BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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| Re: Investigation Of Pennsylvania's Retail Electricity Market | : : : | Docket No. I-2011-2237952 |

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**COMMENTS OF DOMINION RETAIL, INC. and INTERSTATE GAS SUPPLY, INC.**

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NOW COMES Dominion Retail, Inc. d/b/a Dominion Energy Solutions ("DES") and Interstate Gas Supply, Inc. d/b/a IGS Energy, and hereby offer their comments to the Pennsylvania Public Utility Commission ("Commission") as provided by the Commission's Secretarial Letter dated October 17, 2011 in the above-captioned matter. The October 17th Secretarial Letter provided that interested parties could submit comments to the Commission following the *en banc* hearing that was held on Thursday, November 10, 2011.

We wish to thank the Commission for the opportunity to participate in the *en banc* proceeding, and as a follow-up to that proceeding, offer the following comments which we hope will assist the Commission in its further deliberations on the matters at hand.

**ELIMINATE *STATUS QUO* BIAS**

Perhaps the single greatest issue facing the Commission as it seeks to make Pennsylvania's energy markets more competitive--so that all Pennsylvania customers can enjoy the benefits of multiple offers from multiple suppliers in every service territory - is the existence of what has been dubbed "*status quo* bias". *Status quo* bias is a product of the inertia that affects many customers - in much the same manner as the first law of motion that states a body at rest tends to stay at rest - because customers that do nothing are placed on default service where they remain until they do something. It should be obvious that such an arrangement benefits default service, since all customers start on default service, making it far more difficult for competitive suppliers who must seek to dislodge these customers from their "don't need to do anything" inertia.

The problem is clear, all customers start out on default utility service, and end up back on default service when they move, and often, when anything happens to their account that alters their status. In order to get to a default service customer to shop, or even to undertake the effort to shop, an external force must be added to the equation. Ordinarily, the main tool that suppliers have to get customers into the market is to provide an incentive in the form of savings over default service rates. History has shown, however, that for many customers, savings alone are not sufficient, even when those savings are significant. There are many possible explanations for this phenomenon but from our experience the single greatest factor is the starting point of the utility as default service provider, adding to this is a combination of the goodwill/name-recognition that the utility possesses coupled with the customer's fear of shopping or perceived inconvenience. The bottom line, however, is that so long as the utility is the initial default service provider, a huge number of customers, we estimate as many as forty percent (40%), will not shop, no matter how much money the customer might save. This is not economically rational behavior and the Commission should be concerned.

Based upon DES' experience in certain markets in Pennsylvania, it has found customer inaction in the face of significant discounts to be almost universally true. DES has made offers to customers in certain utility service territories where the customers were able to save thirty percent (30%) versus default service rates and it was still were able to capture only a limited portion of market share; despite aggressive marketing efforts. DES' experience is not limited to a single utility's service territory either.

The question is: "what to do about *status quo* bias?" The evidence presented at the *en banc* and in particular the survey results provide a mixed picture for a future plan. A significant number of customers in Pennsylvania do know that they have a choice and yet the number of customers who actually have considered offers from the competitive market place is relatively small. What external force do we need to supply to the equation in order to get customers to actually engage the competitive market?

For this we turn to the example of PPL's market prior to the expiration of the rate caps in 2010. There was a tremendous amount of media coverage, a tremendous amount of advertising, a tremendous amount of "buzz" around the subject of PPL's rates increasing dramatically once the rate caps expired. The customers were motivated - sufficient external force had been supplied into the equation. This type of energy was largely not present when the rate caps expired for PECO and the FirstEnergy companies in 2011. The shopping statistics for those territories support that view. Something needs to be done to get customers motivated.

The best solution to the *status quo* bias problem is for customers to be provided with an intended transition date, after which default service as we presently know it would cease to exist. This solution was proposed by many parties at the *en banc*. We agree and we believe that a new *status quo*, one without utility supplied default service or at least one in which customers do not start out on default service, would provide the best outcome. In the interim, however, we believe that in concert with the competitive enhancements that have been discussed by the parties, namely the opt-in retail options and referral programs, the Commission needs to create some "excitement" to get customers to switch. We believe that a coordinated effort is required.

Another way to recreate the "excitement" would be to create an energy switching event during which suppliers would offer special one-time rebates, or other special offers, in addition to their normal offers. The Public Utility Commissioners could make appearances in the media and the whole activity should be timed to coincide with either a Commission letter or the EDC's mailing of supplier offers. The goal is to create as much buzz and as much excitement as possible during a compressed time frame, in order to encourage customers to switch and consider the choice markets for their energy needs. We believe that it would be a good idea to include natural gas shopping as well. Whether the Commission adopts this idea or not, the bottom line is that something must be done to get customers to be motivated to shop--apart from savings. Our experience shows that savings alone will not do it.

**PLUG THE BUCKET THAT NEVER STAYS FULL**

One other significant issue that has come to light in this entire process and that must be addressed if the markets are to be truly competitive, is the huge amount of attrition back to default service. That is, despite marketers' best efforts to obtain customers, to provide competitive offers and excellent customer service, and due only to the fact that default service exists, the current structure feeds large numbers of their customers back to default service every year. That is, every time a customer moves (in DES' experience, 10 to 20% of customers move every year) that customer must start over on default service. The effort to retain such customers adds a tremendous amount of cost to the suppliers, increases their risk, and also increases the risk for the default supplier which eventually will increase the cost of default service. It is not in anyone's best interest.

There is a partial solution to this problem that needs to be implemented as soon as possible - an effective seamless move program. We are aware of seamless move programs in other states that have proven to be somewhat ineffectual because of the disassociation between customer names and customer account numbers in utilities' billing systems, but we believe those problems can effectively be addressed. By way of explanation, when a customer is moving, the customer typically calls to arrange for the connection of electricity at the new address at a different time, and usually earlier, than when they call to disconnect the electric service at the old address. Utility information systems generally are not capable of dealing with the situation of having a single customer responsible for these two accounts, one of which is set to be terminated and the other one to be starting - at two different times. Building the associations into information systems to track the customer as being at the two addresses is a necessity. Today's process simply drops the customer from competitive supply in the interim, and makes the customer reestablish service at the new address with the default supplier. Rarely does the customer remember to re-initiate competitive supply with its former supplier.

We believe that this process must be changed. It should be possible for a customer to manage a move without losing their supplier contract. If the customer stays within the same utility's service territory then these changes should be made immediately and seamlessly.

We believe that the optimal solution is to adopt the Texas model for customer moves - where customers are required to contact a supplier to initiate service or to move service. This would complement the implementation of the Texas model, overall, if the Commission were to choose that as the basis for any change to the "end state" in Pennsylvania that entails elimination of default service.

**TAKE THE HASSLE OUT OF SWITCHING**

One of the other points that stood out starkly from the evidence presented at the *en banc* hearing is that customers are either scared of, or feel hassled by, the switching process. It is not likely that customers who have actually engaged in this process to completion would complain, but one element of that process that we notice, is the striking number of customers that rescind after selecting an EGS and possibly after receiving the terms and conditions from that EGS. We believe that one possible solution would be to create a statewide set of standard terms and conditions for EGSs. This idea is based upon the same premise for why utilities don't send terms and conditions to customers when they initiate utility service - because the customers are deemed to be "on notice" of those terms and conditions by virtue of the fact that they are contained in an approved tariff. In much the same way, EGS and the Commission could create a standard set of terms and conditions that would be available to customers on the Commission's website and supplier websites, and that would address all of the "ordinary" requirements, except the price, term, and cancellation provisions - which are the essential terms and conditions that customers typically compare as part of the process of making an informed decision. All other terms would be subject to the standard terms and conditions.

The rationale for such a plan is that customers could review a single contract, the standard contract, and then compare all offers on the identical standard terms and conditions. The intention is to address some customers' justified fear of fine print, and to simplify the comparison process for customers while eliminating some of the anxiety that some customers apparently feel when presented with a contract with a multitude of terms and conditions. Suppliers would all have the option of "signing on" to this set of terms and conditions and would have to provide those conditions to customers upon request. Again, the rationale of this proposal is to provide greater transparency and to eliminate anxiety for customers in shopping. It would provide customers with an easier way of comparing offers among suppliers because they could be assured that the suppliers have had signed on to the standard terms and conditions were not likely to "pull a fast one" with some hidden terms buried somewhere in the fine print.

## PROMOTE THE FUTURE END STATE

Probably the most difficult decision for the Commission in this process will be in defining what the future "end state" should be. The two major "Y's" in the road are: whether the future includes default service; and, if so, who provides that service? If default service is provided by the utility is here for the long term, then the character of default service must be augmented to put it on the same playing field as competitive suppliers - a level playing field.

Putting default service on the same plane as competitive suppliers means that default service should not be reconciled - it should be a market based rate and the provider should take the risk of providing the service and be able to earn a profit. Proponents of reconciliation would argue that the service has to take all comers so it should be reconciled. Competitive suppliers have agreed to take all comers under POR programs, and we are not provided the opportunity to reconcile. The competitive market does not allow for reconciliation - competitive suppliers are expected and required by their contracts to live with their prices. Market efficiency is not optimized unless all providers are required to deliver on their price. Proponents of reconciliation say that they cannot earn a profit from default service. We question why earning a profit is a problem - as long as the profit margin is reasonable. Default service does not have to be a monthly service - the portfolio approach could be maintained. So if the Commission decides to maintain default service, it should be changed to be a competitive product, and as a competitive product, it could be provided by a broader range of market participants, if the Commission wants to go down that road.

Eliminating default service provided by the utility is probably the best outcome for the development of the competitive market. For example, the Commission could entertain a plan that would eliminate default service provided by the utility by holding a retail auction where suppliers would bid for the right to serve tranches of retail customers on a fixed all-in price for a period of two years. At the end of the two year contract period, the customers would either re-sign with the winning supplier for a long term fixed contract, sign with another supplier, or if they did nothing, revert to a month-to-month variable rate contract with the winning supplier, which in essence would be the default service provider. This end-state would result in a fully competitive market structure.

Our recommendation, however, is for the Commission to define and promote its end state vision, including expectations about when the end-state will be in place. Such communication will help the market drive us to the end state – because the tackling the Y's in the road may take some time – and because default service is best eliminated through extinction.

We would again like to thank the Commission for the opportunity to participate in the *en banc* proceeding and to offer these comments to illuminate our views.

Respectfully submitted,

Todd S. Stewart, I.D. No. 75556
Hawke McKeon & Sniscak LLP
Harrisburg Energy Center
100 North Tenth Street
P.O. Box 1778
Harrisburg, PA 17105
Phone: 717.236.1300
Fax: 717-236-4841
tsstewart@hmslegal.com

*Counsel for Dominion Retail, Inc. and Interstate Gas Supply, Inc.*

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