

## Green Power: An Expanding Niche

Deregulation in the U.S. electricity industry has fostered new competition at the retail level. Significant business opportunities in offering “green” energy products are emerging in light of concerns about global warming and the ever-increasing physical signs of environmental degradation. Historically, green power was seen as a premium product for a selected niche (up to 10 percent in the residential market). More recently, target customers have been found in the commercial, institutional, and industrial power markets with demand projected at 1 to 3 percent of the market. Research indicates that green retail products can offer higher margins than conventional commodity products, even though wholesale costs are higher.

At the same time, increasing requirements for retail energy sales to come from renewable sources are stimulating investments and creating a larger and more diverse market for green energy. ICF Consulting estimates that the normal annual market penetration of green energy can average about 1 to 2 percent per year for retail customers. The penetration may be higher with blended products.

To meet this growing demand, a number of energy marketers are now offering innovative green energy products and marketing approaches. Green pricing programs are being offered in traditionally regulated markets, while green power marketers compete with other electric prod-

uct offerings in markets where retail deregulation has already occurred. The success of green power programs has been found to vary significantly due to the variability of marketing programs, pricing strategy, and local market conditions. A key factor of success is the program design and how it is differentiated and marketed to customers. Green energy programs are niche programs and they must be strenuously marketed to customers (residential, commercial, and industrial) to gain acceptance.



How can corporations evaluate green electric product offerings in light of other more traditional choices? Market research completed by ICF Consulting indicated that once corporations achieve some minimum threshold of savings brought on by deregulation (about 8 to 10 percent), they would then consider green options, recognizing that some small take back from the energy marketer would occur for the price premium. The research also indicated that blended green and conventional commodity rates were preferable. Premiums that would be acceptable to businesses would vary significantly—depending on the loads, pricing, and total cost of the energy bill. The mark-ups for the tariffs would vary significantly by firm. All this would require a unique sales and marketing approach for business and industry. A flexible pricing and proposal offer would also be required. ■