HOUSE CONSUMER AFFAIRS COMMITTEE HEARING ON THE STATE OF THE ELECTRIC MARKET – 25TH ANNIVERSARY OF THE ELECTRICITY GENERATION CUSTOMER CHOICE AND COMPETITION ACT
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NRG Energy, Inc. appreciates the House Consumer Affairs Committee's interest in the status of electric competition in recognition of the 25th anniversary of the Electricity Generation Customer Choice and Competition Act.

Who We Are

NRG is a leading integrated power company built on dynamic retail brands and diverse generation assets. A Fortune 500 company, NRG brings the power of energy to consumers by producing, selling and delivering electricity and related products and services to consumers in competitive markets across the U.S. and Canada, as well as 23,000 MW of electric power generation including nuclear, coal, gas, oil and solar nationwide. Our retail brands serve more than six million customers across North America, including a significant share in Pennsylvania – so significant, in fact, that NRG's northeast retail business is headquartered in Philadelphia. We have several licensed retail electricity suppliers that are actively serving residential, commercial, industrial and institutional customers.[1] Our retail companies offer customers a range of products including demand response and energy efficiency, 100% renewable energy, energy plans bundled with energy efficiency technology, such as Nest or Hive thermostats, as well as loyalty rewards and our charitable giving products through our "Choose to Give" plans.

Pennsylvania Led the Nation in Recognizing the Value of Competitive Market Forces in Delivering Value to Consumers

Twenty-five years ago, the Commonwealth emerged as a national leader in electricity policy when the Electricity Generation Customer Choice and Competition Act of 1996 ("Competition Act") was enacted. As envisioned by the Legislature, the Act was intended to foster a robust and vibrant competitive market in Pennsylvania. Notably, in adopting the Act, the Legislature declared that:

[1] Including NRG Home, Green Mountain Energy Company, and Direct Energy, among others.

- “Competitive market forces are more effective than economic regulation in controlling the cost of generating electricity,” and that
- The “cost of electricity is an important factor in decisions made by businesses concerning locating, expanding and retaining facilities in this Commonwealth.”

Before competition, Pennsylvania's electricity rates were 15%-20% above the national average. Now they are consistently *below* the national average. In addition, almost 2 million residential energy customers (roughly 1/3) have selected alternative suppliers and virtually all industrial customers are currently purchasing power from competitive suppliers.

Pennsylvania also emerged as a leader in making renewable energy accessible to residential, business and institutional customers. The first utility scale wind power generating facility east of the Mississippi was built as a direct result of customer demand for renewable energy through Pennsylvania’s electric choice program. That project was the Green Mountain Energy Wind Farm in Garrett, Pennsylvania. As business and consumer interest in renewables continues to grow, innovation spurred by competition has brought about new products and services to meet customers’ demand for cleaner power in simplified and unexpected ways.

Residential consumers are also seeking new ways to engage with their power. Technologies such as smart thermostats, smart appliances, and even electric vehicles are giving individuals more choices and control than ever before. Companies like NRG are helping customers better understand their energy use and giving them the tools to help control it, whether through apps on their smart phones, or pricing plans that help them manage their overall energy bill.

The first twenty-five years of customer choice demonstrated that competition works and that customers want a choice in how their electricity is produced and from whom they buy it. This allowed providers such as NRG to enter the market and compete for customers. But retail suppliers are limited in the types of services we can offer. And they lack the ability to build relationships with their customers. In short, there is more work to do to achieve the thriving competitive retail market that was envisioned in the Competition Act 25 years ago.

Pennsylvania Can Lead Again by Positioning its Retail Market to Deliver 21st Century Solutions that Meet Customers’ Energy Needs

In a fully competitive market, electricity providers are incented to invest the resources needed to provide truly innovative energy solutions to their customers beyond just the price of the commodity. They offer diverse payment plans like flat-billing or pre-pay options. They bundle

additional home services like security and smart heating and cooling into their core offerings. They have mobile apps with powerful tools that allow customers to interact directly with their energy usage and unlock additional value. Enhancements like these are generally absent from the Pennsylvania market due to the restricted role of competitive retailers, and that makes it very difficult or even impossible, to offer these benefits to consumers.

NRG encourages the legislature to continue its commitment to competitive markets and reestablish its leadership role in the energy sector by evolving its retail electricity market to meet customer expectations for the *next* twenty-five years. Specifically, market reforms should be adopted to ensure that:

- Customers are protected with **more transparency** into the products and suppliers they choose, which in turn will make electric generation suppliers **more accountable** to their customers. When that happens:
    - electric generation suppliers will be incented to offer better pricing and to invest in more innovative energy solutions that customers demand, enabling them to grow their businesses; and
    - "bad actors" will be driven out of the market.
- The roles of the various market players are more clearly defined, and those players have clear direction to stay in their "swim lanes." When that happens:
    - the residential customers currently sitting on the sidelines (70% of them) will more directly benefit from competition and choice.

<u>Increasing Transparency and Accountability</u>

The best way to protect consumers and give them access to more and higher quality electricity supply options such as those noted above, is to bring more transparency and accountability to the retail electricity market. Enabling, or even requiring, retail suppliers to offer their own consolidated bills (referred to as Supplier Consolidated Billing, or SCB) that include both their supply charges and the utility delivery charges to their customers significantly raises the bar on what suppliers offer consumers, and has the added benefit of improving customer satisfaction with electricity shopping.

NRG's licensed retail companies send out more than 3 million bills per month to customers in markets where SCB is either required (e.g., in Georgia for natural gas, and in Texas for electricity) or is an option (Alberta, Canada). Customers have clearly demonstrated that they want a single energy bill and they expect to be billed by the supplier providing their service, not by the delivery company that brought the product to their doorstep. Today, only the regulated monopoly utilities can offer a consolidated bill in Pennsylvania – that must change.

The customer bill is the key communication tool that enables retail suppliers to establish relationships with their customers. The entity sending the bill is seen by customers as "their energy company." In a market where consumers shop for their electricity supply, the "energy company" is the electricity supplier. Enabling SCB prevents suppliers from hiding out on page four of the utility bill as a single line item. When customers receive bills directly from their service provider they are much more aware of what they are getting and from whom, and they are able to quickly act to fire their supplier if they are dissatisfied. Service providers would be more accountable for their prices when they in turn have to collect for their charges. As such, SCB would undoubtedly drive many of the "bad actors" out of the market. You can think of Supplier Consolidated Billing as the ultimate consumer protection measure – one that is long overdue.

By enabling SCB, suppliers will establish relationships with their customers and establish brand recognition. This in turn incents them to invest so that their businesses grow and thrive. They will be able to demonstrate their proficiency at meeting customers' needs in a way that is tangible to the customer – through accurate billing and collection activity. They can invest and offer more innovative products and services, including time-of-use plans for EV charging, flat bills, or choose your payment date plans.

Clarifying Roles and Establishing Swim Lanes

Pennsylvania's competitive retail market has as a central tenet the provision of Default Service provided by the regulated monopoly utilities. Suppliers must compete with the regulated utilities – entities with legacy brand recognition and market dominance. The utilities offer supply service at rates that fail to reflect all the costs associated with providing that service due to their unique ability to subsidize the cost of that service through their regulated distribution rates. This is particularly problematic since the PUC and consumer advocates encourage customers to shop by comparing competitive supply offers to the utility price to compare ("PTC).

Twenty-five years after this market was opened, the regulated utilities play a central role in the provision of competitive electricity supply service – serving 70% of the residential market. Rather than stimulating an educated and informed customer base equipped to make shopping decisions that meet their needs, the current default service structure essentially promotes customer inertia with a free option for customers to take no action to receive electricity service. Default service has outlived its useful purpose.

NRG urges the General Assembly to bring Pennsylvania's retail electricity market into the 21st Century by considering reforms to the market structure that align the roles of each set of

market participants to ensure each is focused on what they do best. The regulated utilities, who earn no profit on the provision of supply service, should be unburdened from that responsibility so that they can give full attention to their "swim lane" – the safe and reliable delivery of electricity – an absolutely essential function given the rising frequency of more extreme weather events, natural disasters, and the growth of distributed generation resources. The competitive supply of electricity is the domain of competitive retail suppliers, who are best equipped to innovate to meet the ever-changing demands of a diverse customer base with speed to market of products.

Pennsylvania is not Texas

First, it is important to note that neither Pennsylvania nor Texas are "deregulated". The term "deregulation" has been used irresponsibly in reports about the extreme winter weather event in Texas. Just like in Pennsylvania, the retail energy supply industry is heavily regulated in Texas and in all states that allow customers to choose their electric and natural gas supplier. Entire state administrative codes, including Pennsylvania's, are dedicated to laying out the rules and requirements for electric generation suppliers, ranging from the language that goes into customer contracts, to prescriptive requirements for all forms of customer communications, to stringent consumer protections regarding sales and marketing practices.

Second, it should be clear that the Texas energy emergency was not a failure of the competitive retail energy market. The emergency was the result of a chain of events and structural issues affecting electricity generation and wholesale markets. The system-wide event was caused by unprecedented winter weather – subfreezing temperatures and frozen precipitation in warm weather areas of the country not accustomed to such conditions. Power generating plants, natural gas pipelines and gas wellheads froze up, effectively interrupting electricity generation and driving wholesale costs to maximum levels. Well-positioned, properly hedged retail providers such as NRG were able to protect customers from wildly fluctuating, temporary price spikes.

As the Committee is aware, Northeastern states experienced similar extreme weather events, most notably in 2014, when historic prolonged cold weather and record energy demand drove up bills for customers. While lights, heat and water stayed on, several states, including Pennsylvania, implemented policy solutions to strengthen competitive retail markets and ensure customers were armed with better tools to manage these kinds of weather events in the future.

The Pennsylvania Public Utility Commission was the first in the East to act to protect consumers by adopting new emergency rules that made it easier for customers to quickly switch suppliers and choose different products – customers can now switch suppliers within 3 days instead of 30. Customers are now provided with easy to read Contract Summaries that highlight the key terms, such as price and how to cancel a contract. And, suppliers are required to do a much better job of explaining how variable priced products work – contracts must prominently tell a customer if there is no limit on how much a price might change from one month to the next, customers must have access to historical variable price trends, and if a customer is transitioned from fixed to variable pricing, suppliers must provide notice of any future price change at least 30 days prior to the new price taking effect to enable a customer the opportunity to choose a new product and/or supplier. The PUC recognized that variable priced products are an option that many customers want, but they made sure that customers understood how those products work and gave them the tools to make informed decisions quickly.

One lesson learned from the recent Texas experience is that there is a big difference between a variable priced product – one that is hedged so as to manage the risks of the more volatile wholesale market but whose price may still vary from month to month – and products that simply pass through real-time wholesale prices. As a generally rule, NRG does not advocate for product limitations, but Texas showed us that residential customers should not be directly exposed to real-time wholesale prices, and they should be prohibited by law. "Griddy" was the company named in media articles that tied its then 45,000 customers to wholesale prices and withdrew money directly from their checking or savings accounts. Griddy has lost its license to operate and is being sued by the Texas Attorney General.

Conclusion

NRG appreciates the opportunity to provide these comments and we look forward to collaborating with the General Assembly as it explores reforms that enable Pennsylvania's competitive retail market to deliver 21st century energy solution to the Commonwealth's consumers.

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