

Testimony of Gene Alessandrini
Pa. House Consumer Affairs Committee
Hearing on municipal electricity aggregation
November 17, 2010

Chairman Preston, Chairman Godshall and members of the
committee:

My name is Gene Alessandrini. I am Senior Vice President
of Marketing for PPL EnergyPlus.

PPL EnergyPlus is a competitive wholesale and retail
supplier of electricity and natural gas in Pennsylvania.

PPL EnergyPlus is not the same company as PPL Electric
Utilities, the regulated public utility that provides electric
delivery service in 29 counties of northeastern and central
Pennsylvania.

My testimony today, however, reflects the common positions of both PPL EnergyPlus and PPL Electric Utilities on the issue of municipal aggregation.

The PPL companies support the concept of municipal aggregation. It would provide another option for consumers to benefit from Pennsylvania's growing competitive electricity market.

There is strong evidence to show that electric choice has opened new opportunities and product innovations for Pennsylvania consumers.

According to the Public Utility Commission website papowerswitch.com, more than 650,000 consumers and businesses have chosen alternative electricity suppliers.

With long-standing generation caps about to expire for PECO, Met-Ed, Penelec and Allegheny Power, Pennsylvania can expect to see far greater numbers of consumers shopping for electricity supply in the very near future.

In the territory served by PPL Electric Utilities, 490,000 customers had shopped for electricity supply as of November 1. And 70 percent of the electricity currently delivered by PPL Electric Utilities is from alternative suppliers.

Still, however, about 68 of its residential customers and 61 percent of its small business customers are receiving default supply service from the utility, missing an opportunity to save money by shopping.

Legislation that authorizes municipal aggregation would extend the benefits of competition to many more in the Commonwealth who, for whatever reason, have chosen not to shop for electricity supply.

It would enable competitive electricity suppliers to work with municipalities to overcome consumer inertia.

It would support a robust competitive market by reducing customer acquisition costs, which might otherwise present an obstacle for suppliers to enter the market.

House Bill 2619 was introduced earlier this year to allow municipalities to negotiate on behalf of residents and businesses for electricity supply.

As drafted, the bill would have opened the benefits of electric choice to many more Pennsylvanians.

As amended, however, the legislative dictates and mandates in the bill would have significantly limited the potential benefits to electricity consumers.

The PPL companies encourage this committee and the legislature to reconsider a properly structured municipal aggregation bill in the 2011 session.

The key elements to be addressed in a properly structured municipal aggregation bill are:

- Solicitation and procurement
- Requirements for contract terms
- Eligible customers
- Opt-in or opt-out
- Coordination with existing or new default service plans

First, I would like to address the position of the PPL companies with regard to solicitation and procurement.

The goal of municipal aggregation should be to get the best possible combination of price and service for consumers.

The procurement process must be completely transparent and competitive, with PUC oversight rather than legislative mandates, which do not provide the flexibility to adapt to future outcomes and market uncertainties.

The PPL companies do not believe the legislation should require municipalities to award contracts based solely on price.

Suppliers have many ways to assist municipalities, including energy efficiency, demand response, emergency generation, and street lighting.

These services have the potential to provide added value that could be lost in a strict low-bid procurement process.

The second issue is requirements for contract terms.

While we do acknowledge concerns about the potential effects of long-term municipal aggregation contracts on choice and shopping, ultimately we believe municipal officials are best qualified to make such decisions on behalf of their constituents.

Our system of government provides a built-in check on the actions of municipal officials. Voters can remove them from office if they are dissatisfied with their performance.

That is a far more effective control than legislation or regulation.

The third key element is eligible customers.

House Bill 2619 would have limited business participation in municipal aggregation to companies with maximum peak demand of 50 kilowatts or less.

PPL companies believe that limit is too low because it would deny the benefits of electric choice to a number of small and mid-size businesses, including restaurants, dry cleaners, auto repair shops and retail stores that might otherwise be able reduce their business costs through a municipal aggregation offer.

Our recommendation is to set the limit for participation in a municipal aggregation program at a maximum peak demand of 500 kilowatts.

More than 60 percent of the small commercial and industrial customers of PPL Electric Utilities remain on default service.

Opening a municipal aggregation option to more of those businesses would help them reduce costs, improving the overall business climate in the Commonwealth.

The fourth key issue is whether municipal aggregation programs should be opt-in or opt-out.

While opt-in provides for affirmative consent by consumers, it would also significantly limit participation in programs.

The PPL companies favor an opt-out approach subject to PUC oversight of existing regulations to prevent customer “slamming” — the practice of customers being enrolled with an electricity supplier without their knowledge or consent.

To provide a greater measure of consumer protection, municipal aggregation suppliers should not be permitted to charge termination fees to customers who leave a municipal aggregation contract to choose their own supplier or return to default service.

The final issue is coordination with existing or new default service plans.

This was a major sticking point on House Bill 2619. To avoid interfering with default service plans, House Bill 2619 would not have allowed municipal aggregation options during the term of any existing default service plan.

That provision of the bill would have created a transition period, delaying municipal aggregation for several years.

The main concern that some parties have expressed regarding this issue is the potential impact on future POLR prices, and the competitiveness of POLR procurements, if suppliers believe there is greater risk that municipal aggregation will significantly reduce POLR loads.

The PPL companies oppose a transition period.

We believe it is more important to make money-saving options available to consumers sooner, rather than later.

In fact, because Electric Distribution Companies are obtaining POLR supply on an ongoing process, there would be no clear break point for establishing a transition period.

PPL EnergyPlus, in addition to being a participant in the retail electricity market in Pennsylvania, also is very active in the wholesale market and has participated in the POLR

procurement process conducted by Electric Distribution Companies.

I can tell you that as we evaluate opportunities for POLR contracts, we consider the risk of migration in our bids.

This risk has been known to suppliers since this committee conducted its first hearing on the issue way back in March.

Suppliers cannot reasonably claim that they were unaware of the potential change in Pennsylvania's electric competition laws, and were unable to reflect that risk in their bids.

Protecting POLR suppliers from a migration risk that they already understand would only serve to delay the benefits for consumers from a municipal aggregation option.

In fact, supplier knowledge of the potential risk has had no appreciable effect on the competitiveness of POLR procurements held since it became known that the General Assembly was considering municipal aggregation.

A transition period would needlessly prolong the process of moving past default supply, which — in the design of Pennsylvania’s competitive electricity market — is intended to be a last resort, not a long-term or low-cost alternative to choosing a supplier.

Government policies should encourage shopping by giving consumers the options and incentives for choosing alternative suppliers.

The PPL companies believe municipal aggregation is an option that will provide the benefits of the competitive electricity market to far greater numbers of Pennsylvanians.

We appreciate the opportunity to provide our perspective on this issue. We are available at any time to provide input or answer questions that the committee may have.