

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Rulemaking Regarding Electricity	:	
Generation Customer Choice, 52 Pa.	:	Docket No. L-2017-2628991
Code Chapter 54	:	
	:	
Notice of Proposed Rulemaking Order	:	

COMMENTS OF

INSPIRE ENERGY HOLDINGS, LLC

Aaron Jacobs-Smith
Corporate Counsel
Inspire Energy Holdings, LLC
1221 2nd Street, 4th Floor
Santa Monica, CA 90401
(424) 272-1998
ajacobs-smith@helloinspire.com

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TABLE OF CONTENTS

I. INTRODUCTION	1
II. COMMENTS	2
A. Inspire Suggests the Commission Take a Different Approach Under Section 54.3(2) to Address Early Cancellation Fee Concerns	2
B. A Requirement at Section 54.5(c)(1) to Display All Prices as a Cost per Kilowatt-hour Will Frustrate Key Innovations and Will Not Further Informed Choices	2
1. Subscription, a customized, flat supply price	3
2. Subscription is a consumer friendly product — its pricing is easily understood and it provides protection against energy supply bill volatility	4
3. A blanket cost per kWh mandate limits choice by interfering with important market innovations, including the subscription model	6
4. Inspire urges the commission to eliminate the cost per kWh requirement, or in the alternative, clarify its inapplicability to subscription and other innovative products	7
C. The Section 54.5(c)(3)(i) “Pricing methodology” Disclosure Will Only Lead to Greater Customer Confusion	8
D. Inspire Supports the Removal of Unnecessary References to the Utility Found in Sections 54.5(c)(9), (12), & (13)	10
III. CONCLUSION	10

I. INTRODUCTION

On March 24, 2018, the Public Utility Commission (“Commission”) published a Notice of Proposed Rulemaking Order (“Order”) to amend regulations at 52 Pa. Code §§ 54.3, 54.5, 54.7, and 54.10, and invited interested parties to comment.¹ The regulations are grounded in the Commission’s statutory authority to ensure that electricity generation suppliers (“EGSs” or “suppliers”) provide “adequate and accurate customer information to enable customers to make informed choices regarding the purchase of all electricity service offered by that provider.” 66 Pa.C.S. Sec. 2807(d)(2).

Inspire Energy Holdings, LLC (“Inspire”) supports many of the proposed changes offered by the Commission and agrees that they further the above-cited statutory aims. However, at least in three instances, Inspire urges the Commission to reconsider its amendments. First, while Inspire supports the spirit of the Commission’s proposed change on the assessment of early cancellation fees, Inspire suggests an alternative approach. Second, a requirement to express all prices as a cost per kilowatt-hour does not advance more informed consumer choice and it can serve to hinder key consumer friendly market advancements. Third, additional variable pricing disclosures run contrary to the Commission’s stated purposes. Requiring suppliers to provide technical pricing details will only confuse consumers and distract from the relevant information that must be communicated.

Inspire submits the below comments in response to the Commission's Order and greatly appreciates the Commission’s consideration of its input.

¹ See 48 Pa. B. 1696.

II. COMMENTS

A. Inspire Suggests the Commission Take a Different Approach Under Section 54.3(2) to Address Early Cancellation Fee Concerns

The proposed change to 52 Pa. Code § 54.3(2) would prohibit charging an early cancellation fee after the initial notice of contract expiration is sent. Inspire understands that charging a fee when a customer cancels after receiving an end of term notice or renewal notice can create confusion. However, if it was the customer's intent to not continue service with a supplier for another term, then that customer intent should be honored. What this means, as a practical matter, is that the contract should not be renewed. It does not mean, however, that the contract under the initial term should be cancelled. Inspire suggests that the Commission simply require that this distinction be made clear to customers. Suppliers should specify in the initial notice, or in subsequent communications with customers regarding cancellation, that a customer has two options: (1) to cancel the contract early and possibly incur a cancellation fee; or (2) request that the contract not be renewed, but with the understanding that the customer will continue to receive service from the supplier through the pendency of the existing term.

B. A Requirement at Section 54.5(c)(1) to Display All Prices as a Cost per Kilowatt-hour Will Frustrate Key Innovations and Will Not Further Informed Choices

The Commission proposes that all electricity generation prices be expressed as a cost per kilowatt-hour ("kWh"). The Commission explains that the change is intended to "to make 'apples-to-apples' comparisons possible." However, the Commission recognizes the potential for unintended consequences and requested comment on "the need for this regulation to

accommodate [new products and pricing structures]; or at the least, not to obstruct or be an obstacle to future innovations.”²

The proposed requirement, if interpreted strictly and without exception, will present a substantial obstacle to future and *present* innovations. The change would diminish informed choice because it will limit more consumer friendly product offerings. And importantly, the change will undercut a key pillar of restructured markets: choice itself. Inspire will discuss the rule change’s impact looking at these three factors, with a specific focus on its subscription product. Inspire begins by (1) describing its subscription product, (2) how subscription furthers price clarity and benefits consumers, and (3) why this rule change would impede innovation.

1. Subscription, a customized, flat supply price

Inspire’s subscription energy supply offering is a flat bill product. Subscription customers are charged the same amount each month — regardless of usage — for the full term of the contract. While often compared to budget billing, it stands apart due to a key distinction: there’s no true-up. Thus, our subscription customers enjoy the security of knowing exactly how much they will pay each month for their energy supply, without the threat of a large lump sum charge. In addition, like all Inspire energy products, our subscription plan is fully backed by clean energy.

The subscription product is tailor-made for each customer. Inspire looks at a variety of customer characteristics to generate a monthly energy supply price that makes sense for a potential customer. This pricing takes place dynamically, at the point of sale.

A key feature of subscription pricing is that it creates a common cause with our customers to use energy more efficiently. Unlike traditional rate-based price structures, under

² 48 Pa. B. 1700.

which a supplier's revenue increases with electricity use, subscription flips the script. With subscription pricing, Inspire is incentivized to partner with its customers to curb electricity consumption, and is in a position to reward them for doing so. Increasingly, our subscription plans are paired with a loyalty program, which offers generous bill credits to customers who reduce their consumption. Inspire is also building off its subscription foundation programs to make energy efficiency and energy management services more accessible to all consumers.

Pennsylvanians have embraced our subscription product. Customers like the energy cost stability and predictability, the price transparency, and the fact that all usage is backed by clean energy. This is evidenced in part through the responses we have seen using the Net Promoter Score (“NPS”) survey. NPS is an industry standard for measuring customer response to a product or brand. Unlike a customer satisfaction survey, NPS uses a single, uniform question, with the same format used across products and industries. Our customers are asked: “How likely are you to recommend Inspire to friends or family?” Currently, among subscription customers, Inspire's NPS score indicates that a strong majority of our subscription customers would recommend Inspire.

2. Subscription is a consumer friendly product — its pricing is easily understood and it provides protection against energy supply bill volatility

Few people understand the kWh, and specifically, what a kWh rate will mean for their ultimate bill. This is rather self-evident with a minimum amount of unpacking. To understand the impact of a rate, customers must know their usage. And it is simply rare to find a customer who knows her average monthly kWh consumption, let alone what a typical peak usage month might look like. Without a strong understanding their electricity consumption, it is difficult for consumers to make fully informed choices when offered rate-based products.

What customers do understand, and what they care about when it comes to the pricing of a product, is how much they will ultimately pay each month. Subscription provides this clarity and transparency, disclosing energy cost in a way everyone can understand — a total dollar amount, that will be the same each month, for a set period of time. It appears that the Commission also recognizes the importance of emphasizing to the customer the total amount to be paid per month. The PAPowerSwitch website displays the estimated monthly cost prominently in red, and at a font size far larger than the per kWh rate. However, for PAPowerSwitch to estimate total cost, consumers must input their usage. Here again, the problem of consumers' lack of awareness of their usage reemerges. And even more fundamentally, what measure should consumers use for monthly usage? A true average, a monthly high, or some forecast for expected usage? It is not obvious which approach a consumer should take and none of the needed information is easily accessible. Drawing from the most recent bill statement, the consumer's best bet is to simply use last month's usage, which is unlikely to be predictive of what the following month's usage will be or representative of average usage, limiting its value. Inspire's subscription pricing eliminates this guesswork by shifting the burden of determining usage onto the supplier, which has much more sophisticated tools for analyzing load than a lay consumer. Ultimately, subscription pricing cuts to the chase and tells customers what they need to know: how much they will pay for their energy supply. As a consequence, the subscription framework greatly furthers informed decision-making.

Subscription also offers the most complete protection of any product against energy supply bill volatility. It is more fixed than fixed. What the customer pays does not vary with energy market rates — as occurs with variable rate products — nor does the price change with seasonal fluctuations in energy usage, as it does with both variable and fixed rate products. In

the Order’s discussion of the history of disclosure requirements, the Commission describes how certain protections arose out of its experience with the Polar Vortex. Following this event, the Commission found consumers experienced “sharp increases in their monthly bills ... due to *the demands of the winter heating season* and unprecedented price spikes in the wholesale electricity market.” (Emphasis added.) However, the Final Omitted Rulemaking, promulgated to address the problems revealed by the Polar Vortex, focused mostly on better informing customers about pricing structures. While certainly an important effort, customers must also understand seasonal usage fluctuation. Monthly usage in a hot summer month can be more than twice usage levels in a temperate spring or fall. Subscription pricing erases this volatility, insulating the energy bill from usage spikes.³

3. A blanket cost per kWh mandate limits choice by interfering with important market innovations, including the subscription model

A requirement to present the price for an energy product as a cost per kWh at the point of sale would greatly limit innovation, and ultimately choice. If applied strictly and without exception, it could essentially lock market participants into just two rate structures, fixed and variable. Subscription pricing does not fit neatly within a cost per kWh model — as discussed fully below — and neither do many of the products mentioned in Vice Chairperson Andrew G. Place’s Statement accompanying the Order, including time-of-use, critical peak pricing, and peak time rebate products. The common theme with all of these products is that what a customer will pay at the end of a month, as a cost per kWh, is not known. The final monthly bill will depend on the customer’s energy consumption habits for the billing period. Allowing for this type of flexibility is critical to providing new and innovative ways to align customer incentives with

³ While subscription customers will not pay more when their usage increases, they can enjoy bill reductions when they consume less energy than expected under Inspire’s Reduce & Redeem rewards program.

state policy goals around energy efficiency, as well as grid needs for better demand side management. Inspire is always evaluating the viability of new offerings. As it does so, it is important that the Commission maintain a regulatory framework that permits the introduction of new products, allowing suppliers like Inspire to offer a wide array of products, letting consumers decide which plans and price structure offer the most value.

Subscription's simple, unambiguous flat price per month is incongruous with a rate based structure, like the cost per kWh. First, at the point of sale, it is impossible to know what a subscription customer's cost per kWh will be. It will depend on usage, which is simply unknown at the time a contract summary is populated. Second, the emphasis on cost per kWh reintroduces a core source of customer confusion that the subscription product eliminates.

Customer choice must be a pillar of any successful market design. This was clearly recognized at the inception of Pennsylvania's retail market restructuring and is even in the title of the applicable originating statute, "Electricity Generation **Customer Choice** and Competition Act". (Emphasis added). The best way to provide customer choice is to ensure that market rules are not so restrictive that innovation is stalled and that consumers are not presented with competitive options simply because suppliers cannot make their products fit within the restrictive rules. In our view, the proposed rule change will diminish choice by limiting the ability of suppliers to innovate and will push the market in the wrong direction.

4. Inspire urges the commission to eliminate the cost per kWh requirement, or in the alternative, clarify its inapplicability to subscription and other innovative products

Without clearer direction from the Commission on the scope and applicability of the proposed rule, the change creates regulatory uncertainty for suppliers, like Inspire, who are acting in good faith to innovate and bring critical advancements to the market. The change

would ultimately result in a material diminution of consumer choice, impeding the spread of products that create consumer value and advance key state environmental goals. Inspire urges the Commission to strike the proposed cost per kWh disclosure requirement. In the alternative, this pricing disclosure, should be restricted to just variable and fixed rate products, for which a rate-based disclosure properly applies.

C. The Section 54.5(c)(3)(i) “Pricing methodology” Disclosure Will Only Lead to Greater Customer Confusion

The proposed section 54.5(c)(3)(i) rule change would require suppliers to disclose “the EGS’s specific prescribed variable pricing methodology.”⁴ The Commission states that the purpose of this change is to “provide greater transparency with variable-priced products; allowing the potential consumer to make a better-informed decision.” Inspire disagrees that the proposed change will advance transparency and more informed decision making. In fact, this change will likely undercut those interests and create greater confusion.

Energy pricing is inherently complex. Purchasing energy and pricing retail energy contracts requires extensive market-specific expertise. Many factors impact pricing, including PJM market conditions, such as, locational marginal prices, capacity and ancillary services charges, customer cost to serve, transmission and distribution costs; weather; fees associated with the use of financial instruments to reduce price volatility; and taxes. Inspire already lists many of these elements in its variable product customer contracts. A deeper dive into the multitudinous factors that impact variable price setting will simply confuse potential customers.

Requirements to make rates calculable similarly miss the mark. There are essentially two paths here. Under the first, a supplier builds a formula that reflects current pricing practices,

⁴ Proposed Rulemaking Order at 1701.

which insulate consumers from direct market exposure. As discussed above, sophisticated pricing employs many inputs rooted in market peculiarities that a lay person — or even someone familiar with retail electricity markets — will not fully understand. Thus, a formula of this type will do little to inform the consumer. Under the second, the rate formula could be very simple, directing the consumer to pull PJM day-ahead locational marginal prices. But under this model, the consumer faces full exposure to market price volatility. So while the calculation will be somewhat simpler — although still complex for most — it ultimately results in a less consumer friendly product. At the end of the day, under either path, what relevant piece of information does the consumer learn? The rate.

What a consumer considering a variable rate product must understand is that the rate can change. That is the salient fact that anyone reviewing a variable rate offer must apprehend. Further disclosures with detailed technical discussions of price setting methodologies, or complex formulas, only serve to distract from this core piece of information.

Inspire does everything it can to ensure that variable rate customers understand that their price can change. All of our sales agents are trained to expressly disclose that variable rates can change. Under “Price Structure,” in the contract summary, a variable rate is described as subject to change on a monthly basis. And finally, for door-to-door sales, a variable rate customer must confirm during a third-party verification call his or her understanding that the price can “change each month” after the initial price. Further requirements to explain variable pricing will only confuse potential customers and distract them from the key fact that must be understood: the price for variable rate products are subject to change.

D. Inspire Supports the Removal of Unnecessary References to the Utility Found in Sections 54.5(c)(9), (12), & (13)

Inspire supports the removal of requirements that suppliers prominently display EDC information on the disclosure statement. Inspire works hard to build a unique brand identity, distinct from any local utility. Regulatory requirements that obligate us to feature EDC information on Inspire documents can cause confusion and undermine our efforts to foster a strong, personal relationship with our customers. Thus, we wholeheartedly agree with the Commission's proposal to remove this potential point of confusion.

III. CONCLUSION

Inspire appreciates the Commission undertaking this rulemaking to consider important market reforms. Inspire further appreciates the Commission taking the time to review stakeholder input, including the comments offered by Inspire herein. The reforms, as proposed, will have a material impact on Pennsylvania's competitive retail electricity market. In some instances, Inspire believes those impacts will harm consumers by depressing the development of products that facilitate more informed decision making, while closing off new avenues for value creation. Inspire hopes that the Commission weighs these consequences carefully, and makes the changes needed to maintain a vibrant, dynamic, and consumer friendly marketplace.

Respectfully submitted,



Aaron Jacobs-Smith
Corporate Counsel
Inspire Energy Holdings, LLC

1221 2nd Street, 4th Floor
Santa Monica, CA 90401
(424) 272-1998
ajacobs-smith@helloinspire.com

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