January 28, 2025

Sen. Pat Stefano, Majority Chair
Sen. Lisa Boscola, Minority Chair
Senate Consumer Protection and Professional Licensure Committee
Pennsylvania General Assembly

Dear Chair Stefano, Chair Boscola, and members of the Senate Consumer Protection and Professional Licensure Committee:

Thank you for the opportunity to testify before the committee on the topic of "Understanding Your Electric Bill: How to Know What You Are Paying For." My name is Frank Caliva, and I am the National Spokesperson for the Retail Energy Supply Association ("RESA").[1]

RESA is a non-profit organization and trade association that represents the interests of its members, who are active participants in the competitive retail markets for electricity in New England, New York, the Mid-Atlantic, and the Great Lakes regions. As such, RESA is a broad and diverse group of 20 retail energy suppliers dedicated to promoting efficient, sustainable, and customer-oriented competitive retail energy markets. Several RESA member companies are licensed by the Pennsylvania Public Utility Commission ("PUC") to serve residential, commercial, and industrial customers in Pennsylvania and are presently providing electricity service in the Commonwealth.[2]

RESA and its members hold fast to several core principles that are critical to understanding the place of retail energy markets. RESA holds that competition, not regulation, is the most effective means for efficiently allocating resources, similar to the market dynamics for other goods and services. RESA members maintain that competition among retail companies brings benefits to consumers that are not readily provided through traditional utility regulation. These benefits include the setting of efficient prices, the development of innovative products and services, and the ability to efficiently meet clean energy policy objectives. In order for competition to be effective, all consumers must be afforded the right to shop for competitively priced energy products and services, just as they shop for other products and services.

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[1] The comments expressed in this testimony represent the position of RESA as an organization but may not represent the specific views of any of its individual members. More information on RESA and its members can be found at www.resausa.org.

[2] RESA members currently licensed in Pennsylvania include AEP Energy, Aggressive Energy, American Power & Gas, APG&E, Calpine, CleanSky Energy, Constellation, Eligo Energy, ENGIE Resources, FirstPoint Power, Freepoint, IGS Energy, Just Energy, NextEra Energy Resources, NRG, Shell Energy, SouthStar Energy Services, Spark Energy, and Vistra.

Retail Energy Supply in the Commonwealth

As the Committee is aware, for most of the 20th century, homeowners, businesses, and industrial manufacturers had no choice but to take service from their monopoly utility when it came to purchasing electricity and natural gas for their homes, businesses, and factories. That sole source option was largely the result of policy determinations that it should be more efficient, and energy consumers would benefit from economies of scale, if the retail sales of electricity and natural gas were made by utilities with monopoly-protected service territories at regulated rates. Utilities were provided rates that guarantee they recoup their investment and earn a reasonable profit as determined by state regulators.

Over time, however, economists and energy policy experts concluded that monopoly-protected price regulation was an inefficient model that needlessly imposed additional costs on consumers and instead began to realize that consumers would be better served if regulated industries were exposed to competitive forces providing strong incentives for efficiency and cost savings. This occurred shortly after other industries like air travel and telecommunications were also restructuring to achieve benefits from competition.

Beginning in the 1990s, the federal government acted to inject competition into markets for wholesale power production and bulk sales of electricity. At the same time, many states, including Pennsylvania,[3] acted to end monopoly protections for retail sales of electricity and natural gas. Gradually, competitive wholesale power markets overseen by large regional grid operators – like PJM – were enabled by federal regulation.

Today, consumers in more than a dozen states benefit from retail energy competition.

Which Part of the Electricity Bill is Competitive?

Electricity customers in Pennsylvania receive a bill that consists of three main cost categories: **(1)** supply, which includes transmission and generation, and **(2)** delivery or distribution, and **(3)** taxes and fees. Supply – the actual electricity generated and transmitted across long-distance, high voltage power lines – was historically the largest contributor to the ultimate price customers pay.

It is critical to first emphasize that the wires that deliver the electricity to retail customers are still owned and operated by traditional electric distribution companies ("EDCs" or "utilities"). Those costs are regulated by the PUC and the utilities charge customers approved rates reflecting their costs plus a profit margin based on a guaranteed rate of return. This is reflected in the **delivery** portion of the bill.

When we talk about retail competition or energy choice, we are talking about the **supply** portion of the bill. The energy commodity – electricity itself – is what is competitively priced. In states with retail competition, such as the Commonwealth, the vast majority of residential customers still receive one bill for their electricity, but they have a choice among competing retail energy suppliers vying for their business for the supply included on that bill. This means they are able to shop in the competitive marketplace to choose an electric supply product that best suits their

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needs, whether that is based on price, value, renewable content, or other product features. For customers that do not make an affirmative choice, the utilities in Pennsylvania also function as what is known as the default service provider, procuring generation on behalf of these customers as well as distributing generation for *all* customers.

For the remainder of the bill, including delivery charges, taxes, and fees, customers do not have the option to shop or choose what they pay. Customers are required to pay these costs which are established through legislative and regulatory processes. These costs include items like gross receipts tax, Act 129 energy efficiency programs, distribution system improvement charges, and universal service.

Additionally, we think it is important to note that as concerns about inflation generally, and utility bills specifically, are top of mind for all of us, an analysis of PUC rate comparison data from a RESA member shows that from 2014 to 2024, Pennsylvania transmission and distribution rates have increased and generation rates have decreased, on an inflation-adjusted basis, for residential customers using an average of 500 kWh per month. There are a lot of reasons for this, but we think it is critical to note that electricity supply costs are not necessarily the primary driver for bill increases.

How Do Customers Shop for Electricity?

Customers can shop for electricity in any number of ways – responding to an advertised offer from a retail supplier, participating in a customer referral program like the Standard Offer Program at some utilities**,** proactively researching retail suppliers offering products to customers in their utility territory, or visiting the PUC's official shopping websites, PAPowerSwitch.com and PAGasSwitch.com.

As an organization that has fought for consumers' rights for over 20 years, RESA is a staunch advocate for consumer freedom in selecting energy providers, and we recognize that education is paramount in navigating offers, comparing plans, and comprehending contract terms.[4] For those seeking a deeper understanding of retail energy choice, its benefits, and effective shopping practices, RESA invites exploration of its comprehensive online consumer resources section[5] of our website, www.resausa.org. We also include as an attachment to this testimony a copy of RESA's Consumer Education Guide, which we have developed to assist residential and small business customers.

For a customer who is visiting PAPowerSwitch or has received offers from retail suppliers serving customers in their area, the next step is to analyze the options.

What matters to one consumer will be different than what matters to other energy customers, but when weighing retail electricity or natural gas options, customers should ask:

- What is the price per kWh?
- Is the offered price fixed for a set period of time, variable (meaning subject to change), or some combination of both?

[4] https://www.resausa.org/retail-energy/energy-glossary/

[5] https://www.resausa.org/for-consumers/consumer-resources/

- How long is the contract in effect and is it possible to change suppliers without a cancellation or early termination fee?
- What are the energy sources used by the supplier and what is their environmental impact?
- What value added services are available from the supplier?
- How long will it take to be switched from the current supplier to the new supplier?
- What rights are available as an energy consumer?

Customer Value

Ultimately, though, the most important question a consumer should ask when comparing retail energy offers is, "*What do I value the most?*"

For many customers, price is the number one motivator to shop. We understand that. In fact, RESA has developed our own monthly market savings reports, based on data from the PUC's PAPowerSwitch website, which shows the price savings available to customers if they had switched to a supplier offer. As an example, our latest market savings report shows significant cost savings were available in December 2024 for consumers shopping for the best deal for electricity. Pennsylvania consumers could have saved more than $166.4 million and benefited from a wide range of value-added products and services by switching to competitive suppliers.[6] At the same time, price is only one factor consumers weigh when choosing their electricity or natural gas provider. The value a consumer gets from a product is always critical to keep in mind.

Suppliers are innovating and developing value-added products and services to differentiate themselves from competitors. Retail suppliers offer many different types of products to residential customers that incorporate varying contract lengths. In recent years, many customers have expressed a preference for seeking budget certainty with a multi-year term of service, e.g., a 12-, 18-, 24- or even 36-month fixed priced product. Other suppliers offer smart thermostats, smart devices and energy services that allow consumers to take charge of their energy usage, and still others provide financial and charitable incentives.

Perhaps the most important among these value-added products are renewable energy options that allow consumers to express their environmental preferences through their electricity purchase. Clean energy alternatives such as energy efficiency, demand response, and distributed generation like rooftop solar are best delivered by competitive retail suppliers offering market-based solutions rather than through regulated electric distribution companies.

Retails suppliers are also going beyond the current value propositions to advancing Retail 2.0 - working create seamless experiences for the customer, leverage current technological advances (e.g., demand response, time-of-use rates, electric vehicle charging and storage integration, etc.), permit customer engagement (load aggregation and voluntary load-shifting or shedding), and allow for customization (apps, portal, data).

A Lesson from Telephony

If some of those innovations seem far from where we currently are in the electricity market, and price still seems to be the only driver that is relevant to consumers, I want to step back and

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[6] RESA, Pennsylvania Market Savings Report for December 2024, https://www.resausa.org/wp-content/uploads/2025/01/Pennsylvania-MSR-December-2024-1.pdf

consider an example of how retail markets have advanced growth and innovation beyond the expectations of consumers and stakeholders: the telephone.

A few decades ago, the only choice for phone service was the copper wires provided by the Bell System. When choice was introduced in long-distance calls beginning in the 1980s, 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 offered by Ma Bell – the focus was solely on price.

At the time, critics failed to grasp how competition would drive innovation in products, technology, and consumer behavior. Early value-added services like call waiting, call answering, and caller ID might have seemed underwhelming. Over time, however, competition in telephony has produced remarkable change, with products and services like email, texting, GPS navigation, internet search, music, video streaming and more that were beyond the imagination of early critics – and, frankly, beyond the imagination of just about everyone. The iPhone was not even a glimmer in Steve Jobs' eye in the 1980s, but the introduction of competition after a century of the telephonic status quo made it possible.

We no longer calculate the value of phone contracts based on cents per minute for long-distance voice calls anymore: our phones provide so much more in terms of communications, information, and entertainment. Choice made this possible.

Default Service – Not an Apples-to-Apples Comparison

That is the promise of choice and in many ways, it is being realized in retail markets today. But we should also consider the obstacles that are preventing the unlocking of additional value for customers – namely, the problem of default service.

The reality of today's retail marketplace for electricity is one in which consumers have been educated to elevate the default service supply product as the superior supply product when considering any and all of the competitive supply options in the marketplace. While consumers may compare one supplier product to another supplier product, they are educated to compare all supplier products to the default service supply product on the basis of price and price alone.

Despite the original vision for retail choice – utilities acting as the neutral delivery platform upon which retail suppliers competed with each other for all customers' business – today we face a situation in which EDC-provided default service is effectively the "provider of first resort." Customers do not need to make an affirmative choice to be served by the default service provider, nor do they need to make a choice to remain with the default service provided when the utility procurement of energy supply results in a price change (which can happen several times each year).

In contrast, when exercising their right to shop, customers are free to select or deselect a competitive supplier offer at any time, based on their own unique needs and desires from suppliers who actively compete to attract customers to their products and services.

In addition, the default supply product has name and brand recognition due to the historical monopoly status of EDCs, the fact that EDCs provide distribution service to all customers in their service territory and that they continue to have an exclusive right to bill all customers (even those served by competitive suppliers). Further advantaging the default service supply product is that all distribution customers start with the EDC's supply service and now "default" back to the EDC's supply service when cancelling a supplier contract or if they decide to enroll in a utility's low-income customer assistance program. EGS competitive supply products lack all of these inherent advantages, and, moreover, all EGSs are required to work with EDCs in order to serve any customer because the EDCs retain all the account data and control the entire process of enrolling and dropping customers for suppliers.

One of the bedrock principles of utility ratemaking is that costs should be allocated as closely as possible to the groups of customers on whose behalf such costs were incurred. This is important as a fundamental matter of fairness and to ensure that even in a regulated industry like public utilities, appropriate price signals can be sent to consumers. This is especially true in states where customers can procure their energy from either a competitive retail supplier or through default service (which is typically provided by the utility).

As part of electricity and natural gas market restructuring, the introduction of retail choice was accompanied by the concept of default service. Legislatures and regulators in most states determined that the distribution utility would not be entirely removed from the supply market. Rather, the utility would be charged with procuring energy commodities on behalf of customers that had not selected a competitive supplier. What has become clear over time is that certain costs associated with the provision of commodity – costs that should be specifically allocated to those customers that have not chosen a supplier – have instead been recovered in whole or in part from the nonbypassable distribution rates paid by *all* customers.

This inequity persists despite efforts by retail suppliers and customer groups to draw attention to it. It is also not in alignment with the principles and guidelines of the nonpartisan experts in utility ratemaking - the National Association of Regulated Utilities Commissioners ("NARUC").

For example, in *Guidelines for Cost Allocations and Affiliate Transactions*, one of the key principles highlighted is: "The indirect costs of each business unit, including the allocated costs of shared services, should be spread to the services or products to which they relate using relevant cost allocators."[7]

While this principle is specifically mentioned in the section of the guidelines on managing the costs of regulated and non-regulated services provided by utilities, the concept still applies to unbundling default service costs from distribution rates. For example, a utility's legal department provides counsel to the departments dealing with distribution rates and the staff dedicated to energy commodity procurement.

Those costs should be proportionately allocated to and recovered from the various customer groups (for legal support for the distribution business, costs should be allocated to *all* customers and for legal support to the default service team, costs should be allocated to only those customers who have not chosen a retail energy supplier).

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[7] NARUC Board of Directors, *Guidelines for Cost Allocations and Affiliate Transactions,* July 23, 1999, https://pubs.naruc.org/pub.cfm?id=539BF2CD-2354-D714-51C4-0D70A5A95C65

The utilities and other stakeholders concerned about unbundling often respond that these types of shared service costs are hard to identify and, therefore, harder to allocate. But NARUC again offers several approaches to this challenge. For example, Chapter 7 of NARUC's *Electric Utility Cost Allocation Manual* considers certain hard-to-classify and hard-to-allocate customer-related costs, such as billing and collection, providing service information, and advertising and promoting utility services.

There is no dispute that, as Chapter 7 acknowledges, "care must be taken in developing the proper allocators." But it is possible and a fairer approach for the benefit of all customers.

In summation, the presence of default service provided by the monopoly EDC as it is structured in Pennsylvania today does not foster a robust competitive environment for suppliers where innovation can flourish. Instead, the current market structure incentivizes suppliers to focus their efforts on attracting customers away from the monopoly utility that is offering a highly regulated default service product that, while rooted in market-based dynamics, does not reflect all of the risks and costs associated with providing competitive retail supply service. Default service and the current "Price to Compare" represent an entirely unlevel playing field that is unfair to consumers and the suppliers endeavoring to serve them.

What Can Be Done to Advance the Competitive Market?

While RESA believes that the competitive retail market has been a successful value creator for customers, we recognize that improvements can be made to ensure the marketplace continues to operate effectively while also protecting the rights and interests of consumers.

With this in mind, we wish to express our strong support for the forthcoming reintroduction of last session's SB558, sponsored by Senator Phillips-Hill.

The bill tackles the cost allocation issue with default service head-on, by requiring unbundling of those shared services costs discussed above from distribution rates and appropriately including these costs in the default service rate. This would allow for a more accurate comparison of retail supply offers by customers.

Importantly, the bill also provides significant consumer protection through enhanced education requirements for retail suppliers. The bill requires all agents to go through a PUC-designed training program to ensure that ignorance of the rules is no excuse for any potential violations. At the conclusion of the program, a designated representative of each supplier must demonstrate through an online exam that he or she has a thorough understanding of the PUC's regulations regarding sales, consumer protection and any other matter the PUC deems appropriate. This representative will also have to attest that they have informed and educated all employees of the supplier who are engaged in any aspect of acquiring and maintaining a retail customer base. Additionally, the cost of this program will be borne by retail suppliers through their existing annual assessment, or a special fee assessment developed by the PUC.

Senator Phillips-Hill's bill is a significant step forward, but we would like to raise one more market accelerator for the Committee's consideration – consumer choice billing.

The Logic of Consumer Choice Billing

While competition is and has been good for consumers, we firmly believe the market can always be enhanced for the benefit of consumers. Currently in Pennsylvania, as we discussed above, competitive supplier customers can either receive two separate bills for their energy (which is not preferable for most mass market customers), or a single bill provided by the utility (utility consolidated billing). As we noted in previous sections the utilities are not competing for business – they enjoy a natural monopoly on the delivery of electricity and an effective but artificial pole position when it comes to customer supply.

Suppliers, however, *are* competing for customers' business, meaning they would be significantly incentivized to provide even better customer service and more innovative product offerings if they were in the driver seat of the customer relationship. The most significant touch point between a customer and an energy provider on an ongoing basis is the bill – so logically, does it make more sense for that touch point to be between the company the consumer *must* be served by (the utility) or the company that the consumer has a choice to stay with or leave in favor of a better offer (the supplier)?

Under CCB, customers would still receive one bill for their transmission, distribution, generation charges, but that bill would come from the supplier, not the utility. All the current disclosure and information requirements could remain in place, and the utilities would be made whole for their distribution charges (just as they pay suppliers now for their receivables).

What is the benefit of this approach? First, it appropriately makes the supplier more visible to consumers and puts them in the driver's seat of the service relationship. Customers will know exactly who their supplier is and who to contact when there is a problem or concern. Second, it will enhance customer service and the customer experience by allowing suppliers to offer innovative approaches to displaying energy information and providing additional value-added products and services. Finally, it will incentivize suppliers to provide even better customer service: they will be in the hot seat, not utilities.

An analogy may be useful here as an illustration. If a consumer buys a magazine subscription, he or she will likely get a bill from the magazine publisher, who may offer useful information, incentives for renewal or other valuable communications alongside the bill itself. It would be odd to say the least if the consumer got a bill instead from the Post Office which delivered the magazine, rather than the publisher. The Post Office has a monopoly on first class mail – no one else can deliver a consumer a magazine. But consumers have their choice of publications to subscribe to – it makes sense that the entity that is front and center in the customer relationship is the one which faces the greatest incentive to provide value to the customer.

Consumer choice billing allows the utilities to focus on what they do best – delivering electricity and natural gas to customers safely and reliably – while putting the onus on suppliers to provide the best possible customer service and value to energy consumers.

What Could CCB Bring to Customers?

It is worth considering what products and services might be available to customers under CCB that are currently not available in the Commonwealth, or not widely available. We can see products being offered in Texas, for example, where CCB is the default in most of the state and smart meter data is easily accessible by suppliers. The following are actual products available in Texas over the past two years:

- Prepaid products, which allow customers to pay-as-they-go and keep their finances under control.
- Free nights and weekends (for example, free energy usage from 9:00 p.m. to 5:00 a.m.).
- Flat bill and tiered usage products (for example, flat monthly rate up to 1000 kWh/month).
- Discounted rates when customers enroll in auto-payment.
- Highest usage day of the week for free.
- EV charging plans.
- Solar energy buyback plans.
- Smart thermostat and demand response reward plans.

While the Pennsylvania market differs from the Texas market, we believe several key elements, like CCB, could be adopted and adapted to the unique needs of the Commonwealth. It remains clear that CCB is necessary to advance innovation in both customer service and product design for retail suppliers and their customers.

Leadership Role of Pennsylvania

Through the careful, thoughtful work of the General Assembly and the PUC, Pennsylvanians enjoy a competitive retail energy market that is held as a gold standard across the nation. The PAPowerSwitch and PAGasSwitch websites are second to none in terms of providing the consumer with valuable information on how to shop, what to look for in a supplier’s contract, and the pricing and added products and services available. The educational efforts of the PUC and the Office of Consumer Advocate have helped consumers understand their choices and feel confident in exercising them. With the authority provided to it by the General Assembly, the PUC has balanced incentivizing suppliers to enter the market while also providing appropriate oversight and discipline. As a result, Pennsylvania is always brought up by stakeholders in other markets as an example of a state where choice is working and working well.

Today, we are recommending some additional steps be taken to ensure that the Commonwealth continues to be in the vanguard when it comes to consumer protection and market innovation. We recognize that the competitive energy market is not perfect, just like other markets in consumer goods and services are imperfect. Keeping bad actors out and welcoming good actors in will help ensure the retail market can deliver the proper consumer protections, innovation, economic benefits, and consumer value, to the citizens of Pennsylvania.

Thank you again for the opportunity to present testimony before you today. RESA looks forward to continued opportunities to discuss the promise of retail energy choice with the Committee.

Sincerely,

Frank Caliva
National Spokesperson
Retail Energy Supply Association