

Retail Markets Investigation

Deliverable: End-State Default Market Model

FirstEnergy Solutions Corp.
January 24, 2012

FES Recommendations

End State Default Market Model

1

Defer the final decision on end state changes to current default service market model until the impact of RMI IWP and other market enhancements can be evaluated

2

Make selective changes to the existing EDC default service structure to enhance and encourage shopping

3

First priority of end state default market model should be to determine the right default service product rather than focus on whether default service should be provided by the EDC or EGSs

Defer the final decision on end state changes to default service for lessons learned from IWP

- **Consumer Education**
- **Accelerated Switching**
- **New/Moving Customer Referral Program**
- **Standard Offer Customer Referral Program**
- **Retail Opt-In Auction**
- **Default Service Price to Compare on Bills**
- **Coordination Between EDCs and EGSs**
- **Time-of Use Load Auctioned to EGSs**

Defer the final decision on end state changes to default service

- Residential electric shopping statistics at December 31, 2011 show dramatic increases in 2011 which could continue, illustrating the positive impact of removing price caps throughout Pennsylvania
- RMI enhancements that start in 2012 and 2013 need time to work and allow for proper evaluation of results
- Default service programs effective on or after June 2015 will benefit from IWP initiatives “lessons learned”
- Need to gather empirical data from IWP initiatives to support design of end state default service market model

Certain changes can be made to the existing default service structure to improve shopping

- **Limit EDCs to ‘plain vanilla’ products**
- **Allow easier consumer comparison of market-based supplier offers to PTCs by reducing or eliminating spot supply as a component of residential and small commercial customer rates**
- **Standardize PTC components across EDCs**
- **Enable shopping for CAP customers in every EDC**

Determine end state default market model product before deciding who should provide default service

- **Default service should be a 100% market based product that represents a temporary, last resort option for customers**
- **Default service should also include all costs of providing the service**
- **An EGS as DSP (also offering retail service) can have the same incumbent issues perceived to exist with the EDC as DSP**

Depending on structure of end state default service, statutory and/or regulatory changes may be required

- **Least cost over time / portfolio mix**
- **Other Act 129 obligations (TOU, smart meter, AEPS)**
- **Purchase of Receivables (POR)**
- **Metering/Billing issues**
- **Customer Protections (Ch. 56, collections, etc.)**
- **Commission Assessments (PUC budget)**

Potential Benefits of RMI IWP Lessons Learned

Topic	Impact of RMI IWP Enhancements
Provider of Last Resort / Backstop Service Provider	Additional data surrounding customer shopping may provide empirical evidence to help determine if there is a need to change default service structure for backstop service
Market-responsive Default Rates	Customer shopping and implementation of additional market based products may provide insight as to most appropriate default service price structure
Auction Process & Larger, More Frequent Customer Auctions (including Opt-Out Models)	Customer acceptance/rejection of opt-in auctions could help determine if there is a need to change auction structure or conduct additional auctions
Qualifications for Providing Default Service	Results of opt-in auctions and supplier participation in opt-in auctions may help assess supplier interest in and necessary qualifications for serving large blocks of customers in each utility service territory
Price Regulation/Auction Process	Customer acceptance/rejection of opt-in auctions will help determine if there is a need to change auction structure from opt-in to opt-out retail auction, or whether there is interest in or need for a default service auction
Transition Period / Timeframes	Need time to fully evaluate and gather empirical data from IWP initiatives to support any redesign of end state default service market model
PUC Role	Results of IWP initiatives will define in which areas the Commission's efforts will be best spent
Uniformity of Default Service Procurement	DSP programs resulting from the Commission's recent order will provide data to support best practices for uniformity of default service programs statewide
Need for Incremental Security	DSP opt-in auctions could provide data helpful to assess ongoing risk of EGS' possibly providing default service to determine appropriate level of any additional security
Customer Service Protections	Customer reaction to and feedback from IWP initiatives will enable the Commission to better determine if additional consumer protections are necessary
Billing, Metering and Settlement/Aggregation of Load (PJM)	Customer and supplier feedback during the IWP initiative will provide data to determine if changes to current functions are necessary and cost-effective
Universal Service Provider	Will provide the opportunity to test the inclusion of CAP customers as eligible shoppers