

# CITIZEN POWER

*Public Policy Research Education and Advocacy*

November 3, 2011

Rosemary Chiavetta, Secretary  
Pa. Public Utility Commission  
P.O. Box 3265  
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.

Please do not hesitate to contact me should you have any questions.

Respectfully Submitted,



Theodore Robinson  
Counsel for Citizen Power

Enclosures



beginning of this year.<sup>2</sup> Although retail choice exists in over a dozen states, shopping rates are negligible in all but a few.<sup>3</sup> The difficulties in promoting shopping can be seen in these numbers. In Pennsylvania, the existence of competitive residential retail offers in several service territories that are significantly lower than the default prices should result in much higher shopping numbers assuming no transaction costs. However, for residential customers, there appear to be significant transaction costs. Specifically, the main barrier to higher residential shopping numbers is perceived and actual risk in terms of time and money. Many residential customers are reluctant to switch because they do not know how much they can save, are skeptical of savings claims, are unsure about the time it will take to become informed to the point where they feel comfortable about switching, do not know the time investment involved in switching itself, and are uncertain about additional burdens that switching may place on them. In addition, electric competition itself has to compete for consumer time with credit card savings offers, insurance savings offers, mortgage refinancing offers, and other opportunities to save money. There is a reason that only a small percentage of people respond to insurance companies' claims that you can save hundreds of dollars in just a few minutes; people generally do not organize their lives like businesses and are reluctant to change. Given this background, Citizen Power believes that even a modest gain in the shopping numbers would be a satisfactory result of the Office of Competitive Market Oversight's ("OCMO") recommendations. In fact, though greater shopping numbers are desirable, from the consumer's point of view, there only needs to be an adequate amount of shopping to encourage enough suppliers into the market for it to function for those who choose to shop. It is unclear if the best offers to consumers would be significantly lower at a 40% shopping level compared to a 20% shopping level.

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<sup>2</sup> *Report to the 82<sup>nd</sup> Texas Legislature, Scope of Competition in Electric Markets in Texas*, Public Utility of Texas, January 2011, at 55; [http://www.puc.texas.gov/industry/electric/reports/scope/2011/2011scope\\_elec.pdf](http://www.puc.texas.gov/industry/electric/reports/scope/2011/2011scope_elec.pdf)

<sup>3</sup> *Id.*

## **II. Comments in Answer to OCMO's Recommendations**

### **A. Default Service Plan Time Period**

Citizen Power believes that three year default service plans, synchronized with the PJM Energy Year, are preferable to the recommended two year default plans. If the intermediate recommendations of the OCMO are followed, the next round of default service plans will include mechanisms that should increase the shopping numbers within the service territories. Any long term plans, including possible modification to the default service model, require adequate time to develop alternatives, study the impacts of each alternative, and discuss the merits of each alternative. In addition, it is likely that some of the alternatives, if chosen, will require significant regulatory or legislative changes. Given the uncertain timeline, a three year default service plan gives the additional flexibility that may be needed as we move forward through the process.

### **B. Energy Contract Durations**

Citizen Power agrees that it is desirable to limit the existence of energy contracts that extend beyond the end date of the default service plan time period. However, this guideline should not be followed if it conflicts with the requirement to provide default service at the least cost to consumers over time. In addition, this guideline should also not be applied to the procurement of renewable energy where long term contracts are often necessary to provide renewable generators a guaranteed revenue stream.

### **C. Retail Opt-In Auction**

Citizen Power supports the use of opt-in auctions in order to reduce the customer acquisition costs of the EGSs and to increase customer shopping levels. However, we are concerned about the risk premium that such opt-in auctions may introduce into the EDSs' default service procurement auctions. An increase in the amount of customers shopping will increase the amount of risk of providing default service. Each supplier who participates in a default service auction must estimate this risk by looking at shopping number trends and price the risk accordingly. Pricing this risk becomes more difficult once opt-in auctions are introduced because the subscription numbers will be unknown. Citizen Power recommends that a 10% cap be placed on the number of customers who are allowed to participate in the opt-in auctions in order to minimize this risk.

### **D. Referral Program**

Citizen Power supports the use of referral programs to reduce customer acquisition costs for EGSs and to increase customer shopping levels. It would be preferable to develop an estimate on how effective such a program may be prior to any default service auctions in order to minimize the amount of risk premium faced by default service suppliers.

### **E. Time of Use Rates**

Citizen Power agrees that the possibility of bidding the TOU rate offering to retail EGSs should be investigated further to determine whether it can benefit residential customers.

**F. Default Service Rate Adjustment Structure – Residential and Small Commercial**

Citizen Power agrees that the EDCs should contemplate the incorporation of semi-annual default service rate adjustments within their next default service plans.

**G. Hourly-Price Default Service for Medium Commercial and Industrial Customers**

Citizen Power takes no position on this issue.

**III. Conclusion**

Citizen Power appreciates this opportunity to provide Comments.

Respectfully Submitted,



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Theodore S. Robinson  
PA Attorney I.D. # 203852  
[robinson@citizenpower.com](mailto:robinson@citizenpower.com)

Citizen Power  
2121 Murray Avenue  
Pittsburgh, PA 15217  
Phone: 412-421-7029

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