Retail Markets Investigation En Banc Hearing March 21, 2012
End-State Default Service Models
Remarks of Tony C. Banks, VP Competitive Market Policies
FirstEnergy Solutions Corp. (FES)

1. **FES commends the Commission for providing this opportunity for FES and other stakeholder input on the structure of end-state Default Service (DS). The entire investigation has been one of the most collaborative efforts that I have ever been involved with.**
   a. As in the past, our comments are based primarily on the principle of giving the customer what they want

   b. We absolutely believe that focusing on the DS product as the priority is the right thing to do regardless of who the DS provider is, since the product speaks directly to the impact on customers of implementing any new program

   c. So, consistent with my comments at the June 8, 2011 en banc hearing, FES believes that by focusing on the product as the first priority, and using the proposed Model A with some modifications that I will discuss in a few minutes, EGSs can effectively fulfill the role of the Default Service Provider (DSP).

2. **Since I'm not a lawyer, I won't venture down the path of providing an opinion about what can and can't be done with DS under current law and what will need legislative change to implement. But I would not constrain our objectives and thinking based on whether or not legislation is needed to enact beneficial change.**
   a. With that being said, we believe that there can be latitude about what constitutes least cost over time and a prudent mix of supply as compared with some of the more narrow interpretations I've heard during the course of this investigation.

   b. So whether legislation is required or not, the ideas that I'd like to present represent FES's view of the appropriate end state default service where EGSs fulfill the role of DSP.

3. **Following are FES's views on each of the options presented in the Staff Discussion Document.**
   a. In all cases, we believe that the start date of June 1, 2015 and a 2 year product and program length for end state DS is appropriate.

   b. I'll start with Model A since that's what I'm proposing. Even though Model A can be the most disruptive to the current process for securing DS compared to the process that EDCs, suppliers and customers are accustomed to today, it will likely spur both DS and retail supplier participation, which we believe can lead to more competition and ultimately better pricing and value added solutions for customers. This is true whether customers are most interested in low cost, price certainty, green energy or other value added solutions.

1) In this case DS should be a backstop service only in the event of retail supplier default
   - i. Market price plus a competitively bid administrative adder and an optional Commission adder (winning EGS DSPs would be selected on their bid for the administrative adder)
   - ii. Monthly price change (more frequent price changes may not be practical to manage at this point and unnecessary until such time as smart meter technology is deployed)

2) **<u>It will be critical that if Model A is adopted, there be a Commission sponsored opt-out auction</u>** (no cancellation fees) to move all non-shopping customers away from DS to qualified competitive suppliers
   - i. Acts as a consumer protection against the potential shock in moving to an EGS from EDC provided DS.
   - ii. Minimizes the number of customers on DS who would potentially pay a higher price than is available from suppliers
   - iii. Can lower the amount of credit assurance required of the DSP which should attract more participants
   - iv. 2 year fixed price product to match the term of the DS period
   - v. All qualified suppliers should be able to participate

3) The EDC should continue to provide data management and billing services to the DSP and retail suppliers (takes advantage of the significant infrastructure utilities have in place today). However, if EDCs are to keep the billing function, they would need to demonstrate to EGS's satisfaction that the EDC can provide individual EGS branding, billing flexibility to handle rate ready and other billing options, etc.

c. Model C most closely aligns with the product and principles of the current DS that is provided by utilities

   1) This will be the least intrusive from a customer perspective but the question I then ask myself is "what problem are we trying to solve" with Model C. We will have created an alternative DSP providing the same service as EDCs under the current model, and will have added an extra EDC-provided POLR service. This will do very little to attract suppliers to the non-DS retail market. So it seems to me to be a solution looking for a problem.

d. Model B starts to move the Commonwealth down the path of establishing a DS price that is based on the "prevailing market price" which just like "least cost over time" or "prudent mix" is ambiguous at best

   1) However, it may allow suppliers to more effectively develop competing products as alternatives to the DS product

2) The problem is the quarterly or semi-annual price changes still create challenges for suppliers to compare their product to that of DS to demonstrate supplier value.

4. **Customer education is key to the success of moving default service from the EDC to the EGSs to minimize customer confusion**
   a. Customers who are with an EGS as a DSP may believe they are already shopping and may not consider alternative offers, resulting in the same status quo bias as exists today.

   b. Changing the DSP so soon after other retail enhancement initiatives are started could further confuse customers about shopping and default service.

   c. If Model A is adopted with an opt-out auction as proposed, messaging will be critical. However, the proposed auction can facilitate that message by equating the assignment to the winning bidders in the auction to the replacement of their existing EDC DS. And because the auction will likely produce a lower price than current DS, consumers would view it as a positive experience.

   d. Finally, all consumer education benefits the entire market which suggests that costs of consumer education should be shared by all customers. POR cost recovery is absolutely the most inequitable option that's been discussed in these proceedings, one reason being that some EGSs do not participate in POR programs and so would avoid sharing the costs of such consumer education.