Before the
State of Pennsylvania
House Consumer Affairs Committee

June 15, 2022

Testimony of Daniel Allegretti
on behalf of
The Retail Energy Supply Association

Introduction

Members of the Committee, my name is Daniel Allegretti. I am a consultant with Sigma Consultants and the national spokesman for the Retail Energy Supply Association (RESA). RESA is the national trade association which represents competitive electricity and gas suppliers across the United States.[1]

Keeping Pennsylvania Competitive

Technology changes the quality of life for everyone every day. As we continue to move forward into the information age the products and services we use every day become cleaner, more efficient, and smarter. Over the last several decades this technological revolution was led by advances in computing and telecommunications. Will the next revolution be in transportation, artificial intelligence or perhaps something else, like energy? While we cannot predict the future, we can create the proper conditions for new ideas to flourish. In the energy space this is possible in Pennsylvania only because the traditional vertically integrated and regulated utility model has been displaced with the current paradigm in which entrepreneurs develop products and services to compete with one another for business and in which consumers become educated and

[1] The comments expressed in this filing represent the position of the Retail Energy Supply Association (RESA) as an organization but may not represent the views of any particular member of the Association. Founded in 1990, RESA is a broad and diverse group of more than twenty retail energy suppliers dedicated to promoting efficient, sustainable and customer-oriented competitive retail energy markets. RESA members operate throughout the United States delivering value-added electricity and natural gas service at retail to residential, commercial and industrial energy customers. More information on RESA can be found at www.resausa.org.

engage with these companies to take advantage of the next wave of innovations.

Pennsylvania is not alone. Twelve other states, as well as Washington, D.C., have each restructured their power markets and enabled customer choice and competition by removing the generation assets out of the utility rate-base, and into the competitive sphere where they have delivered lower cost and better performance relative to the traditional regulated fleets. As my colleague, Tony Cusati, will show you Pennsylvania has clearly outperformed traditionally regulated states across the country.

A Lesson from Telephony

Looking back at the introduction of choice in telephony the changes over time have been astounding. When choice was introduced the main driver for consumers was the attainment of savings on long distance calls measured in cents per minute. Critics of competition pointed to rate comparisons between new entrants like Sprint and MCI versus the rates still offered by Ma Bell. What they failed to grasp at the time was how competition would drive innovation in products, technology and in consumer behavior. Early innovations like call-waiting, call-answering and caller ID seemed underwhelming. Over time, however competition in telephony has produced remarkable change, with products and services like email, texting, GPS navigation, internet search, music, and video streaming and more that were beyond the imagination of early critics. As we look to the future of electric choice there is no way to know what comparable sorts of innovative changes and benefits electric competition will produce. What is clear, however, from the data we can see today is that competition is producing clear economic benefits in those states which have adopted choice. Just how far competition in the energy space will take us is for now a question of how far our imaginations can take us.

The Economic Benefits of Choice: Savings and Value

From 2008 through 2020 the weighted average price of electricity in states with retail choice has fallen by 7.4% while the weighted average price in monopoly states has risen by 21.1%.[2] This astounding divergence

---

[2] See The Great Divergence in Competitive and Monopoly Electricity Price Trends, Philip R. O'Connor and Muhammad Asad Khan, September 2018 (Updated 2020). See also Achieved Savings Analysis through Retail Electricity Competition, Energy Research Consulting Group, 2018, at 10 ; and Competition in Electricity Markets,

validates the fundamental expectation that competition promotes efficiency and drives down prices.[3] In short, the introduction of retail choice has indeed driven down costs for all customers in states that have adopted choice, including those customers that have remained with Default Service from the utility.

The Environmental and Reliability Benefits of Choice

Pennsylvania is among a growing number of states that have adopted initiatives to promote clean energy development and to lower carbon emissions. While these programs are environmentally beneficial, they also come at an economic cost. In a monopoly paradigm this cost falls equally upon all customers, regardless of their willingness or ability to pay. Policymakers are left to strike a balance between cost and environmental improvement that will have very different impacts on consumers and businesses, depending on their individual circumstance. In a retail choice framework, however, there is the potential to set a reasonable floor for all customers to contribute to a clean energy future and to allow for those customers who are able and willing to purchase a more renewable energy mix to do so. In the end it is not surprising that the performance of states with retail choice in reducing carbon emissions (a 12.1% reduction) has outpaced monopoly states (a 7.13% reduction).[4]

Regarding reliability, the performance of choice states compared to monopoly states is equally reassuring. The two most common metrics for measuring reliability are the System Average Interruption Frequency Index (SAIFI) and the System Average Interruption Duration Index (SAIDI). Once

---

Jakob Puckett, Show-Me Institute, 2021 at 10-11 ("After adjusting for inflation, electricity prices in competitive states in 2020 were 17 percent lower than in 2008, whereas prices in monopolized states rose two percent").

[3] See Retail Electric Competition and Natural Monopoly: The Shocking Truth, Jerry Ellig Working Paper, Regulatory Studies Center George Washington University, 2020 at 2 ("The available scholarly research suggests that well-designed and fully implemented retail competition programs more closely align prices with marginal costs, can reduce prices below the level where they would be in the absence of competition, and might promote product differentiation.")

[4] Pacific Research Institute, Affordable and Reliable, Creating competitive electricity markets to deliver consumers affordable, reliable, amd low-emission electricity, Wayne Weiarden, 2021. See also RESA Myth vs. Fact at 16. ("The proportion of renewable generation in the 14 competitive states/ jurisdictions has kept pace with the 35 monopoly states. The big difference lies in the fact that the competitive states/jurisdictions have built their renewable generation without placing the cost for these assets into the rate-base of the utilities with a guaranteed rate of return.")

again states with retail choice have outperformed monopoly jurisdictions. A 2021 report from the Pacific Research Institute finds:

> *The SAIFI in the jurisdictions with retail competition was 10.4 percent lower than the SAIFI in the monopoly states and the SAIDI in the jurisdictions with retail competition was 6.5 percent lower than the SAIDI in the monopoly states.*[5]

While it is difficult to pinpoint the exact causes of this difference it is fair to say that concerns over any potential negative impact on reliability from retail choice clearly appear unsupported by data.

People Want Choice

Perhaps the most compelling reason to maintain choice in Pennsylvania, however, is that Pennsylvanians, like most Americans, prefer to have commercial choices to make for themselves rather than have those choices made for them. Electricity is no exception. In March of 2020 RESA commissioned Ragnar research to conduct a nationwide poll on customer choice. The poll was conducted March 2 through 5, 2020. Telephone interviews were done with 1000 likely voters and Ragnar polled a diverse demographic. The group polled varied by age, gender, ethnicity, education, political affiliation and region. Polling included both choice and non-choice states and the study has a margin of error of ±3%. Here are some of the results:

- Voters find it "very important" to have a choice when purchasing goods or services and "strongly agree" consumers should be able to shop for energy supplies like other goods.
  - Very Important 52%
  - Somewhat Important 24%
  - Don't Know 4%
  - Not Very Important 11%
  - Not At All Important 9%
- There is consistent support by voters to allow the market to dictate energy prices rather than have prices set by regulation.
  - The cost of energy like electricity or natural gas should be able to change in response to competition from other energy suppliers in the market. 61% agree.
  - The cost of energy like electricity or natural gas should be set and controlled by regulations. 29% agree.

[5] Winegarden at 6.

- Voters were asked if you knew that allowing customers to choose their energy supplier would increase the number of low cost, green energy products, would you be more or less likely to support increasing the number of energy supplier in the market?
    - More likely 70%
    - Less likely 14%

What this polling tells us is that voters prefer to have choices in their energy supply, regardless of how they feel about their utility or what they are currently paying for electricity.

The Future

While it is hard to know what innovations and efficiencies competition and choice will foster in the future we can glean some clues from what is happening currently. In the business-to-business market customers have become far more engaged in managing their energy cost. Many businesses have begun installing their own electrical generation in the form of solar panels, back-up generators and battery storage devices to meet a portion of their energy needs. Supplementing these resources are purchases of energy delivered from the grid. These purchases are often made incrementally, over time, allowing the buyer to blend purchases at different market prices procured at different times, much as investors spread out their investments over time to reduce cost volatility. Thirdly, businesses are investing in ways to reduce their consumption, either through capital investments that increase their energy efficiency or through programs known as "demand response" that compensate customers for cutting their consumption during times of stress on the power system. The integration of these three tools: production, purchase and reduction, into an overall energy cost strategy is the result of the interaction between competing suppliers and energy customers. These customers have become better educated about their options through their conversations with competitive suppliers and have become empowered to better manage their energy costs through an integrated approach.

At the level of the residential user new innovations are just beginning to appear. In addition to the variety of renewable energy offerings mentioned above, suppliers are also offering customers ways to save money by shifting consumption, such as EV charging, into less expensive times of day when cheap surplus energy is available. Others are offering customers a fixed monthly bill to fit their budget without charges that vary with monthly consumption or bundled supply offerings that include things like air conditioner maintenance, reward points or charitable contributions.

Just what the future holds is uncertain but having adopted retail choice Pennsylvania is well positioned. As new technologies and creative offerings are developed customers in states with choice will be the first to see the benefit and for that reason it is good to live and work in a state like Pennsylvania.