



Retail Markets Investigation

End-state Default Market Model

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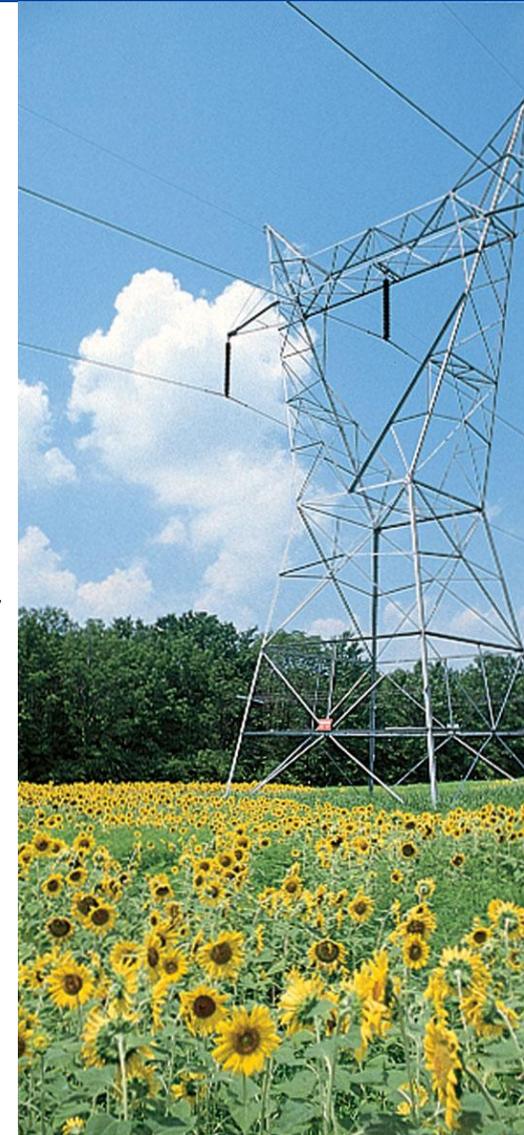
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Date of Submission: **January 24, 2012**

Constellation Position Overview

Default service has acted as a valuable safety net during the Commonwealth's transition period into market rates and out from under rate caps. With the appropriate structures for each customer class, clear and transparent pricing, strong affiliate rules, enhanced customer education efforts, and the timely provision of necessary data and information, default service can effectively facilitate the ability of customers to choose electricity products and services that are tailored to their individual needs.

However, if the Commonwealth is to transition away from the current general default service construct, Constellation recommends that the Commission adhere to a set of ten (10) core principles.



Principle 1: Default service shall include only essential, plain-vanilla service.

There should only be a single default service or “POLR” rate for each customer class. The actual default service or POLR product may vary by customer class (fixed-price or variable) but there should not be multiple product offerings for a particular customer class. Therefore, TOU rates, energy efficiency offerings, demand response products and optional fixed-price products for certain customer classes shall not be offered as part of the default service or POLR structure, as those products are readily available from EGSs in the competitive retail market.

Principle 2: Existing wholesale default service supply contracts shall not be compromised or negatively affected in any way.

Great care must be taken to ensure that existing wholesale default service supply contracts are not compromised, put at risk or, worse yet, abrogated.

Principle 3: A reasonable transition shall be developed.

A reasonable transition period shall be adopted to ensure adequate time to accommodate any necessary market, structural and operational reforms that are going to be put in place as a result of any changes to the current default service structure.

Principle 4: Explicit market progress metrics shall be developed and utilized.

Explicit criteria and metrics shall be developed to evaluate the continuing development of the competitive retail market by customer class (e.g., switching statistics, number of suppliers, types of products and services, etc.).

Principle 5: Termination of default service procurement by the EDC shall be carefully considered.

Any policy decision to eliminate the role of the EDC as the default service provider shall be determined through a formal PUC Order that relies upon a demonstration or satisfaction of the criteria and metrics adopted pursuant to Principle 4 above.

Principle 6: Market structures and any transition shall continue to rely upon competitive procurements.

If the Commission decides to remove the EDC from the default service role; any alternative default service structure should rely upon a direct, transparent, and competitively procured retail supply structure.

Principle 7: Some form of POLR construct shall be retained.

Even if the Commission eliminates the existing EDC default service procurement structure, there will still need to be a system developed for providing Provider of Last Resort service.

Principle 8: The needs of Universal Service customers shall be explicitly considered.

All customers shall be eligible for retail supply contracts with an EGS, including low income customers. In the event that the Commission terminates the current EDC default service procurement structure, any new structure should explicitly define provisions for supplying low income and senior consumers.

Principle 9: New consumer protections may need to be developed.

Any additional consumer protection requirements or other rules shall be developed and implemented in conjunction with the termination of the EDC's role in default service procurement.

Principle 10: EGSs shall not be required to bear the burden of others' uneconomic investments.

No provisions shall be made that would require EGSs to support the recovery of uneconomic investments, subsidized generation projects, or similar investments.

Concluding Thoughts

Robust competition in wholesale and, in turn, retail markets keeps costs as low as possible and produces the following benefits that customers and policymakers are seeking:

- *Innovative products/services from a broad supplier pool to best meet individual needs;*
- *Advancements in reliability, conservation, renewable energy development, and the ability of customers to purchase green power products;*
- *A platform to promote demand response and home and business energy efficiency and other innovations that are superior to traditional cost-of-service regulation;*
- *Ability and information to make decisions and have choices regarding electric power needs;*
- *The confidence that those that choose not to shop will nevertheless benefit from PJM's broader competitive markets through competitively-set default service /POLR rates; and*
- *The assurance that consumers will never face future stranded costs as a consequence of monopoly investments in infrastructure.*

The consistent pro-competitive policy direction from the Commission provides current and future participants in the Pennsylvania electricity market a high degree of regulatory certainty which is of critical importance to all market participants. If potential market entrants and investors fear that “rules will change” over and over, it becomes far too risky to invest scarce capital.

Constellation looks forward to participating in the Commission's additional stakeholder meetings in order to address and develop the appropriate future for default service and retail competition in the Commonwealth.