Retail Markets Investigation
End-state Default Market Model

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Metropolitan Edison Company ("Met-Ed"), Pennsylvania Electric Company ("Penelec"), Pennsylvania Power Company ("Penn Power"), and West Penn Power Company ("West Penn") (collectively "the Companies") submit the following comments regarding an end-state default market model in Pennsylvania:

1. **Retail markets continue to develop in the Companies' service territories.**

With the final expiration of generation rate caps occurring a little over one year ago, the Companies have successfully transitioned customers to market pricing for electricity. In April 2011, residential shopping load for each of the Companies ranged from a low of 1.2% (West Penn) to a high of 14.2% (Penn Power).[1] Current PaPowerSwitch statistics show that, over the last nine months, those figures have grown to a low of 10.3% (Met-Ed) to a high of 22.3% (Penn Power). Retail suppliers are currently supplying between 81% (West Penn) and 97% (Penn Power) of industrial load and between 55% (Met-Ed) and 67% (Penn Power) of commercial load.

In June 2011, up to four EGSs were making offers to residential customers in the Companies' service territories.[2] Currently, up to twelve different EGSs are making offers to residential customers in the Companies' service territories. In fact, seven different suppliers participated in at least one of the recent mailings to educate and inform Met-Ed and Penelec residential customers about existing EGS offers for generation services. Twelve suppliers participated in at least one of the similar mailings for Met-Ed and Penelec small commercial customers.

2. **The Companies are proposing significant retail market enhancement offerings in their pending Default Service Plans.**

In accordance with the Commission's goals in this proceeding and its recommendations outlined in its December 16, 2011 Final Order, the Companies are proposing significant retail market enhancements to begin in June 2013 to improve opportunities for retail EGSs to gain market share though competitive mechanisms in their 2013-2015 Default Service Plans ("DSPs"). These enhancements include the removal of Non-Market Based Services Transmission Costs from the Price-to-Compare ("PTC"), the introduction of a competitive

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[1] *Comments of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company*, Docket No. I-2011-2237952, at pp. 4-5 (Comments filed June 3, 2011).
[2] *Id.*

procurement process that would result in EGSs providing residential time-of-use service on behalf of West Penn and Penn Power, a residential opt-in aggregation program available to all residential customers, the inclusion of a return adder component to enable EGS pricing to more effectively compete with default service offerings, and a customer referral program that is based on a competitively-determined price. In addition, the Companies continue to support the Commission's initiatives to enhance customer education, promote accelerated switching of customers, and display the PTC for the benefit of EGSs on customer bills. Each of these market enhancements should allow competitive EGSs to provide long-term value to residential customers and increase residential market share over the course of the Companies' DSP period. These programs, along with the Companies' existing Customer Education Plans, the lack of exposure to uncollectible expenses for EGSs utilizing EDC consolidated billing, the ability of customer assistance program participants to shop under the Companies' Universal Service Plans, and the Companies' continued provision of billing, collection, and remittance processing on behalf of EGSs at no cost to them, should allow savvy EGSs to grow their market share to sustainable scale in the Companies' service territories.

3. It is difficult for a for-profit EGS to compete with a not-for-profit product from a for-profit Company.

The Companies have realized that it is difficult for EGSs to compete with a default service price that does not reflect a profit component. EGSs and potential alternative default service suppliers are motivated to enter the Pennsylvania electricity market to earn a return. However, it has become clear that EGSs may have a difficult time competing with a product that does not include a return component, which has lead some EGSs to resort to short-term teaser rates and propose other marketing gimmicks through the RMI in order to compete. The Companies are concerned that such rates and practices may have the long-term effect of damaging the residential retail electricity market before it has a chance to further develop.

For instance, the Companies have determined that 28% of Met-Ed residential shopping customers are paying more than 30% above the PTC, which appears to have been caused, at least in part, by short-term teaser rates. In addition, while fewer Penelec residential shopping customers have been negatively impacted by short-term teaser rates, customers have not had the ability to save at the levels touted by certain parties during the RMI technical working group meetings. Only 2% of Penelec's residential shopping customers have been saving more than 10% off of the PTC (for example, a 500 kwh customer saving 10% of Penelec's current PTC would save less than $50 per year).[3]

The Companies believe that two coordinated steps can be taken to address this situation. The first recommended step to prevent customers from paying significantly more than the PTC is to avoid forcing the EDC to recommend to its residential customers detrimental short-term teaser rates (or other marketing gimmicks) as part of any Commission-approved competitive enhancement. The second recommended step is to include an adder component in the default service product so that EGSs can directly compete with existing default service on a level playing field on a sustainable basis. This would reduce or eliminate the need for EGSs to resort to short-term teaser rates that result in customers ultimately paying higher than market-based

[3] This data is based upon those rates that Met-Ed and Penelec shopping customers were paying during October 2011.

prices which may ultimately leave residential customers with an aversion to selecting an alternative retail electric supplier. For this reason, the Companies have proposed a market adjustment charge in their 2013-2015 DSPs to address this concern.

4. **The Commission should evaluate the effectiveness of the proposed competitive market enhancements prior to exploring alternative default service models.**

The Companies commend the Commission and the RMI working group for the numerous market enhancements developed over the course of the RMI to date. The Companies have adopted many of those concepts, as well as other important market enhancements, and proposed them as part of their upcoming DSPs. The implementation of these competitive enhancements should allow the retail market to realize increased activity and may prove further model changes to be unnecessary. However, because those enhancements have yet to be implemented, the results that are expected to arise from the enhancements have not had a chance to be realized and such a determination cannot yet be made. Therefore, while the Companies are committed to taking steps to foster the development of an increased competitive market, they believe that the Commission should allow a meaningful opportunity for the actions already proposed and yet to be implemented to take hold and that further changes to the default service model should not be undertaken until the results of those activities can be measured and evaluated.

If, in the future, additional changes to the existing default service process are necessary that could provide increased benefits to customers and the competitive marketplace, any additional actions or changes must not place any undue risk on or cause financial harm to EDCs. Further, any future consideration of alternative default service models would likely require legislative and regulatory reform and should be driven by the ultimate policy set for default service. Such decisions, and the impact of those decisions, should be thoroughly considered and evaluated to determine whether a change in the model would result in increased benefits to customers while ensuring that customers are provided adequate, safe and reliable default service and EDCs are not financially harmed by any changes.

The Companies appreciate the opportunity to provide comments to the RMI working group and look forward to continuing to work with the Commission and other interested parties to enhance Pennsylvania's competitive retail electricity market. The Companies will continue to participate in the Retail Markets Investigation and provide feedback regarding any additional competitive market enhancements, potential alternative default market models, or other related topics that may be considered throughout this process.