Pennsylvania Public Utility Commission En Banc Hearing
Remarks of Consumer Advocate Sonny Popowsky
End State Default Service Panel
March 21, 2011

Consistent with the directions given to the panelists on this topic, I will direct my remarks to the three default service models that were set forth in the Commission Staff document that was issued on March 2, 2012. I will confine my remarks to residential service.

My Office's position on the best long-term approach to residential default service was set forth in our written comments on January 24, 2012, and I will not repeat them here. A copy of those Comments can be found at the end of these remarks.

In terms of the three default service <u>products</u> that are the focus of this panel, I believe the product included in Model C – that is, the prudent mix of contracts designed to produce the least cost over time – best meets the goals of providing stable, reasonable, competitively-priced generation to default service customers. I do not support the product contained in Model A because I do not believe that residential default service should be based solely on hourly spot market prices or that the prices on default service customers' bills should change on a monthly or more frequent basis. I also find the default service product described in Model B to be problematic as it appears to be based solely on short-term market purchases under a "prevailing market price" standard.

While I think the basic default service <u>product</u> in Model C is the most appropriate one for what I call "plain vanilla" default service, the question remains whether there are benefits to residential consumers in having that service provided by one or more alternative electric generation suppliers rather than by the electric distribution company or EDC.

It is important to note that in the Staff Model C (and indeed in all three of the staff models) the EDC does not fully depart from its current default service obligations. Under the Staff models, the EDC remains the provider of last resort in the event of failure of the alternative default service provider and the EDC is also responsible for PJM Settlements. The EDC remains responsible for universal service programs, which I assume includes providing generation service to non-shopping CAP customers, and at least presumptively would provide generation service to net metering customers.

Each of these activities costs money and, under our current default service model, these activities are all conducted by the same entity that is also providing basic default service to non-shopping customers. The question that arises is whether these proposed models would result in duplicative costs that would raise the overall cost of these programs to consumers. The question also arises as to whether having the basic default service procurement performed by an alternative supplier provides economic benefits to consumers or whether such benefits would be outweighed by additional administrative costs, risk premiums, and profit margins that may need to be included in EGS default service rates.

At the same time, the staff models suggest that billing might be done by the alternative default supplier on a consolidated basis or by a third party billing entity. This raises a whole other set of questions regarding either duplicative costs if the utility continues to bill some customers, and/or stranded costs if the utilities' billing systems are no longer required. And if an alternative default service provider is replaced by another EGS at the end of the two year term, will that EGS also be left with large stranded billing system costs?

The questions of consumer protection and service terminations are left to be addressed in the future in the Staff document, but these questions are very significant. If an EGS default service supplier has the right to terminate customers, must it also have a staff on hand who are trained to enter into payment arrangements? Would the new billing entity handle medical certifications and the myriad of other issues under Chapter 56 and Chapter 14? Or would these responsibilities remain with the EDC even though the EDC may no longer be providing billing services or have any other direct contact with its customers.

In the March 2, 2012 letter to interested parties in this matter, the Commission staff states that it "envisions that these models would require varying degrees of statutory, regulatory and system changes, and expects to fully address those issues after selection of a model by the Commission." I would respectfully urge that the Commission not select a specific model until after many of these issues have been addressed. In particular, I think it is important to explore more fully the operational and cost ramifications of these proposals before attempting to select the best model. Rather than try to select or devise an end-state model at this time, I would urge the Commission to continue its exploratory process; to see what is working in Pennsylvania and in other restructured states; and to continue to support the evolution of our competitive electric generation markets in a manner that best serves consumers and the Pennsylvania economy as a whole.

I would urge the Commission not to try to choose a desired end-state model at this time, but rather to continue the collaborative flexible approach to restructuring that has been the hallmark of our Commonwealth's efforts since 1996.

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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.

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