

Retail Markets Investigation

End-state Default Market Model

Preliminary Comments of Citizen Power

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Introduction

Before we address the specifics of the preferred end-state default market model, 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 25%.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 last year.² Although retail choice exists in over a dozen states, shopping rates are negligible in all but a few.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

¹ <http://extranet.papowerswitch.com/stats/PAPowerSwitch-Stats.pdf?/download/PAPowerSwitch-Stats.pdf>

² *Report to the 82nd 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

³ *Id.*

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.

Citizen Power believes that customers should not be penalized for not shopping beyond the cost of missing the opportunity for a lower rate from an alternative supplier. Given the barriers to shopping, the proper response to lower than desired shopping numbers is not to raise the cost of default service to force customers to switch in order to avoid punitive prices. Instead, Citizen Power advocates that default service should continue to be provided through a portfolio approach in order to obtain relatively low prices and price stability for those that choose not to shop. In our view, a successful retail market is one where the consumer has a variety of options to choose from; which has largely been achieved. The next step is to increase customer participation in the market and to remove default bias, which can be achieved through market enhancements.

One long-term issue we have regarding retail markets is reconciling the possibility of sudden increases in wholesale prices pushing competitive prices above the default service rate and driving competition out of the market with our desire for the default rate to change slowly so those customers on default service do not experience rate shock. We believe that the EGS's should be incentivized to offer a fixed product on a percent of default service basis that ends at the same time as the default service period in order to minimize this risk. By incentivizing EGS's to offer longer term contracts which are hedged up front, the retail market will be better able to weather periods of wholesale prices outstripping default service prices. In addition, longer term contracts also benefit consumers because of guaranteed savings and lower transaction costs.

Specific Comments

Default Service

- Citizen Power does not have a preference regarding the provider of default service as long as they follow the current portfolio procurement model and demonstrate their operational and financial fitness to serve and their ability to comply with Commission regulations, orders and applicable laws pertaining to public utility service.
- Whoever is providing default service should be required to brand the provision of generation service separately from any brand used by any affiliated competitive supplier of the DSP in order to eliminate customer confusion.

Price Regulation/Auction Process/PUC Role

- The current auction safeguards that are in place need to be maintained in order to ensure the independence of the process.

Uniformity of Default Service Procurement

- Default service should follow the current portfolio procurement model. DSPs should have some flexibility in determining the portfolio, though general uniformity between DSPs is preferable.

Need for Incremental Security

- Citizen Power believes that there is a significant benefit to limiting the volatility of electricity prices and supports staggered auctions in order to smooth default service prices.

Customer Service Protections/Billing/Metering

- The EDC has the billing and metering infrastructure already in place and should continue to provide these services and also follow customer service protections in Chapter 56.

POLR/Backstop Service

- If another entity other than the EDC is the DSP, the EDC should be the emergency POLR/Backstop Service provider. In theory, a qualified alternative DSP should not introduce any additional risk of default above an EDC filling the DSP role. However, in the extremely unlikely event that the alternative DSP defaults, the EDC is a natural choice to fill the emergency POLR role.

Universal Service Provider

- The entity providing billing and metering services should also be the universal service provider.

Transition Period/ Timeframes

- The length of the transition period necessarily depends upon the nature of the changes and the length of the process to implement those changes. Some of the necessary steps, depending on the ultimate determination of the Commission, may be outside the control of the Commission. Ideally, any changes should be implemented so that they can go into effect on June 1, 2015.

POR Programs

- Citizen Power is open to alternatives, but one option is to have the EDC keep the billing and metering functions and therefore provide POR services to both the DSP (if a different entity) and the various EGS's.

Act 129 Obligations – Energy Efficiency/Load Management Programs

- The EDCs have experience managing the energy efficiency and load management programs and should continue to manage those programs at least until any change in the DSP has been completed.

Alternative Energy Portfolio Requirements

- Citizen Power supports the use of long-term contracts in order to support the financing of renewable generation no matter who is the DSP.

Market-responsive Default Rates

- There is a natural tension between market responsiveness and price stability.
- The impact of the default rates is minimized by the EGS's offering generation products that mirror the time period of the default service plan.

Larger, More Frequent Customer Auctions

- Citizen Power does not support the use of opt-out auctions because of the impact upon the risk premiums included in the price of default service.