



POLICY BRIEF

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Citizen's Guide to Electric Choice & Competition

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Background

Why are we now getting electricity choice and competition?

In the late 1990s, Pennsylvania's electricity rates were 15% above the national average, despite the abundance of low-cost coal generation in the Commonwealth. At that time, electricity was sold by a monopoly utility provider in each designated region. Federal regulations then changed to allow electricity markets to develop. The state legislature responded with the Electricity Generation Customer Choice and Competition Act, signed in December 1996, promising lower prices and better service through consumer choice and generation competition.

Consumers now have a choice and, thus, greater control over their electric bill. Consumers can leave a generation supplier if they experience bad service.

Fearful of price gouging and initial market fluctuations, legislators tweaked the bill to place rate caps on utilities, which are now expiring. These actions caused havoc in the market when the cost of materials—like coal and natural gas—increased, preventing competitors who could not beat artificially low rates from entering the marketplace. But as rate caps expire, all companies will begin to charge the market price of electricity.

There are three parts to electricity delivery: generation, transmission, and distribution. Today, consumers can shop for a new supplier who passes generation and transmission costs directly on to them. Distribution is still regulated by the government.

When will rate caps expire?

Pennsylvania is divided into 11 distribution territories. On January 1, 2011, the last rate caps expired in four territories: Pennsylvania Electric Company (PECO Energy), Metropolitan Edison (Met-Ed), Pennsylvania Electric (Pennelec), and Allegheny Power.

Is rate cap expiration good?

Consumers now have a choice and, thus, greater **control** over their electric bill. Consumers can leave a generation supplier if they experience bad service or rates change, and they can customize their energy use with green options and programs that reward users for using power when demand is low. None of this was possible under the old monopoly system. In the long run, it is likely rates will fall as companies continue to compete for customers.

Why are my rates increasing?

Electricity generation rates will increase by varying amounts due to three factors. First, capped rates are being adjusted for inflation. Pennsylvanians were paying 5% less for their electricity in 2010 than they were in 1996.

Second, rising manufacturing costs have made the process of generating electricity more expensive. For example, the cost of fuel rose rapidly from 1999 to 2010 (coal and natural gas increased by 77% and 99%, respectively).

Finally, utilities purchased their electricity for 2011 through a series of auctions spread out to minimize the probability of buying power when energy costs were high. Due to the recession and decreased demand rate increases are far below what analysts predicted last year. New projections indicate that the average cost increase for Met-Ed will be marginal, while increases in Penelec's territory will be in the 15-20% range. For PECO customers, the 5% increase is coming from a higher distribution charge, but customers can easily decrease their bills to offset the distribution hike by purchasing cheaper generation. Allegheny Power customers benefited from gradual rate increases. Residents saw a 3.1% increase last year and with a similar 3.4% increase for 2011.

Electricity consumers can shop for a new generation supplier at any time; however, many of the new generation suppliers are offering special limited-time offers. Customers should be aware that it can take over a month to switch suppliers.

Distribution Company	2011 Price-to-Compare (PTC)	Expiration of PTC	Expected Rate Increase
PECO Energy	9.92 cents per kWh	31-Mar-11	5.0%
Met-Ed	8.30 cents per kWh	28-Feb-11	2.2%
Penelec	7.03 cents per kWh	28-Feb-11	16.6%
Allegheny Power	7.13 cents per kWh	28-Feb-11	3.4%

Shopping Guide

When can I shop?

Electricity consumers can shop for a new generation supplier at any time; however, many of the new generation suppliers are offering special limited-time offers. Customers should be aware that it can take over a month to switch suppliers since the switch occurs at the end of the current billing cycle.

How do I shop?

1. Calculate how much you pay for electricity. (See the sample bill on page 7).
2. Compare your price with regularly updated prices-to-compare at the Pennsylvania Office of the Consumer Advocate website: <http://www.oca.state.pa.us/Industry/Electric/elecomp/ElectricGuides.htm>.
3. Contact the supplier that best meets your needs. You can do this online in most cases, or call the company. They will walk you through the process.
4. Your generation will not be switched until you receive a letter from your distribution company verifying your choice. You have 10 days to respond if there is a mistake.

What is the price to compare?

The price to compare when shopping is the cost for **electricity generation plus transmission, taxes, and the cost of renewable energy programs**; this price is in cents per kilowatt-hour (kwh) and is offered by the distribution company. The price-to-compare will depend on market rates and is set quarterly.

Electricity rates can be fixed, variable, or time-of-day.

- **Fixed rate:** The price of electricity will remain the same throughout the contract. Most residential contracts range from one to two years.
- **Variable rate:** The price of electricity will vary monthly depending on the market.
- **Time-of-day rate:** The price for electricity fluctuates depending on the time of day it is used. During peak hours, when there is a higher demand, electricity costs more. It is typically cheapest at night, when businesses have closed.

It is important to remember that the generation and transmission costs do not represent the entire electricity bill but only the generation supplier's portion. The entire bill includes charges for **distribution** services—this cost will be the same regardless of the supplier.

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Can I get renewable energy?

Some suppliers offer renewable energy plans. In fact, the Energy Cooperative Association and BlueStar Energy Solutions are offering renewable energy at rates below PECO's price-to-compare. Another option is to add-on a renewable energy component to your electric supplier plan. This additional cost will be added to your monthly bill to support renewable energy development.

What should I know before switching?

Before switching to a generation supplier, consider the length and other terms of the contract including: electricity rate, additional metering costs, services including energy audits, and cancellation fees. Some suppliers require year-long contracts and charge early cancellation fees whereas others charge monthly and have no fees for leaving early.

What should I do when I am ready to switch?

When you are ready to switch, have an old utility bill available; the new generation supplier will need your previous account number. Most suppliers allow you to switch online or on the phone.

What are my options?

The number of generation suppliers available depends on where you live. You can find out what suppliers exist in your region by visiting the Pennsylvania Office of Consumer Advocate's [price comparison charts](#). These list generation suppliers

and rates along with the price-to-compare. A current list of generation suppliers can also be found at PAPowerSwitch.com.

Question For Residents

Can renters shop?

Anyone who receives an electric bill directly from a distribution company can shop. Some tenants receive individual utility bills and some do not. If you receive a monthly bill, you can switch. Check with your landlord if you are unsure.

Who will I call after I switch for outages and maintenance?

Your distribution company will remain the same if you choose a new generation supplier. The distribution company (PPL, PECO, Met-Ed, etc.) will still be responsible for regular maintenance of your meter and power lines. Distribution companies cannot retaliate against customers for switching suppliers, in fact, most companies want you to shop because they do not make a profit off of generating electricity.

What happens if I move?

If you shop and then move into a different distribution company's territory, you may need to shop for a new generation supplier. Contact the distribution company in your new location to see if you can keep your generation supplier. Your generation supplier might not be providing service in your new location. Depending on the generation supplier, you might pay an early cancellation fee for switching territories before your contract expires.

What happens to my budget billing plan?

Some generation suppliers offer budget billing options. If you prefer this option make sure to ask if it is available before you switch.

What happens if I participated in a prepayment plan?

If you participated in any prepayment plan, you can still shop. The money you saved in the interest accruing account will be used for future electric bills, regardless of the generation supplier you choose.

Why does the price-to-compare expire at the end of February or March 2011?

Since electricity prices are now being determined by the market and not by the Pennsylvania Public Utility Commission, rates will change the same way prices for groceries, gas, and other consumer products fluctuate. However, the price-to-compare will only change once a quarter. If you sign a contract with a variable rate you could see changes every month.

Distribution companies cannot retaliate against customers for switching suppliers, in fact, most companies want you to shop because they do not make a profit off of generating electricity.

How will the Allegheny Power First Energy Merger affect me if I shop?

The pending merger between Allegheny Energy and First Energy should not affect the expiration of rate caps come January. It's likely that a successful merger could result in lower generation rates for customers due to the large and diverse generation facilities available to First Energy.

Will my taxes go up?

Pennsylvania's Gross Receipts Tax is the only tax of its kind in the nation. Currently, the rate stands at **5.9%**. This tax is not itemized on your bill but is embedded in the cost. Since it is a percentage of your total bill, as rates increase, the tax will go up.

Will I get two bills?

Most suppliers will give you the option to receive one bill. Before you switch, check with your supplier to see if you will make one payment for all your utility services, or receive two bills.

How Many Times Can I Switch?

You can switch generation suppliers as often as you like, but beware of any cancellation fees if you switch suppliers before your contract ends. To switch from one competitive generation supplier to another, simply contact the company you would like to switch to and they will contact your current generation provider. You will receive confirmation in the mail and there is a 10 day period to change your mind until the switch is final.

Pennsylvania's Gross Receipts Tax is the only tax of its kind in the nation. Currently, the rate stands at 5.9%.

Glossary

Distribution—the distribution of electricity into your home and workplace.

Distribution Company—a company that distributes electricity, also known as a EDC, and maintains power lines in a given geographic area; PPL and PECO are examples of distribution companies.

Generation—the production of electricity.

Generation Suppliers—a company that generates electricity also know as a EGS or alternative generation supplier. Direct Energy and Dominion Peoples are examples of alternative generation suppliers.

Peak and Non-Peak Use— some suppliers give discounts if consumers put off electricity intensive activities for low demand hours when power usage is not high or at the “peak.”

Transmission—the transportation of electricity from the generation plant to the local distribution company's territory.

Transition Charge—a temporary charge applied to the bill of every customer accessing the transmission or distribution network. This charge is designed to recover an electric utility’s transition or stranded costs as determined by the Commission.

Online Resources:

The Public Utility Commission's Shopping Website:

www.papowerswitch.com

Office of the Consumer Advocate Shopping Guide and Rate Comparisons:

www.oca.state.pa.us/Industry/Electric/elecomp/ElectricGuides.htm

Electricity Shopping Statistics:

www.oca.state.pa.us/Industry/Electric/elecstats/ElectricStats.htm

PA Utility Consumer Bill of Rights:

www.puc.state.pa.us/general/consumer_ed/pdf/Consumer_Bill_Of_Rights.pdf

PA Electricity Choice and Competition Act Overview:

www.puc.state.pa.us/electric/pdf/PPT-PBJ_Presentation102810-Cawley.pdf

Sample Bill

Your Bill Account Number
00000-00000
Use when calling or writing

When switching suppliers you will need to know what rate category you fall under. For most residential areas this is RS.

Total from Last Bill **\$75.82**
Payment Received Dec 4 – Thank You! **\$75.82**

Billing Details

Balance as of Dec 15, 2010 \$0.00

Charges for – PPL ELECTIC UTILITIES

Residential Rate: RS for Nov 13 - Dec 15

Distribution Charge:
 Customer Charge 8.32
 200 KWH at 2.89200000¢ per KWH 5.78
 600 KWH at 2.63000000¢ per KWH 15.78
 305 KWH at 2.47900000¢ per KWH 7.56
 PA Tax Adj Surcharge at -0.06400000% -0.02

Transmission Charge:
 1,105 KWH at 0.75200000¢ per KWH 8.31

Transition Charge:
 200 KWH at 1.21000000¢ per KWH 2.42
 600 KWH at 1.07300000¢ per KWH 6.44
 305 KWH at 0.99100000¢ per KWH 3.02

Generation Charge:
 Capacity and Energy
 200 KWH at 5.94900000¢ per KWH 11.90
 600 KWH at 5.23100000¢ per KWH 31.39
 305 KWH at 4.80000000¢ per KWH 14.69
 PA Tax Adj Surcharge at 0.01300000% 0.01

Total PPL ELECTRIC UTILITIES Charges \$115.55

Pay This Amount No Later Than Jan 5, 2011 **\$115.55**

Account Balance **\$115.55**

This service is provided by distribution companies, like PPL or PECO. This charge will be the same regardless of who your supplier is.

These are the two services your new supplier will provide. The price you are comparing when you shop includes both of these charges and any applicable taxes

This charge will be eliminated from your bill once rate caps expire.

How Do I Calculate My Rate?

To calculate the supply rate you are paying **currently**— add together the transmission, transition and generation charges.

Transmission -	0.752¢
Transition -	1.210¢
Generation -	5.949¢
Total	7.911¢

Where is My Monthly KWH Usage Found?

Usage information is not located on the Billing Detail page of your bill but can instead be found on the first page under **Meter Reading Information**, as shown below.

Meter #00000000	Meter Reading
Dec 15 Actual	71345
Nov 13 <u>Actual</u>	<u>70240</u>
32 Days KWH Billed	1105

ABOUT THE AUTHORS AND THE COMMONWEALTH FOUNDATION

Elizabeth Stelle and Katrina Currie are Research Associates with the Commonwealth Foundation.

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