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,

[Signature]

Theodore Robinson  
Counsel for Citizen Power

Enclosures
I. Introduction

Citizen Power would like to thank the Pennsylvania Public Utility Commission for this opportunity to comment upon the Recommended Directives on Upcoming Default Service Plans set forth in the October 14, 2011 Tentative Order. Citizen Power is a regional, nonprofit, energy advocacy organization based in Pittsburgh. Since 1996, Citizen Power has been involved in the process to deregulate electricity generation in both Pennsylvania and Ohio, investigating significant resources in an attempt to enact policies that protect consumers, especially low-income customers, and the environment.

Although Citizen Power does not believe that deregulation and the corresponding retail electric markets will operate as initially envisioned, we do support efforts to promote residential shopping because of the opportunities for consumers to benefit from lower prices and expanded product offerings. In addition, we recognize the fact that higher shopping numbers encourage more suppliers to participate in the retail marketplace, potentially driving down prices further.

Before we address the specific recommended directives, Citizen Power would like to address the question of how to define a well functioning retail market. The current residential shopping rate in Pennsylvania is about 23%.\(^1\) In Texas, where the default service rate is designed to be significantly higher than the market rate, the shopping rate was slightly over 50% at the

beginning of this year.\textsuperscript{2} Although retail choice exists in over a dozen states, shopping rates are negligible in all but a few.\textsuperscript{3} 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.

\textsuperscript{2} Report to the 82\textsuperscript{nd} Texas Legislature, Scope of Competition in Electric Markets in Texas, Public Utility of Texas, January 2011, at 55; \url{http://www.puc.texas.gov/industry/electric/reports/scope/2011/2011scope_elec.pdf}

\textsuperscript{3} 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,

[Signature]

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