

Comments which follow, FES addresses issues discussed in the Intermediate Work Plan, including Consumer Education, Customer Referral Programs, Retail Opt-in Auctions, the placement of the Default Service Price to Compare ("PTC") on Bills, and Coordination between EDCs and EGSs². FES respectfully submits that these Comments reflect its experience offering a variety of products and services to retail and wholesale markets in Pennsylvania and in other competitive electricity markets, including specific results from customer surveys and focus groups. Adoption of these proposals will foster the Commission's goals of ensuring a properly functioning and workably competitive retail market and default service programs in the Commonwealth.

II. COMMENTS

A. Consumer Education

FES supports the three-step process proposed by the Commission for Consumer Education. The variety and timing of mailings throughout the year are designed to promote shopping in a competitively neutral manner and provide customers with information and resources to make educated choices.

FES also supports enhancing the shopping experience by offering comparative pricing for small business customers (defined in the December 16 Tentative Order as those with peak demand of 25 kW or less) on PAPowerSwitch.com. However, FES notes that many smaller customers may not know their demand size, and using only the peak demand criterion could discourage small business customers from taking advantage of the savings opportunities presented on the site. While FES supports a consistent size threshold for the inclusion of

² Another issue in the RMI is the acceleration of the processes for switching customers from EDC default service to EGS service, or from one EGS to another. The Commission addressed this issue in the *Interim Guidelines Regarding Standards for Changing a Customer's Electricity Generation Supplier* at Docket No. M-2011-2270442; FES submitted comments on the *Interim Guidelines* on December 14, 2011.

comparative pricing on PAPowerSwitch.com, FES suggests that a comparable monthly or annual usage criterion should be utilized in addition to the demand threshold. In addition, the small commercial PAPowerSwitch.com pricing page should allow suppliers to offer pricing for each rate code (instead of just one per class). FES looks forward to working with the Commission's Office of Competitive Market Oversight ("OCMO"), the Office of Small Business Advocate ("OSBA") and other RMI participants to ensure the success of this enhancement.

B. Customer Referral Programs

FES supports programs that provide customers with additional information about retail shopping and the competitive market, as long as they are designed and implemented in a competitively neutral manner. FES agrees with starting the customer referral programs prior to June 2013, since they will have minimal impact on existing wholesale default service contracts.

1. New/Moving Customer Referral Program

To the extent possible, the new/moving customer referral program should be consistent across the state by providing guidance to EDCs about what specific information should be shared, and under what circumstances. It would be most efficient and least costly if referral programs are managed from existing EDC call centers, which are best prepared to handle the types of calls contemplated in the customer referral programs and other Commission RMI programs. FES does not believe an outsourced statewide call center would provide much benefit, if any, and would require consumers to make multiple contacts to complete one transaction. Additionally, FES does not believe there will be sufficient call volume to justify the costs of an independent call center. As more customers begin to shop, the population of non-

shopping customers will decrease and therefore the referral program call volume will decrease as well, further supporting the fact that a separate call center is not needed.

FES supports the Commission's determination that during the initial rollout of the program, the definition of small business customer should be the smallest general service business rate class as set forth in the relevant EDC's tariff.³ FES generally supports uniformity in all aspects of the RMI programs among EDCs, but recognizes that until EDCs' tariff and rate classifications for small business or commercial customers are required to be uniform, it is impractical to impose a statewide standard eligibility of "small business customers."

So as not to limit the benefits of customer choice, FES believes that Customer Assistance Program ("CAP") customers should be eligible to participate in the referral program and have the opportunity to receive the lowest electricity bill possible. To the extent that EDC CAP programs are prohibiting those customers from shopping, the structure of their CAP programs should be revised to allow CAP customers to shop for competitive electric generation service.

FES believes that EDC calls to be included in this program should not be limited to new service or move requests, but should also include calls that may indicate the customer is interested in changing electricity suppliers, including questions regarding shopping as well as high bill complaints. However, emergency and urgent calls (power outage, etc.) should not be included in the referral program since the priority in these cases should be to resolve the customer's emergency. Shopping referrals would be a distraction and may cause greater customer distress and confusion.

FES agrees with the Commission's concerns about placing EDCs in the position of discussing details about EGS product offerings with customers. However, FES believes that part of the EDC responsibility in the RMI process is to educate the customer about their choice

³ December 16 Tentative Order at 18.

options. As such FES proposes that, in referral program customer calls, the EDC first provide the customer with his or her new account number for the premise(s) in question in order to facilitate ease of enrollment with the supplier of the customer's choice. For those customers who are already shopping with an EGS at the time of the referral, the EDC should "hot transfer" the customer to his or her current EGS as long as that EGS has service offerings for the customer's rate class in the EDC service territory. If the EGS does not have an offer in the EDC service territory, the EDC should provide the customer with a high level overview of shopping options that are available in the EDC service territory, categorized as fixed price, month-to-month pricing, introductory specials and renewable products. The EDC should then direct the customer to the PaPowerSwitch.com website where the customer can select their preferred product and hotlink to that supplier's website for enrollment or to ask questions about the supplier's offers. It will be important that the PAPowerSwitch.com website is organized in the same way as the utility high level description of product offerings that are available to the customer.

FES supports the new/mover referral program and the benefits it will provide to the retail market. By using the information available on PAPowerSwitch.com and with the proper call center scripts, EDCs can facilitate the customer's choice and engage the selected retail supplier. FES looks forward to working with an implementation subgroup to design these call center scripts. Scripts, as well as other items discussed during the investigation, should always describe default service as a last resort and not the starting point, or "first resort."

2. Standard Offer Customer Referral Program

The Standard Offer Customer Referral Program as set forth in the December 16 Tentative Order⁴ will be available to residential customers on default service who contact the EDC for purposes other than emergencies, termination and the like. The program will be voluntary for

⁴ December 16 Tentative Order at 21.

customers and participating EGSs. The December 16 Tentative Order sets forth certain guidelines that the Commission expects to be included in programs proposed in EDCs' upcoming default service plans.

In general, the Commission expects that the standard offer will be a short-term introductory offer comprised of a percentage reduction from the effective EDC PTC for a *minimum* of three months, and that the standard offer and term should be uniform within an EDC's service territory. Following expiration of the three month (or otherwise applicable) introductory period, participating customers who do not affirmatively choose another service option would remain with the same EGS on a month-to-month basis. FES respectfully takes issue with several components of the Commission's guidelines.

It is FES' experience that customers generally do not like short-term introductory offers, especially when they do not know what their price will be after the introductory period. FES believes that any referral program design should first provide maximum benefit to customers, with supplier concerns being secondary to customer benefits. FES recommends that the initial referral term be a minimum of 12 months, at a fixed price that is at or below the EDC PTC, with no termination or cancellation fees and with the customer being referred to the lowest price supplier. Such a referral offer gives customers guaranteed savings and, with no termination or cancellation fees, customers will benefit by having the ability and flexibility to choose the lowest available price without penalty.

Even though a uniform introductory offer program may benefit some suppliers, customers who are randomly assigned to a supplier may not take advantage of better competitive offers and lower prices, believing that all suppliers' prices are the same with no further research. Also, since there are no standards for supplier offers after the introductory period, supplier post-

introductory prices may differ significantly with customers none the wiser. Many customers will not want to be bothered by another supplier selection decision after a short 3 month introductory period. As a result, customers may find later that they did not in fact obtain what they initially thought was the best offer and will therefore have a negative opinion of both retail shopping and the EDC that randomly assigned them to the supplier through its referral program.

Recognizing that there are participants in this process that support a referral program with an introductory price offer, FES believes that, if there is going to be an introductory price offer, customers should be made aware of the post-introductory offer terms at the time of initial enrollment into the introductory price offer. As such, FES respectfully urges the Commission to reconsider its adoption of the program component under which customers who take no affirmative action remain with their assigned EGS on a month-to-month basis. Throughout the RMI process, FES has stated its position that competitive retail prices sanctioned and/or endorsed by the Commission should not exceed the EDC default service price. The proposed guidelines where customers default to month-to-month pricing after the introductory price period do not assure customer savings. Also, even though month-to-month pricing is the standard in New York after the introductory pricing period, month-to-month pricing is not currently widespread in the Pennsylvania electricity retail market or in EDC standard service offerings. As such, Pennsylvania customers are not familiar or comfortable with the month-to-month product and this should not be the standard product after any introductory price period. As previously stated, FES strongly believes that suppliers should be required to provide customers with their post-introductory price offer at the time of customer enrollment into the introductory priced product.

To fully protect customer rights and supplier understanding of how customers have been assigned to suppliers, FES encourages the Commission to implement a process that routinely audits how customers have been assigned to EGSs. This audit should include reports of how many customers are referred to each supplier and the customer retention rate for each supplier.

C. Retail Opt-in Auction Programs

The December 16 Tentative Order includes a lengthy analysis of the issues surrounding the design and implementation of the retail opt-in auction programs to be included in EDCs' default service plan filings. FES has previously offered its positions on these issues through testimony at the RMI *en banc* hearings, in earlier filed comments and as an active member of the retail opt-in auction subgroup that worked to obtain consensus on many of these issues. Thus, FES has thoroughly analyzed the various options available for the auctions' design and implementation and offers its comments below on the Commission's determinations in the December 16 Tentative Order. The numbered paragraphs correspond with the similarly titled subsections in the December 16 Tentative Order for ease of reference.

1. Customer Eligibility

The December 16 Tentative Order finds that opt-in auction participation should not include small commercial and industrial customers "due to the lack of a standard 'small commercial' definition across the state"⁵ but invites parties that believe such customers should be included to propose a definition for 'small commercial customer' that will work on a statewide basis to identify such customers. FES believes that small commercial customers should be included in the retail opt-in auction structure and that individual EDC rate classifications can be used to identify such accounts. FES proposes the following definition for

⁵ December 16 Tentative Order at 25.

use solely as the means to identify small commercial accounts eligible to participate in the auction:

“The ‘Small Commercial Customer’ group shall consist of those customers receiving service under the lowest usage commercial rate classification in the EDC’s tariff.”

Within the residential customer rate class, the Commission requests comments on how best to address the possible exception from participating in the auctions of customers in CAP programs or in “exotic” rate classes such as net-metering and time of use. The Commission notes that CAP programs vary considerably among EDCs, and some CAP programs’ procedures and rules may affect CAP customers’ ability to participate in the auction.⁶ As stated above in Section B (Customer Referral Programs), FES believes that all residential customers should be eligible to participate in the auctions, and that EDCs’ CAP programs should be amended as necessary to enable that outcome.

2. EGS and EDC Participation

FES agrees with the Commission’s determinations that the smallest EDCs should be excluded from the auction process at this time, and that all appropriately-licensed EGSs should be eligible to participate. However, FES encourages the Commission to continue to look for opportunities to expand successful retail market enhancements to the smaller EDCs and encourage retail competition in those markets so that Pennsylvania becomes a fully competitive state for electric generation service.

3. Pilot Programs

FES agrees with the Commission’s determination that pilot programs should not be included for the reasons stated in the December 16 Tentative Order.

⁶ December 16 Tentative Order at 26.

4. Program Length/Term

The Commission has determined that the opt-in auction term should be no less than six months and no longer than twelve months.⁷ FES believes the term should be no less than twelve months and continues to urge the Commission to permit EDCs to establish contract terms up to 24 months in their proposals. Customers can leave the auction pool at any time without penalty and have the option to shop at any time during the contract term if they desire to do so. Once customers have made the choice to participate in the auction, they should not have to quickly make another choice whether to change suppliers again which would cause confusion (though again customers will be free to switch suppliers if they wish). In FES' experience, customers prefer longer term contracts that guarantee savings. Based on the offers on the PAMPowerSwitch.com website, many Pennsylvania EGSs are offering fixed price contracts for terms of 12 months or more indicating that there would be significant supplier participation in an opt-in program with a contract term of 12 months or more.

5. Timing

FES has consistently taken the position that all of the RMI programs have to be carefully coordinated in order to maximize customer, EDC and EGS satisfaction with the process. It is also vitally important that the timing of EDC default service procurement, customer notification/enrollment and the opt-in auction processes be carefully coordinated in order for the retail opt-in auction programs to successfully promote future customer choice of retail service as a viable option for their electricity supply.

The successful coordination of the above processes is especially important if, as FES proposes, the retail auction product is to be a fixed price product to ensure that the fixed price is

⁷ December 16 Tentative Order at 29.

lower than the PTC. FES proposes that the adoption of the following timeline will ensure that all of the necessary processes achieve optimal results:

Step 1: Wholesale auctions occur so that PTC is known. Retail suppliers will be aware of the PTC at the beginning of power flow, and understand the risk of reconciliation adjustments. Retail opt-in auction pre-bidding qualification should occur prior to the completion of the wholesale auctions so that retail auctions can occur immediately following.

Step 2: Retail auctions occur. PTC is known, bonus (if any) is known, and percent of (or number of) accounts in each tranche is known. Total number of accounts will not be known. The retail auctions should occur as soon as possible after the wholesale auctions and the process should be expedited to allow sufficient time for an opt-in period and enrollment, as well as minimize the amount of time the supplier is required to hold the price.

Step 3: Opt-in period begins. Customers will know the retail opt-in price, bonus (if any) as well as their PTC and the terms of the program. Customers will not know what supplier they will be randomly assigned to. Customers are sent an opt-in tear off card which is returned to the EDC as well as standard terms and conditions accepted by all suppliers. Given that the terms and conditions are sent at this time, the 3-day rescission period begins at the beginning of the opt-in period.

Step 4: Opt-in period expires. Customers are assigned to winning suppliers. The EDC will provide each winning supplier with an electronic data file containing all information necessary to create 814 EDI enrollment transactions.

Step 5: The EGS submits 814's for each customer to the EDC and sends each customer a welcome packet.

Step 6: Power flow, beginning with the June 2013 meter read.

FES agrees that the enrollment should be completed as close as possible to the actual initiation of service⁸ to ensure that customers see the result of their decision as soon as possible. While the Commission has requested a short enrollment period of no longer than a month, FES requests that it be made clear that the enrollment period includes the time to allow for mailings, assignment of customers to EGSs, and the complete EGS enrollment process.

6. Customer Participation Caps

FES believes that including a participation limit on the number of customers would be unfair to customers and could have a negative impact on the program. Any participation cap should only be based on an EDC's capacity to process customer enrollments with EGSs in a timely and accurate manner. Even though it is thought that a customer participation limit may reduce wholesale risk, history suggests that opt-in programs do not attract the kind of customer participation that would cause undue wholesale risk. However, the possibility that customers may interpret participation limits as an effort to protect suppliers at their expense, could result in a negative customer experience with retail competition in the Commonwealth.

7. Supplier Participation Load Caps

FES has consistently opposed the imposition of supplier load caps since load caps will surely result in sub-optimal pricing for customers. In other words, customers will not receive the lowest possible price and are therefore harmed by including supplier participation caps in the auction structure. As the Commission recognizes, use of the tranche structure will support

⁸ December 16 Tentative Order at 30.

participation from larger numbers of EGSs.⁹ Imposition of a supplier load cap on top of the tranche structure is unnecessary, and, as stated above, will likely result in higher prices. FES respectfully suggests that the Commission should allow the market to determine who the winning suppliers are, and not include arbitrary caps that may otherwise influence the results.

8. Composition of Customer Offer – Product

FES appreciates that the Commission has offered EDCs some flexibility in designing retail auction structures appropriate for their markets. However, consistent with its previous comments FES opposes the use of bonuses in any retail auction product structure. The Commission views the bonus of \$50-\$100 as an avoided acquisition cost and sees merit in disbursing those avoided costs to customers.¹⁰ One of the goals of the Commission's opt-in auction structure is to provide opportunities for greater supplier participation in more Pennsylvania markets. Having a bonus payment as part of the opt-in auction product will limit the number of suppliers who can fully participate in the auction since making a large up-front payment will likely strain the liquidity of suppliers who might otherwise be able to participate as long as the cash outflows are more closely aligned with cash receipts from customer sales. In addition, having a bonus payment as the incentive to attract customers to the opt-in program does not differentiate the opt-in auction product from incentive payment based products already being offered in the Pennsylvania electricity markets.

The EDC should choose either a fixed price or percent-off product with no bonus as part of its retail opt-in auction. However, if a bonus is included, it should not exceed \$100 and should be a set amount that is known prior to the retail auction. If a fixed price product is chosen, the fixed price for auction customers should not exceed the default service price during

⁹ December 16 Tentative Order at 35.

¹⁰ December 16 Tentative Order at 37-38.

the initial contract term because FES' research and experience indicates that, in today's market, customers value savings most of all. To accomplish guaranteed customer savings, the fixed price may require an adjustment in order to remain at or below the default service PTC when the PTC reconciliation and price update occurs. Some parties have argued that the fixed price resulting from the auction should be permitted to be higher than the default service price in instances where the the excess fixed price is offset by the bonus payment and/or savings during periods when the fixed price is lower than the default service price. FES disagrees and maintains that allowing the fixed rate product to exceed the PTC will lead to a high level of customer frustration and discourage continued shopping.

9. Customer Options upon Program Expiration

The retail opt-in auction is a program designed to introduce customers, who to date have been averse to shopping, to the competitive market by moving them from EDC default service to a competitive retail supplier. The ultimate goal is that these customers will have a good experience and thus continue to shop for their electricity supply once the retail auction contract term expires. In addition, the retail auction is being implemented in a way that assists suppliers in avoiding acquisition costs, including marketing, education and sales transactions. If a large number of customers return to EDC default service at the end of the program contract term, the state of retail competition in the Commonwealth will not have changed much from its current state, thereby negating the purpose of the program. Therefore, FES agrees that if no other action is taken, the customer should remain with the existing supplier at the end of the contract term under the opt-in auction program.

10. Opt-in Auction Structure

The Commission requests comments on how the mechanics of both a sealed bid process and a descending clock auction would work to provide a single clearing price in a retail auction.¹¹ FES respectfully submits that a descending clock auction process should be required, since as a practical matter, a sealed-bid RFP process will not result in the lowest price possible for the customers. Typically, in a wholesale setting for a sealed bid auction, each supplier submits a bid, all bids are opened, and the lowest prices win. All customers pay a resulting average price. This structure works in a wholesale auction because although customers are all paying the resulting average price, suppliers are each paid the price they bid. However, in a retail auction, each customer will have its own contractual and pricing relationship with an individual supplier and not be part of a larger customer block that receives an average price of all suppliers who may each be paid a different price by the EDC based on their winning bid. Thus, in a retail sealed bid auction, the customers resulting price can not be the average, but will have to be the lowest price where all tranches are covered. All suppliers will be paid that price by their individual customer. The low bidding suppliers would benefit from the high bids of other suppliers.

In a descending clock auction, due to the transparency of the auction design, customers will receive the lowest possible price. Transparency facilitates effective and efficient bidding among all bidders and the price signals provided through the process enable bidders to bid confidently and aggressively (i.e. at lower prices). Each round of the auction will consist of suppliers bidding on the number of tranches they are willing to serve at a specific price and the supplier will likely stop bidding at the price where it is not financially reasonable for them to continue. All customers will receive the same price and all suppliers will be paid the same

¹¹ December 16 Tentative Order at 41.

price which is determined at the price where supply (total load bid on by suppliers) equals demand (total customer load that participates in the auction). The result of transparency and supplier bidding behavior in a descending clock auction provides the most benefits to customers because it results in the lowest possible price.

11. Creditworthiness and Security

Aside from addressing the timeliness of reported information that helps to establish the credit requirement obligation of EGSs, FES does not believe that any additional credit requirements are necessary as part of the retail opt-in auction. Existing credit requirements provide adequate protections to cover electricity supplier default risk. Since participating suppliers will already be qualified suppliers with the EDC and the Commonwealth, they will have already met their credit requirements and obligations. There is no inherent difference in suppliers acquiring customers on an individual basis, running a large campaign over a short period of time, or acquiring customers through a retail opt-in auction. To the extent that there is a bonus payment as part of the opt-in auction product, the bonus payment, if any, should be paid directly to the customer by the EGS without EDC involvement. This recognizes that the customer is now a customer of the EGS and will help establish a positive relationship between the customer and the supplier. Under this bonus payment proposal, EDCs have no obligation for the bonus payments and therefore should not need any additional financial assurance to cover bonus payments.¹²

The Commission has invited additional comments on reporting requirements or post-program reporting and analysis. FES suggests that any such reporting requirements be limited

¹² FES previously took the position that additional credit may be appropriate to cover any bonus payment obligations. However, on further consideration, since the EDC will not be responsible for such payments FES now believes this additional credit requirement is not appropriate.

to information needed to evaluate “lessons learned”, which may be useful for determining the value of Pennsylvania retail market initiatives, and/or to act as a model of success that might be adopted as the standard against which other states measure the effectiveness of their own retail markets initiatives. Such information may include the numbers or percentages of non-shopping customers that participate in each initiative, whether those customers stay for the duration of the program or leave early, and whether those customers return to default service or continue to shop (with the same or a different supplier). FES cautions against requiring the reporting of such detailed data or information to the extent that it becomes burdensome for participants, or requires participants to disclose proprietary market information. Finally, there will be a need for a cost/benefit assessment of the flagging and tracking work necessary to support the desired post-program reporting to determine the impact on EDCs and EGSs.

D. Default Service Price to Compare on Bills

FES agrees with the Commission that customers should have more information, rather than less, so they can make informed choices when shopping. Therefore, FES believes that any direction or guidance provided by the Commission as it relates to displaying PTCs on customers bill should only improve on information already being provided by individual EDCs. Some EDCs are already complying with or exceeding the recommendations in the December 16 Tentative Order, and changes should not be made that would lessen the detail already being provided. At a minimum, FES believes that customers’ bills should contain a customer-specific PTC (or rate class PTC if customer-specific is not already provided), the dates the PTC is effective and when the PTC will change, and a reference to PAPowerSwitch.com as a source for more information where space is available.

E. Coordination between EDCs and EGSs

1. EDC Supplier Charges

FES has not had any significant problems or issues with supplier charges. However, FES would support an initiative to develop uniform supplier charges included in the EDCs' supplier tariffs. FES continues to advocate a statewide uniform supplier tariff. Absent a uniform supplier tariff, FES believes these issues should continue to be addressed in each EDC's default service filings.

2. Sample Bills

FES is not aware of any complaints and has no concerns with the existing process for providing access to customer information. In order for an EGS to enroll and serve a customer, certain account information is necessary, as well as historical usage data. Suppliers receive this information through an EDI request, or through the eligible customer list, and should not need to see the customers' exact copy of the bill for this purpose. All of this information can be received with the existing letter of authorization ("LOA") and by other means. FES believes that existing LOAs are sufficient to provide EGSs with their customer's consent to request bills as necessary to trouble-shoot specific billing issues. Sample bills currently provided on each EDC's website are a satisfactory complement to the customer information available.

3. Creditworthiness Standards

Similar to its support for statewide uniform supplier tariffs discussed above, FES supports uniformity across the Commonwealth as it applies to credit standards. FES believes that more clarity and transparency in EDC credit requirements should be included in their tariffs. FES agrees with RESA's suggestion that acceptable credit instruments should include parental

guarantees, surety bonds, letters of credit, cash deposits and other mutually agreeable security arrangements. Additionally, credit requirements should be clearly explained in all EDC's tariffs so that all parties understand what risks they are designed to cover and what the default calculation is.

III. CONCLUSION

FES appreciates the opportunity to submit these Comments, thanks the Commission for its support for robust retail electric competition, and looks forward to continuing to participate in the Commission's efforts to improve customers' direct access to competitive markets throughout the Commonwealth.

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