



## **Consolidated Proposal for Default Supplier Market Opening**

After meeting with FERC, SERC and RSERC to discuss the Default Supplier Market Opening Concept, REAP formulated this document to consolidate the input and suggest a final position.

### **Introduction**

All three regulatory commissions agreed that the Electricity Market Opening process should be based on the Default Supplier Market Opening Concept that has been discussed at some length. The Default Supplier Market Opening Concept can be defined as a safety net mechanism for customers in an opening market. If Customers, other than households and small commercial customers, do not find a suitable market supplier, they may utilize the to-be-created Default Supplier service at prices that differ from the current regulated tariffs, primarily due to higher-priced deregulated generation. Supply is provided to the Default Supplier in various ways; but at least a portion, if not all, of the supply is provided by the former integrated utility's generators.

Whereas amended legislation would be helpful, the currently-existing legislation and regulation can be interpreted to enable the regulators to make all necessary changes in regulatory rules to prescribe the Default Supplier Market Opening Concept. This concept can be incorporated into regulation through amendments to the Rules on Obtaining the Status of Eligible Customer and Rules on Tariff Methodology. Work must be done to ensure that the concepts are harmonized. Preparatory work to change the Laws to incorporate the Default Supplier (and Supplier of Last Resort) can be initiated and performed in parallel to the regulators amending the Rules on Obtaining the Status of Eligible Customers and Rules on Tariff Methodology. When amended, the laws should prescribe default supplier service for all until 2015, and thereafter only households and small commercial customers.

### **Unresolved Issues**

The concept of Default Supplier (and concomitantly Supplier of Last Resort) and the legal/jurisdictional basis for its prescription are agreed by all. However, each individual component of the concept together comprise the whole:

#### *1. When to eliminate regulated tariffs – two concepts considered:*

- a. Eliminate regulated tariffs gradually, as FERC thinks this approach will better enable it to eliminate cross-subsidizes between certain customer classes and groups:

This publication is made possible by support from the American People sponsored by the United States Agency for International Development (USAID). The contents are the sole responsibility of the author/s and do not necessarily reflect the views of USAID or the United States Government.

- i. Large Customers on 1.1.2012.
    - ii. Medium Customers on 1.1.2013.
    - iii. Small Customers on 1.1.2014 or 2015.
    - iv. Households on 1.1.2015.
  - b. Eliminate regulated tariffs for all but households and small commercial all at once. This approach enables the regulator to eliminate cross-subsidies through adequately formulated criteria for the establishment a default supplier price.
  - c. Recommendation: the elimination of regulated tariffs for all but households and small commercial customers all at once enables the regulators to eliminate cross-subsidies through adequate criteria for the establishment of the default supplier price and concurrently comply with the requirement of eliminating regulated tariffs for all but households and small customers.<sup>1</sup>
2. *Who to appoint as Default Supplier:*
- a. Appoint the eligible customer supplier as the Default Supplier.<sup>2</sup>
  - b. Appoint the existing Suppliers (DSOs) as the Default Supplier(s).
  - c. Recommendation: Appoint DSOs as Default Suppliers to encourage/require the unbundling of (i) the Supplier of tariff customers and Default Supplier from (ii) the supplier of eligible customers. This approach does not change the current practice with regard to measurement, reading meters, billing and collections.
3. *Methodology and the process to determine the price for Default Supplier:*
- a. Regulators should, at a minimum, determine the criteria/methodology how to set the Default Supplier Price, but the Default Supplier should set up the price that should be checked by the regulator, who would request an adjustment if needed due to discrepancy between criteria and the price.
  - b. Regulator should determine Default Supplier price.
  - c. Recommendation: Regulators prescribe the methodology/criteria, Default Supplier applies and the regulators check. This option operates to eliminate tariffs, has better optics, and also allows the regulator to have a hand in the calculation of default supplier prices.<sup>3</sup>
4. *Appointment of Supplier of Last Resort:*
- a. Appoint the eligible customer supplier as the Supplier of Last Resort for all customers.
  - b. Appoint the Default Supplier as the Supplier of Last Resort for all customers.

---

<sup>1</sup> The timing of deregulation of generation results from the choice made of when to eliminate tariffs.

<sup>2</sup> The establishment of a new business unit fully unbundled from the DSO unit – the supplier of eligible customers – is one of the most important components of formulating the Default Supplier concept.

<sup>3</sup> In the beginning, the Default Supplier Price is equal to current tariffs. Thereafter, the price should increase gradually to reach the market price over a defined period of time. Cross-subsidies should be eliminated over the transition period.

- c. Recommendation: Since SOLR is called on to supply unexpectedly and must have quick access to supplies in varying quantities, the eligible customer supplier of is the best choice for all customers.<sup>4</sup>

Next Steps

On the basis of the above, the following next steps should be considered:

1. The three regulatory commissions should finalize agreement on the basic components of the Default Supplier service, for harmonization purposes.
  - a. Schedule for elimination of regulated tariffs
  - b. Determining who to appoint as Default Supplier.
  - c. Methodology and process to determine the price for Default Supplier
  - d. Appointment of the Supplier of Last Resort
2. Inform governments of the Default Supplier Market Opening concept.
3. Regulators amend the Rules on Obtaining the Status of Eligible Customers to include Default Supply Service and Supplier of Last Resort Service in full.
4. Regulators amend the tariff Methodology to provide the regulators creating the methodology/criteria for Default Supplier and the Default Supplier calculating the price for regulatory approval.
5. The regulators and REAP hold a broad Training for the stakeholders on Market Opening in the Fall.
6. The regulators implement.

The following table presents the Action Plan to implement Default Supplier and SOLR:

Next step	Action	When	Who	Technical Assistance
1	Three regulatory commissions agree on basics with regard to the idea of the Default Supplier Market Opening Concept	July 15, 2011	SERC FERC RSERC	REAP
2	Inform governments on Default Supplier Market Opening Concept	September 30, 2011	SERC FERC RSERC	
3	Change Rules on Obtaining the Status of Eligible Customers to include changes with regard to Default Supplier and Supplier of Last Resort in full	October 31, 2011	SERC FERC RSERC	REAP
4	Change the Rules on Tariff Methodology to include the methodology/criteria for the Default Supplier	November 31, 2011	SERC FERC RSERC	REAP

<sup>4</sup> The regulators have already prescribed the SOLR price in their Rule on Obtaining Eligible Customer Status.

5	Regulators and REAP hold a broad Training for the stakeholders on Market Opening	October 31, 2011	SERC FERC RSERC	REAP
6	Regulators implement the new concept	By December 31, 2011	SERC FERC RSERC	