

Fact Sheet on Electricity Rate Caps

Why were electric rates capped?

Electric rates were capped as part of the passage of Pennsylvania's "Electricity Generation Customer Choice and Competition Act" (Competition Act) in 1996. The Competition Act restructured the electricity market in the state to allow for retail competition in making electricity. Under this law, you have the ability to shop around for a company that generates your electricity, and your current electric company is required to maintain the transmission and distribution (or wires) part of your electric service. Currently 14 states and the District of Columbia have restructured electric markets.

Why are rate caps expiring?

As part of an agreement made with electric utilities during the passage of the Pennsylvania's Competition Act, electric rates were capped at 1996 levels for consumers. Electric utilities were only required to cap rates as long as customers were paying off the so-called stranded costs. (These are uneconomical investments made by the companies and approved by the Public Utility Commission prior to 1996.) As these stranded costs expire, the rate caps also expire.

When do rate caps expire?

Rate caps have already expired in six electric service territories across Pennsylvania. These include: UGI Utilities Inc., Pike County Light & Power Company, Citizens Electric of Lewisburg, Wellsboro Electric Company, Duquesne Light Company, and Pennsylvania Power Company.

The remaining rate caps will expire in the next couple of years:

| Electric Utility | Rate Caps Expire |
|-------------------------------|-------------------------|
| PPL Electric Utilities Inc. | December 31, 2009 |
| West Penn Power Company | December 31, 2010 |
| Pennsylvania Electric Company | December 31, 2010 |
| Metropolitan Edison Company | December 31, 2010 |
| PECO Energy Company | December 31, 2010 |

What has happened where rate caps expired?

In the six electric service territories where rate caps have expired, the results have been mixed. In the Duquesne Light service territory, residential customers are paying less for electricity service than they did prior to restructuring. Yet in Pike County, ratepayers experienced a 70 percent increase in total electric bills in 2006. This was, at least in part, because the utility entered into a contract for power when wholesale electric prices were extremely high.

Outside of Pennsylvania, residential customers of Baltimore Gas & Electric saw their electric bills increase by 72 percent on July 1, 2006 and residential customers of Delmarva Power Co. in Delaware saw their electric bills increase by 59 percent on May 1, 2006.

The good news is that in service territories where rate caps have expired, increased retail competition has occurred. Often an electric customer can shop around for another electricity provider and obtain a better price. A list of electricity suppliers to choose from is available on the Public Utility Commission.

What will happen when rate caps are removed in the rest of the state?

While it is hard to say exactly what will occur, residential and commercial customers may see an increase in electric rates from 20 to 50 percent when rate caps expire. This is because prices have skyrocketed for natural gas and other fossil fuels used to make electricity, leading to substantial increases in the cost of electricity. With rate caps, consumers have been protected from these increased costs; these costs will be passed down to the customer when rate caps end.

Why shouldn't rate caps be extended?

Electric generation rates will have been capped for 14 years by 2010. No other good or service has been capped at all or for anything like that length of time.

Extending rate caps will only mask the problem of rising energy costs and create an even larger jump in prices when caps are eventually removed. While electric rates will increase, that increase can spur energy conservation. Energy conservation can in turn reduce the amount bills go up. We must stop wasting so much energy, and reduce demand, prices, and pollution from electricity. Ending rate caps will also benefit solar, wind and other alternative energy technologies, making them more economical.

What is Pennsylvania doing to protect customers from rate increases?

There are two bills pending in the Pennsylvania Senate that would give electric consumers the tools needed to help reduce the impacts of higher electric costs. House Bill 2200, the energy savings bill, will give business and residential consumers the tools to save about 20 percent on their electric bills.

Special Session House Bill 1, the clean energy funding bill, provides funding for solar, wind and other clean and fuel-free energy source, and gives families and businesses incentives to purchase energy efficient appliances and systems to help reduce energy use and lower bills.

Both bills will create Great Green Jobs in Pennsylvania, bringing the 21st Century energy economy home to the Keystone State.