



---

**Testimony of Richard J. Hudson  
Before the  
Pennsylvania House Consumer Affairs Committee  
On**

**Variable Rate and Polar Vortex Price Impacts  
April 10, 2014**

---

Good morning Chairman Godshall and Members of the Committee. My name is Ritchie Hudson. I am the Pennsylvania Chairman of the Retail Energy Supply Association, a broad and diverse group of competitive electricity suppliers advocating for the development of retail competition in states like Pennsylvania and elsewhere.<sup>1</sup> I am also the Director of Regulatory and Legislative Affairs for Consolidated Edison Solutions, Inc. ("ConEdison Solutions"), a retail provider of electricity and energy related services in this Commonwealth and other states that have enacted retail choice. As you are aware, RESA members are active participants in the Pennsylvania retail electric market serving all types of customers, including residential consumers, small businesses and large businesses.

We appreciate the opportunity to testify here today on the recent price impacts facing customers and retail suppliers, due to the severe cold weather in January and February and the unprecedented wholesale energy market price impacts. As explained by Mr. Bressler, the Polar Vortex weather conditions in January and February had severe impacts on the wholesale energy markets:

- Natural Gas prices reached as high as \$123/MMBtu in Eastern markets (compared to \$4-5 a few weeks earlier)

---

<sup>1</sup>RESA's members include: AEP Energy, Inc.; Champion Energy Services, LLC; ConEdison Solutions; Constellation NewEnergy, Inc.; Direct Energy Services, LLC; GDF SUEZ Energy Resources NA, Inc.; Homefield Energy; IDT Energy, Inc.; Integrys Energy Services, Inc.; Interstate Gas Supply, Inc. dba IGS Energy; Just Energy; Liberty Power; MC Squared Energy Services, LLC; Mint Energy, LLC; NextEra Energy Services; Noble Americas Energy Solutions LLC; NRG Energy, Inc.; PPL EnergyPlus, LLC; Stream Energy; TransCanada Power Marketing Ltd. and TriEagle Energy, L.P. The comments expressed in this testimony represent the position of RESA as an organization but may not represent the views of any particular member of RESA.

- Load-weighted average LMP for January 2014 was \$126.75/MWh compared to \$38.67 for calendar 2013
- In January, instances where LMPs due to emergency conditions exceeded \$1800/MWh
- Extremely high reliability related uplift costs (over \$600 million for January 2014, which is more in one month than was seen over an entire year in years 2010 and 2011)
- FERC granted an extraordinary waiver of \$1,000/MWh offer cap

These extreme wholesale market prices have had significant financial impacts on retail suppliers and customers. Although these price impacts were driven by severe and unprecedented conditions in the wholesale markets, we understand that this explanation provides little consolation to customers who have seen significant electricity bill increases as a result. Here are some of the examples of what RESA and its member companies have done to address the situation:

- Hundreds of thousands of customers on fixed price products were protected from the severe winter prices. This resulted in hundreds of millions of dollars in price protection for consumers.
- Despite significant financial impacts across the industry, retail suppliers continued to offer fixed price products throughout the severe winter conditions, including options at or below the utility's price to compare.

Utility	# Fixed Offers Available	# Fixed Offers at/below PTC
Duquesne	34	4
MetEd	39	4
Penelec	31	6
West Penn Power	22	1
PPL	56	20
PECO	59	12

- Some suppliers have offered one-time bill credits to mitigate the cost increases
- Other suppliers are voluntarily capping rates and absorbing much of the increased cost
- Waiving early termination fees
- Enrolling customers in budget billing
- Spreading January/February costs over future months
- RESA also has a Customer Education Guide that explains the differences between different product options, including fixed versus variable rates:

<http://www.resausa.org/news-events/retail-energy-supply-association-unveils-updated-consumer-guide>

Although the industry has undertaken many proactive measures to help customers manage the winter price impacts, policy makers are rightfully focused on customer impacts from the polar vortex, including consideration of policy changes to help protect consumers. As Commissioner Witmer has noted, the Public Utility Commission has already made significant progress in adopting new regulations to respond to this situation, including:

- Accelerated switching to allow changes in a customer's electric generation supplier within 3 business days
- Enhanced disclosure rules governing retail suppliers' contracts with customers
- The creation of a new "contract summary" document, similar to a "Schumer Box" that provides key contract terms in a standardized and easily readable chart
- Requirements to provide two notices prior to the expiration of a fixed price contract and prior to any contract renewal
- Requirements to provide advance notice of price changes, 30 days prior to the change in price

RESA commends the PUC's efforts to address this issue. These new rules will enhance the customer shopping experience and will help customers make more informed choices. Accelerated switching, in particular, will be a powerful tool for customers by empowering them to "vote with their pocket books" by changing suppliers. In the 21<sup>st</sup> century where customers can obtain instant approval for a credit card, or change cell phone providers at a mall kiosk, customers should be able to change electricity suppliers in a few days.

While we support the actions the Commission has already taken, we also recognize that this Committee is considering similar changes via legislation. RESA is committed to working with this Committee and all policy makers to consider changes to promote a better customer experience.

RESA supports policies focused on:

- Clear and full disclosure of product terms in both the supplier's contract AND marketing materials/messages
- Disclosure policies that encourage suppliers to voluntarily include price caps or limits on their variable rate products
- Greater price transparency through the posting of historic pricing information so customers can understand the range of prices they may experience on a variable rate product
- Advance notice of price changes or changes to terms or conditions of service
- Robust enforcement of consumer protection rules, including holding bad actors accountable

While RESA supports enhanced disclosure requirements and greater price transparency, it is important to maintain a wide range of options for consumers. There is a role for variable rate options in the marketplace. For example:

- With increased Shale gas production driving down energy prices (January and February being the exception to this general trend), some customers, particularly small business customers have demanded products that give them access to wholesale market prices, such as index or LMP-based products
- Some customers prefer not being locked into a long-term, fixed price agreement that may contain early termination fees
- Customers with solar panels or other on-site generation may desire a time-of-use based rate that allows them to capture the full value of their behind the meter generation
- Variable rates can serve as a “bridge” product for customers that are in-between two fixed price contracts

As you consider legislation on this issue, we would encourage you to focus on enhanced disclosure, increased price transparency, and greater customer education as opposed to policies that would eliminate certain products from the marketplace. RESA stands ready to work with this Committee, the Commission and other stakeholders to respond to the recent winter price events and promote a better shopping experience in Pennsylvania’s competitive retail energy market.

Thank you for the opportunity to testify.

**Richard J. Hudson Jr.**  
Office & Mobile: (412) 368-5988  
hudsonr@conedsolutions.com