

**PENNSYLVANIA PUBLIC UTILITY COMMISSION  
HARRISBURG, PENNSYLVANIA 17105-3265**

**Investigation of Pennsylvania's  
Retail Electricity Market:  
End State of Default Service**

**PUBLIC MEETING  
February 14, 2013  
2237952-DIR  
Docket No. I-2011-2237952**

**JOINT STATEMENT OF CHAIRMAN ROBERT F. POWELSON  
AND VICE CHAIRMAN JOHN F. COLEMAN, JR.**

Today, the Commission actions set the stage for the next phase in the development of Pennsylvania's retail electricity market. Two years after the expiration of the last of the electric generation rate caps, Pennsylvania has completed its transition to a fully restructured electricity market. More than 2 million Pennsylvania electricity consumers, representing almost 60% of the total statewide customer load, are actively participating in the competitive retail electricity market. Our competitive market continues to steadily progress, as the number of shopping customers has increased in each of the last four years, with a 33% increase since January 2012.

From an economic development perspective, Pennsylvania has attracted more than 8,500 megawatts of new non-incumbent electricity generation since the onset of competition. The Commission has licensed more than 300 Electric Generation Suppliers (EGSs), many of whom have established operations in Pennsylvania, and who are actively marketing to Pennsylvania electric customers. In congratulating Pennsylvania on reaching the 2 million mark, the National Energy Marketers Association described Pennsylvania's competitive market as a "model of best practices."

Even with this progress, we recognize that there is room for improvement. In launching this investigation, the Commission recognized the need to assess the status of Pennsylvania's retail electric generation market and to explore changes to allow customers to more fully realize the benefits of competition. Despite a large number of EGSs in the market, many EGS offers are only slightly below each EDC's Price to Compare (PTC), despite wholesale prices that are significantly lower than many current PTCs. Additionally, to date, not enough innovative product offerings have emerged that may be attractive to consumers.

With today's order, the Commission is improving the retail market through the following steps:

- By June 1, 2015, we expect default service providers (DSPs) to offer a 90-day default service product or, alternatively, a shorter-term product versus what is currently being offered to residential and small business customers. We agree that

this type of product will reduce the likelihood of a “boom or bust” customer migration cycle and the likelihood of significant over- or under-collections. In addition, this type of product should foster a PTC that more closely tracks market conditions.

- Beginning on June 1, 2015, we expect DSPs to offer a locational marginal pricing (LMP) default product to both medium and large C&I customers with interval meters. DSPs already offer an hourly LMP default service product to large C&I customers, and we agree that medium C&I customers are equally well-equipped and educated to manage their commodity costs in any hourly LMP default service environment.
- The Commission will begin to revise its regulations this year to accelerate the customer switching process. Currently, it can take customers from 16 to 45 days to change suppliers. This delay is a lost savings opportunity that, in turn, can lead to a less than favorable shopping experience. The rulemaking will explore methods to accelerate switching beyond simply shortening the confirmation period (confirmation that the customer intended to switch) from ten (10) to five (5) days.
- EDCs will develop and submit plans to the Commission by the end of 2013 to implement seamless moves and instant connects by June 1, 2015. A seamless move allows a customer to retain its existing EGS when it moves within an EDC’s service territory. An instant connect allows a new customer to enroll with an EGS immediately upon initiating service with an EDC.
- The Commission will establish a statewide consumer education campaign to continue educating Pennsylvania consumers about the benefits of electric shopping and referring customers to [PAPowerSwitch.com](http://PAPowerSwitch.com).

These improvements will help ensure that customers are making informed decisions about their electric supply service and will continue the process of removing unreasonable barriers to a more robust and sustainable competitive electric supply market. Moreover, these improvements build on the intermediate measures that we previously adopted in the Retail Market Investigation (RMI) to enhance the competitive market. These measures, which are currently under way, include:

- The addition of a “Shop for Your Small Business” section to [PAPowerSwitch.com](http://PAPowerSwitch.com) to provide small business owners (customers with a peak demand of 25 kW or less) with the ability to quickly compare rates and products offered by EGSs in the customer’s service territory. The Commission made this improvement in response to comments submitted in the RMI that the Commission should improve the flow of information to small business customers by improving [PAPowerSwitch.com](http://PAPowerSwitch.com).

- The inclusion of two programs – the Retail Opt-In and Standard Offer Customer Referral Programs – in the EDC’s upcoming default service plans beginning on June 1, 2013.
- Bringing retail choice to all Customer Assistance Program (CAP) customers by April 1, 2014.
- Revising the presentation of the PTC on customer bills to facilitate informed shopping decisions.
- Improving EGS access to customer bills to enhance the customer-supplier working relationship.
- Adopting statewide creditworthiness guidelines to be used by EDCs for EGSs.

In taking today’s actions, we reject the argument that our proposed model would harm customers by subjecting them to price volatility. Rather, a careful analysis of the energy futures market, as well as the amounts of past PTCs swings related to reconciliation, indicates that our proposed model will likely *decrease* the volatility felt by consumers. Specifically, the PJM future pricing from March 2013 through November 2017 for electricity shows less than a \$0.01/kWh change in any given quarter, and in many quarters, is less than a \$0.0075/kWh change. To put this in perspective, PECO residential customers have experienced quarterly price changes greater than \$0.01/kWh at least four times in the past two years, and this scenario is not unique to PECO.

Furthermore, in the more than four years since the existing statutory default service procurement standard became effective, domestic natural gas production, a primary driver in electricity pricing, and the deployment of demand response and energy efficiency measures, have increased exponentially. These two factors have combined to drive much of the price volatility out of electricity pricing. Natural gas (and correspondingly, wholesale electric) price swings around the time of Gulf Coast hurricanes in 2005 (Katrina and Rita) and in 2008 (Gustav and Ike) were in the neighborhood of \$5.00/MMBtu (increases in excess of 75%). Conversely, last year’s Hurricane Isaac barely moved prices. This price stability is due in large part to increased domestic production of shale gas. In 2007, shale gas accounted for less than 10% of all domestic production. In 2012, that number more than tripled, as shale gas accounted for approximately one-third of all domestic natural gas production.

The proliferation of demand response has had a similar depressive effect on electricity pricing. According to PJM, demand response has increased more than 400% over the past four years. There were approximately 2,500MWs of demands response bid into the 2007/2008 RPM auction compared to approximately 11,000 MWs in the 2011/2012 RPM auction. Fast forwarding to the 2015/2016 RPM auction, the number

increases to over 20,000 MWs. This is an increase of 800% in just eight years. The deployment of these resources has had, and will continue to have, a profound effect on the price of electricity.

In short, the market forces that were the basis for the change in the statutory default service language procurement standard in 2008 no longer exist. 2008 was a time of record high natural gas pricing, due to fears of decreased production due to hurricanes in the Gulf Coast, among other factors. This led to a corresponding increase in electricity pricing. This increase coupled with expiring long-term rates caps created a fear that, upon the expiration of generation rate caps, there would rate increases in excess of 100% of capped rates. However, those market forces are relics in a post-shale gas energy world.

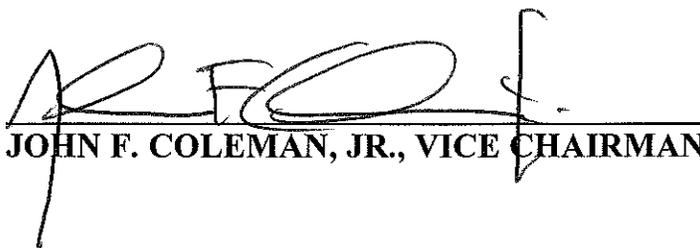
These facts clearly demonstrate that the Commission's proposal of transitioning customers that remain on default service to more market-based pricing will not harm those customers. Further, customers wanting price stability have every opportunity to purchase such a product from a competitive supplier in the form of a fixed-price contract. For example, in the PECO service territory alone, a review of PAPowerSwitch.com reveals that for residential non-heating customers, there are currently 10 EGSs offering a fixed-price, 1-year contract or longer, including one offer of a 3-year, fixed-price contract and another offer of a 2-year, fixed-price contract.

In closing, we thank our staff, and, in particular, our Office of Competitive Market Oversight, for their time and effort devoted to this matter. Their counsel has been indispensable, and we are grateful for how they balanced their responsibilities to both this proceeding and their regular duties. We also thank the numerous parties who participated in this Investigation. We found the comments and testimony to be very informative and essential to the formulation of our decisions throughout this proceeding. We hope that you will all continue to be active in the various proceedings and working groups that will follow from this Investigation. To that end, we view today's action as an important step in what will be an ongoing process for an even more robust and sustainable competitive electric market in Pennsylvania.

Date: February 14, 2013



ROBERT F. POWELSON, CHAIRMAN



JOHN F. COLEMAN, JR., VICE CHAIRMAN