

Consumer Right to Know Utility Charges

The Senate proposes Bill SB17-105, “Consumer Right to Know Electric Utility Charges”. The Bill would require investor-owned electric utilities (IOU’s) to provide customers a comprehensive breakdown of charges in their monthly bill. The Bill specifies that utilities would have to submit a “comprehensive billing format” to be reviewed and approved by the public utilities commission (commission).

The Bill specifies four main components that IOU’s would have to include in monthly bills. First, an itemized list of monthly charges and credits. Second, a comprehensive breakdown of any tiered rate charges. Third, a visual representation of the rate and usage in the current month and the past twelve months. Fourth, for customers to which demand rates apply, aggregate and comparative data on demand and billing rates. In addition to these components, the Bill stipulates that IOU’s provide customer’s a biannual analysis on every fuel source used in power generation.

When faced with a choice, such as how much energy to consume, decision makers benefit from complete and accurate information. “In the absence of accurate, reliable and timely information, people and organizations will make bad decisions; they will be unable to help or persuade others to make better decisions; and no-one will be able to ascertain whether the decisions made by particular individuals or organizations were the best ones that could have

been made at the time”¹. The proposed bill will help provide decision makers (utility customers) with the necessary information to make informed decisions about their energy consumption.

Incomplete information about energy costs and uses causes a market failure. Currently, consumers are not able to accurately gauge their private cost of consuming energy. When consumers are unaware of the true cost of their energy consumption, they are unable to make rational choices about how much energy to consume. This Bill will help correct this market failure by requiring IOU’s to provide more detailed utility bills.

The Bill requires IOU’s to provide consumers with more informative energy bills, which is likely to decrease energy consumption and save consumers money. Empirical evidence shows that consumers decrease their energy consumption when presented with more informative energy bills. A three-year study in Oslo, Norway showed that more informative bills lead to an approximate 10% decrease in household energy consumption². With this, the study found that aggregate savings for household consumers in Oslo would be as high as \$21 million US dollars.

There are many ways for IOU’s to provide customers more information and feedback about their electricity charges. Optimal ways to improve feedback include “increasing the frequency of feedback, providing a time-, room- or application- specific breakdown, improving the visual design, or adding further information, for example, time series, comparisons with an average, or information about environmental impact.”³ The specified comprehensive billing

¹ http://www.anz.com/documents/economics/the_importance_of_data.pdf

² http://ac.els-cdn.com/0378778894009124/1-s2.0-0378778894009124-main.pdf?_tid=77b00712-1f16-11e7-9c89-00000aab0f6c&acdnt=1491956881_54d5a96bc43373d3dbaeb6025f7bef66

³ <https://link.springer.com/article/10.1007/s12053-008-9009-7>

format of the Bill contains many of these components. As such, it is likely to be an effective way to provide consumers better feedback on their electricity consumption.

If the Bill were to specify that IOU's provide an appliance-specific breakdown of charges, it would likely be even more effective. This is because "appliance-specific feedback can help the consumer to detect how a certain appliance or a certain way of using it affects the amount of electricity consumed and the money spent. This also increases the sense of control because the consumer can find out how changes in behavior or appliance stock affect the outcome⁴". It would be an easy amendment to the Bill to require an appliance-specific breakdown of charges.

Additionally, a superior bill will require IOU's to provide customers with more timely information about their energy costs. Evidence suggests that "immediate feedback could be very helpful while weekly to monthly feedback may be helpful, but is not sufficient for best performance on its own⁵". Immediate feedback is likely more successful because it allows consumers to realize the current marginal cost of consuming energy.

Another amendment that should be considered is requiring IOU's to provide customers with statistics on how their energy consumption compares to their neighbors. Research indicates that providing neighbor comparisons can decrease energy consumption. For example, a 2011 study in the The Journal of Public Economics found that providing neighbor comparisons lead to a 2% reduction in household energy consumption. This reduction is estimated to be "equivalent

⁴ <https://link.springer.com/article/10.1007/s12053-008-9009-7>

⁵ <https://link.springer.com/article/10.1007/s12053-008-9009-7>

to a 11 to 20% short-run price increase or a 5% long run price increase.⁶ This shows that providing neighbor comparisons affects behavior and decreases energy consumption. Moreover, social norms negatively impact energy consumption.

Similarly, making consumers aware of the social cost of their energy consumption can also negatively impact energy consumption. For example, evidence from environmental psychologists revealed that providing feedback on the environmental costs of energy consumption reduced consumption⁷. The Bill could require that IOU's include an indicator of the environmental costs associated with energy consumption. For example, customers' monthly bills could include a statement about the amount of pollution associated with their energy consumption. This would help consumers become more aware of the social cost of their energy consumption.

If passed, the Bill will help make electricity bills more transparent and clear for consumers. The resulting gain of information for consumers is likely to help consumers make more informed energy decisions. Evidence suggests that when consumers are more informed, they are more likely to modify their behavior to decrease their energy consumption. As such, the Bill should be passed.

⁶ http://ac.els-cdn.com/S0047272711000478/1-s2.0-S0047272711000478-main.pdf?_tid=4d68e93a-2158-11e7-9417-00000aabb0f01&acdnat=1492205059_04efa831e7a4ad8ca635d3780c71f0ad

⁷ http://ac.els-cdn.com/S0272494498901050/1-s2.0-S0272494498901050-main.pdf?_tid=cf566506-215a-11e7-8fe2-00000aacb35e&acdnat=1492206136_1f10f353a648a9d6d1c2204729e4c692