

DISCUSSION DOCUMENT ON DEFAULT SERVICE MODEL  
OFFICE OF CONSUMER ADVOCATE  
JANUARY 24, 2012

For purposes of this document, the Office of Consumer Advocate will set forth its view of how default service should evolve for residential electric consumers. The OCA will not address default service for other customer classes at this time.

The OCA envisions residential default service as a “plain vanilla” service that will be available to all residential customers who do not choose an alternative electric generation supplier or whose chosen supplier fails to provide them with service. The default service provider should provide one product to residential customers, a reconcilable flat rate cents per kilowatthour service. To the extent that the default service provider is also required by law to offer other services, such as time of use rates, those programs should be clearly separated from default service for ratemaking and accounting purposes.

The default service provider will provide residential default service by procuring a mix of generation resources on a least cost basis over time from the competitive wholesale electricity markets. The default service provider will offer this generation service to residential customers at cost, *i.e.* with no markup or profit. The retail rate for default service will reflect the competitive wholesale market prices at which the generation was acquired. The retail default service rate should change periodically (no more frequently than quarterly) and be subject to dollar for dollar reconciliation on a 12-month rolling average basis. The default service provider should not promote default service and should present all information about this service in a neutral manner.

Given the nature of the default service and the other obligations of electric distribution companies (EDCs) at both the retail and wholesale (PJM) levels, the OCA submits that the

optimal default service model is one where the EDC remains the default service provider in its certificated service territory with attention given to reasonable competitive enhancements. While it is legally permissible for an entity other than the EDC to serve as a default service provider, an alternative default service provider should only be approved if the Commission finds that the EDC is not operationally or financially able to provide default service under reasonable rates and conditions and that an alternative default service provider could better meet the goal of providing reasonably priced, stable default service in accordance with the requirements of the law.

While the EDC will remain the provider of “plain vanilla” default service, the OCA submits that additional competitive enhancements should be implemented to inform, educate and facilitate a customer’s choice of supplier. This should begin with programs for new and moving customers to ensure that retail choice is introduced in these initial contacts. Seamless processes should be developed so that residential customers can select an alternative supplier at the time they initiate service and can retain their alternative supplier if they move within the service territory. Such competitive enhancement efforts should continue through ongoing customer referral programs, purchase of receivables programs, and consumer education. As an interim measure, a reasonably structured and appropriately sized retail opt-in auction for residential customers at the commencement of the next default service plans in June 2013 may provide benefits to consumers and should also be considered.

The OCA submits that the above-described model that retains the EDC in the default service role and provides for competitive enhancements provides a sound basis for Pennsylvania to move forward. The model described above meets all legal and regulatory requirements and allows residential retail choice to continue to develop in Pennsylvania.