



CITY OF PHILADELPHIA

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Via Electronic Filing


Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Investigation of Pennsylvania Retail Electricity Market
Docket No. I-2011-22379525

Dear Secretary Chiavetta:

Enclosed for filing please find The City of Philadelphia's Comments in the above-referenced proceeding. These comments are being filed electronically today through the Commission e-File System. I also am sending an original and five hard copies by regular mail.

Very truly yours,


Scott J. Schwarz
Senior Attorney

Enclosure

cc: Office of Competitive Market Oversight
at ra-OCMO@state.pa.us.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Investigation of Pennsylvania's : **Docket No. I-2011-2237952**
Retail Electric Market :

COMMENTS OF THE CITY OF PHILADLEPHIA

The City of Philadelphia (City) provides these comments in response to the questions presented by the Public Utility Commission in its Order adopted on April 28, 2011. The City's comments are based on observations in the PECO service territory.

1. What is the present status of competition for retail electric generation for customers, by class and service territory, and for alternative suppliers?

Residential Customers. While there has been some level of success in residential electricity customers choosing less expensive supply options, residential customers appear overwhelmed by choice. They are presented with offerings by over 36 competitive suppliers, each marketing a unique combination of savings and switching incentives as a means of differentiating an otherwise undifferentiated, commodity product. Examples include: charitable donations, free energy audits, and inclusion of renewable energy. Competition among suppliers is active and vigorous. However, the competition seems more focused upon differentiation by a comparison of switching incentives, and less upon differentiation on the basis of cost savings. The potential for savings in the PECO territory have been relatively low and, for most customers, have not overcome the confusion, anxiety or inertia of customers.

Small Business Customers. Small business customers generally have a greater incentive to shop. They are also generally more sophisticated and experienced with contracts. However, the City perceived some hesitancy among small businesses to shop and helped sponsor a small business buying group called Philly Buying Power (based on a similar Boston Model) which has currently about 1,150 accounts and is marketed by local chambers of commerce and neighborhood business groups.

Industrial Customers. Large customers, including the City's 1,200 electric accounts, are more sophisticated buyers of electricity and a majority has already switched to a competitive supplier.

2. Does the existing retail market design in Pennsylvania present barriers that prevent customers from obtaining and suppliers from offering the benefits of a fully workable and competitive retail market?

The existing retail market design is intended to provide individual consumers with the ability to shop, and more importantly, to provide a more competitive electricity cost, i.e., a lower cost, of electricity than would otherwise be available from a single utility supplier.

While opportunities to buy at more competitive prices have been created, the existing market design may be creating confusion for residential and small commercial customers by facilitating too much differentiation among suppliers on terms and conditions unrelated to price, e.g., airline miles. Varying lengths of terms, and fixed and variable rates also create an additional panoply of options, and may be a significant disincentive to choosing one lower cost supplier. The consumer is unlikely to know exactly when is the right time to buy, or how many times per year to shop, or which alternative supplier will be in business next year, and therefore

more likely to follow the path of least apparent risk - and do nothing. Ironically, too many choices may be inhibiting customers from choosing at all.

To the extent barriers exist, do they vary by customer class?

Yes, they affect the residential and small business customers to the greatest degree.

3. What are the economic and managerial costs associated with electric distribution companies (EDCs) fulfilling the default service role?

No comment

Are there barriers to competition as a result of having EDCs provide default service?

Clearly, EDC's have a history of service with many customers which provides a significant level of comfort and trust, a disincentive to shopping. A third party default service provider would not have that history and could push more customers into shopping. However, our goal should not be shopping, but rather, a competitive price. Currently, EDCs are required to procure electricity for their default customers in a regulated manner which may increase costs to the customers who choose to remain with the EDC. This is not a disincentive for shopping for alternative supply, but in most cases provides a competitive advantage for the alternative suppliers. The prices to compare in the PECO territory show that advantage. However, customers may be willing to forego savings at current prices for the comfort of a trusted and known company, their EDC, providing service. The current practice provides for EDC customer billing for alternative supply. The single point of contact for electricity simplifies the shopping process and reinforces the notion that customers have a default supplier to back up shopping decisions. Likewise, the

purchase of receivables by the EDCs makes providing alternative energy supply (and ultimately choosing a competitive supplier) more viable.

Are the EDCs accurately passing these costs along to the default service customers?

No comment.

Do default service rates include any elements that are not cost-based?

No comment.

Is an examination of distribution rates needed to ensure proper cost allocation?

Such an examination of PECO is not needed at this time, but should be undertaken carefully at the time of distribution rate setting or at an earlier date if circumstances then require.

4. Are there unintended consequences associated with EDCs providing default service, and related products, such as time-of-use rates?

With respect to competition, a potential unintended consequence of utilizing an EDC to provide default service may be that an EDC could utilize its control of the distribution system to prevent competitive suppliers from implementing technology to enhance their service offerings. This is a concern that needs monitoring. However, that same potential risk exists whether or not the EDC is providing default service. EDCs cannot be allowed to unreasonably prevent innovation in how electricity supply can be offered.

5. Should default service continue in its current form?

Yes. The default service should continue in its current form. We are in the very early days of retail supply shopping and the market does not need additional confusion. For at least a two-year period, the customers should be able to rely on the comfort of the EDC as a backstop to alternative suppliers.

Does default service impede competition or otherwise prevent customers from choosing electricity products and services tailored to their individual needs?

As stated in answer # 1, the issue does not seem to be too few choices. In addition, if price alone were the only intervening variable in consumers choice to shop or remain with the default provider, there would be a direct correlation between the size of the savings and the number of customers choosing a lower cost provider in service territories. This does not appear to be the case in Pennsylvania. Therefore, it would be an error to rely upon eliminating the ceiling price that is established by the default provider procurements to motivate more people to shop.

Does default service provide an advantage to the incumbent EDC and/or its generation affiliates?

Potentially yes, but that advantage needs to be evaluated against the goal of competitive and reliable pricing for customers, not loss of business to suppliers.

6. Can/should the default service role be fulfilled by an entity, or group of entities, other than the EDC?

While there may be potential advantages to an alternative provider of default service, the City does not believe that residential and small business customers would be well served by such changes in the near future.

If the default service role should be filled by an entity other than an EDC, what mechanisms could be employed to transition the default service role away from the EDC and onto competitive electric generation suppliers (EGSs)?

No comment

Are different approaches appropriate for different customer classes?

No comment

What criteria should be used to ensure that EGSs are qualified to assume the default service role and maintain reliable service?

No comment

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?

No change is currently needed.

Are there additional market design changes that should be implemented to eliminate the status quo bias benefit for default service?

No change is currently needed.

8. What modifications are needed to the existing default service model to remove any inherent procurement (or other cost) advantages for the utility?

No change is currently needed.

9. What changes, to Regulations or otherwise, can the Commission implement on its own under the existing default service paradigm to improve the current state of competition in Pennsylvania?

No change is currently needed.

10. What legislative changes, including changes to the current default service model, should be made to better support a fully workable and competitive retail market?

No change is currently needed.

11. Are there, or could there be, potential barriers being created by the implementation of EDC Smart Meter plans?

Barriers to competition could be created by the implementation of EDC smart meter plans. However, it is important to keep in mind that retail shopping is tool, not a goal. The real question is whether the value provided to customers through smart meters outweighs those potential barriers to more competitive pricing. Actions by the EDC will always have the potential to inhibit competitive pricing and alternative suppliers must be able to look to the Commission for relief from unreasonable barriers.