

Testimony of James Steffes
Building Sustainable Retail Electricity Markets

Chairman Powelson, members of the Commission, thank you for this opportunity to appear before you and thank you for undertaking this critical investigation. On behalf of Direct Energy, I commend the Commission for taking the initiative to move Pennsylvania to a fully competitive retail electricity market.

As someone who participated with Chairman Quain and Commissioner Hanger and many others in helping to craft the Electric Choice and Competition Act, I'm gratified to see the progress that has been made here in Pennsylvania.

Because of that progress, Direct Energy has made a substantial contribution locally by establishing our North American headquarters for Direct Energy Business in Pittsburg, by employing over 1,000 people throughout the Commonwealth and by serving thousands of business and household consumers every single day.

While there has been commendable progress, in my opinion, there is not a properly functioning and workably competitive retail electricity market in Pennsylvania today. Let me repeat that, while good progress, today there is not a properly functioning and workably competitive retail electricity market in Pennsylvania.

From my standpoint, the single biggest factor that is holding Pennsylvania back is the way in which default service is structured and provided by the utilities. That structure must change if consumers are going to realize the vision that Pennsylvania had back in 1996.

What is that vision? Well, I believe that a workably competitive retail market is one in which there are many sellers and many buyers, informed consumers making active choices and retailers innovating and improving their service and products every single day. This is consistent with earlier commission statements.

This is what's happening in Texas right now. As the General Manager for one of the largest electricity retailers in Texas, I can tell you without any doubt that we work every single day to lower our costs, to improve our service and to innovate new products. In fact, sometimes my wife tells me to 'stop thinking about electricity'.

And why does this on-going creative destruction happen in the Texas market? The key reason is that Texas got it right when it removed the utility from selling electricity to retail consumers. It built a structure which was premised on 100% of consumers working with a competitive retailer. And is today's reality.

And consumers have benefitted enormously. Contrary to what some claim, studies show that Texas electricity consumers are paying less today than in 2001. Today, a household in Houston can sign up for 12 month fixed contract at 9.1 cents per kilowatt-hour (at 1,000 kWh per month). That is an "all-in" price, including generation, distribution, transmission, stranded costs, customer care and retailer profit. On the PAPowerswitch website, consumers in Philadelphia are paying that price for just the generation component of their bill.

But consumers in Texas also benefit from other innovative products. For example, Direct Energy has offered:

Prevention Plus – HVAC services bundled with electricity

Home Connect – smart meter information device to manage household budget

Power-to-Go – prepaid electricity offering giving consumers the power of control.

These innovations required large capital investments – we've spent millions of dollars building these products. We also own and operate power plants; we've entered into long term wind energy off take agreements; and we've spent millions of dollars improving our customer care and billing operations. We also give over \$500,000 per year to our Neighbor to Neighbor program to help customers pay their bills when times are tough.

But I'm sorry to say that this is type of innovation and investment and customer support will not happen in Pennsylvania without fully embracing the vision Pennsylvania put in place with the Competition Act. A vision built upon vibrant retail competition.

It's my understanding that some parties don't share this vision. For instance, the Office of Consumer Advocate's view is that it is more than acceptable for the default supplier to serve the vast majority of customers, that it is more than acceptable for every consumer to get plain vanilla products, that it is more than acceptable for consumers to not partake in saving hundreds of dollars per year by switching, and that it is more than acceptable for the monopoly utilities to continue to be the exclusive provider of default supply. The Commission has the opportunity to move beyond this view and fully deliver the vision and benefits which are central to the Competition Act.

What needs to happen? The chief culprit is that default service is the provider of first resort, rather than provider of last resort. That's not the way to move Pennsylvania forward. What Pennsylvania needs to do is to work in the coming months to establish a new default structure which brings competition into this role and which creates a truly level playing field. The Commission should announce that it is going to transition the market to one in which all customers are taking service from competitive suppliers and a default service that is truly a back-up and is provided by a competitive supplier. The goal must be that by June of 2013 this is in place.

In the interim, the Commission should take other competition enhancing actions, such as .

New Mover Switching. Requiring new or moving customers to choose a competitive supplier instead of being automatically being placed on default.

Switching Bonus Programs. Conduct voluntary "opt-in" aggregations, where customers could agree to be part of an aggregation pool in return for receiving a "signing bonus." The evidence indicates that the bonus could be as much as \$500 per customer.

Utility Shopping Incentives. Create incentives for utilities to better align their interests in supporting retail competition. For example, the Commission could establish that the utility with the greatest amount of sustained switching would receive an equity premium in their next distribution rate case.

Competition Marketing. Re-start a more competition friendly education campaign to help consumers understand the benefits. As the OCA points out, consumers have spent \$100 million over the last 10 years and they still don't understand. Our recent surveys show that almost ½ of customers said they weren't shopping because of confusion or misunderstanding about the process:

17% said that they didn't switch because they didn't understand the process

15% said they were "loyal to their current company and didn't want them to lose business

9% said they didn't know it was possible

3% said they were afraid that they would get unreliable service

3% said there was "no reason to switch.

These are just some of the interim steps that the Commission should consider.

In conclusion, Pennsylvania's retail electricity markets have progressed, but can't go any further with today's default structure. When I first came to Pennsylvania in 1996, the goal was to be a leader in electricity competition. If the right changes are made due to this investigation, that vision can finally come to fruition.

Again, thank you for the opportunity to appear before you today. I would be delighted to answer any questions.

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Direct Energy Funds Alliance to Save Energy's 'Green Schools' Program in 16 PA Schools Looking to Cut Electricity Bills 5-15%

WASHINGTON, June 7, 2011 /PRNewswire/ -- Thanks to a donation from North America's largest integrated energy company, Direct Energy, eight schools in the North Penn School District north of Philadelphia and eight charter schools in the Pittsburgh area will use energy efficiency to work to cut their electricity costs by 5 to 15 percent under the auspices of the Alliance to Save Energy's Green Schools Program.

Over a two-year period encompassing the 2011-12 and 2012-13 school years, the program goal is to help students, teachers, administrators and custodial staff make their use of energy more efficient. In addition, the program will reach beyond school walls with distribution of energy efficiency and conservation tips in the surrounding communities.

Program participants will learn by doing and come to see that small, individual actions undertaken daily over time can add up to significant impacts, in terms of both dollars and pollution reduction. Students will learn that small changes such as promoting energy-efficient vending machines and working with custodians to ensure that building lights are turned off when not in use can save thousands of dollars in avoided electricity costs.

"Through basic changes in operational and maintenance routines, Green Schools will help 16 Pennsylvania schools in Allegheny and Montgomery Counties save between 5 and 15 percent on their electricity costs," said Alliance Vice President of Education Merrilee Harrigan. "In addition to the savings, Green Schools offers K-12 students high-quality learning opportunities by integrating energy efficiency information into their science, math and language arts curricula."

Chris Weston, CEO of Direct Energy, sees the long-term advantages of this program. "We aren't just teaching how to conserve energy at these schools, we are teaching a whole generation how to conserve energy for life." He also noted that the Montgomery County schools alone are estimating saving over \$12,000 a year.

Harrigan added, "After salary-related expenses, energy is usually the largest cost for U.S. school districts, with cash-strapped schools routinely spending tens of thousands of dollars to heat and light antiquated buildings. And even the newest buildings can achieve energy savings when building occupants are educated about energy efficiency."

The new Pennsylvania program has four over-arching goals:

Save energy and lower school energy costs by having students implement no-cost behavior and operational changes;
Strengthen student learning by integrating energy topics into K-12 curricula and creating student advocates for energy efficiency who understand the links among energy, the environment and the economy;
Educate the whole school community about the value and cost of energy, and involve that broad community in savings projects to create sustainable institutional awareness and participation that will endure beyond the Green Schools program;
and
Engage students as advocates for energy efficiency improvements in their homes and communities.

The Pennsylvania Green Schools will be supported by local project leaders from the communities who will help the schools implement the program's goals and support the students as they develop their energy-saving projects.

The eight Pittsburgh charter schools operated by Propel, a nonprofit school organization in Western Pennsylvania, are:

Propel Montour
Propel Homestead
Propel McKeesport
Propel East
Propel Northside

Propel Braddock Hills
Propel Braddock Hills HS
Propel Andrew Street

The eight participating schools in the North Penn School District are:

North Penn High School
Penndale Middle School
Pennbrook Middle School
Bridle Path Elementary School
Gwyn-Nor Elementary School
Oak Park Elementary School
Hatfield Elementary School
A M Kulp Elementary School

Begun by the 34-year-old Washington, D.C.-based Alliance in 1996, the Green Schools Program encourages building occupants to change behaviors and encourages schools to get energy efficiency retrofits, install efficient technologies and bring the energy efficiency message to students' homes and into the wider community.

The Alliance to Save Energy is a coalition of prominent business, government, environmental and consumer leaders who promote the efficient and clean use of energy worldwide to benefit consumers, the environment, the economy and national security.

About Direct Energy

Direct Energy is one of North America's largest energy and energy-related services providers with more than 6 million residential and commercial customer relationships. Direct Energy provides customers with choice and support in managing their energy costs through a portfolio of innovative products and services. A subsidiary of Centrica plc (LSE: CNA), one of the world's leading integrated energy companies, Direct Energy operates in 46 states plus DC and 10 provinces in Canada. To learn more about Direct Energy, visit www.directenergy.com.

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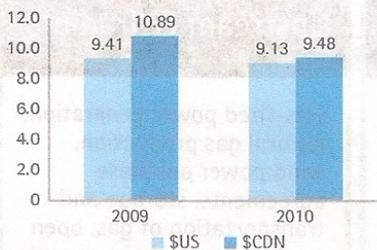
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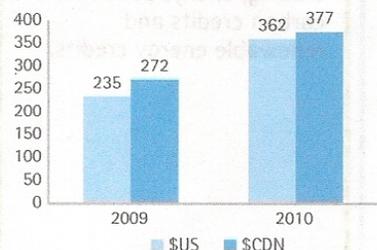
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Financial Results

Revenue (billions)



Operating Profit (millions)



Our Parent: Centrica plc

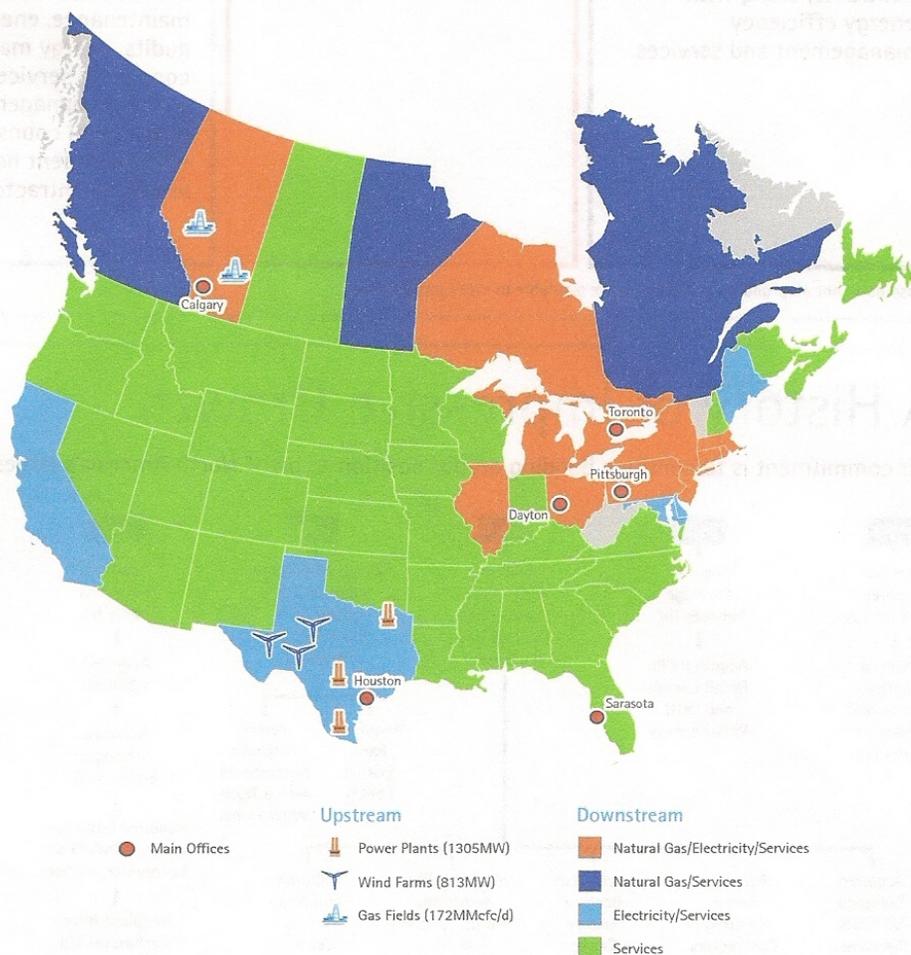
Direct Energy is wholly-owned by Centrica plc, one of the world's leading integrated energy companies. In 2010, Centrica served over 30 million customers on both sides of the Atlantic, operated in seven countries with over 34,000 employees and posted revenues of £22.42bn. Centrica plc was formed in February 1997 as a result of the demerger of British Gas plc into Centrica plc and BG plc. Centrica holds an A- Credit rating (S&P) and trades on the London Stock Exchange (CNA).

Company Profile

Direct Energy is one of North America's largest competitive energy suppliers of electricity, natural gas and related services. By investing in energy efficiency and innovation and delivering choice in a variety of retail electricity and natural gas products to home- and business-owners, Direct Energy is supporting the development of tomorrow's energy markets today. With approximately 6,000 employees, we are active in both upstream production (electricity and natural gas) and downstream delivery to ensure we'll be a stable, long-term partner to the millions of customers we serve in both Canada and the United States.

Where We Operate

Direct Energy operates in 10 Canadian provinces and 46 US states plus the District of Columbia, with more than six million customer relationships.



CORPORATE OVERVIEW

Our Operations

In North America, Direct Energy operates under four lines of business.



Direct Energy Business

For commercial and industrial customers (small, medium and large-sized businesses, government, public institutions, and national accounts):

Natural gas and electricity contracts, along with energy efficiency management and services.



Direct Energy Residential

For residential customers:

Natural gas and electricity pricing plans with fixed- and variable-priced options of varying term lengths.



Direct Energy Services

For both residential and commercial/industrial customers:

HVAC (heating, ventilation, air conditioning) installation and service, plumbing, water heaters, protection plans, building automation, facility maintenance, energy audits, energy management consulting services. Offers business management and operational counseling to independent home services contractors.



Direct Energy Upstream & Trading

Gas-fired power generation, natural gas production, wind power purchase agreements, storage and transportation of gas, open market energy procurement (power/gas), proprietary trading, energy auctions, carbon credits and renewable energy credits.

Please note: not all products and services are available in every jurisdiction.

A History of Impressive Growth

Our commitment is to continue building on our position as one of North America's largest competitive energy retailers.

