

Prepared Testimony of
Pamela A. Witmer
Commissioner
Pennsylvania Public Utility Commission

before the

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Pennsylvania Public Utility Commission
400 North Street
Harrisburg, Pennsylvania 17120
Telephone (717) 787-4301
<http://www.puc.pa.gov>

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Good morning Chairman Daley and members of the House Consumer Affairs Committee. Thank you for inviting me to discuss the recent impacts of variable rates in the retail electricity market and the Public Utility Commission's (PUC or Commission) role in protecting and educating consumers about this issue.

Background

As you know, in recent months, some Pennsylvania electric customers received very high electric bills in amounts two and three times, and even higher, than what they would normally be billed during this time of year. Based on the number of complaints received at the Commission, a substantial number of customers have received such bills. As of the beginning of April, more than 14,000 customers have contacted the Commission with concerns about electric supply prices, and of those, more than 5,900 customers have filed informal complaints with the PUC's Bureau of Consumer Services.

The majority of affected customers are participating in the competitive retail market and receiving electric supply service from an electric generation supplier (EGS) under a contract with a variable rate that is adjusted monthly. Other affected customers with expired fixed rates received electric supply service under contracts that provided for variable rates on a month-to-month basis until the customer chose another supplier or returned to default service from their electric distribution company (EDC).

These high bills reflect wholesale energy market volatility resulting from the very cold weather that the region endured in January and February of this year. The cold

weather contributed to increased and, on some days, record breaking use of natural gas and electricity within the region. As consumer usage spiked on these days, so did wholesale market prices for gas and electricity. It appears that these wholesale price increases, in whole or in part, were passed on by EGSs to retail electric customers receiving service at a variable rate. This resulted in a doubling, tripling, or even larger increases of the per-kilowatt hour rate that these customers were charged for their electric usage. Variable rate customers are particularly vulnerable to these price spikes because their rates change monthly to reflect market conditions.

Contract Terms & Disclosure Statements

As a general rule, the rate consumers pay in the retail electric market is governed by the terms of their contract with their supplier. The Commission's regulations require EGSs to provide customers with a written disclosure statement explaining the terms and conditions of service, including the price charged. For customers on a variable rate, the disclosure statement must disclose conditions of variability (*i.e.*, it must state on what *basis* prices will vary) and any limits on price variability. It appears that some customer contracts had no ceiling on the variable rate that could be charged by the EGS. While a variable rate may offer substantial savings when wholesale market prices are low, customers may experience very high bills during periods of market volatility, such as occurred with the recent cold weather. It is important for consumers on variable rates to carefully review the terms and conditions of their contracts to determine if they are at risk for large rate increases at any given time.

Early Measures by the PUC

After becoming aware of the situation with variable rate customers earlier this year, the Commission immediately took action. On January 31, 2014, the PUC issued a press release advising consumers receiving electricity from an alternative supplier to carefully review the terms of their EGS contract. Additionally, in early February, the Commission directed its staff to initiate the following measures to help ensure consumers are fully informed about variable rate products:

- Posting a “consumer alert” on the PUC website (www.puc.pa.gov) stating that customers subject to a variable rate may see their prices increase and should check their contracts, evaluate competitive offers at www.PAPowerSwitch.com, contact their supplier to sign up for budget billing or a payment plan, and conserve energy;
- Posting a similar “consumer alert” on www.PAPowerSwitch.com;
- Re-issuing the January 31 press release noting the messages available on the PUC and PowerSwitch websites;
- Developing a separate page on www.PAPowerSwitch.com devoted to explaining fixed vs. variable rate products;
- Developing a fact sheet for customers on fixed vs. variable rates that mirrors the new page on www.PAPowerSwitch.com; and
- Adding a fixed vs. variable Q&A section to our existing “Shopping for Electricity” fact sheet and enhancing the Q&A under “Frequently Asked Questions” on www.PAPowerSwitch.com to help ensure that consumers are better educated about variable rates.

The PUC believes these initial measures further inform customers about the difference between a variable and fixed rate product, and also provide them with options to mitigate high bills and avoid receiving such bills in the future. Today, the Commission unveiled the second in its series of educational videos highlighting key aspects of

choosing and staying with a competitive supplier, as well as recent actions taken by the Commission to enhance the shopping experience for consumers. The most recent video highlights what happens when a fixed-rate contract expires. Specifically, it builds upon a March video that explained the difference between fixed versus variable. The video can be found on the PUC website on the Educational Videos page, the PA PowerSwitch website's Understanding Fixed & Variable Rates page, and on the PUC's YouTube channel.

As time passes, the PUC continues to ensure that our shopping website and consumer education materials are readable and understandable for customers.

Long-Term Measures by the PUC

Although the PUC immediately took steps to highlight the variable rate issue and help customers cope with their high bills, Commissioners and Staff also took a deeper look into the marketplace to determine if any longer-term fixes could help address this situation. After doing so, the PUC determined that two major changes would improve the retail electricity market place. These changes are (1) improvements to EGS disclosure statements; and (2) ensuring that customers can more quickly change generation suppliers when they are charged unacceptably high rates.

The PUC chose to focus on these two improvements because these changes will make the biggest difference to customers. While, unfortunately, the PUC cannot predict whether Pennsylvania will experience another Polar Vortex or some other extreme

weather event that will cause electricity prices to spike again in the future, the PUC can ensure that customers in the retail electricity market are adequately informed about the products they choose and have the ability to easily shop for another product if they are dissatisfied with the one they have.

As you are aware, on March 18th and 19th, the PUC issued two separate Secretarial Letters initiating rulemakings that proposed to dramatically reduce the time that it takes for consumers to switch from an EDC to a supplier or from one supplier to another and to also provide more transparency and information regarding EGS contracts for consumers. After soliciting input from the interested stakeholders, I am very happy to report that last week my colleagues and I unanimously voted to finalize the rulemakings. As you know, the rulemaking process now advances to the standing committees, this committee and the Senate Consumer Protection and Professional Licensure Committee, as well as to the Independent Regulatory Review Commission (IRRC) for additional review and consideration.

With the rule change regarding switching, EDCs would be required to implement the changes to facilitate accelerated switching within six (6) months of the new regulations becoming final. Cost recovery for implementation would be addressed in each EDC's next base rate proceeding.

The second market improvement identified by the Commission and effectuated by the changes to the Ch. 54 regulations govern the disclosure statements that EGSs provide to customers. These changes will ensure that consumers receive adequate and accurate

information to make informed decisions when purchasing electric supply, and generally make the disclosure statements more user-friendly to consumers.

The intent of this rulemaking is to ensure EGS disclosure statements are understandable and useful to customers, especially in the context of variable-priced products. The changes will make notices more prominent and provide customers with important and timely information about their options upon the expiration or change in terms of their EGS contracts. The Commission believes these changes will provide additional information and greater protections for residential and small business customers choosing a competitive supplier for their electric generation. Some of the requirements in the proposal include:

- More contractual information on conditions of price variability, including whether there are limits on variability;
- A clear statement of the price per kilowatt hour for the first billing cycle of electric generation;
- Customer access to historical pricing information;
- Separate mailings for either fixed-term contracts that are expiring, or any changes to terms of service;
- A separate EGS contract summary along with the full disclosure statement to ensure EGSs highlight key terms and conditions in a uniform, consistent manner;
- New requirements for contract “Initial Notices” and customer “Options Notices” prior to the expiration or change in terms of a contract;
- A renewed emphasis on highlighting changes in pricing or any terms and conditions - including a fixed rate becoming a month-to-month, variable product if the customer does not respond to the notices; and

- Prominent marking on front of the “Options Notice” envelope clearly stating that it contains important information regarding the expiration or changes in terms of the customer’s electric supply contract.

Due to the recent price spikes in the wholesale electricity market and concerns that similar events could occur again, the PUC pursued both of these regulatory changes through an expedited rulemaking process. The Commission is confident that the changes in these rulemakings are not only necessary to protect the public interest, but will significantly improve customers’ shopping experience in the retail electricity market.

Conclusion

I will close today by stating that the Commission is taking the issue of customers impacted by variable rates extremely seriously. We are aware that many customers received bills that they are simply unable to pay in one lump sum and that attempting to do so will impact their livelihood and ability to make ends meet each month. The PUC is sympathetic to these customers and wants to help ensure they do not experience anything like this again. The PUC is confident that if we more proactively educate customers about their options when enrolling with an EGS and their ability to switch suppliers, Pennsylvanians will be empowered to make smart choices and continue to save money on their electricity bills. The PUC remains confident that in the long term, a restructured electricity market remains the best way for consumers to maintain affordable electricity bills and have access to innovative product offerings.

Thank you again for inviting me to speak today. I look forward to answering any questions you may have.