

# Lessons Learned from Developing Time-sensitive Rates

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# Why Did We Offer TOU?

- Increase Profits...we had success with RTP
- Prepare for Competition
- Offer Choices to Customers
- We realized that RTP wasn't for everyone
  - Liked concept of a two-part rate
  - Disliked daily obligations of RTP

***Therefore, in 1996 we held an internal strategic workshop and envisioned a portfolio of choices for retail customers...***

# Retail Solutions



# Retail Products

# TOU Product Design and Value Proposition

- 2-part Design (access/balancing charge covers “wires costs)
- List Pricing (no fuel cost adjustments)
- No Demand Ratchets, No Demand Charges
- Guarantee
- Squeezed peak periods down until it hurt!
- Customers choose the plan that works best for them
- Sales team guides customers toward the plan that best fits the circumstances

# *Your TOU Bill*

$$\text{Bill} = \underset{\text{(fixed)}}{\text{Program Charge}} + \underset{\text{(fixed)}}{\text{Balancing Charge}} + \underset{\text{(variable)}}{\text{Energy Charge}}$$

- *The “**Program Charge**” is \$10/month for every customer*
- *The “**Balancing Charge**” is figured before you ever sign up, and it will be the same every month for the full year. The savings you create this year will not affect your balancing charge next year.*
- *The “**Energy Charge**” depends on how much electricity you use, when you use it, and which “cell” you choose.*

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Charges you won't face that you may have with your present rate:  
*Fuel adjustments\*, hours use blocks (also known as tiered pricing),  
demand charges, demand ratchets, and kVAR charges.*

# Initial Pilot :Product Options

Energy Prices (cents/kWh)

	Low Peak	Mid Peak	High Peak
<b>4 Hour</b> 3:00-7:00	<b>A</b> 7.70 Peak 2.80 Off	<b>B</b> 9.10 Peak 2.75 Off	<b>C</b> 11.1 Peak 2.65 Off
<b>6 Hour</b> 3:00-7:00	<b>D</b> 7.70 Peak 2.70 Off	<b>E</b> 9.10 Peak 2.60 Off	<b>F</b> 11.1 Peak 2.45 Off
<b>8 Hour</b> 1:00-9:00	<b>G</b> 7.70 Peak 2.60 Off	<b>H</b> 9.10 Peak 2.45 Off	<b>I</b> 11.1 Peak 2.25 Off

# Growth Strategies

	On-Peak Price		
	Low	Mid	High
3-7 pm	<b>A</b>	<b>B</b>	<b>C</b>
2-8 pm	<b>D</b>	<b>E</b>	<b>F</b>
1-9 pm	<b>G</b>	<b>H</b>	<b>I</b>

## Year Round Growth

- Lowest on-peak price during summer
  - Cell A is least exposure to peak prices
  - Cells D & G have lower off-peak prices, but longer exposure to on-peak price.
- Used as a controlled growth strategy with a “hedge” against high on-peak prices.

## Controlled Growth

- Lowest off-peak prices
- Cell I for winter-only growth
- All three for summer growth that can be controlled to avoid peak prices. Cell selection depends on time manageability.

	Low	Mid	High
3-7 pm	<b>A</b>	<b>B</b>	<b>C</b>
2-8 pm	<b>D</b>	<b>E</b>	<b>F</b>
1-9 pm	<b>G</b>	<b>H</b>	<b>I</b>

# Savings Strategies

	On-Peak Price		
	Low	Mid	High
3-7 pm	A	B	C
2-8 pm	D	E	F
1-9 pm	G	H	I

## Summer Shift

- Widest difference between on-peak and off-peak prices; “shift” load from high-priced to low-priced periods.
- Cell I creates greatest savings, but carries most exposure to high on-peak price.
- Cell selection depends on ability to manage the on-peak window.

## Overall Load Reduction

- Cell A for mostly off-peak reduction, especially when an unexpected summer increase may occur
- Cell I for mostly on-peak reduction
- Cell E as a middle ground when load reduction is likely, but timing is uncertain.

	Low	Mid	High
3-7 pm	A	B	C
2-8 pm	D	E	F
1-9 pm	G	H	I

# How well did it work?

- **Message was complicated...**
  - Sales team became confused, lost enthusiasm
  - Customers chose plans somewhat at random, resulting in unmet expectations
- **Subscriptions**
  - slow
  - limited primarily to 3 plans
- How do we find out what customers want?

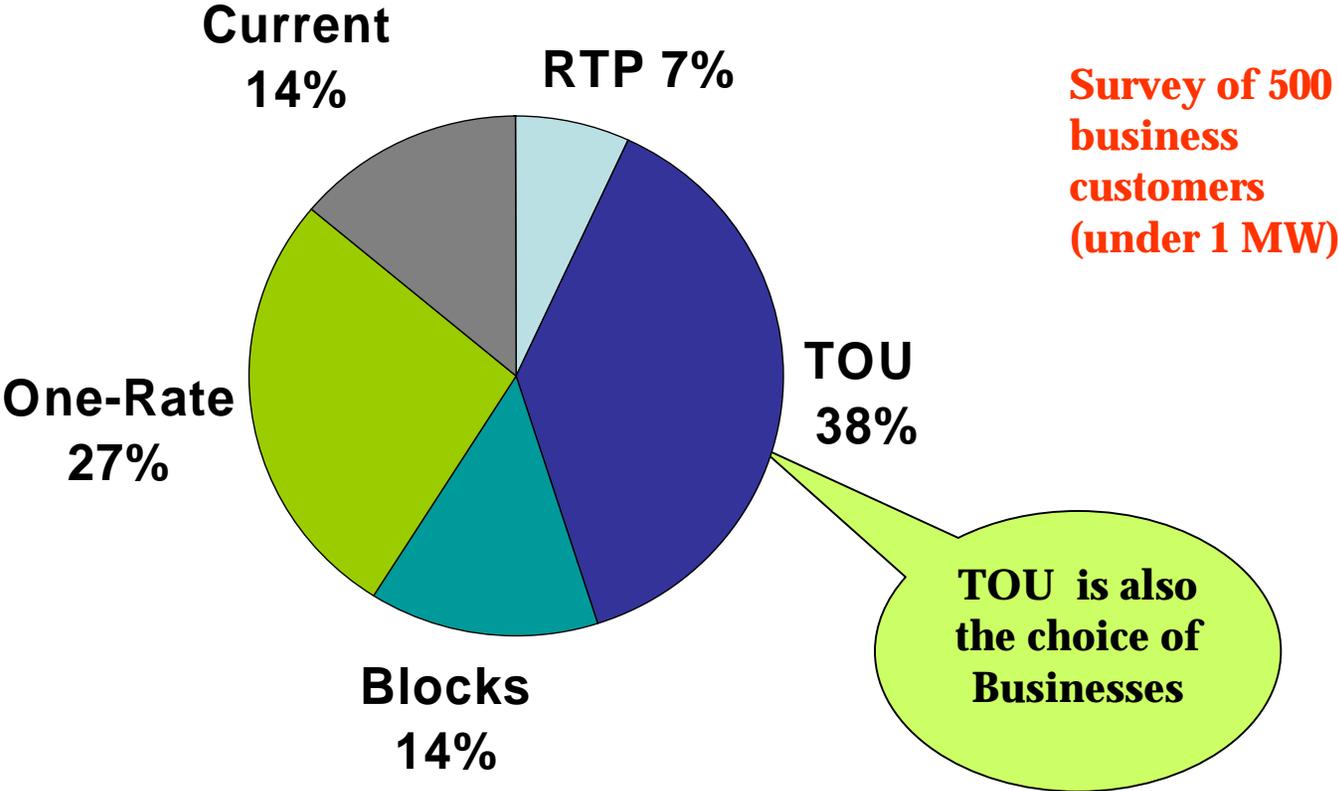
***Market Research.***

# Changes for the better...

- **Refined the value proposition**
  - Reduced the number of product options
  - Changed Emphasis of the Guarantee
- **Established a Product Business Center**
  - Concentrated and highly coordinated Subscription Campaigns
  - Sales Team rewards...the “Gold” club
  - Hedged the portfolio

# Commercial Pricing Preferences

## Business Customers under 1 MW

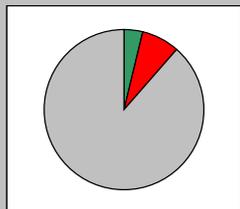


# Results: SelectChoice<sup>SM</sup> Prices

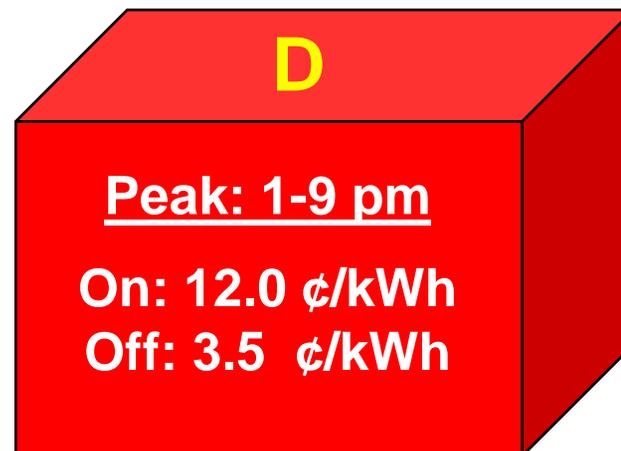
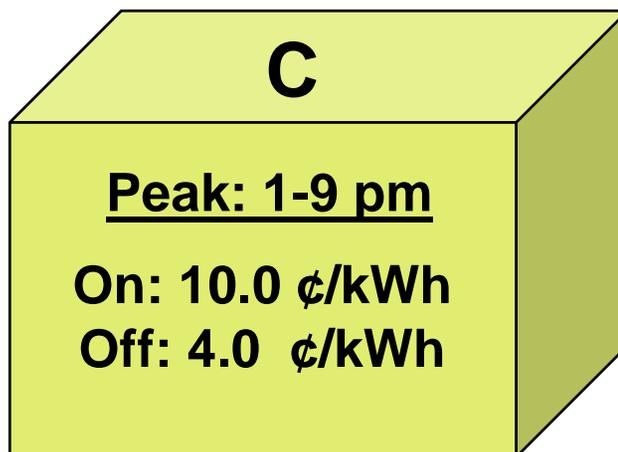
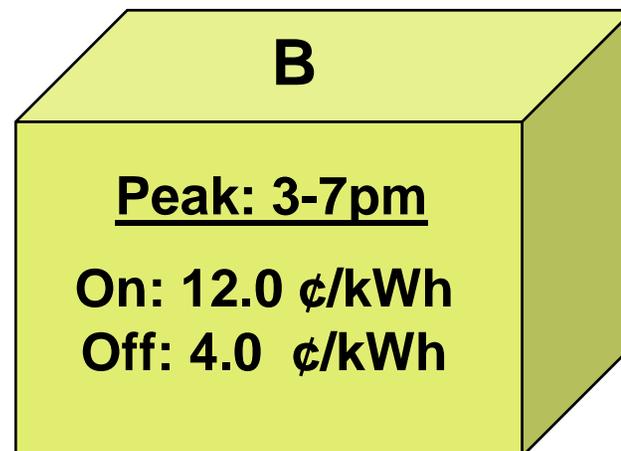
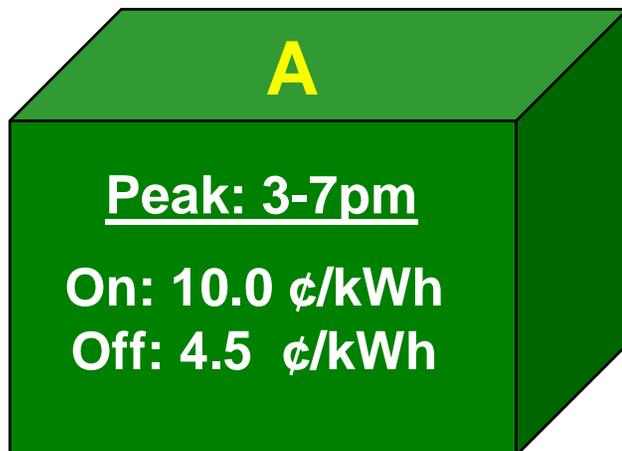
*Summer  
Weekday  
Afternoons*

**When is  
On-Peak?**

Jan  
Feb  
Mar  
Apr  
May  
**Jun**  
**Jul**  
**Aug**  
**Sep**  
Oct  
Nov  
Dec



Sun  
**Mon**  
**Tue**  
**Wed**  
**Thu**  
**Fri**  
Sat



# Response Elasticities

<b>2-Digit SIC Code</b>	<b>Industry</b>	<b>Estimated Elasticity (SE)</b>
13	Oil and Gas Extraction	<b>0.147</b>
20	Food and Kindred Products	<b>0.138</b>
27	Printing and Publishing	<b>0.133</b>
34	Fabricated Metal Products	<b>0.146</b>
35	Industrial Machinery and Equipment	<b>0.143</b>
50	Wholesale Trade--Durable Goods	<b>0.143</b>
52	Building Materials & Garden Supplies	<b>0.134</b>
53	General Merchandising Stores	<b>0.107</b>
58	Eating and Drinking Places	<b>0.107</b>
59	Miscellaneous Retail	<b>0.134</b>
70	Hotels and Other Lodging Places	<b>0.146</b>
79	Amusement & Recreation Services	<b>0.145</b>
82	Educational Services	<b>0.144</b>

# SelectChoice<sup>SM</sup> Customer Benefits

- Customers wanting growth opportunities were able to grow inexpensively during off-peak times—lower unit costs
- Customers wanting bill reductions were able to reduce on-peak usage—lower bills
- Customers savings (compared to the standard rate) ranged from 2% to 40%.

# Lessons Learned

- **Choice may mean alternative features, not suppliers**
- **Buy-in from sales organization is required**
- **Establish product business center**
- **Simplify and tailor the message: Branding helps customers and sales personnel**
- **Use guarantee to close a deal, not make one**
- **Focus on program level results, not on any one customer...get over the free riders**

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