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Co-operative Federation of Victoria Ltd

Co-operative Energy Ltd was formed in December 1994 with the aim of developing a co-operative response to the privatisation of the energy industry.

Co-operative Energy Ltd. (CE) was formed to promote co-operative involvement in the newly deregulated electricity industry. It had a particular focus on small consumers and rural communities. CE was aware of the hugely significant role fulfilled by electric co-operatives in delivering electricity to rural Americans.

Electric co-operatives in the USA are member-owned electric utility businesses, incorporated under the laws of the states in which they operate, established to provide at-cost electric service and are governed by boards of directors elected by members.

- 875 electric distribution and retailing co-operatives serve 32 million people in 46 states
- 60 generation & transmission co-operatives are owned by their member distribution and retailing co-operatives
- Electric co-operatives serve 11% of the nation's population
- Electric co-operatives own and maintain nearly 45% of the electric distribution lines in the USA
- Electric co-operative assets exceeded \$62 billion USA in 1997
- Co-operatives serve an average of 5.8 consumers per mile of line

Many electric co-operatives are involved in community development and revitalization projects e.g.

- Small business development
- Job creation
- Improvement and/or management of water and sewer systems
- Assistance in the delivery of health care
- Assistance in the delivery of educational services

In 1997 there were 3190 electric utilities in the USA:

- 935 co-operatively owned
- 242 investor owned
- 213 publicly owned

The NRECA has been involved in the following formations:

- 1954 National Telephone Cooperative Association
- 1969 National Rural Utilities Cooperative Finance Corporation
- 1986 National Rural Telecommunications Cooperative
- 1987 National Rural Health Network

CE was formed initially to create interest in the potential role that co-operatives could fulfill within a privatised electricity industry. The significant role of electric co-operatives, particularly in rural USA, chiefly informed this initiative. Generally speaking, most rural Americans receive their electricity supply via member-owned and controlled co-operatives. In fact it was the process of developing electric co-operatives commencing in the 1930's that resulted in rural Americans gaining access to electricity supply. Prior to this development their chances of ever being able to enjoy electricity supply did not look at all promising, as the United States Government had, unsuccessfully, tried all sorts of inducements to encourage investor-owned electricity businesses to "connect" rural America.

In any truly free market small consumers inevitably are at a disadvantage when it comes to negotiating with suppliers of services. CE firmly believed, and still does, that successful aggregation of small consumers was the one self-help tool available.

This philosophy of aggregation as a means of consumer self-empowerment has been expressed in the following resolution electric co-operatives in the USA have adopted on an electric energy consumer bill of rights at the 57th Annual Meeting of the National Rural Electric Cooperative Association in March 1999:

- The right to have access to reliable, affordable and safe electric power. The availability of reliable, affordable and safe electric power is a necessity for life issue, as well as an important factor that drives the country's economic engine. Consumers have a right to expect reliable, affordable, and safe electric power. Consumers have a right to expect uniform standards of electric power across the country as they travel or move. Each sector of the electric utility industry is different: each is structured differently, financed differently and, aside from the provision of electric service, organised for different purposes. All electric utilities receive federal assistance and the form of federal assistance is different for each sector. In an era of competition, consumers should expect to have many choices.

However, all energy providers should have the obligation to provide reliable, affordable and safe electric power. The obligation of lawmakers is to recognise the differences among electric utilities and to treat them differently in legislation.

- The right to join together to establish and operate a consumer-owned not-for-profit electric utility. Current consumer protection depends on government regulation, local service territories, and voluntary cooperation among thousands of utility systems are allowed to become huge combines remote from local consumers, and where energy providers are free to choose the customer class that provides them the most profit, consumers must have a way to protect themselves. All electric consumers must have a way to protect themselves. All electric consumers must have the right to join together to establish and operate a consumer-owned electric system to provide themselves with electricity according to their own needs.
- The right of consumer-owned not-for-profit systems to be treated fairly and recognised as a unique form of business. Electric cooperatives (co-ops) are independently owned business enterprises incorporated under the laws of the state in which they operate. Electric cooperatives are owned and controlled by the consumers they serve. The co-op difference resides in consumer ownership and control. Thus, for co-ops to be treated fairly by government regulation, they must be recognised as a unique form of business, different from investor-owned or community-owned systems. As recognised by the federal courts, since the consumer owns the cooperative, there is no motive for the cooperative to mislead, cheat, overcharge or act in any way that is not in the consumer-owners' interests.
- The right to elect representatives to manage their consumer-owned forms of business to best meet their needs. Electric cooperative consumers (members)
- Participate in the operation of the co-op by electing a board of directors from among its co-op consumers to establish the co-op's basic policies, goals and strategies, as well as to determine the rates and types of service(s) they wish to receive. In a competitive environment, consumer-owned and controlled cooperatives will be a more discipline in the marketplace and a more important force for innovation as long as local ownership, local control and local autonomy are not abridged through unnecessary government regulation.
- The individual right to privacy that assures information about consumers will not be released without their prior express consent. Historically, consumer-owned cooperatives have advocated levels of information disclosure beyond industry

standards but necessary for judging the performance of utility systems. Recently, however, discussions on energy policy have included the idea that utility systems should be required to collect and divulge extraordinary consumer specific information. Consumers should have the right to determine how information collected about them is used. Consumer-owned cooperatives should not be required to collect or to divulge consumer specific information.

- The right to determine the scope of energy services to be furnished through their consumer-owned not-for-profit utilities. In a competitive environment, consumer-owned cooperatives, with their local ownership, local control and local autonomy provide a fast, efficient and flexible way for consumers to address their needs.
- The right to use consumer-owned not-for-profit utilities to provide additional services that meet the needs of their consumers and communities. All electric consumers must have the right to join together to establish and operate a consumer-owned electric system, if they so choose. In addition, consumers must retain the right to use their cooperatives as a means to meet their needs and expectations over time.
- The right to work in cooperation with other consumer-owned entities with common goals. Consumer-owned cooperatives should be able to work together to provide a countervailing balance of power in the marketplace to the huge investor-owned combines that are likely to result from deregulation. Consumer-owned cooperatives should be able to work together to provide an open window into the operation of a competitive electric market for all consumers. Consumer-owned, not-for-profit cooperatives should be able to work together to provide a 'yardstick' by which all consumers can measure the performance of the market and market participants.

This consumer bill of rights is centered on consumer self-empowerment - not consumers being protected by the enlightened self-interest of others. Enlightened self-interest is relevant but not as an alternative to self-empowerment.

Moving from Theory to Practice

Since 1994 Co-operative Energy Ltd has been advocating the small consumer energy aggregation option to Government, Opposition and regulators.

Choice in who provided their electricity supply was phasing-in based on electricity consumption - commenced in 1994 for large consumers, in 1998 for customers who used 160 megawatts hour a year or more, in 2001 for customers who used more than 40 megawatt hours per year and in 2002 all remaining customers.

Between 1994 and 2001 Co-operative Energy Ltd made modest progress despite a threatened environment and limited resources.

Co-opEnergy and 160MWh/year Customers

In 1998 Co-operative Energy Ltd organised a purchasing group based on aged care agencies who had a choice of electricity retailer because their electricity consumption was at least 160 megawatt hours per year. This work was facilitated by Aged Care Victoria and the Commission for Mission, Uniting Church.

Twenty eight agencies authorised the co-operative to negotiate contracts on their behalf. There were discussions with a further 12 agencies who decided not to authorise the co-operative to act on their behalf. Of the 28 participating agencies:

- 22 (78.57%) had contestable sites
- 6 (21.43%) had no contestable sites

Co-operative Energy Ltd sought quotes from six retailers:

- Eastern Energy
- Energy 21
- ETSA
- Great Southern Energy
- Powercor
- United Energy

Eastern Energy offered not only the lowest price but also value-added services. Eastern Energy offered a peak price of 2.2c and an off peak price of 1.17c. In addition, Eastern Energy was offering:

- A free walk through energy audit.
- A Thermal Imaging Survey of mains switchboards.

A \$500 contribution towards the \$1000 smart meter for consumers in the Eastern Energy area and \$500 for advertising for those not in the Eastern Energy distribution area.

The contract was for a three year period that locked-in prices.

Eighteen (64.28%) of the 22 agencies agreed to sign with Eastern Energy. These 18 agencies had 22 different sites. The average savings achieved for the 18 agencies was 32%. This compared favourably with a 1998 survey by the Australian Chamber of Manufactures of 410 large businesses who were contestable before 1 July 1998 and concluded that there had been average savings of 26%.

The actual savings for each agency depended on the network charges of the different distribution companies, the previous tariffs and the ratio of peak and off peak use. The highest saving was 57% and the lowest 5%. The actual savings for each were 57%, 46%, 44%, 40%, 39%, 39%, 39%, 37%, 31%, 31%, 31%, 30%, 30%, 25%, 25%, 28%, 28%, 22%, 21%, 20%, 12%, 10% and 5%. Of the four agencies who did not sign the savings being offered by Eastern Energy were 36%, 40-45%, 51% and 57%.

Energy Aggregation Initiative

The Energy Aggregation Initiative was jointly organized by the Co-operative Federation of Victoria Ltd and Co-operative Energy Ltd between 31 July and 3 August 2000. The workshop component was co-sponsored by the Victorian Local Governance Association.

The overriding objective of the Energy Aggregation Initiative was to advance knowledge of the energy aggregation for small consumers.

The elements of the Energy Aggregation Initiative were:

- The visit to Australia of energy co-operative consultant Robert L. Church
- A small consumer energy aggregation workshop
- Meetings with the Energy Industry Ombudsman, the Government, the Opposition, a TXU seminar and interested parties in North East Victoria
- Publishing of two booklets **Group Buying Power** and **New Government New Direction New Energy**

The initiative was financed by TXU Retail (\$5000), Consumer Business Affairs Victoria (\$2000), ACCORD that agreed to share the costs of the energy co-operative consultant and \$500 contributed by the Victorian Local Government Association and a workshop registration fee of \$50 for members of CUSCAL, the Co-operative Federation of Victoria Ltd, the VLGA and the Australian Institute of Engineers and \$100 for others. Co-operative Energy Ltd contributed \$160 cash and \$900 labour with additional funds dependent on final cost requirements.

Due to Co-operative Energy Ltd's special relationship with the Plumas Sierra Co-operative in California fees of approximately \$5000 were waived.

The Workshop attendance was disappointing with 44 attendees - after a mailout to 300 co-operatives, 57 credit unions, 150 VLGA members, 2000 Australian Institute of Engineers (AIW) members and 150 others. Unfortunately, the VLGA notification was emailed one week before the workshop and to a partial list of members instead of the full list of 500 members. The AIE was also emailed late six days before the seminar. The AIE contacted us on hearing about the seminar.

Outputs

- At the workshop EPU (Department of Treasury and Finance) and ORG committed themselves publicly for the first time to discussing aggregation of small consumers.
- The meeting in North East Victoria agreed to form an energy purchasing co-operative based on a telecommunications co-operative, a regional credit union and a small business group with public support from local government.
- Newspaper articles appeared in The Age and the Border Mail - Energy co-ops mean savings (Border Mail, 3 August 2000), Push for power unity (Border Mail, 25 July 2000), Strength in numbers for energy customers (The Age, 24 July 2000) and Buying power requires numbers (The Age, 7 August 2000). The July/August issue of National Co-op Update published a front-page story as well as a four-page supplement on the workshop - sponsored by TXU Retail.
- The workshop was profitable with income exceeding costs. Budgeted income was \$2000 and actual income was \$2812.40
- The energy co-operative option was exposed to a series of meeting with numbers in attendance in brackets - Energy Ombudsman Victoria (6), Parliamentary Secretary Natural Resources and Environment, Office of the Regulator General, Victoria (10), Together, we have the power workshop (44), Albury meeting (4) and TXU workshop (17).
- Booklets distributed - 146 Group Buying Power and 129 New Government New Direction New Energy between 31 July and 3 August 2000.

In the short-term, the Energy Aggregation Initiative moved the issue forward in a very practical way - creating a more favorable climate for small consumer energy aggregation. The Initiative was an important contribution to a developmental process

undertaken by Co-operative Energy Ltd since 1994. While understandable, it is regrettable that this contribution is not necessarily understood and accepted and that the co-operative was not able to build-on this. Discussions were initiated, for instance, on the secondment of a USA energy co-operative executive to Co-operative Energy Ltd on a success-fee basis. This remained, however a speculative notion.

Working Within

The co-operative has been involved in the following working groups of the Office of the Regulator-General, Victoria:

- Contestability Reference Group (Electricity)
- Minimum Standards Working Group (Electricity)
- Minimum Retail Standards Working Group (Gas)

The co-operative has made the following submissions to ORG's distribution pricing review and minimum retail standards review:

- Capital Consultation, Submission to Distribution Pricing Review Consultation Paper No 4, 4 June 1999
- Competition Standards, March 2000
- Consumer Aggregation, Prepared for Gateway BEET Inc, 1999-2000
- Contestability Benefits & Costly Risks, Submission to Distribution Pricing Review Consultation Paper No 2, 10 February 1999
- Co-op Power is Community Power, Prepared for North East Victoria Energy Purchasing Group, 1999-2000
- Group Buying Power Bibliography, February 2000
- Small Consumer Empowerment (Revised) 2000
- The Energy Trade Off, February 2000
- The Form of Price Control and Consultation, Submission to Distribution Pricing Review Consultation Paper No 3, 22 January 1999
- 2001 Electricity Distribution Price Review Framework and Approach, Submission to Distribution Pricing Review, 13 July 1998
- 2001 Electricity Distribution Price Review Framework and Approach, Submission to Distribution Pricing Review, 27 July 1998

By the end of 2000, however, Co-operative Energy Ltd reviewed its participation in the processes of the Office of the Regulator-General, Victoria, and concluded that there was a limited effectiveness primarily due to two factors (a) the Victoria Government was not facilitating a focus on aggregation and (b) the consumer representatives involved in the decision-making processes were not interested in the potential of aggregation. It was decided, therefore, to withdraw from active participation.

The co-operative has also published the following reports:

- Consumer Aggregation, Prepared for Gateway BEET Inc, 1999 - 2000
- Co-op Power is Community Power, Prepared for North East Victoria Energy Purchasing Group, 1999 - 2000
- Group Buying Power Bibliography, February 2000
- Regional Energy Options, North East Victoria Energy Purchasing Group, 2000
- Small Consumer Empowerment, 1999
- Union Energy: Empowering Small Consumers, Union Energy Project, 2000

The co-operative is a member of the Co-operative Federation of Victoria Ltd and was a member of the National Rural Electric Cooperative Association (USA) and the Victorian Local Governance Association

The North East Project

The formation of OUR ENERGY Inc. (OE) in February, 2002 was preceded by several years of work by Co-operative Energy Ltd. (CE)

CE foundation chairman Graeme Charles, was resident in North East Victoria.

In the latter part of 1998, with the date for Full Retail Contestability (FRC) set-down for January 2001, CE began a series of approaches to local government across NE Victoria. CE suggested that they (local government) could play an important facilitating role in assisting their constituents to aggregate in order to effectively compete in the new electricity market-place. The suggested rationale being firstly, as an economic development exercise, and secondly, as a service to residents.

In 1999 CE was engaged by a group of North East Victorian councils to prepare a report on the likely outcomes of successful aggregation of electricity consumers across that region. Eventually, in March 1999, CE presented a formal proposal re the formation of a North East Victorian Energy Users Co-operative to the Cities of

Wodonga, Wangaratta, and Delatite Shire Council.. The cost of this proposal was \$24,000. CE had by this time received an offer of \$12,000 funding to assist the establishment of an energy purchasing co-operative in North East Victoria via the Uniting Church, Hotham Parish Mission. CE offered to use the \$12,000 from the Uniting Church, Hotham Parish Mission to match a similar contribution from the Councils.

In May 1999, CE and the Councils entered into a Heads of Agreement (see Attachment 1) whereby CE was engaged as consultant to undertake Phase One of the development of a North East Energy Purchasing Group. (The participating Councils were subsequently joined in the Project by the Alpine, Indigo and Towong Shires.)

The tasks set out in the Phase One Heads of Agreement were:

1. Investigate and identify options for structuring the Energy Users body.
2. Development of appropriate membership recruitment campaigns:
 - Domestic customers
 - Small business (less than 160 mWh per annum consumption)
 - Large customers
3. Implementation of recruitment campaign for larger customers.
4. Conduct preliminary discussions with potential suppliers. Consider the two most obvious options.

Option 1

Enter into an early agreement with a preferred supplier, who would have a vested interest in assisting with the recruitment of members.

Option 2

Consolidate the membership before entering into any firm arrangements with suppliers.

Identify likely financial rewards on offer from potential suppliers.

5. Develop strategic alliances that could strengthen the Project. E.g. Uniting Church, local Credit Union, Other local government and Statutory Authorities.
6. Advocacy and lobbying on behalf of members.
7. Explore possible sources of external funding for the Project.

8. Monthly meetings with Reference Group overseeing the Project.

Subsequently, a series of reports were prepared for the councils. The reports demonstrated a significant positive economic effect for the region if enough consumers could be aggregated and as a result of that, electricity tariff reductions of as little as 5% could be successfully negotiated.

In July 1999 – Phase One – Stage One Report to Councils included

- A. Financial Estimates and Modelling.
- B. Potential Price Reductions/Savings Achievable through Aggregation.
- C. Potential Consumer Membership of the Energy Purchasing Organisation.
- D. Likely Costs of the Project.
- E. Potential Sources of Funding re Estimated Costs.

In August 1999: Report to North East Victorian Councils on Recommended Structure for an Energy Users Purchasing Organisation.

In February 2000: Regional Energy Options prepared for North East Victoria Energy Purchasing Project.

In July 2000: North East Energy Purchasing Project – Phase One Final Report to Councils recommended that the participating Councils together with identified non-local government organisations proceed with Phase 2 the formation of an energy-users co-operative. The co-operative would not, certainly initially, become involved itself in either purchasing or selling electricity.

Following a meeting with some of the Councils in September 2000, CE agreed to undertake the preliminary work required for the incorporation of a co-operative and to provide an Action Plan by the end of October. It was agreed at that meeting that something like \$1000 capital per founding member together with the balance of funds remaining from Phase One ought to be sufficient to move the co-operative forward beyond its formation stage for a period of between three to six months. It was envisaged that the founding members would most likely be CE, the five participating NE Vic councils and the WAW Credit Union.

In October 2000: North East Energy Purchasing Project – Phase Two Proposal was presented. An Action Plan was presented early November 2000. The plan proposed amongst other things that a Co-operative Formation Meeting would be held in December 2000.

A co-operative formation meeting was held on 8th December 2000 at the Indigo Shire Offices and attended by representatives from three of the five participating councils, WAW Credit Union and CE.

It soon became apparent that most councils were reluctant to become members of the proposed co-operative. The provisions of Sec.193 of the Local Government Act 1989 were put forward as presenting a major hurdle that none of them was interested in attempting to jump for the purpose of this exercise.

Whilst remaining supportive, the councils were reluctant to become directly involved in the formation of an energy aggregation vehicle, mainly because of the provision of certain sections of the Local Government Act. However CE had in the meantime held discussions with WAW Credit Union which has a member and branch network across NE Victoria. They agreed to support the initiative to provide a vehicle through which electricity consumers could aggregate their electricity purchasing and negotiate as a group with retailers.

Subsequently the outcome of the meeting was:

- It was unanimously agreed that Councils would prefer not to become members of a newly formed energy purchasing co-operative.
- It was further agreed that WAW Credit Union would proceed with the project and that councils would continue to support its development in a number of ways.
- Councils would place their energy purchasing with the WAW sponsored co-operative. Including currently contestable sites as they become available, and all other sites as they become contestable.
- Councils will when and where appropriate, publicly support the co-operative, and announce their commitment to the above.
- Councils will make their normal ratepayer communication channels available to the co-operative.
- The balance of funds from Phase one will be transferred to the WAW Credit Union as “sponsor” of Phase two, and each council would contribute an additional \$1000 to advance the Project.
- A percentage of any earnings derived by the co-operative would be allocated to some form of community development trust, which councils could be involved in as trustees.

In May 2000 discussions had commenced with the WAW Credit Union which had a branch network that extended across the target region of the Project and into the Albury, NSW region of New South Wales. WAW membership itself was around 20,000 and Graeme Charles had identified WAW as being potentially crucial to the success or otherwise of the Project. The various councils contributed a total of \$19,000 and the WAW Credit Union provided in-kind support to OE estimated to at least having matched the councils contribution.

By the end of April 2001 all participating councils with the exception of the Delatite Shire had formally confirmed their continued support for the Project as outlined above. Delatite Shire Council advised that they had been approached by their local credit union, North East Credit Union proposing the development of a similar energy purchasing co-operative in the Shires of Delatite, Murrundindi and Strathbogie. As a result they could not commit themselves to moving forward with the North East Energy Purchasing Project at that time. Delatite Shire never rejoined the Project and nothing ever eventuated from the approach that had been made by the North East Credit Union.

Graeme Charles, Chairman of CE was engaged on a part-time basis to project manager the aggregation effort. OE was incorporated as an association and launched in February 2002, consumers were invited to complete a form authorising OE to negotiate on their behalf with retailers. On the basis of earlier informal discussions with retailers, it was decided that OE's target would be 5000 signings. If the target were not reached within a three to six month period, the future of OE would be reviewed. By August 2002 the aggregation had grown to include some 465 businesses, 300 farms and 2800 residential consumers. To these numbers could be added the loads of the various councils.

In September 2002 a formal Request for Proposals (RFP), was sent to all electricity retailers licenced to operate in Victoria. No response that complied with, or even addressed the majority of issues contained in the RFP was received. Numerous attempts to generate serious negotiation with retailers all failed. No retailer was prepared to discuss our request and in essence we were after many months of trying, reluctantly forced to conclude that we were "flogging a dead horse".

As a result of this monumental display of retailer inertia, OE can only offer its own suggestions as to why having aggregated thousands of consumers, it could not elicit any offers from retailers. Probably the most significant comment to make is that the sort of initiative undertaken by OE has not been a true "aggregation". True aggregation can only occur when an aggregator can negotiate on behalf of its

constituents whilst being in a position to guarantee that those constituents will take up the resultant negotiated outcome. This is not the case currently and is a matter that requires the serious and urgent attention of industry regulators and consumer representatives.

To what extent the role of regulators in the market place e.g. price-capping, Net System Load Profiling is influencing retailer responses to aggregation efforts OE can only ponder. In the meantime would-be aggregators are caught in "no-mans land", operating within a system that is neither a tightly regulated monopoly, in which case there would be no need for aggregation, nor a true open market-place. If any future aggregation efforts are to be successful, electric industry regulations and legislation will have to include remedies that address the many existing aggregation barriers.

Conclusion

Over a ten year period Co-operative Energy Ltd has persisted and the survival of this persistence has been an achievement in itself. It is primarily a history, however, of ad hoc achievements. The most important achievement of Co-operative Energy Ltd was the contribution to the development of Our Energy.