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Green Fees

Will consumers pay more for environmentally friendly power? In theory, yes. In practice, maybe not.

By BRYAN LEE

The sticker on the window of John Shahabian's coffee shop in Sacramento, Calif., says it all: "Greenergy." The logo tells customers that the store buys its electricity from suppliers that don't pollute the environment -- using wind, sun and water instead of coal or nuclear power.

Mr. Shahabian's customers like that message -- after all, these are some of the same people who voted to shut down the nearby Rancho Seco nuclear power plant more than a decade ago. And he doesn't mind paying $30 or $40 more each month to the Sacramento Municipal Utility District for the environmentally friendly power.

"If we took the lead in shutting down a nuclear power plant, we should be willing to pay the price for green power," says Mr. Shahabian.

Just how many power users agree with Mr. Shahabian? It's a question that's being thrashed out by companies in California, the first state to open its entire retail market to competition.

Now that utilities are being deregulated and consumers are gearing up to choose their power suppliers, some young companies and newly competitive utilities are betting that lots of consumers will be willing to pay a little extra to know that their electricity isn't polluting the planet.

But other green-power marketers argue that most consumers won't put their money where their mouth is. These companies say the only way green power can be viable is to make their prices more competitive.

"There have been numerous surveys showing public interest in paying more for green power," says Ralph Cavanagh, an attorney with the Natural Resources Defense Council. "Clearly the sale is harder in practice."

A Dirty Business

More than half of U.S. electricity is generated by burning coal, accounting for about one-third of the country's air pollution, and making the power sector the biggest industrial polluter. The U.S. government has long sought to promote nonpolluting "renewable" energy sources, such as solar cells, wind turbines and biomass, a term for forestry and agriculture waste products that are burned to make electricity.

Now the Clinton administration wants to push through federal legislation to restructure the $215 billion-a-year electricity sector, expecting the move will create incentives to generate cleaner electricity.

"We think there's a tremendous opportunity for green power," says U.S. Energy Secretary Bill Richardson. California's deregulated marketplace has already become a proving ground for marketing green energy.

In the public arena, several cities have made a commitment to green power. Santa Monica, where two of seven City Council members belong to the Green Party, meets its municipal power needs with green power. The city pays a small premium for green power, but the added cost is more than offset by savings achieved in recent years as a result of various steps the city has taken to reduce energy consumption, says City Councilman Michael Feinstein, a Green Party politician.

"It's not costing us any more, but yet we're able to do the right thing," Mr. Feinstein says. "We went ahead to be the first city to do this to show it's workable. It's reliable."

Chula Vista, Calif., is also going green, and government officials in the San Diego County area are considering aggregating communities' electricity needs and meeting them with green power.

"It's actually starting to multiply," says Mr. Feinstein in Santa Monica. "The more there are like us, the more the prices for green power will come down over time."

Shock to the System

California's new market structure places a levy on power sales to ensure that utilities recoup investments that otherwise would have been "stranded" by the move to competitive power markets from a system that protected monopoly service territories. Thus, the savings are small, and few residential consumers have opted to switch power suppliers.

The thin margins of California's restructured retail power market support "grocery-store scale at best" for new suppliers, says Fred Bloom, chairman and chief executive officer of Commonwealth Energy, of Tustin, Calif. Created in August 1997, the company -- like many power start-ups -- was frustrated by the returns in the residential market, and decided to take advantage of a state-created niche.

When California deregulated its market, it also created a subsidy for companies offering green power, derived from a small surcharge assessed on power sales in the state. The result: Mr. Bloom can sell green power at a 5% discount off the price for power generated from fossil fuels.

Since the company was started in August 1997 with an initial $85,000 investment, Commonwealth has attracted $42 million in venture capital. It had revenue of nearly $40 million in its fiscal year ended June 30, says Mr. Bloom.

He expects the company to start making a profit in October, and projects $70 million in revenue for fiscal 2000. He plans to expand into Pennsylvania and New Jersey.

Pennsylvania's economic model, which passes along credits to consumers to ease the burden of stranded costs, is "more conducive to profitability" than California's, says Mr. Bloom.

But Commonwealth Energy will approach the new markets with caution. The marketing plan calls for selling the cleanest power at the lowest price.

"Everybody's an environmentalist until it costs them more money," says Mr. Bloom.

'It's a Hard Sell'

A San Jose, Calif., company, cleen 'n green energy, which has been selling green power since retail electricity markets in the state opened to competition in March 1998, has learned that lesson. The company recently abandoned a marketing plan that relied on consumers' environmental sentiments to support higher prices for green power. Now, like Commonwealth Energy, cleen 'n green markets state-subsidized green power at a discount.

"It's difficult. It's a hard sell," says Dennis Dyc, vice president of operations at cleen 'n green. "The rate of sign-ups is much greater now because it's a discounted product." He declined to disclose the company's financial results.

Still, some companies are optimistic about consumers' willingness to pay for cleaner power. Texas billionaire Sam Wyly of Sterling Software and the Michael's restaurant chain, describes himself as a "true believer" in a lucrative green-power market of the future. The Wyly family has invested more than $100 million in GreenMountain.com Co., a power-marketing company based in South Burlington, Vt.

And the company doesn't discount its power. Mr. Wyly says he thinks the number of people willing to back up their desire to help the planet by buying green power at a premium may be smaller than opinion surveys indicate, but is high enough to promise a substantial long-term return on his investment in the company.

GreenMountain's business plan anticipated that between 2% and 6% of consumers who switched power companies would buy green power after five years of deregulated retail-power markets. Yet after only a year of open markets in California, GreenMountain has signed up 25% of those retail customers who changed electricity providers, according to Mr. Wyly. In less than a year in Pennsylvania's deregulated market, the company has landed 30% of consumers who sought an alternative power provider, he says.

Mr. Wyly thinks the California subsidy that Commonwealth Energy and others rely on to sell green power at a discount won't last. "Everybody loves a discount. And everybody would like it cleaner and cheaper. But that sounds like fairy-tale land to me," he says. "You can buy it cheap and dirty, or you can buy it from us."

Automated Power Exchange, in Cupertino, Calif., a Silicon Valley start-up that lets energy companies and brokers use the Internet to trade "bulk" electricity for resale, is bullish on green power, even at a premium. "We're scheduling over 700 megawatts per hour of green power" at a premium of $4 a megawatt-hour, says Jan Pepper, director of green-market development for APX. The company's green-power exchange is getting "more liquid all the time," says Ms. Pepper. "The volumes we're handling have grown substantially."

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