The Consumer’s Glossary of Electric Utility Restructuring Terms
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By Christopher A. Baker

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Introduction

Historically, electric utilities have had exclusive control over the generation, transmission, and distribution of the nation’s electricity; that is, they have provided the power generated at the plant and the transmission or delivery of that power to community wires and poles that distribute or carry the power to a customer’s home. Under this monopoly system, most residential consumers have had only one option in buying their electricity, that is, to purchase service from their local utility at terms, conditions, and prices established by government regulators.

Over the past several years, many states have enacted legislation or adopted rules to make the generation of electricity a competitive industry. These measures give consumers the opportunity to shop among competing power generation companies but maintain the local utility’s monopoly over the delivery of electricity.

The potential to lower electricity rates has been a driving force behind utility restructuring. However, early results from some states indicate that consumers may achieve only marginal savings or even experience higher prices as result of these restructuring efforts. Indeed, the extent to which consumers benefit from competition will depend on a variety of factors,
including their awareness and understanding of the changing electric utility industry.

This document was created to serve as a reference tool for consumer advocates and representatives who seek to facilitate the individual consumer’s understanding of some of the more common technical terms and concepts pertaining to electric utility restructuring. Knowledge of these terms and concepts is essential if consumers are to benefit from the restructuring process.

AARP’s Public Policy Institute (PPI) used a number of resources to develop these definitions, including the National Energy Regulatory Commission’s *Glossary of Terms*; the Energy Information Administration’s *Electricity Prices in a Competitive Environment: Marginal Cost Pricing of Generation Services and Financial Status of Electric Utilities, A Preliminary Analysis Through 2015*; Pennsylvania Public Utility Commission’s *Consumer’s Dictionary for Electric Competition*; and the National Association of Regulatory Utility Commissioners’ *Glossary*. Where a definition is taken verbatim from another source, a footnote is provided.

AARP intends to update and revise these definitions periodically.
**Access**  The right to use part of the transmission or distribution system to send and/or receive electricity.

**Affiliate**  A company that is directly or indirectly controlled by, or shares the same owner as, another company.

**Aggregator**  An entity that brings together retail customers, negotiates on their behalf for a lower price, and purchases their electricity.

**Baseload**  The minimum amount of electric power that a company must deliver to its customers over a given period and at a constant rate.

**Bilateral Contract**  A direct contract that individual consumers or aggregators make with power producers.

**Broker**  Any entity that serves as an agent or intermediary in the purchase and sale of electricity without ever owning either the facilities that produce electric power or the power itself.

**Bulk Power Market**  Purchases and sales of electricity among utilities.

**Cogeneration**  The production of both electricity and some form of useful thermal energy, such as heat or steam, from a single fuel source.

**Cogenerator**  A power plant that produces both electrical and thermal energy.
Commercial Consumer  One of three commonly-used designations (the others are residential and industrial) used to differentiate among consumer classes of electricity. Commercial consumers consist of nonmanufacturing business establishments including retail stores, hotels, restaurants, wholesale businesses, and educational institutions, among others.

Cost Allocation  The process of assigning the costs for the generation, transmission and/or distribution of electricity among industrial, commercial, and residential customers.

Cramming  The practice of adding charges to a customer’s monthly bill for optional services that the customer has not authorized.

Date Certain  The establishment of a specific date by which restructuring efforts are to be implemented.

Default Provider  Any entity that, in the transition to retail competition and under retail competition, provides electric generation services for customers who fail or are unable to make their own arrangements for electric generation services.

Demand  The amount of electricity, expressed in kilowatts, that is required by customers at a given point in time.

Deregulation  1) Less government oversight. 2) The elimination or relaxation of regulations governing an industry or sector of an industry.
Direct Access  A key feature of the restructuring process — the opportunity for consumers to bypass their local utility, the generator of their electricity, and purchase electricity from the generator of their choice (also see Retail Wheeling).

Distribution Service  The delivery of electricity through local, low-voltage wires to end-use consumers from high-voltage transmission lines.

Divestiture  1) The requirement that an electric utility separate its generation services from its transmission and distribution services and that it then legally transfer ownership and control of all generation-related assets to a non-affiliated company. Divestiture of generation services is one of three often-mentioned policy options for protecting consumers from the disadvantages of market power (the others are functional separation and structural separation). 2) The term (rare) also can refer to the transfer of ownership and control of a utility’s transmission or distribution functions to a non-affiliated interest.

Electric Utility  Any regulated entity that owns and/or operates facilities for the generation, transmission, or distribution of electricity, and has the exclusive right, within a defined geographic area, to sell customers these services.

Federal Energy Regulatory Commission (FERC)  An independent federal agency within the U. S. Department of Energy that has jurisdiction over rates, terms and conditions of the transmission and the wholesale sales of electricity in interstate commerce.
**Functional Separation**  1) The requirement that an electric utility segregate its books and records to isolate the generation function from all other functions. Functional separation of generation services is one of three often-mentioned policy options for protecting consumers from the disadvantages of market power (the other policy options are divestiture and structural separation). 2) The term (rare) also can refer to the segregation of books and records to isolate the transmission or distribution functions from all other functions of the utility.

**Generation**  1) The process of producing electrical energy from other forms of energy. 2) The amount of electric energy produced, usually expressed in watt-hours (Wh), kilowatthrours (kWh), or megawatthrours (MWh).

**Gigawatt (GW)**  One thousand megawatts (1,000 MW), or one million kilowatts (1,000,000 kW), or one billion watts (1,000,000,000 watts) of electricity. A measure that is often used to describe the capacity of large power plants or of many plants.

**Grid**  A system of interconnected power lines for the transmission and distribution of electricity both locally and nationally.

**Independent Power Producers (IPP)**  Any entity not regulated by the government as a public utility that owns or operates an electricity generating facility and offers electric power for sale to utilities and/or the public (also known as Non-Utility Generators).
Independent System Operator (ISO)  A neutral entity, not affiliated in any way with any generation, transmission or distribution market participant, created to operate, control and/or maintain an instantaneous balance of the transmission grid system in a manner that will ensure reliable and fair transfers of electricity between generators and distribution companies (see Regional Transmission Organization).

Industrial Consumer  One of three commonly-used terms (two others are residential and commercial) used to differentiate among customer classes of electricity. The classification of industrial consumer is made either because the consumer 1) is a manufacturing, construction, mining, agriculture, fishing, or forestry establishment or; 2) uses an amount of electricity that exceeds some specified limit.

Investor-Owned Utility (IOU)  A company, owned and operated by private investors; can be contrasted with a governmental agency or a cooperatively owned organization, that provides utility services.

Kilowatt (kW)  One thousand (1,000) watts. A measure of the amount of electricity used by large appliances and households.

Kilowatt-hour (kWh)  The unit of electricity for which most customers are charged on their monthly bill (in cents per kilowatt-hour). One kilowatt-hour equals one hour of using electricity at a rate of 1,000 watts. Three and a half-kilowatt hours will provide enough power to keep a 150-watt light bulb on for an entire day.
Load  The amount of electric power required at a specific time, or over a specific period of time, by a consumer, circuit, or system.

Market Power  The ability of a company, either individually or in collaboration with other companies, to affect the price of electricity in the relevant market.

Megawatt (MW)  One thousand kilowatts (1,000 kW) or one million watts (1,000,000 watts). A term that is most often used to measure the output of a power plant. While a large power plant might be 1000 MW, the average size of a U.S. power plant is just over 200 MW.

Merchant Plant  A power plant built by a nonutility (an independent power producer or a utility outside its local service territory) to produce electricity that is sold to utilities and other power suppliers rather than directly to retail customers.

Nonbypassable Charge  A charge that all consumers must pay, whether they continue to receive electric service from their present utility or select a new supplier.

Non-Utility Generator (NUG)  Any entity not regulated by the government as a public utility that owns or operates a generating facility and offers electric power for sale to utilities or the public (also known as Independent Power Producers).

Pilot Program  A program offered by a utility that allows a limited number of customers to select their energy suppliers on an experimental basis.
Poolco  A system in which an independent operator, acting as both the central buying entity for electricity suppliers in the region and the single agent for selling power to retail customers and their aggregators, accepts bids from the suppliers to sell their power and then, based on the bids and the demand for power at that time, establishes the short-term market price for electricity.¹

Power Marketers  Entities that buy and sell electricity, but do not own generation, transmission, or distribution facilities. The difference between power marketers and brokers is that power marketers actually take ownership of electricity and also must register with FERC.

Power Pool  Two or more interconnected electric systems that seek to obtain greater reliability of service and efficiency of operation by coordinating the development and operation of their electric generation and transmission facilities.

Price Cap Regulation  A form of regulation in which the regulatory agency establishes the maximum allowable price for a commodity, creating an incentive for the regulated company to earn higher profits by cutting expenses or increasing productivity (also known as rate cap regulation). Price caps represent an alternative to rate-of-return regulation, which sets rates for utility services according to their underlying costs plus a reasonable profit.

¹ More specifically, every half-hour or hour, the pool operator will accept bids starting with the lowest offer first. The operator will continue to accept bids until the demand for electricity is met. The price of the bid that fulfills this last unit of demand becomes the price paid to all accepted bidders (i.e., those that offered below the winning bid).
Provider of Last Resort  An entity that is legally required to provide service to customers who are not offered electricity service from any competitors.

Public Utility Commission (PUC) or Public Service Commission (PSC)  A state authority responsible for the regulation of retail sales of electricity within a particular state.

Public Utility Holding Company Act of 1935 (PUHCA)  A federal law that was enacted to address and correct abusive practices by large and powerful utility holding companies that were operating to the detriment of utility ratepayers and shareholders. PUHCA granted the Securities and Exchange Commission the authority to abolish the large holding companies and to regulate mergers and diversification proposals of the remaining holding companies, now known as registered holding companies.

Public Utility Regulatory Policies Act of 1978 (PURPA)  Congress passed PURPA with the intent to encourage cleaner, more energy-efficient power production. PURPA has created a new class of non-utility generators called “qualifying facilities” (QFs), that must meet certain ownership, size, and efficiency criteria established by the Federal Energy Regulatory Commission. Once a generator is designated as a QF, it can force a utility to purchase its power, but only at a price that is no higher than the cost that the utility would have had to pay to produce the electricity itself or the cost it would have had to incur to purchase the power from another source (avoided cost).
Qualifying Facility (QF)  A term created in the Public Utility Regulatory Policies Act of 1978 that describes a cogenerator or small power producer that meets certain ownership, operating, and efficiency criteria set by the Federal Energy Regulatory Commission.

Regional Transmission Organization (RTO)  An owner and/or operator of the electric transmission facilities within a large region. Formed by merging the transmission networks of several utilities under the control of a single entity, an RTO seeks to promote competition in wholesale power markets (see Independent System Operator).

Regulation  A rule established by the federal or state government that sets procedures that a utility must follow. A regulation must first be offered for public comment before it becomes effective.

Reliability  Electric system reliability has two components: adequacy and security. Adequacy is the ability of the electric system to supply customers at all times, taking into account scheduled and unscheduled outages of system facilities. Security is the ability of the electric system to withstand sudden disturbances, such as electric short circuits or unanticipated loss of system facilities.²

Residential Consumer  One of three commonly-used terms (also commercial and industrial) that differentiate among

consumer classes of electricity. Residential consumers are made up of private households that consume energy primarily for space heating, water heating, air conditioning, lighting, refrigeration, cooking, and drying clothes.

**Restructuring** The reorganization of the electric utility industry’s market structure. A movement toward a structure that allows consumers to purchase electricity generation services from competing suppliers and away from the traditional regulated monopoly structure, in which utilities receive exclusive rights to generate, transmit, and distribute electricity to serve all customers in their jurisdiction.

**Retail Competition** The concept that allows providers of electricity to compete directly to serve end-use customers (see Direct Access and Retail Wheeling).

**Retail Wheeling** A method of transmitting power in which utility customers would get direct access to power generators, giving them the option to purchase electricity from more than one provider (see Direct Access and Retail Competition).

**Rural Electric Cooperative (Co-op)** An independent electric utility that is owned by the consumers it serves and is legally established to provide at-cost electric service. Typically co-ops are financed initially by the Rural Electrification Administration (REA) and are exempt from federal income tax laws.

**Securitization** A financial mechanism through which a utility can recover its stranded costs (see “stranded” below) up front,
in a single lump sum payment via the issuance of securities, i.e., bonds.³

**Service Area**  The geographical territory served by a utility.

**Slamming**  The practice of switching customers from one power provider to another without their consent.

**Stranded Benefits**  Programs funded by a monopoly utility to support environmental protection, fuel diversity, energy efficiency, low-income ratepayer assistance, renewable energy, demand side management, etc., that could be compromised or abandoned in a restructured electric industry.

**Stranded Costs**  Costs incurred because the value of utility investments (e.g., investments in nuclear power plants or in purchased power contracts) that were made and are recoverable under regulation cannot be recovered from the sale of the power from such investments in a competitive market.

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³ Securitization is initiated by passing state legislation. Typically, this action ensures that ratepayers will pay for stranded costs through a charge on their electric bill, often referred to as a transition charge. It also directs the state utility commission to determine the amount of stranded investment that may be recovered through securitization and to authorize the transaction. Once the transaction is approved, a special government-established entity, often a trust, issues bonds whose repayment is guaranteed by the legislature. The trust then gives the proceeds from the sale of these bonds to the utility in exchange for the right to collect the utility’s transition charge. Unless restricted by law, the utility can use the money from the bonds to retire its debt, buy back stock, make investments, or do anything else it wants. In theory, total customer payments recovered through the transition charge will be lower because securitization will save on financing costs by replacing the utility’s higher cost debt with the lower cost debt of the securitized bond. The lower interest rate is a result of the legislature’s declaration that the securitization process is irrevocable.
Stranded Margins  Revenue generated because the value of utility investments that were made under regulation is greater in a competitive market than it is under a regulated monopoly structure.

Structural Separation  1) The requirement that an electric utility create a separate subsidiary to run its generation services. The subsidiary would operate in a separate building and have its own employees and financial reporting procedures. Structural separation of generation services is one of three often-mentioned policy options for protecting consumers from the disadvantages of market power (the others are divestiture and functional separation). 2) The term (rare) also can refer to the requirement that an electric utility create a separate subsidiary to run its transmission or distribution services.

Supplier  Any entity that sells electricity to customers using either its own transmission and distribution facilities or those of another company.

System Benefits Charge  A charge on all users of electricity to fund public interest programs, such as energy conservation, research and development, energy efficiency, and low-income assistance.

Transition Charge  A cents-per-kilowatt-hour charge added to every customer’s bill to recover an electric utility’s stranded costs.
Transmission  The process of transporting high-voltage electricity from the points of generation to the location of groups of electricity users and low-voltage distribution wires.

True-up Mechanism  A method for adjusting for price fluctuations and other changes to prevent the over-recovery of stranded costs. The term typically refers to a provision in legislation or regulation that gives such authority to state regulators.

Unbundled Service  Electricity service that is broken down into its basic components. Each component is priced and sold separately. For example, generation, transmission, and distribution could be unbundled and offered as individual services.

Universal Service  A policy guaranteeing that all ratepayers receive reliable electric service with no degradation in service quality, and at rates that are just, reasonable, and affordable.

Vertical Integration  The structure of an electric utility in which the company owns generation plants, a transmission system, and distribution lines and thus can provide all aspects of electric service.

Watt  A unit of measure of electric power at a specific moment in time. Seventy-five watts describes the amount of electricity that a 75-watt light bulb draws at any particular moment.

Wheeling  The transmission of power to customers.
**Wholesale Competition**  A market structure where a utility may buy its power from a variety of power producers, and power producers may compete to sell their power to a variety of utilities.

**Wires Charge**  A charge expressed in cents-per-kilowatt-hour that is levied on electric power suppliers or their customers based on the use of transmission and distribution wires.
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