities like NYSEG are required to facilitate retail access to their customers by ESCO's. CEI was able to demonstrate that it would not be viewed as a competitor to ESCO's participating in NYSEG's Customer Advantage Program. Since CEI was not a commodity supplier in any market, NYSEG could develop a program with them and not be subject to criticism from their current energy suppliers. If they were a supplier of the energy commodity in New York State or if they offered the electric commodity in other states and it was part of their business plan, it could cause complications in program design.

Improving Customer Satisfaction

As noted above, the primary interest of NYSEG was to provide customers a renewable option and improve customer satisfaction in a cost effective manner. To accomplish this goal, customers must embrace the renewable product and there must be the potential for a financial upside for the program. While the customer satisfaction is the primary reason for implementing the program, utilities have limited resources and many options. A utility may only do a program if it could produce positive cash flow, recognizing that the program would not be a source of significant revenues.

Achieving customer satisfaction requires selection of the most appropriate renewable product to achieve this goal.

Choosing a Product

With the introduction of the concept of "Green tags" or certificate based programs, it is possible to sell renewable energy without delivering the actual commodity. While this concept of a grid delivered product is increasing in acceptance, it is still a new concept, both within utility and customer organizations. CEI has focused primarily on wind energy, branded our product offering as NewWind Energy™. This product involves the delivery of wind energy to the grid on behalf of customers.

The alternative to offering 100% wind energy to customers is to offer a blended product, including the less expensive hydro and/or biomass derived energy. The blended product has lower production costs compared to wind and allows customers to purchase 100 % renewable energy at a lower cost. NYSEG owns a fair amount of existing hydro generation and does purchase some biomass. A utility offering a blended product has the potential to be viewed as being less than genuine and subject to criticism for repackaging existing resources.

In the NYSEG program, the product focused on wind. Market research and survey data has shown that wind energy along with solar energy are the most desirable forms of renewable energy. NYSEG viewed creating the market force for additional wind development as a positive activity. With the introduction of a 10 year RPS in New York State, this market force for wind development will have a positive effect on the timely development wind energy facilities in response to this standard.

The Community Energy Perspective

Community Energy's mission is to ignite the market for wind energy and develop new wind resources. CEI's objective is not to become an ESCO. CEI's interest is in having customers purchase wind energy for all or part of the energy they use. Since CEI is not interested in switching customers from utilities or ESCO's, CEI can align interests with both utilities and ESCO's and is free to form a wide range of relationships to sell wind energy.

CEI believes utilities can be excellent partners. Even with the introduction of competition, they continue to supply most of their customers. Utilities have an excellent reputation for service and reliability that was earned though decades of performance. Their customers have learned that they will deliver the product. If the utility is providing a wind product, customers will not have to worry about what happens when the wind is not blowing; they know they will continue to receive their energy. Utilities have earned their trust so that most customers will be more likely to accept a utility offering compared to company that is new to them.

Utilities have excellent channels to their customers. Utility staff is present in the community and retains long term relationships with leaders. Utility marketing representatives have personal customer relationships that allow access to potential wind energy customers. Customers are sent bills each month that provide space for a bill insert. Utilities partnerships for offering renewable energy are still novel and program launches can create significant media attention and interest.

Community Energy has a few important considerations in developing relationships. On branding, CEI's product brand must be retained as it will result in long term market acceptance and provide acceptance by the environmental community. CEI prefers to co-market and co-brand with the utility's brand as it provides endorsement of the product and linkage to the positive aspects of the utility's brand.

While CEI has preferences in a number of areas, it is important to discuss these issues with the partner to develop a cooperative agreement that defines the relationship. CEI has found that the relationships can vary based on the utility partner as interests and capabilities vary.

Any partnership is successful to the extent goals and long-term objectives can be aligned. The utility's goals are generally customer satisfaction and cost recovery or profit. CEI's goals are focused on the sale of wind resources. With aligned interest, it is easy to develop aligned project goals.

Renewable Energy Program Design

Accomplishing the goals of the program related to this dual objective required addressing several issues where the perspectives, of the utility and the green marketer are very different but common ground can be found. From the utility perspective, the business model of the cooperative agreement is very similar to an outsourcing agreement whereas the green marketer is views the collaboration as more of a partnership.

Branding

Utilities such as NYSEG have a long-term investment in its brand. Utilities are very protective of their brand, but are also interested in improving their image. The association with a positive environmental message is an excellent opportunity for improving their image. As noted above, selection of the green marketer and the product to be offered, have strong brand considerations.

The Community Energy and NYSEG agreements allows for co-branding with each party retaining approval rights over the use of their brands. In implementing the program, NYSEG and CEI decided to use "Catch the Wind" as a program name. CEI's product, branded NewWind Energy™ , was used to describe the product. CEI adds to the brand through its existing reputation for wind energy in the environmental community.

The Catch the Wind promotional material produced for residential customers had NYSEG offering NewWind Energy, a product of Community Energy to its customers. This approach was also applied to the NYSEG web site as well. Promotional items provided to customers are co-branded. For non-residential customers such as businesses and institutions, co-branding is more visible in presentations to customers. Branding in this way separates this activity from the product and from the utility's primary brand for delivery and supply of electricity.

An open question is whether co marketing of a product by a utility provides more customer acceptance than a utility who simply provides a billing and promotional platform with little marketing support. While co-marketing involves greater participation and endorsement by the utility, it does raise questions by customers concerning the utilities' motives. There is a segment of customers who believe that no one, especially utilities, should profit from environmental products. Providing just a platform, allows for utility endorsement without the questioning of the utility's motives. Data are not available to determine the relative merits of each approach.

Niagara Mohawk has limited the use of their brand by the green marketers. Their sponsorship of the program and inclusion on their bills remain a strong endorsement.

Coordination of Marketing Activities

Several different models exist for how to structure the sales model for non-residential customers. NYSEG has a large sales and marketing staff that has contact with a wide range of customers. Key Account representatives handle the largest 300 customers and the major account representatives handle the remaining accounts above the small commercial size. There are representatives who handle the small commercial accounts, but due to the large numbers of these accounts, there is limited contact with representatives for most of these customers.

The NYSEG representatives have knowledge of the customers that is useful for both identifying potential customers and obtaining access to the most appropriate decision makers within the company. The representatives who were comfortable with selling the product to do so on their own could do so but also have the option of having the NYSEG program manager or the CEI representative accompany them on initial or follow up sales calls.

To be consistent with a New York State PSC policy objective to promote customers to switch to alternate electricity suppliers, the NYSEG renewable energy program was designed to be open to all NYSEG delivery customers, including those that obtain their supply from an ESCO. This approach is feasible with a grid-based product but it did require additional book keeping and tracking.

In the Niagara Mohawk program a tariff was required. This was not the case with the voluntary NYSEG program. The product offering was consistent with the environmental disclosure ruling which allows utilities and others serving customer to provide different products to customers. The contracts with customers were signed by both Community Energy and NYSEG. Billing did not utilize the utility bill and was handled similar to other products and services.

Price and Costs

To insure that the program is successful in meeting program objectives of customer satisfaction it is necessary to have an appropriate price while insuring that after considering program costs it will provide a margin.

One opportunity for obtaining the margin is for the utility to participate in the acquisition of supply and sharing of risks. The supply of the wind generation (certificates and attributes not the commodity) was agreed to be a joint acquisition as it combined the strength of both parties to obtain the lowest price. CEI has the more detailed contacts with the wind energy supplier due to its relationships developed in Pennsylvania and in other states. NYSEG also had knowledge of the market but more importantly was a more credit worthy entity. The co-marketing agreement, assigned CEI the responsibility to identify the supply required for the year and negotiate a supply contract. NYSEG would secure the supply with CEI.

NYSEG has a legacy customer information and billing systems. As a consequence, there were things that NYSEG cannot do with their systems without expenditures well beyond what the program could support. Limitations include being able to calculate monthly charges based on customer energy usage and placing those charges on the customer's normal bill. CEI used 100 kilowatt hour block based products with residential customers and for the larger non residential customers a fixed percentage based on annual usage which could be accommodated.

A low cost system for administration of the program was adapted from the order data base for other product and services. It requires either credit card billing or a separate bill. Being on the utility bill is much more desirable for branding and controlling receivables.

Review of Partnership Models

CEI has been successful in developing a wide range of partnerships. Three different partnership models are the Utility Partnership Model (NYSEG), the Green Marketer Platform Model (Niagara Mohawk) and the ESCO Partnership Model.

Utility Partnership model

The relationship with NYSEG is based on a cooperative marketing agreement that addresses governance issues and allocation of risk and reward. Under this model, there is a shared approach to budgets, sales, decision-making, supply acquisition and branding.

NYSEG and CEI purchased wind energy attributes jointly and shared the risk and rewards through revenue sharing. NYSEG and CEI agreed on branding, the marketing program, promotional items and other program details. Program solicitations were included with customer bills and marketing representatives from both CEI and NYSEG called on the larger customers jointly and separately.

Working with CEI, NYSEG was able to customize many aspects of the program. For example, NYSEG was not interested in using the program as a mechanism to retain the supply obligations from customers. They structured the program to allow customers who have other suppliers to participate in the program. This flexibility was important as the Public Service Commission required NYSEG to have an active program to have customers switch as noted below.

The initial results of the program were a very positive response from residential customers. The number of customers signing up was limited by two factors. First, NYSEG is unable to bill for the program via the normal NYSEG billing system. The less convenient means of separate billings was required. The second factor was that NYSEG was required to promote "Voice Your Choice" a three month program to promote switching to ESCO's which required pausing the wind program for three months just two months after it started up.

The Green Marketer Platform model

The relationship with Niagara Mohawk is a regulatory required program. As part of National Grid's merger settlement, Niagara Mohawk was required to have a renewable program open to all approved environmental ESCO's.

Niagara Mohawk will include a shared enrollment card for all participants in bills at least once a year and will also handle collection and billing via their standard bill. Niagara Mohawk promotes the program, but not the individual green marketers participating in the program or any particular form of renewable energy.
The program is opened to qualified green marketers. Other green marketers do not focus on wind energy but focus on the other renewables to provide lower cost "green" options for customers. There is limited space on the promotion material to describe the advantages of and the premium for wind energy, which places wind at a price disadvantage.

As a result only a portion of the renewable energy that is sold to the customer is wind energy making it less efficient for developing new wind resources. Since other renewable energy sources are not likely to see further development as a result on this program, it limits the effectiveness of this program in developing new resources. This can be modified by program design by limiting offerings or by allowing more detailed explanatory marketing information.

This program does not generate any revenue for Niagara Mohawk and has a modest cost associated with it. As a result, this model many not be an attractive for developing voluntary programs. Community Energy is developing modifications that could be employed in future programs.

The ESCO partnership model

CEI is in the process of establishing partnerships with a few ESCO's in New York State. CEI also has a highly successful partnership with Washington Gas Energy Service, an ESCO in the Washington DC area. The ESCO model has a number of the features associated with the utility partnership, but the ESCO has an additional selling point. WGES has found that wind energy can be sold both directly and used as a switching tool. A significant number of customers would rather switch suppliers for a cleaner mix with wind included that to take actual savings.

Results

Within the first six months of these program, the CEI green marketing efforts was supporting over 12 MW's of capacity which exceeded the first year goal of 10 MW's of capacity. Residential customers have committed to purchase 14 million k W Hrs and non residential customers committed to purchase over 16 million k W Hrs of wind energy. Both programs will continue through 2003 will a goal of marketing all the existing wind energy in New York State. The 2004 marketing program will require new wind capacity.

Lessons learned

These partnerships reinforced understanding of the markets and mechanisms for selling wind energy to customers. Partnership programs present the optimal opportunity for developing customer demand for wind energy at the lowest cost. Utility partners have a number of clear issues that must be addressed in any partnership. Appropriate branding and improving customer satisfaction are two issues that require particular attention. For voluntary programs it is as important to have cost effective programs where the partner can "profit". Several program design features spring from this "lesson" to control costs and share revenues.

Other lessons learned reinforced the importance of being able to bill on the utility bill. Results show that customers prefer purchasing wind energy right on their bill rather that be billed separately.

Guidance for future partnerships

The decision of a utility to undertake a renewable energy program is an important decision for utilities with several things to consider.

If the primary reason that the utility is participating in a program is to improve their brand image, they need to be sure that the partner firm has a positive environmental image and a product that will reinforce your brand image.

If the utility has an active program for ESCO's, they need to be sure that they are not providing unfair support to a competitor of current ESCO's.

If the goal is to promote the development of new wind resources, both partners must be consistent with this objective because repackaging of existing resources will not result in new capacity.

The green partner should have a track record of working well with others.

The business arrangement and the proposed terms should be reasonable. There should be appropriate sharing of risks and rewards. The objectives of both parties be sufficient aligned and represented in the agreement.

For the green marketer, it is important to understand the potential partner's interests and develop an arrangement that aligns both parties interests and partners requirements.

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