

service for whatever reason. In addition, we are in favor of the current portfolio procurement approach in order to maintain a degree of price stability for default customers.

Our main concern regarding potential changes to default service is that without a portfolio approach, default customers would be subject to sudden increases in electricity costs due to higher fuel costs and/or lower capacity margins such as those experienced in Texas in 2005.¹ Both Model A (the real-time/hourly LMP and adder model) and Model B (the prevailing market prices model) would result in the default rate being more responsive to the underlying fundamentals of the electricity markets and thus subjecting residential customers to wholesale price fluctuations.

Citizen Power does agree with the goal of increasing shopping numbers because it allows for residential customers to receive the benefit of lower rates than the default service rate. However, we believe that the way to most prudent way to accomplish this is through customer education efforts such as opt-in auctions and referral programs.

II. Comments in Response to Possible End-State Default Service Models

A. Models A and Model B

Citizen Power respectfully posits that both Model A and Model B may actually harm competition. For example, if default service was currently based upon an hourly LMP or an indexed price based on prevailing market prices in each service territory, it is likely that this hypothetical price to compare would be significantly lower than the actual price to compare in many territories because of the relatively low prices in PJM. This would make it more difficult for the EGSs that are not providing default service to compete against the default service price.

¹ Report to the 81st Texas Legislature, Scope of Competition in Electric Markets in Texas, Public Utility Commission of Texas, January 2009, pg. 53.

The provision of default service, as currently structured, carries three significant risks. First, there is the risk associated with all fixed price products, that the cost to serve default customers increases over time. Second, there is the risk that the customers on default service will shop, making load forecasting difficult. Third, there is the risk that shopping customers return to default service because rates in the competitive market have significantly increased.

Under Model A, these risks are largely eliminated because the default service product reflects the market price. This results in a lower default service price under Model A than under the portfolio approach except during periods of high LMPs. Model B, though a bit less market responsive than Model A, presents many of the same issues because of the reduced risk faced by default service providers. In summary, both Model A and Model B result in a less competitive retail market most of the time while eliminating much (or all) of the price stability currently enjoyed by default customers.

In addition, from a legal standpoint, we believe that both Model A and Model B would require statutory changes to 66 Pa C.S. § 2807(e) because of the prudent mix requirement in subsection 3.2 and the requirement of the default service provider to also provide POLR services in subsection 3.1.

B. Model C

Model C is similar to the current method of procuring default service except that default service would be provided by one or more EGSs instead of the EDC. Citizen Power believes that if an EGS can provide default service more efficiently than the EDC, then they should be the default service provider. This would have the added benefit of correcting the brand name advantage that many current EDC's EGS affiliate may enjoy. However, Citizen Power is

skeptical of the possibility that an EGS would be able to be more efficient than the EDC in the default service role. At this point in time, the EDC has many operational and experiential advantages based upon years of providing default service. Citizen Power believes that EDCs should be kept in the default service role for the time being and that the possibility of moving EGSs into the default service role should be investigated in detail.

C. Elimination of Default Service

A few participants in this docket have suggested that Model A or Model B should be a transitional step before eliminating default service altogether and moving to a model similar to what is in place in Texas. Citizen Power strongly disagrees with this viewpoint.

In our view, stable and predictable default service prices are essential for many residential customers, especially low-income consumers who have much less disposable income to pay for unexpected and unbudgeted increases in electricity prices. The elimination of default service would change “electric choice” to “electric coercion” for many customers who are comfortable with default service. We are particularly concerned that without default service some residential consumers will need to obtain an electricity product during the peak of the market and will therefore be exposed to a Hobson’s choice between exceptionally high variable rates and high fixed prices. This possibility increases during periods of lower capacity margins, which could occur as a result of plant retirements or an economic recovery. The current portfolio model gives residential customers a true choice between staying on default service or taking advantage of one of the wide variety of electricity products available to them.

III. Conclusion

Citizen Power appreciates this opportunity to provide Comments to the Pennsylvania Public Utility Commission.

Respectfully Submitted,

/s/ Theodore S. Robinson
Theodore S. Robinson
PA Attorney I.D. # 203852
robinson@citizenpower.com

Citizen Power
2121 Murray Avenue
Pittsburgh, PA 15217
Phone: 412-421-7029

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