

AEP Retail Electric Provider Texas Consumer Attitude Report

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Methodology

The following is an analysis of a study conducted to assess the impact of the introduction of the name AEP Retail Energy by a retail electric provider (REP) into the Texas market. In addition to examining the marketplace in terms of the current level of role understanding or confusion, the study also examined the likelihood of the AEP Retail Energy name being vague, confusing or misleading and the effect of a disclaimer about the relationship between AEP Retail and its affiliated transmission and distribution utilities (TDUs) in ERCOT that could be included in any advertising for AEP Retail Energy, which seeks to be a REP serving customers throughout Texas.

Sample for the study was drawn from the service areas of AEP Texas Central Company (AEP Central) and AEP Texas North Company (AEP North), which are the affiliated TDUs of AEP Retail Energy. AEP Central and AEP North are together called "AEP Texas." The sample was also drawn from the service areas of Oncor and CenterPoint Energy, the two largest TDUs serving Texas. Since the likelihood of role confusion between AEP Retail Energy and AEP Texas is most likely to occur in the AEP Texas service area, two-thirds of the sample was drawn from there. The remaining sample was split evenly between the Oncor and CenterPoint Energy areas. Because the disclaimer was seen as an important part of this study, it was determined that we needed to assess its impact through the medium of speech as it might be heard in a radio ad and in a visual medium as it would appear in a print or visual ad. In order to accomplish this, approximately one-half of the 448 surveys were administered by telephone. These 223 surveys were conducted using a random telephone sample drawn from the zip codes of the three TDUs. The other half of the sample (225) was drawn from internet panels whose members were located in the areas of the three TDUs. As was done in the telephone sample, a ratio of two-thirds from AEP Texas, one-sixth from Oncor and one-sixth from CenterPoint Energy was maintained.

Internet panels are made up of people who have been recruited to participate in internet studies in return for a reward, such as points going towards gifts. To participate in such a panel one has to have access to the internet. Given these factors, there are some inherent differences between the population sampled using this methodology and one sampled using a random telephone sample. However, internet panels are generally accepted as a research methodology in instances where we are trying to assess the impact of a variable such as the proposed disclaimer. In many cases the results from the internet portion of the survey closely followed the telephone results. We will rely on the results of the telephone sample when describing current knowledge, perceptions and attitudes, since this sample is more random. In assessing the impact of the disclaimer, we will report both the telephone results (the medium of hearing) and internet panel results (the medium of vision).

Surveys in both mediums were conducted in October and early November 2011. A sample of 225 has a sample error of $\pm 7\%$.

Results

Breakdown of service area

For both the telephone survey and the internet survey, two-thirds of the sample was drawn from zip codes in the AEP Texas service area and the remaining sample was split between Oncor and CenterPoint Energy.

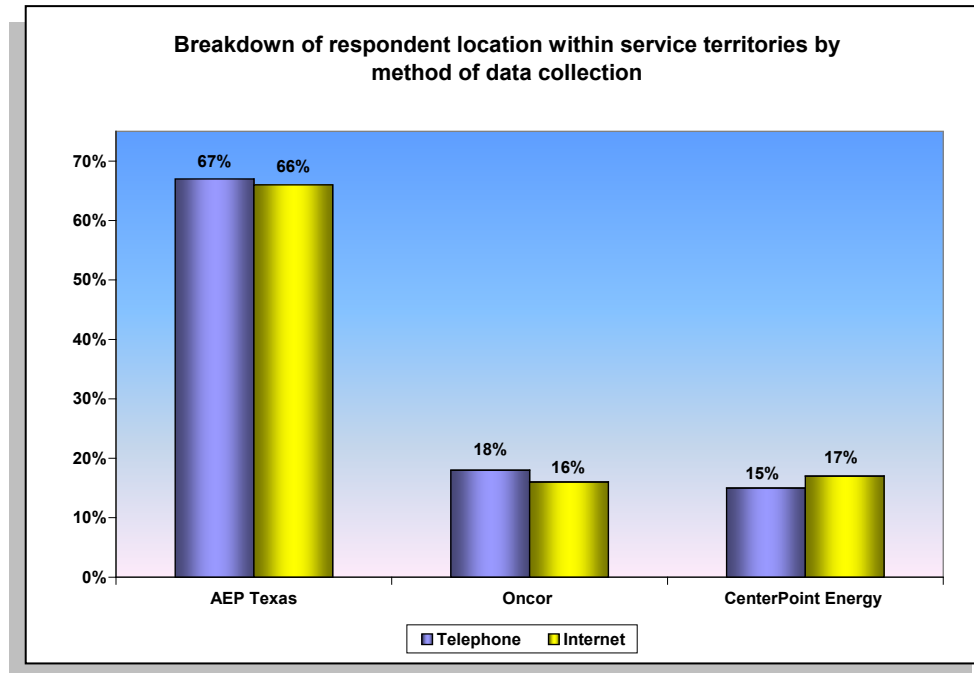


Figure 1

Understanding the difference between TDU and REP functions

Consumer behavior over the past ten years has demonstrated that a substantial proportion of the population in the deregulated areas in Texas understand that they can change the company from whom they purchase their electricity. This is clear because a significant number have changed REPs. However, an important issue, which is relevant to the extent role confusion exists in the market, is the extent to which customers understand the different roles of companies. One question in the survey addressed whether people knew that the companies from which they buy electricity are or are not the same companies that own and maintain the wires that bring electricity to their home. When asked this question, only about a third was able to give the correct answer. This demonstrates that after ten years of retail competition and deregulation, many people are unclear about the details of how the electric market in Texas works.

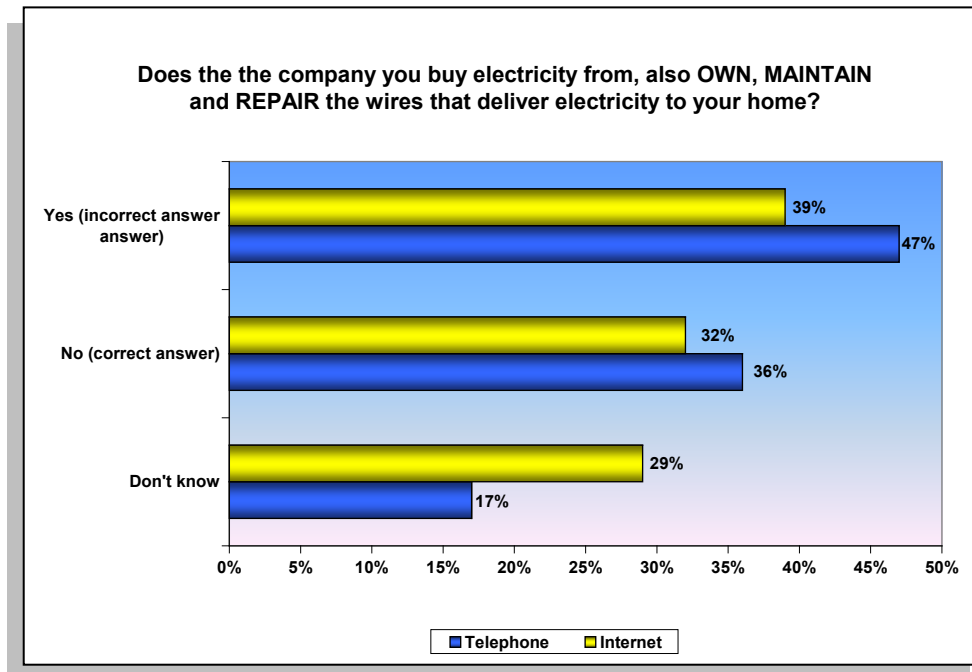


Figure 2

This lack of understanding was further confirmed when respondents were asked to name the company that is responsible for owning and maintaining the wires that bring the electricity to their home in an open-ended format. As the figure below shows, less than a third was able to do so (Oncor 30%, CenterPoint Energy 27%, AEP Texas 24%).

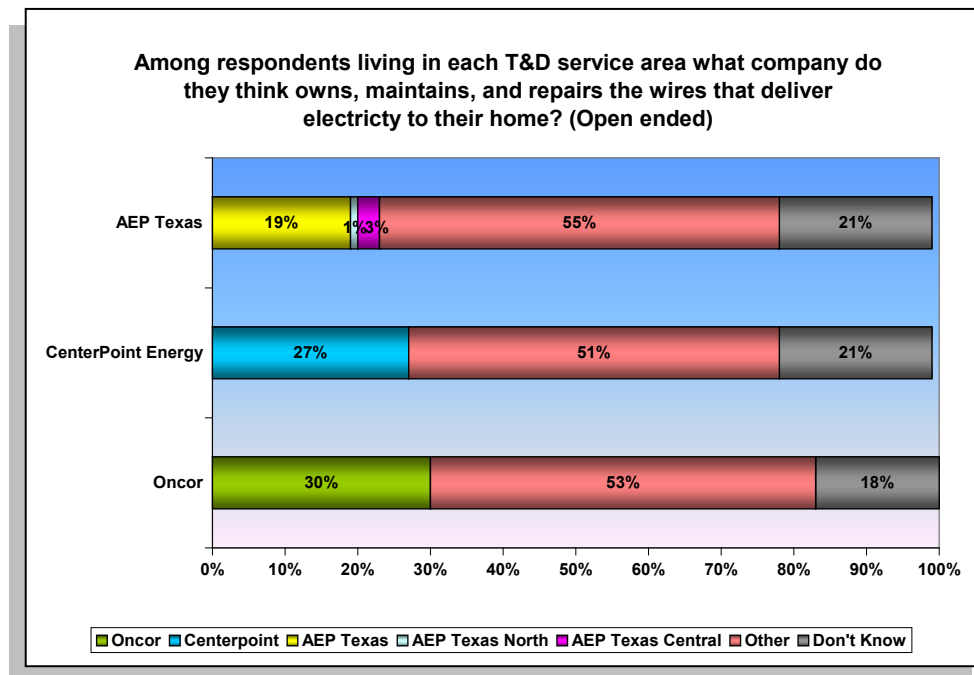


Figure 3

Familiarity with TDUs and REPs

Another way of assessing respondents' familiarity with the electric market was to ask them how familiar they are with different companies. The following graph shows how familiar the residents of different TDU service areas said they were with the name of the TDU that serves them. In the AEP Texas area only 39% said they were very familiar with AEP Texas, while 12% were familiar and 17% somewhat familiar. In the Oncor areas respondents were somewhat more familiar with Oncor (50% very familiar, 13% familiar and 13% somewhat familiar), and those in the CenterPoint Energy area were even more familiar with CenterPoint Energy (64% very familiar, 9% familiar and 9% somewhat familiar). Even when given the name of their TDU provider, a substantial proportion of people indicated they were either not very or not at all familiar with it.

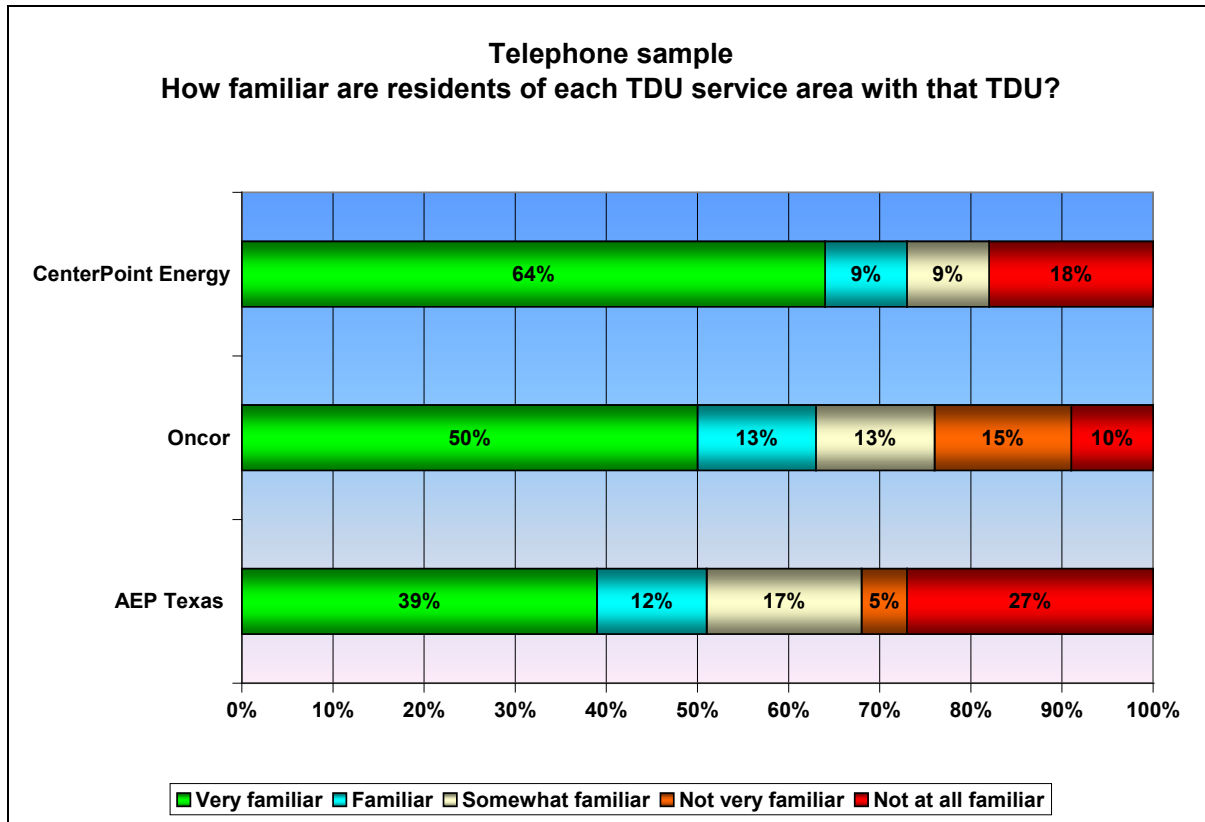


Figure 4

Respondents were also asked about their familiarity with a number of REPs.

As the chart below shows in the AEP Texas service area only four of the REPs tested had more than half of the respondents indicate they were at all familiar with that REP. One of those, AEP Retail Energy, does not currently do business in Texas.

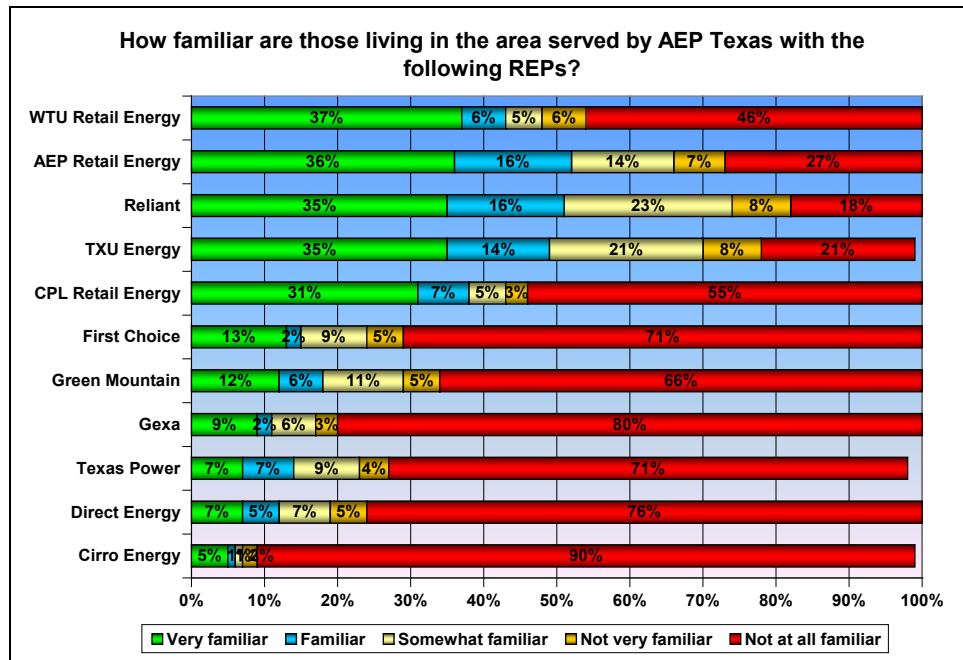


Figure 5

In the Oncor area, there are four REPs with which more than half the people are at all familiar.

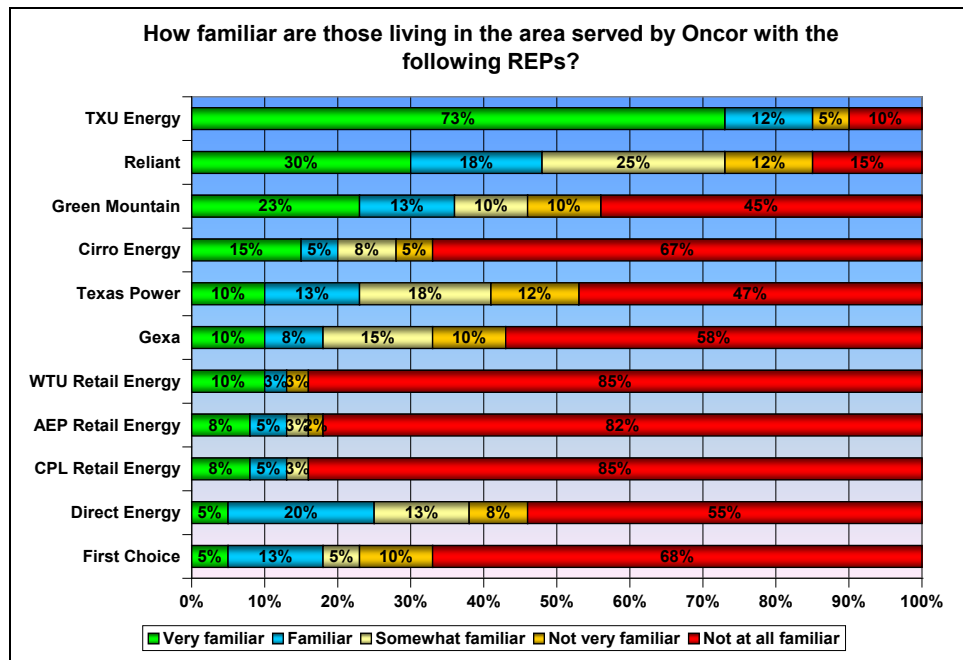


Figure 6

In the CenterPoint Energy area there are three REPs with which more than half the people are at all familiar.

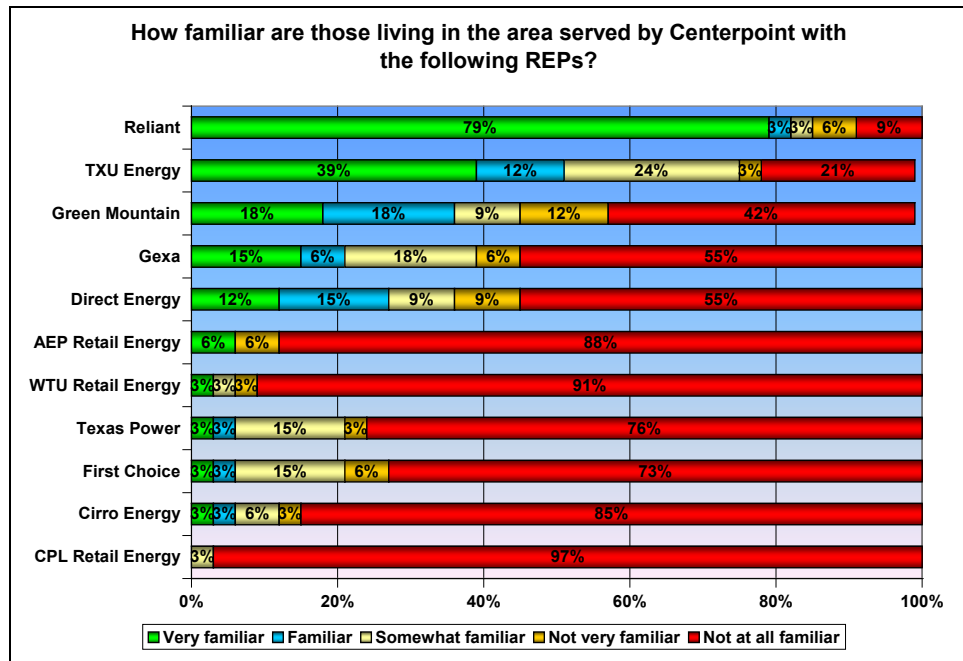


Figure 7

Role clarity

We have already shown that over two-thirds of those surveyed cannot name their TDU provider and that there is little familiarity with most REPs. To further investigate the issue of role clarity, the survey provided an explanation that some companies are responsible for the wires that deliver electricity to your home (TDU) and others sell you electricity and are the ones you pay (REP). The wording of the explanation follows.

In most of Texas, including where you live, supplying electricity is competitive by having retail electric providers compete for your business. These are the companies with which you have a business relationship and who send you your electric bill. Another role that needs to be filled for you to get your electricity is usually called transmission and distribution. The companies that fill this role own and maintain the wires to get energy to your home and supply and read the electric meters that measure how much electricity consumers use.

Since most physical outages occur because of problems with transmission and distribution lines, for example a downed power line, the transmission and distribution company takes care of restoring power after the majority of electrical outages.

We then asked what role respondents thought different companies played. Respondents were only asked about companies with which they had some familiarity as assessed earlier in the survey.

Three of the companies assessed via this method were the three TDU providers: AEP Texas, CenterPoint Energy, and Oncor. We found that while two-thirds of the respondents correctly identified AEP Texas as a TDU company, only 43% did so for CenterPoint Energy and 34% for Oncor. Furthermore, in the case of Oncor, a higher percentage misidentified it as a REP.

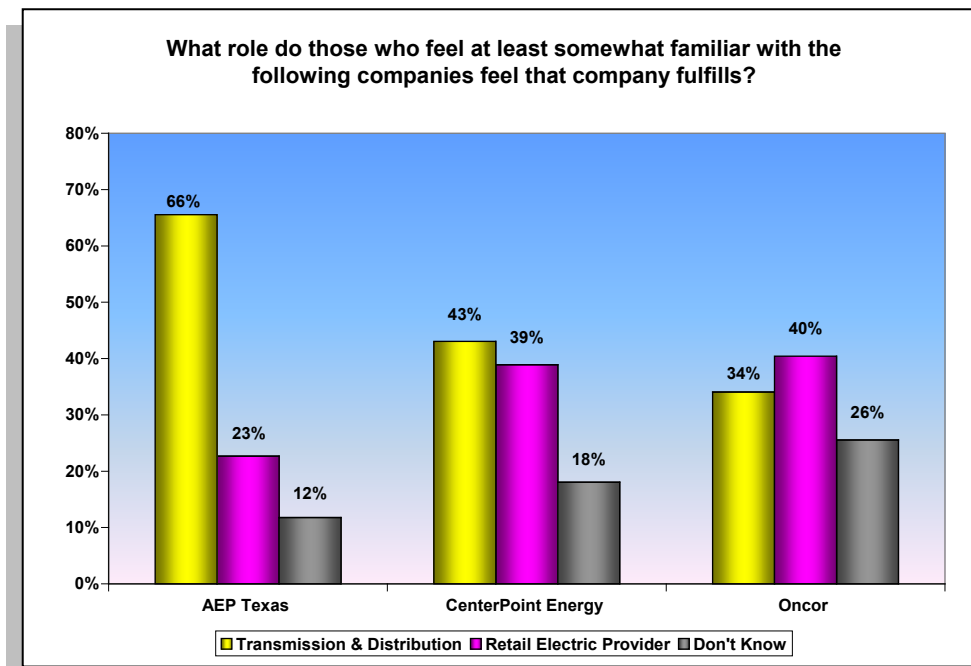


Figure 8

The same exercise was done with CPL Retail Energy, WTU Retail Energy and AEP Retail Energy. In each case, a substantially larger percentage of respondents identified the company as a REP than as a TDU. Note that this was true of AEP Retail Energy even though the respondents could only rely on the name since the company does not even currently do business in Texas. This last finding suggests that people relied upon the name AEP Retail Energy to determine what service that company provided and that many more use this information to identify the company as a REP (based on the Retail Energy part of the name) than as a TDU (based on the AEP part of the name).

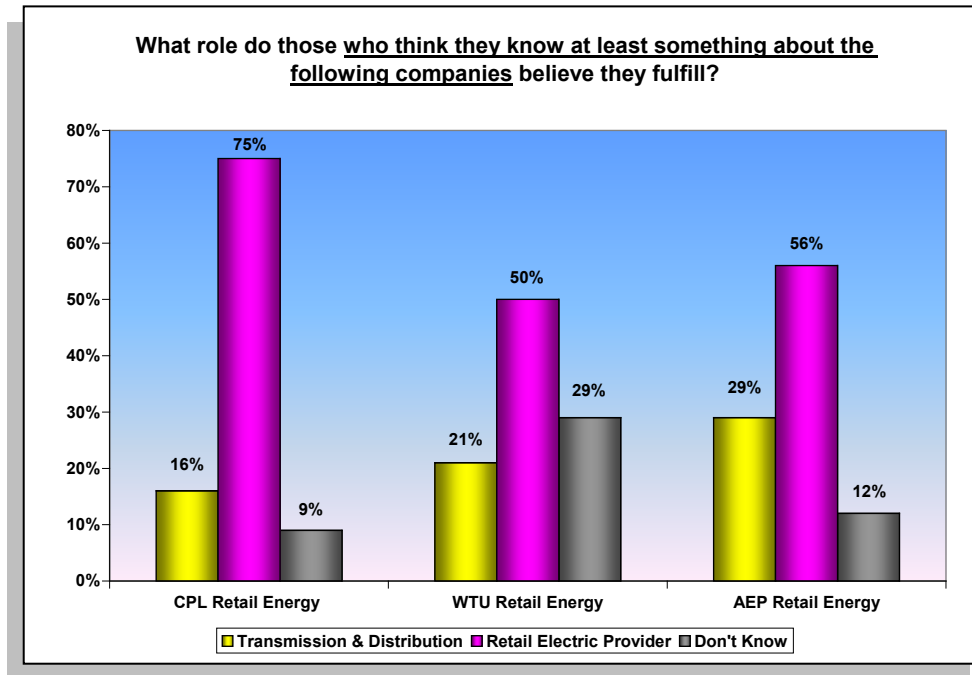


Figure 9

We can further narrow our analysis by looking at only those respondents that live in the AEP Texas service areas and claim some familiarity with one of these companies. The reason for doing this is that the first two companies (AEP Central and AEP North) only do business within the boundaries of AEP Texas and the last (AEP Retail Energy) contains AEP in its company name. We found the same basic pattern of results as in the previous figure. Therefore, even within the AEP Texas service area, the majority of those that name a role for AEP Retail Energy select the role of a REP. This is without any real knowledge of the company since it does not currently operate in Texas. Under those conditions in which AEP Retail Energy actually entered the market place, we would expect it to advertise its services, which would further drive perceptions of the firm as a REP.

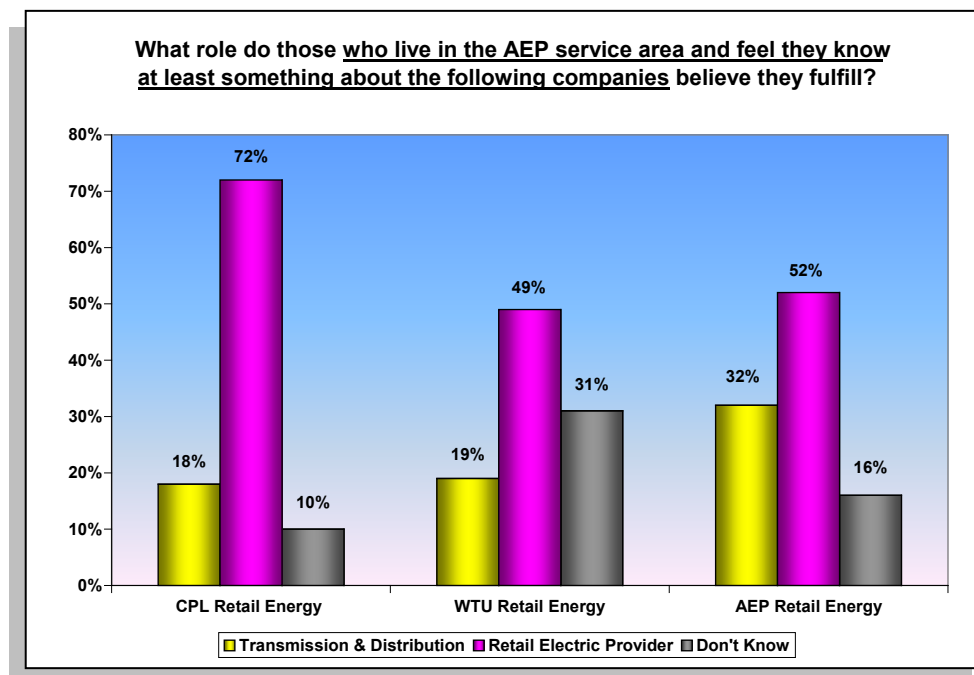


Figure 10

Expectations of TDU treatment based on REP

Another critical issue that the survey addressed is if AEP Retail Energy entered the Texas market would customers in the AEP Texas service territory who signed up with AEP Retail Energy expect to receive better, the same, or worse treatment than customers who used other REPs. Respondents first received the following information:

In some cases, a parent company will own subsidiaries that fulfill different roles in the electric industry. For example, American Electric Power owns AEP Texas North Company and AEP Texas Central Company; jointly referred to as AEP Texas serve parts of South and West Texas.

American Electric Power would also like to create a Retail Electric provider that would be called AEP Retail Energy...

The results in the figure below clearly demonstrate that only a small percent of respondents expected better treatment for those signing up with AEP Retail Energy. This was true of both all respondents and of those that reside in the AEP Texas service area. The results also demonstrate that a small number of respondents would expect worse treatment for those signing up with AEP Retail Energy. When these findings are viewed in light of the significant number of respondents who believe that those signing up with AEP Retail Energy would receive the same treatment as they would with any other REP, it is unlikely that the use of the name AEP Retail Energy is a competitive advantage.

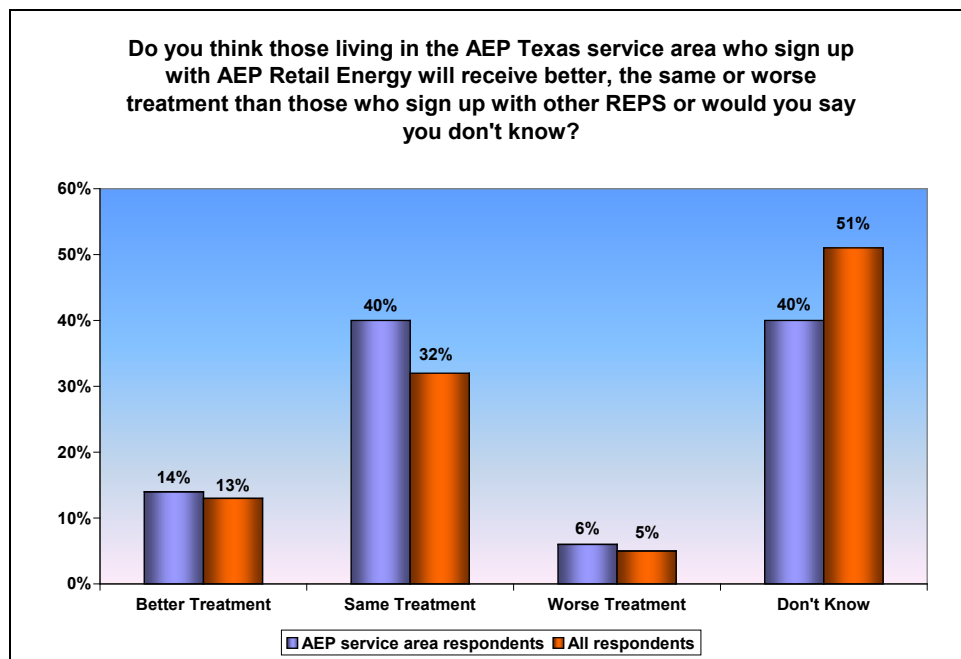


Figure 11

A related question in the survey asks whether customers in the AEP Texas service territory who signed up with AEP Retail Energy expect to experience better, the same or worse reliability. The pattern of results to this question are almost identical with only a small percentage expecting that AEP Retail Energy customers living in the AEP Texas service area would experience better reliability than customers who do not.

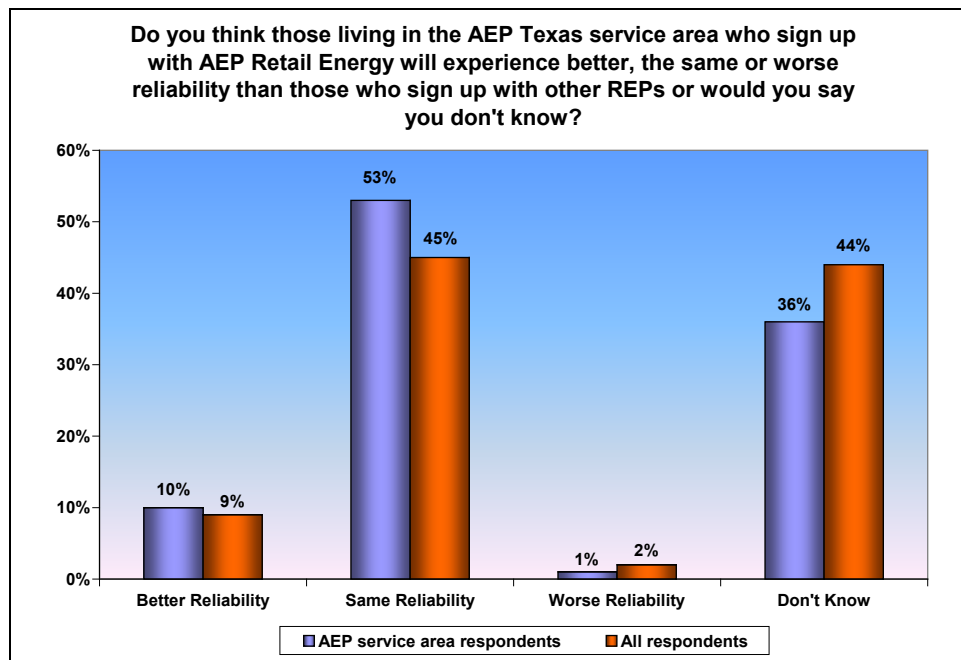


Figure 12

Disclaimer

Another issue addressed in the survey was the power of a disclaimer to reduce expectations that customers living in the AEP Texas service area would receive better treatment or experience better reliability than customers of other REPs. This disclaimer would appear in any advertising conducted for AEP Retail Energy. Since some advertising would probably take place in a medium that respondents would hear (i.e. radio) and some in a medium that customers would see (i.e. print) it was decided to conduct the survey in two mediums: telephone and internet. Respondents would hear the disclaimer in surveys conducted over the phone and see the disclaimer in surveys conducted via the internet.

The following is the disclaimer used in this study:

"AEP Retail Energy is NOT the same company as AEP Texas and is NOT regulated by the Public Utility Commission of Texas. You do NOT have to buy AEP Retail Energy's products to continue to receive quality regulated services from AEP Texas."

There were four conditions related to the disclaimer. One-fourth of the respondents were administered this survey via telephone and did not hear the disclaimer. One-fourth were administered the survey via telephone and did hear the disclaimer. One-fourth were administered the survey via the internet and did not see the disclaimer and one-fourth were administered the survey via internet and did see the disclaimer.

As the figure below shows, the disclaimer used in this survey had no significant impact on respondents' opinions that those living in the AEP Texas service area who signed up with AEP Retail Energy would experience either better treatment or reliability than those using other REPs. The medium in which the disclaimer was communicated did not make a significant difference.

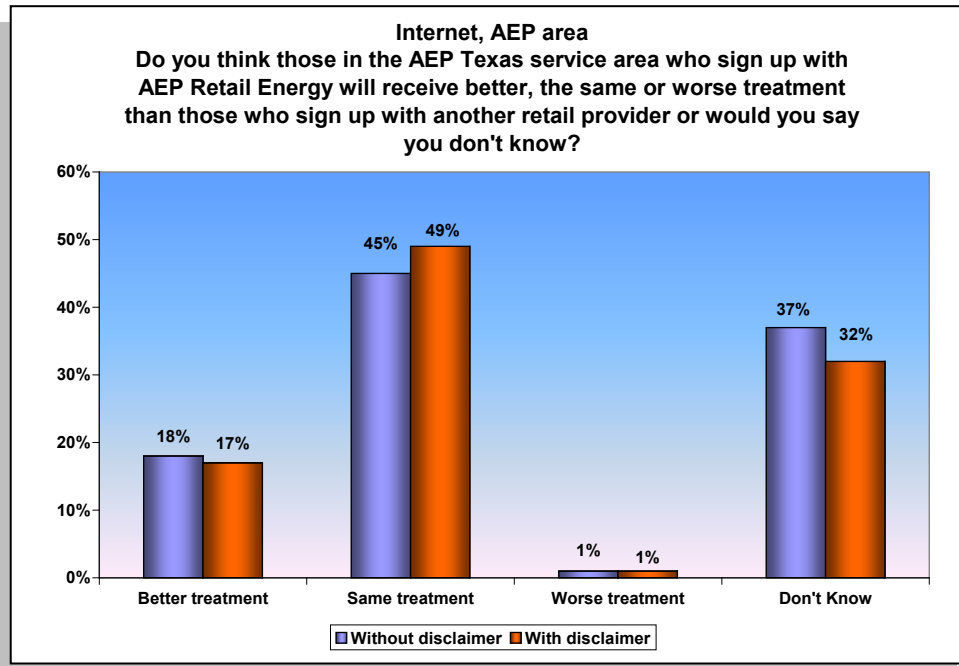


Figure 13

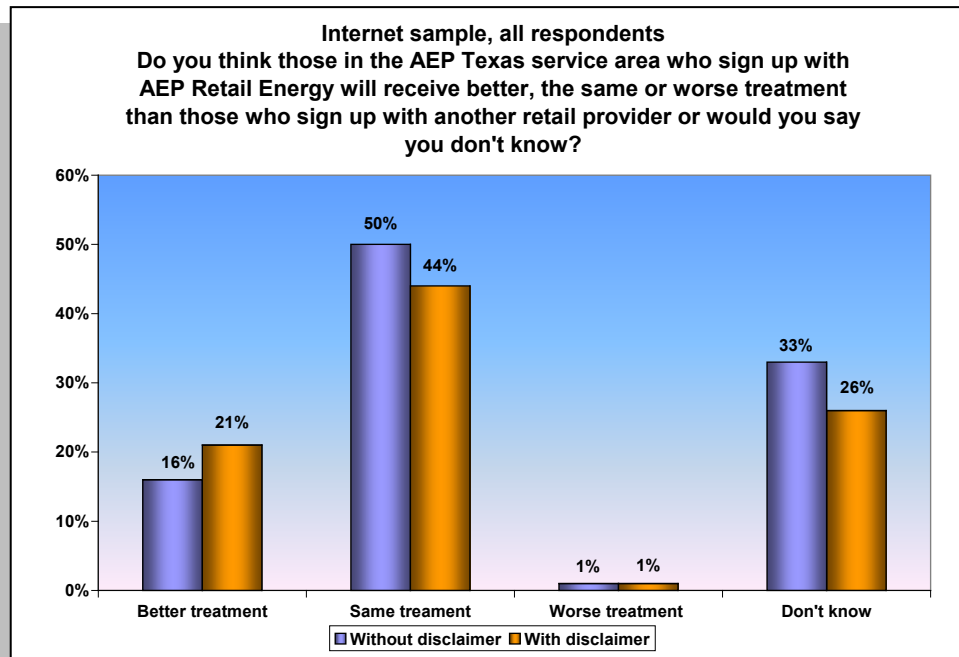


Figure 14

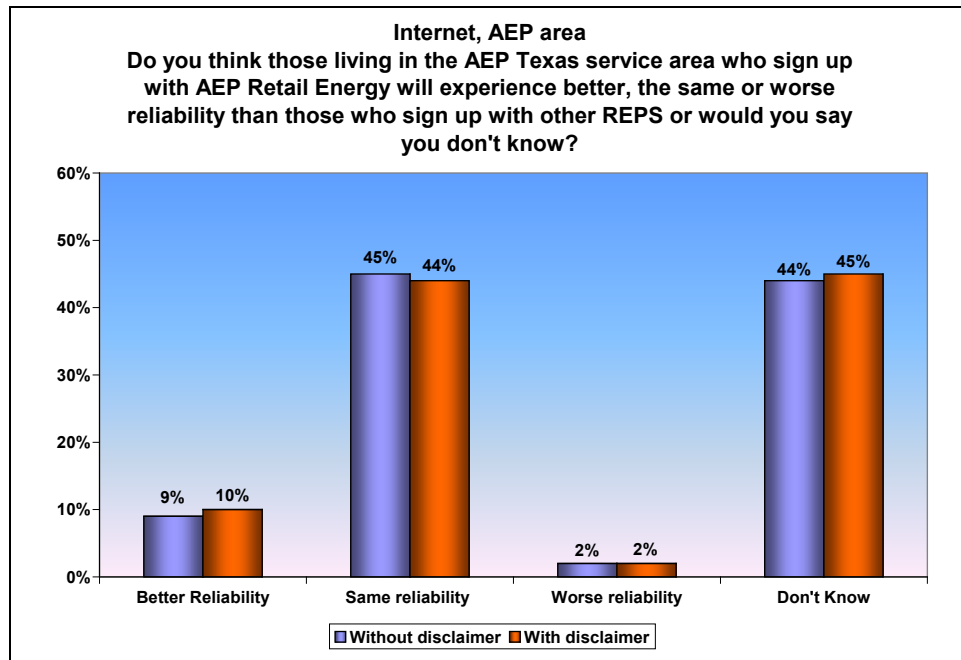


Figure 15

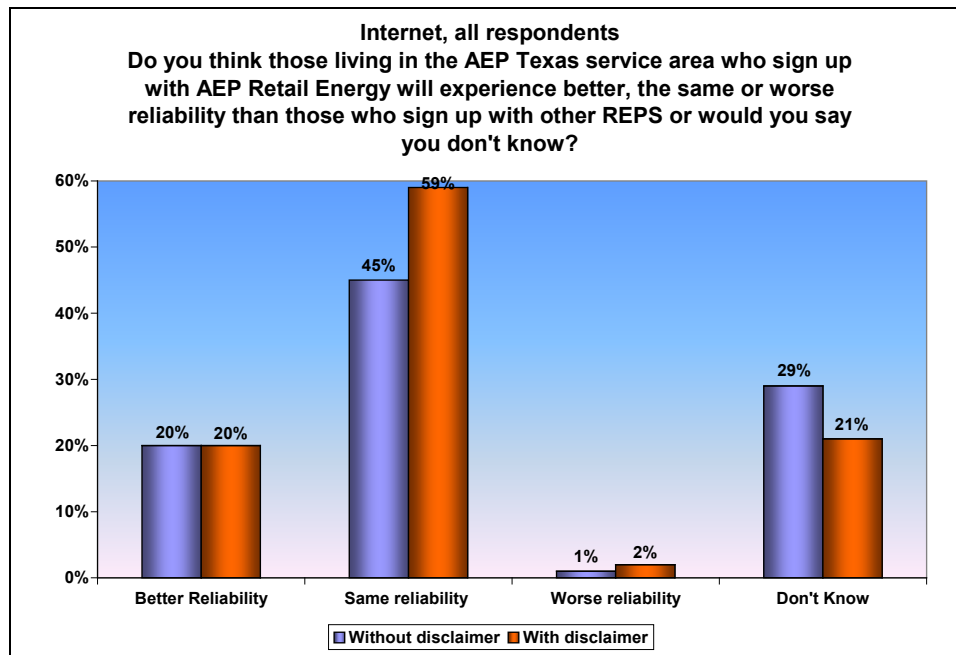


Figure 16

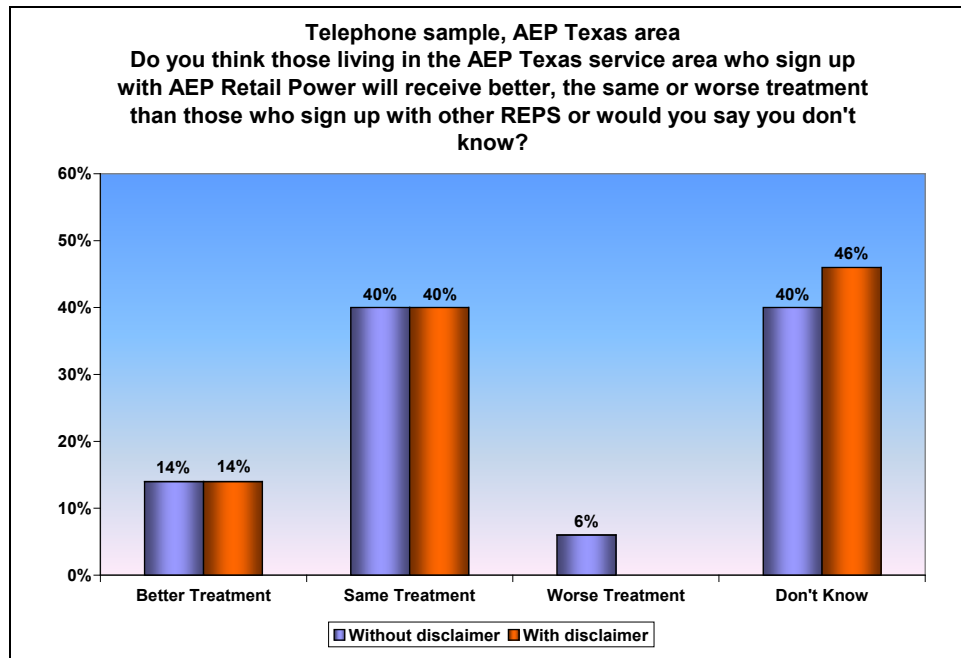


Figure 17

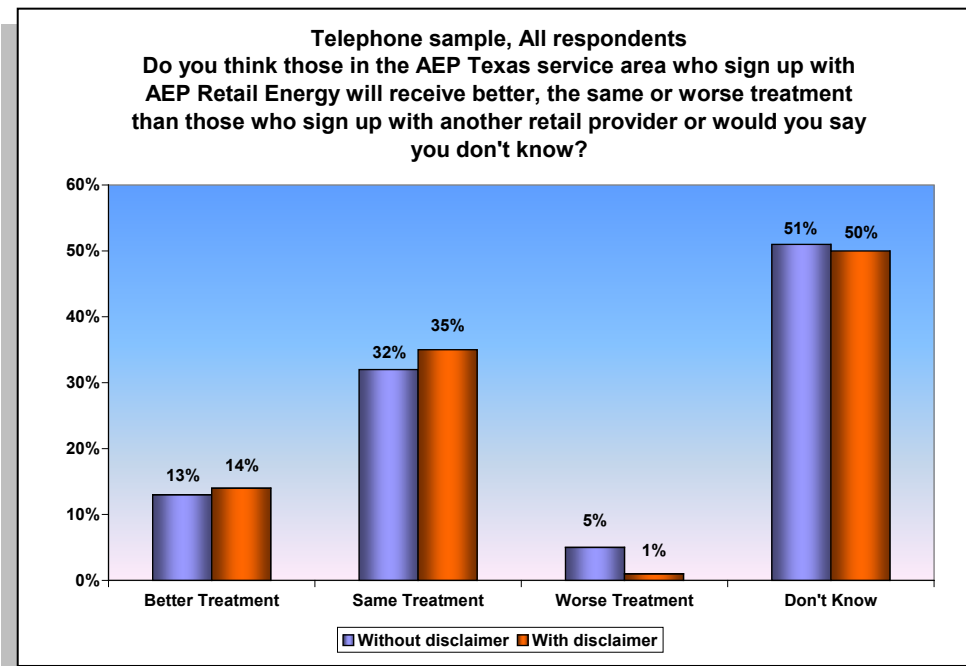


Figure 18

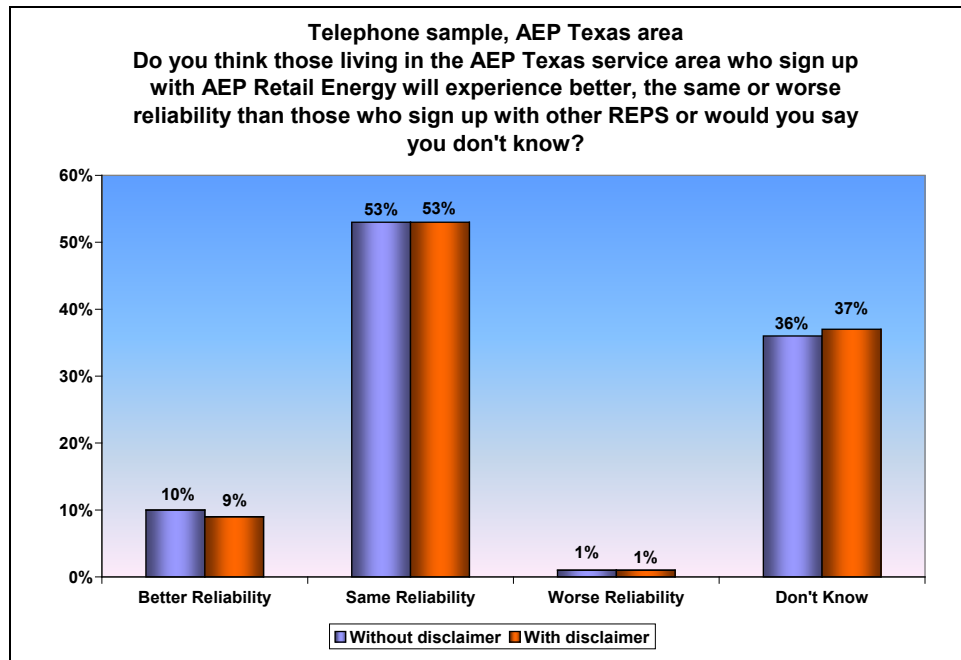


Figure 19

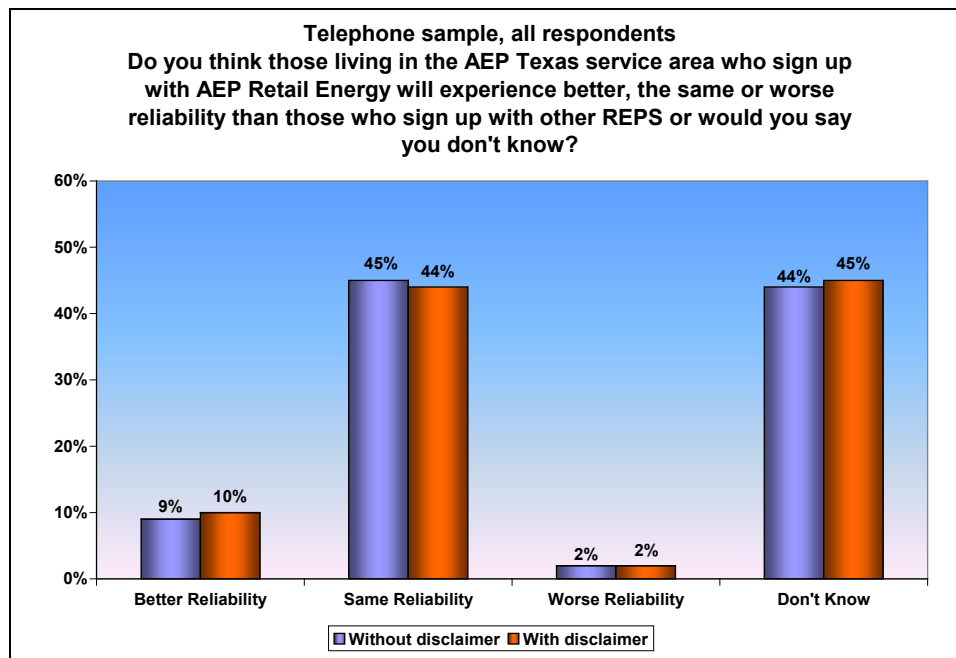


Figure 20

Conclusions

The following conclusions are based on the survey:

1. There exists today a lack of understanding about the details of how the deregulated Texas electric market works.
2. This lack of understanding concerns the roles that various providers play in terms of being either a TDU provider or a REP.
3. Respondents overwhelmingly identify AEP Retail Energy as a REP, not a TDU, even though they have no other knowledge about AEP Retail Energy. The name AEP Retail Energy is not vague; it is descriptive.
4. In fact, respondents find the name AEP Retail Energy to be less confusing in terms of the role it plays than the names of other REPs and TDUs already in the market.
5. Eighty-five percent of the people surveyed indicated that they would expect no better treatment if they selected AEP Retail Energy as their REP. And six percent believed they would receive worse treatment.
6. Ninety percent of the people surveyed indicated that they would expect no better reliability if they selected AEP Retail Energy as their REP.
7. Based on the survey results, the name AEP Retail Energy: (1) does not confer a competitive advantage, (2) will not cause confusion among customers, and (3) is not deceptive or misleading.