

CITIZEN POWER

Public Policy Research Education and Advocacy

June 3, 2011

Rosemary Chiavetta, Secretary
Pa. Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

Re: Investigation of Pennsylvania's Retail Electricity Market; Docket No. I-2011-2237952

Dear Secretary Chiavetta:

Enclosed for filing please find the Comments of Citizen Power, Inc. in the above-referenced proceeding.

Respectfully Submitted,



Theodore Robinson
Counsel for Citizen Power

Enclosures

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Investigation of Pennsylvania's
Retail Electricity Market

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Docket No. I-2011-2237952

COMMENTS OF CITIZEN POWER, INC.

Citizen Power would like to thank the Pennsylvania Public Utility Commission for this opportunity to comment upon Pennsylvania's retail electric market. Citizen Power is a regional, nonprofit, energy advocacy organization based in Pittsburgh. Since 1996, Citizen Power has been involved in the process to deregulate the pricing of electricity generation in Pennsylvania and Ohio. Citizen Power was a party to numerous electric restructuring and rulemaking proceedings, investing significant resources in an attempt to enact policies to protect low-income consumers and the environment.

Citizen Power has answered the following questions with a focus on the residential customer class:

5. Should default service continue in its current form? Does default service impede competition or otherwise prevent customers from choosing electricity products and services tailored to their individual needs? Does default service provide an advantage to the incumbent EDC and/or its generation affiliates?

Default service clearly has a significant impact on competition because the default service price is both fixed for a period of time and open to all customers. First of all, the default service price reflects the risk associated with customers electing to switch to alternative suppliers in the future and the risk that market prices increase and customers who have previously switched to an alternative supplier come back. Second, from the standpoint of an alternative supplier of a

variable product, they have to price their product higher to account for the risk that costs increase to the degree that they cannot beat the default price and therefore lose a large share of their customers.

Despite the impact that default service has upon competition, it should fundamentally continue in its current form. Default service serves two important functions. First, it serves the provider of last resort function, which is necessary in order to provide reliable electric service to Pennsylvania. Second, it provides some degree of gradualism to price increases in wholesale electricity markets. Many residential customers live on tight budgets and cannot afford unexpected increases in electricity expenses.

Alternative default service structures all suffer from significant drawbacks. One possibility is to raise the default service rate to above market levels in order to encourage customers to switch to an alternative supplier, as they did in parts of Texas. This does result in higher rates of shopping (currently in Texas between 47% and 68% depending upon service area).¹ However, this approach would punish those customers who are switched back to default service through no fault of their own, low-income customers who are not realistically able to switch, and those customers who do not want to choose a supplier by saddling them with high rates.² Furthermore, the default service provider would receive an unearned bonus because of these extra-market rates.

Another alternative default service structure is to auction all current default accounts to EGSs. However, this approach fails to provide to residential customers the same type of gradualism and security in electric prices that they currently have under the default service

¹ *Report to the 82nd Texas Legislature, Scope of Competition in Electric Markets in Texas, Public Utility Commission of Texas*, January 2011, at 54; available at http://www.puc.texas.gov/electric/reports/scope/2011/2011scope_elec.pdf.

² Default rates were recently reduced from 130% to 120% of wholesale electricity costs. *Id.* at 6.

model. In short, without the ability to choose default service, customers do not have a guaranteed price ceiling that they can rely upon. It also eliminates the ability to choose not to choose.

In reference to the question of whether default service could possibly provide an advantage to the EDC's generation affiliates, in some cases it could. Specifically, the EDC could propose default service auction timing and terms that give their generation affiliates a competitive advantage against other potential bidders. In addition, if the EDC's generation affiliates are bidding in the default service auction, the EDC has an incentive to structure the auction in a way that maximizes the final default service price. Citizen Power recommends that the design of default service auctions should be independently designed by a qualified third party. Furthermore, that third party should receive incentives based upon the ultimate price of the default service product.

7. How can Pennsylvania's electric default service model be improved to remove barriers to achieve a properly functioning and robust competitive retail electricity market? Are there additional market design changes that should be implemented to eliminate the status quo bias benefit for default service?

As stated earlier, as a condition for being the default supplier in a territory, an EDC's affiliated generation should not be allowed to use a similar name in that territory. The association gives the affiliated generation company a competitive advantage over other alternative suppliers and this advantage may discourage new entrants into the territory. In addition, requests for new service could be handled by a centralized organization in order to encourage new customers to consider alternative generation suppliers.

It is undeniably true that default service enjoys an advantage over alternative suppliers. However, only some of this advantage is because of a favorable bias toward the EDC based upon

a customer's familiarity and experience with them or a customer's misunderstanding that an alternative supplier may provide lower quality service. There is also a cost to the consumer in switching providers. It takes time to research potential service providers, read and understand offer terms, monitor variable offers for increases and fixed offers for the end of the contract term. In addition, the amount of savings over default service may not be enough, especially for low-use households, to encourage some people to investigate the possibility of switching providers. This does not represent a bias, it represents individual customers making a determination that the savings are not worth the cost in time to switch.

To the degree that people choose not to change to an alternative supplier because they are more comfortable staying with the EDC, customer education is a key part in changing those perceptions. EDCs should be encouraged to continue letting customers know about the availability of alternative suppliers and that there is no difference in the service that the customer will receive. Default service bias is also reduced by customers who have switched having good experiences with the decision and telling their friends and family. Conversely, to the degree that alternative suppliers poorly serve their customers, for example through deceptive marketing, the pre-existing bias toward the EDC will be reinforced. The PUC should continue to closely monitor the activities of alternative suppliers for this reason.

New customers should be informed about electric choice contemporaneously with signing up for distribution service. However, many EDCs are understandably uncomfortable presenting offers of EGSs to their distribution customers. One approach that could solve this problem would be for the PUC, or a neutral third party, to serve as a statewide intake for all new service requests, either by phone or internet. Generation supply options could be discussed and decided

upon before the customer is forwarded to the EDC to arrange the initiation of distribution service.

It is true that some people will not switch to an alternative supplier, even when it is in their best interest to do so. Texas, even with punitive default rates, has a significant minority of customers who simply do not switch. This decision to not switch shouldn't be penalized. Citizen Power strongly recommends that the PUC not modify the existing market design to address this issue. As described above, some of the approaches that can be used to try and force customers to shop, such as punitive default rates or the allocation of default customers to EGSs, undermine the purpose behind default service and will ultimately result in higher residential consumer prices.