

TESTIMONY OF

RAY LANDIS

AARP PENNSYLVANIA ADVOCACY MANAGER

REGARDING VARIABLE RATE ELECTRICITY
CONTRACTS

BEFORE THE CONSUMER AFFAIRS

COMMITTEE

PENNSYLVANIA HOUSE OF REPRESENTATIVES

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Good morning Chairman Godshall, Chairman Daley, and members of the House Consumer Affairs Committee. My name is Ray Landis and I am the Advocacy Manager for AARP in Pennsylvania. On behalf of our 1.8 million members in the Commonwealth I am pleased to have the opportunity to discuss the impact the recent spike in variable electric rates has had on our members and all Pennsylvania consumers and offer suggestions on approaches that could help us avoid such a devastating blow to family budgets in the future.

This Committee has heard the horror stories of the drastic rate increases that consumers on variable rate electric plans have experienced in the last few months, both in testimony and through calls to your offices from constituents. It bears repeating that for some consumers on fixed incomes, their electric bill for the months of January and February alone approached or exceeded their monthly income.

Our purpose today is look for solutions that can help to ensure that consumers do not face these types of price spikes in the future. But it is instructive to look at the causes and the results of what has just happened, because those that don't learn from history are bound to repeat it.

Media reports here in Western Pennsylvania have shown the dramatic impact of these sudden price spikes. Callers to a KDKA call-in show on which I appeared as a guest discussed electric bill increases of 300 to 400 percent and being placed on hold for hours when they attempted to contact the electric marketing company to question their bill. They also told of the high-pressure marketing calls consumers received, with some marketers telling consumers "the legislature is going to force you to change electric companies, so you should change now to save money."

AARP has been concerned about the marketing practices of some competitive electric suppliers as the electric choice campaign rolled out across Pennsylvania. It is important to note that AARP does not discourage our members, or any consumer, from shopping for an electric supplier. We have held numerous educational events for our members to attempt to help them understand the electric marketplace. But we also recognize the limitations of the marketplace. Even today, most of the educational materials on electric shopping are focused on the Internet sites of the Public Utility Commission, PA Power Switch. For consumers without computer skills, however, it is extraordinarily difficult to access this information. It is why AARP has been so adamant that a default electric service plan should continue to exist, to ensure there is a safe landing place for consumers without the ability or inclination to shop for an electric supplier.

But with or without internet access, consumers are vulnerable to door-to-door or tele-marketing pitches. Consumers have also been overwhelmed with mail from the electric marketers touting the benefits of their particular company. Much of this marketing has been aggressive and as the initial investigations by the PUC and the Office of Consumer Advocate seem to indicate, some of it may not have provided full disclosure to consumers about what they were signing up for. As a result, many Pennsylvanians have discovered the variable rate they signed up may have saved them a few dollars each month for a few months but has suddenly cost them hundreds of dollars at a time when wholesale energy costs increased dramatically.

When reports of these dramatic electric bill increases first came to light in late January, there was a tendency among some to blame the situation on an "unprecedented" polar vortex that plunged temperatures to record lows. But when a second cold snap engulfed Pennsylvania, a realization came that perhaps these extreme temperatures shouldn't be regarded as a once in a generation occurrence. In fact, we've heard reference to the possibility of a "solar vortex" in the summer months. While that term might be dramatic, there is little doubt that a two-week stretch of 90 degree weather in July or August could have an impact on variable electric rates much like that of this winter's cold temperatures.

AARP is pleased the General Assembly and the Public Utility Commission recognize the extreme financial hardship is being placed on consumers. The PUC began a process of making changes to the current system when they announced initial steps last week that focused on reducing the period of time required to switch electric suppliers. The PUC's actions do not fully address our concerns, however, and AARP has a number of further recommendations that we believe could mitigate potential future price spikes and ensure consumers participating in Pennsylvania's electric marketplace they are not being taken advantage of. These include:

- Disclosure of the historical rate for at least 12 months, the rate formula that will be followed and whether there is a cap or upper limit on the rate increase, and if so what is the cap.
- Limits on increases in variable rate plans
- Elimination of early termination fees/cancellation fees for variable rates and limits on fees for fixed rate plans
- Ability for customers to switch to default service by contacting their EDC
- Disclosure of the rate charged in next billing cycle for variable rate plans before the cycle begins; all other price increases require 30 days' notice and affirmative consent
- Prohibition of the practice of placing customers on variable rate plans when their fixed rate plan expires; if a consumer has not affirmatively chosen a new plan at expiration, they should be continued at the same or lower fixed rate or placed on default service.
- Guarantee that low income customers on utility customer assistance plans do not pay more than the default rate.
- Limits on door to door marketing
- Expansion of Commission authority to ensure plans confirm with disclosures, to order restitution to consumers, to order higher bonds to ensure restitution can be paid, to revoke licenses, and enforce customer service standards, such as timely answering of consumer calls.

AARP knows that House Bill 2104, which has been introduced by Chairman Godshall and Chairman Daley, addresses a number of these recommendations. As this legislation is considered by the Consumer Affairs Committee, we hope the issues we have raised remain a part of the debate in a way that will give the most protection to electric customers.

Residential consumers will not have confidence in Pennsylvania's electric marketplace unless they see the state pass comprehensive reforms and provide for strong enforcement and penalties. We doubt anyone foresaw that the terms of variable rate plans would result in rates that increased 300 to 400 percent in a single month. But they did. Consumers have been encouraged to shop and now many are paying the price, literally, for suppliers who put all the market risk on their customers.

AARP remains committed to an electric marketplace where customers who do not wish to switch suppliers can choose stable, reasonably-priced default service as provided under current law. We believe some of the improvements to our current system which we have already suggested will help those customers who have been financially compromised by the recent price spikes avoid a similar experience in the future.

Thank you for the opportunity to present AARP Pennsylvania's views to the Committee today and thank you again for your attention to this important concern. I would be pleased to answer any questions Committee members may have.