

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

Investigation of Pennsylvania's
Retail Electricity Market

Public Meeting: February 14, 2013
2237952-DIR
Docket No. I-2011-2237952

STATEMENT OF COMMISSIONER CAWLEY

By this order today, the Commission proposes a fundamental shift in the default service supply portfolio away from a prescribed portfolio of long, medium, and short term supplies to quarterly procurements of relatively short term duration. The Commission has been moving in this direction for some time now in order to benefit both Pennsylvania default service and shopping customers. As more and more customers migrate to the competitive market, the Commission's policy must move in this direction to avoid very substantial premiums that will increasingly be embedded in future long term procurements.

Moreover, the level of competition for long term default service products is much less robust and will, over time, be more costly. Lastly, using default service as a barometer of competitive prices and the price to compare is inherently faulty because doing so frustrates the role that competition in establishing efficient market prices: EGSs are forced to use outdated and inaccurate pricing information provided by default service providers when formulating the price they can offer to their customers.

However, merely changing the default service portfolio will not address the more fundamental problems of Pennsylvania's current default service model. Any true end-state model must address directly the propensity of many electricity consumers not to make any decision at all regarding switching their energy supplier in the presence of a default service alternative. As I have noted before,¹ this situation will persist indefinitely, even if competitive retail offerings are well below the utility default service option, regardless of whether or not this default service product is a long term or short term product. One only needs to examine the Duquesne Light Company service territory in Western Pennsylvania to drive this point home (that market has been fully open to competition since 2001, yet only 43% of residential customers have chosen an alternative supplier, even though EGS offerings are well below the price to compare).

Another fundamental flaw with our current utility-provided default service model is the socialization of many default service related costs which are borne by shoppers and non-shoppers alike. Numerous competitive entities commented in this proceeding about the difficulties of unbundling all the default service related costs associated with pricing, tariffing, billing, collecting, scheduling, purchasing, paying, auditing, reconciling, and education activities. Utilities argue vigorously that unbundling is either not permitted, or their "default role" justifies socialization of most of these default service related costs. These arguments provide no adequate answer to the arguments of the competitive

¹ Concurring and Dissenting Statement of Commissioner Cawley, September 27, 2012, Docket I-2011-2239752.

community that the utility merchant role necessarily means unfair competition. If default service is not to be eliminated altogether, it should at least be restructured as a backup service provided by financially and technically capable EGSs, much as Texas did from the outset. It was never the intention of our legislature that EDCs and EGSs compete for customers. EDCs were to be the "wires" deliverer of the power, and the competition to supply electricity to customers was to be between and among EGSs.

While these two major, yet unresolved issues persist, today we are taking steps to further resolve these persistent barriers, with the goal of ultimately reaching a fully competitive market. In an effort to reach that ultimate goal, today we announce the commencement of a collaborative charged with tackling the issues around optimal models for a non-utility default service product. Furthermore, the Order acknowledges the legislative allowances for such a construct.

Through hard work, the combined efforts of Commission staff, EGSs, and EDCs have resulted in commendable results thus far. Over 2 million customers (roughly 34% of residential and 40% of commercial customers) are taking advantage of competitive offers for electricity supply.² However, that necessarily means that 66% of residential customers may be overpaying for their electricity.

My compliments and thanks to the OCMO staff who have labored so hard to move us forward. Alas, we have more work to do.

A handwritten signature in black ink, reading "James H. Cawley". The signature is fluid and cursive, with a horizontal line drawn underneath the name.

DATE: February 14, 2013

James H. Cawley, Commissioner

² Commission weekly electric shopping report, February 6, 2013.