

# Commercial & Industrial Customers and the Expiration of Electric Rate Caps

Electric customers in Pennsylvania were among the very first in the United States to have the ability to choose the company that generates their electricity. The 1996 Electricity Generation Choice and Competition Act allows commercial and industrial customers to purchase power from independent electric generation suppliers (EGSs), while still having their electricity physically delivered by electric distribution companies (EDCs) regulated by the Pennsylvania Public Utility Commission (PUC).

## 1. Why are there rate caps, and why are they expiring?

Under the 1996 electric competition law, electric rates - which are comprised of generation, transmission, and distribution - were capped to ease the transition to competitive markets. The law provides a framework that allows all retail electric customers to have direct access to competitive suppliers of electricity.

The law also permitted the EDCs to recover "stranded costs," which were the existing investments in infrastructure that may have become uneconomic and unrecoverable in a competitive environment. The companies were permitted to recover those investments. In exchange, generation, transmission and distribution rates were capped beginning on Jan. 1, 1997. The caps on transmission and distribution rates all have expired. After litigated proceedings before the PUC, the generation rates were extended for many of the EDCs. As determined by those proceedings, all utility rate caps will expire by Jan. 1, 2011.

## 2. What will happen once the generation rate caps expire?

Generation prices have been capped in most Pennsylvania EDC service territories since Jan. 1, 1997. While Pennsylvania consumers' rates have been capped, the market prices for electricity have risen.

The PUC expects that customers may see an increase in their bills after the expiration of rate caps. The magnitude of those increases will depend upon market prices when the EDC acquires its power. The Commission's regulations and policy statements support the development of supply products that optimally provide for the short-term or long-term pricing products desired by large customers in Pennsylvania. Customers seeking to reduce exposure to volatile energy prices can more optimally pursue supply options available through EGSs.

Customers, including commercial and industrial customers, do not have to pay the utility prices. They will have the ability to choose between an EDC and competitive supply prices for the generation portion of the bill. An EGS may be able to offer a better price for the generation. Customers will be able to compare the EDC price to a competitive supplier price to find the best option. Meanwhile, the quality, reliability, and maintenance of your electric service should not change as it is still monitored by the Commission.



Customers should match their risk tolerances for volatility vs. security in making a decision to purchase the product that meets their business needs. In the territories where rate caps already have expired, we are seeing an increase in the number of customers choosing an EGS to provide their generation service. For example, as of January 2009:

- **Duquesne Light**

- ◆ 16.7 percent of commercial customers representing 51 percent of the load are using a competitive supplier.
- ◆ 45.6 percent of industrials representing 87.7 percent of the load are using a competitive supplier.

- **Penn Power**

- ◆ 12.6 percent of commercial customers representing 57 percent of the load are using a competitive supplier.
- ◆ 67 percent of industrials representing 98 percent of the load are using a competitive supplier.

### **3. Do businesses have to pay what the EDC is charging for electric generation (default service)?**

The PUC expects that large commercial and industrial customers that obtain their electric supply from competitive retail EGSs rather than their default supplier may be able to secure supply rates below the default service prices. Large customers are encouraged to proactively engage competitive suppliers to obtain further estimates for electricity for the post-rate cap period.

### **4. How should businesses choose an Electric Generation Supplier?**

The decision to use an EGS can be based on price, services, and incentives offered by the competitive supplier. Some factors to consider might be:

- How much you pay now for electric generation supply;
- How much electricity you use;
- When you use electricity; and
- The price offered by the suppliers serving your area.

An EGS may be willing to negotiate on price or other services to entice a company into switching suppliers. As of January 2009, the Commission licensed more than 45 EGSs. While the Commission may license an EGS, it cannot compel the EGS to offer particular services.

It is important to be cautious when going outside of the EDC or EGS and using an intermediary or an energy consultant to shop or pay for electric service. Be sure to fully understand the terms of the agreement between your company and the third party as well as the third party's need for a state license to perform such services. In general, if the consultant provides the power, accepts payment or handles the billing function, they must be licensed by the Commission. You can contact the PUC for more information. A full list of licensed suppliers is available on the PUC website at [www.puc.state.pa.us](http://www.puc.state.pa.us) under **Electric/Suppliers**. Additional information is provided by the Office of Consumer Advocate on its website at [www.oca.state.pa.us](http://www.oca.state.pa.us).

## 5. Can I save money by choosing a competitive supplier?

The amount you might save depends on issues such as:

- How much you pay now for electric generation supply;
- How much electricity you use;
- How market prices change in the future; and
- The price offered by the suppliers serving your area.

If you are interested in comparing prices, a list of licensed EGSs and the territories they are authorized to serve can be found on the PUC website at [www.puc.state.pa.us](http://www.puc.state.pa.us). Click on the electricity tab, then electric generation suppliers.



## 6. Who can take part in Electric Choice?

Every electric customer has the option to take part in Electric Choice if competitive offers exist in your area.

## 7. If I choose a new EGS, can I change my mind and choose another EGS to replace the first one?

Yes. However, you should carefully check the terms of the agreement, especially for any penalty clauses. Also, you should contact the EGS to find out when it will begin providing service.

## Questions to Ask When Shopping for an Electric Generation Supplier

1. Is the supplier licensed by the PUC?
2. What are the length and other terms of the agreement?
3. What is the EDCs "price to compare" and how long is that price effective?
4. Will the price offered by the supplier remain the same throughout that time?
5. Is there a penalty for canceling an agreement before its term is up?
6. What steps must I take to switch suppliers?
7. Will I pay a fee or penalty to switch suppliers?
8. Are there restrictions on how much electricity I use and when I use it?
9. Are taxes included in the supplier's price for generation supply?
10. Do I need a special meter and is there an added charge for that meter?
11. Is there a basic or limited service rate that is less expensive?
12. Will I still get service from a supplier if I have an outstanding balance or bad payment history?
13. Does the supplier offer a budget-billing plan?
14. Will I receive one bill or two?