

The logo for the Retail Energy Supply Association (RESA) features the letters 'RESA' in a bold, sans-serif font. The 'R' is white and set against a dark grey square background, while the 'ESA' is blue.

Retail Energy Supply Association

A background image of a wind turbine against a blue sky, partially obscured by the text.

Committed to the Development and Furthering of
Competitive Retail Energy Markets in the United States.

Preferred End-State Default Market Model for Pennsylvania

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On behalf of the Retail Energy Supply Association

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End-State Goal – Robust, Sustainable Retail Competition

- Removal of utility from the provision of default service
- Elimination of status quo bias currently afforded to utility
- Ensure creation of opportunities for retail suppliers to offer a vast array of products and services from which to choose (price, term, renewable, affinity, value-added)
- Development of new customer service options to better serve customer's unique needs (billing structures, customer service designs, etc.)

The Path to Robust Competition

- June 1, 2015 - May 31, 2016: One Year Transitional Default Service (TDS) provided by EGSs (All customers remaining on EDC default service would be transitioned to TDS providers)
- A part of the TDS will be to ensure that a backstop, POLR service exists
- Effective June 1, 2016, only a market reflective (hourly/LMP-based formula) POLR service provided by EGS would remain

The Path to Robust Competition – Stakeholder Processes

Two focused stakeholder processes are envisioned:

- One to address end-state market design issues
- One to address billing issues



Customers Benefit from EGS Provided TDS/POLR

Customer Education

- direct experience with shopping
- ongoing education/communication in preparation for transition to POLR only end state
- maintaining all current consumer programs (CAP, universal service, etc.) without having to pay a guaranteed rate of return on the provision of those programs

Customer Protection

- qualified/credit worthy/licensed EGS
- TDSs and EGSs required to follow all Commission regulations

Customer Choice

- customers can switch at any time with no penalty
- customers get a market reflective price from suppliers with expertise in pricing products for customers
- given a year to learn and understand shopping before POLR begins

January 24, 2012

Pathway to End State – TDS to POLR

- TDS/POLR providers selected through a competitive procurement process (analogous to current wholesale auction/RFP process)
- TDS ends at conclusion of year one – the end-state market design stakeholder process will determine customer status going forward
- POLR service provided by EGSs
- POLR service priced at a market based price (hourly/LMP-based formula), adjusted to include components to reflect retail service costs
- POLR provider would retain all regulatory and legal obligations required of default service provider today with the exception of Act 129 energy efficiency programs
- Uniform statewide approach for all EDCs

TDS Price Design Options to Ensure Customers Benefit

- Pricing of EGS-provided TDS would need to be determined. Possible options include:
 - Retail auction
 - Market index formula
 - Discount to Price to Compare
- What happens to customers at the end of TDS service to be determined through end-state market design stakeholder processes.

Details re: TDS and POLR Service

- TDS is a transitional service provided by EGSs for a limited period of time (1 year) before transitioning to a pure “backstop” model for default service
- TDS can be priced to provide price stability to customers during the transition
- In addition to TDS, a true backstop POLR service is established to address situations for supplier financial default
- This POLR obligation could be part of TDS eligibility criteria or could be separately procured

Stakeholder Process - End-State Market Design

Stakeholder process needed to determine:

- Most appropriate pricing methodology
- Methodology for allocating/aggregating customers
- Timeline for communicating with customers about:
 - Other supplier options
 - TDS pricing/product
 - TDS switch and what they can expect
 - Interim POLR product and how it works
- Cost recovery for running the auction/pricing process
- Other issues as may be identified

Qualifying EGSs to Provide TDS/POLR

Current EGS standards sufficient to become a TDS unless POLR role is assigned to TDS providers

- More rigorous credit standards needed to become a POLR provider (consider wholesale Supply Master Agreements as a starting point)
- POLR options (during and post TDS period):
 - Licensed suppliers volunteer to participate
 - Consider assigning the POLR obligation to TDS suppliers or other EGSs
- Process to select POLR provider(s) would be regularly reviewed

Stakeholder Process - End-State Market Design

A stakeholder process is required to:

- Develop the criteria for qualifying EGSs to become TDS/POLR providers
- Develop timeline for qualification process
- EGS selection at new service initiation

TDS/POLR Service – PUC Role re: Structure

- PUC oversees the process for TDSs/POLRs selection for each utility
- PUC qualifies bidders for the TDS/POLR
- PUC ensures any mechanism to transfer customers to EGS provided TDS and/or POLR service is nondiscriminatory among the EGSs and allows for maximum participation among eligible retail suppliers
- PUC may select independent consultant (NERA, etc.) for this process



TDS/POLR Service – Customer Service Protections

- TDSs/POLRs abide by same consumer protections as default service provider
- End-state market design should permit EGSs to terminate service or drop to POLR for non-payment
- The manner in which service terminations are handled would need to be addressed in a stakeholder process
- TDS and initial POLR providers must be identified by the PUC at the same time

TDS/POLR Service – Billing

- During the TDS period, billing functions remain as is: utility consolidated billing, dual billing by EGSs, etc.
- After expiration of the TDS, billing service to be unbundled through creation of a “Bill Co” and implementation of supplier consolidated billing (“SCB”)
 - SCB requires EDEWG to complete work on EDI transactions; requires PUC to provide final policy guidance on key questions posed by the EDEWG
- Purchase of Receivable Programs remain in place until billing services are unbundled, but would be competitively priced by Bill Co once billing services are unbundled

Stakeholder Process - Billing Issues

A stakeholder process is required to fully develop the various billing processes/options:

- Coordination and responsibility for the “billco function” in consideration of current existing utility processes as well as anticipated future processes
- Supplier consolidated billing needs to be fully developed – start with EDEWG work product and finish – EDI/utility processes need to be modified to accommodate this and it must be done ahead of the transition date; stakeholder group must develop timeline for completion of all remaining tasks, including systems changes.
- Need a timeline and estimated cost of all work that is required.

POLR Service – Metering

Status quo would remain:

- Meter installation, reading, etc. continues to be a regulated distribution service provided by the utility/communicated to TDSs/POLRs/EGSs

POLR Service – Universal Service

Objective: all universal service programs and funding levels remain in tact

- Low income customer subsidies should be fully portable to allow customers the ability to shop
- Stakeholder process to develop process and program changes



TDS/POLR Service – Implementation Timeline

2013 – 2015 Planning Phase

- **2012 – June 2013:** Stakeholder process to develop end-state market design
- **June 2013:** Customer education plan adopted and ready for implementation to inform customers that effective June 1, 2015, the EDC will no longer provide default service;
- **January 2013:** Billing stakeholder group works to finalize system changes; seeks guidance from PUC on outstanding policy questions; establishes testing/protocols, etc.
- **December 2013:** All utility system changes identified and implementation schedules outlined
- **January 2014:** PUC proceeding initiated to determine TDS pricing methodology/market share caps – to be completed by July 2014
- **July 2014:** PUC proceeding to develop/finalize criteria for TDS/POLR qualifications – to be completed by Nov 2014

TDS/POLR Service – Implementation Timeline (con't)

- **January 2015:** Supplier qualification period opens
 - Suppliers submit required information to PUC to become qualified to serve as TDS provider and/or POLR provider
 - PUC approves list of qualified TDS and POLR providers
- **May 2015:**
 - Qualified TDS providers present pricing (retail auction/index price formula/auction for percent off PTC)
 - Winning suppliers approved by the PUC; TDS price established for each EDC territory – communicated to customers
- **June 1, 2015:** Customers who have elected not to choose their supplier directly are switched to a TDS provider
- **June 1, 2016:** TDS expires and POLR remains

Act 129 Obligations – Energy Efficiency

- EDCs retain Act 129 obligations for energy efficiency programs
- Any TOU or real time pricing programs for commodity service should be administered by EGSs selected through a competitive procurement process

Alternative Energy Portfolio Requirements

- EGSs, TDSs, POLR providers all continue to fulfill their AEPS obligations consistent with current practices
- AECs and SAECs associated with long-term EDC procurement commitments could be auctioned off or allocated to EGSs, TDSs, POLRs on a load ratio basis

POLR Service – Settlement/Aggregation of Load

- Utilities continue to aggregate/settle load as the MDMA at PJM
- Discussions with PJM may be warranted to explore other models



POLR Service – Commission Assessments

- EGSs are not currently legally required to pay PUC assessment
- Legislation may be needed to obligate EGSs participating as TDSs or POLRs in the end-state market design to pay the PUC assessment



TDS/POLR Service – Market Responsive Default Rates

Proposed pricing options for both TDS and POLR
would result in market-responsive prices

TDS/POLR Service – Unbundling of Rates & Cost Allocation

- The creation of a Bill Co under the POLR model would address the problem of proper cost allocation because customer service and billing functions would be unbundled and priced by the EDC in a billing services tariff
- Because the EDC would no longer provide commodity service, there would be no need to further unbundle generation service related costs from distribution rates. EDC assets and resources related to this function would be removed from rate base to the extent such resources are no longer needed.

TDS/POLR Service – Customer Auctions

Future customer auctions would not be necessary after the initial transition to TDS



Questions?

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