Default Service Considerations for Competitive Markets

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Transitional Protection

- Standard offer as part of regulatory support for competitive retail markets
- Default service and Provider of Last Resort safeguard service
- “Price to beat” for competitive suppliers
- Planned expiration of standard offer

Competitive Bidding for Default Service

- Massachusetts
- Rhode Island
- Maine
- Connecticut
- Pennsylvania

Advantages of multi-year contracts

- Price certainty for consumers who chose not to shop
- Reduced volatility of electric prices versus six-month or one-year contracts
- Reduces incentives for suppliers to manipulate market prices

Forcing Consumers off Default Service

- Establish onerous default service rates
- Introduce real-time pricing for default service
- Allow pass-through of unanticipated costs
- Re-bid or re-price default service on a short-term basis

Examples from Other Industries

- Stockpiling: Ford Motor Company
- Layering contracts
- Flexibility contracts
- Combination: Hewlett Packard
- Relational contracts: Chrysler Corporation

Role of State Regulators

- Traditional obligation to the public interest
- Multi-year default service through layering of contracts, flexibility contracts, or combination of approaches
- Allow easy entry/exit for consumers
- Opportunity to influence wholesale market through retail prices

Encourage Marketplace to Deliver Competitive Prices

- Provide opportunity for short-term and long-term competitive offers
- Provide opportunity for alternative pricing/value choices
- Reduced retail price volatility will also reduce wholesale price volatility

Summary

- Establish multi-year term for default service through variety of contract options
- Allow easy consumer entry/exit with appropriate conditions
- Make default service a stable price to beat to reduce retail and wholesale volatility

Questions?