

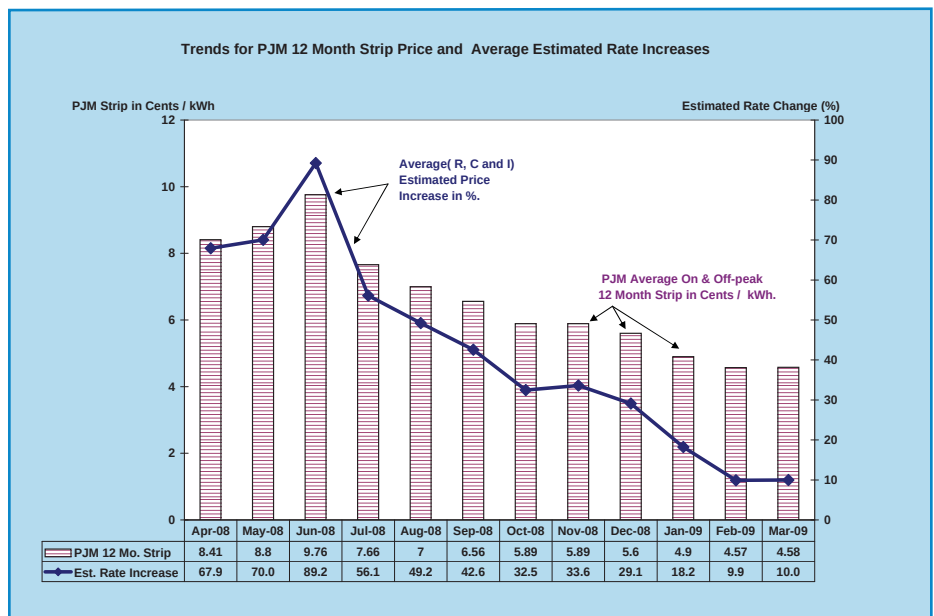
PUC Electric Price Estimates

April 2009

On August 7, 2008, the Pennsylvania Public Utility Commission (PUC) announced plans to release quarterly estimates comparing current market prices for electric generation with capped rates paid by consumers now. The following data provide some very general guidance on current market prices relative to current capped utility rates. The data suggest two important trends: current market prices, in most cases, are somewhat higher than existing capped rates for the remaining utilities subject to rate caps, and, secondly, market rates can and do fluctuate considerably from day to day, and month to month. The Commission is releasing the below estimates because they underscore the importance of mitigation measures such as those undertaken in the Commission's May 17, 2007, Final Order (Docket No. M-00061957). These mitigation measures include:

- **Energy Efficiency:** Energy efficiency investments often are the most cost-effective means of reducing electricity bills. Examples include: installation of high efficiency lighting, such as compact fluorescent bulbs (CFLs), higher efficiency appliances, repair or replacement of heating or cooling systems, and weatherization of homes and businesses. As a result of the enactment of Act 129 of 2008, Pennsylvania's seven major electric utilities will be implementing energy efficiency and demand response programs for their customers starting in 2010 and continuing into 2013. In addition to the energy savings customers may realize, the Act 129 programs are intended to reduce the future cost of wholesale energy for all customers.
- **Demand Side Response:** Reducing usage or shifting load from periods when demand and prices for electricity are high, to periods when demand and prices are low, can have a decisive effect on reducing overall energy costs.
- **Default Service Supply Procurement:** The Commission has approved energy procurement rules that will reduce default service rate volatility by directing electric utilities to acquire a portfolio of energy products of different contract lengths and at different points in time. This portfolio approach will help insulate customers from large fluctuations in market prices.
- **Rate Mitigation Programs:** The Commission has approved some electric utilities' rate-mitigation plans such as phase-in or pre-payment plans and directed all utilities to file such programs if electric generation prices increase by more than 25 percent when rate caps expire.
- **Updated Low-Income Programs:** Since electricity prices are likely to change with market prices, low-income programs that provide customer assistance and usage reduction must be adjusted accordingly to ensure that low-income customers are able to afford basic utility service.
- **Removal of Barriers to Retail Choice:** The Commission has established a Retail Markets Working Group to examine existing barriers to the development of retail electricity markets in order to enhance to opportunities for customers to have viable options for their supply of electricity when rate caps expire.
- **Consumer Education:** Education is the cornerstone of all six of the above mitigation strategies. Consumers must be informed of opportunities to reduce usage, have knowledge of pending default service rate increases and utility mitigation programs, have information on shopping for electricity, and know where to go to seek assistance to maintain service, in order to take proactive action on their future energy costs. The Commission is actively engaged in the approval, monitoring and implementation of electric utility consumer-education plans.

In furtherance of these efforts to educate consumers, the Commission has developed the charts to the right and on the following page which show the differences between capped rates and estimated forward market prices at four recent points in time: as of June 27, September 29 and December 30, 2008, and March 30, 2009. These forward market prices largely reflect the average of the NYMEX PJM on- and off-peak 12-month futures price strip.* The NYMEX (New York Mercantile Exchange) is where brokers and traders purchase commodities such as electricity, heating oil and various metals, etc., at prices posted for sale on that day. The NYMEX contains prices for electricity in the PJM Interconnection "footprint." PJM, based in Pennsylvania, is the electricity grid operator for 13 states and the District of Columbia. The following chart shows the volatility in wholesale market prices and the potential effect on retail prices, on average, if rate caps expired today and prices reflected current short-term market levels.



*March 30, 2009, trading date data used for forward price analysis.

These electric generation prices are not a projection of market prices when the rate caps expire. The data only provide a rough idea of what prices would be like if rate caps were lifted today, and electric utility prices rose to current market prices for the next 12 months. Actual default service prices may be higher or lower, depending on the magnitude of market prices when default service supply is actually acquired. Default service prices also will be less volatile than the prices on this graph, since the Commission's default service regulations and policy statement require default service supply to be acquired over a number of months and years, instead of on one day.

The PUC's model also has been run with a specific monthly usage level for each customer class whether the customer is a residential customer, a commercial customer or an industrial customer. The usage level for each class is not meant to represent a typical customer as usage varies considerably by customer and average usage levels vary from one electric company to another.

Comparison of Current Market Generation Prices and Existing Capped Utility Rates

Residential					
	Met Ed	PECO	Penelec	Allegheny*	Average
3/30/2009	22.7%	-7.4%	15.9%	7.3%	9.9%
12/30/2008	36.9%	1.0%	29.3%	36.0%	25.2%
9/29/2008	48.8%	9.3%	41.4%	51.4%	36.9%
6/27/2008	81.0%	34.5%	78.7%	104.0%	73.1%
Commercial					
	Met Ed	PECO	Penelec	Allegheny*	Average
3/30/2009	25.4%	-13.1%	14.0%	6.2%	9.2%
12/30/2008	44.0%	-2.0%	31.8%	41.9%	29.1%
9/29/2008	59.7%	8.8%	48.3%	60.3%	44.5%
6/27/2008	110.9%	41.7%	95.7%	126.4%	92.0%
Industrial					
	Met Ed	PECO	Penelec	Allegheny*	Average
3/30/2009	24.7%	-10.0%	18.3%	10.3%	10.9%
12/30/2008	45.0%	2.7%	39.9%	48.3%	33.0%
9/29/2008	40.8%	14.9%	60.0%	69.5%	46.3%
6/27/2008	109.4%	51.8%	119.8%	143.8%	102.6%

*The Commission-approved plan for Allegheny Power which began in 2006 provides a transition from capped rates by allowing phased-in annual rate increases. The decline in the expected increase from the 12/30/2008 to 3/30/2009 estimates is due in part to a 1/01/2009 rate increase of approximately 12 percent for residential and commercial customers, and 14 percent for industrial customers. With the rate increase already in place for 2010, the expected remaining increase for Allegheny Power's customers would be 4 percent for residential customers, 3 percent for commercial customers and -1 percent for industrial customers.

As noted before, the above numbers may be different than those released or employed by utilities and consumer advocates because of differences in models or what was being measured and identified. For example, some organizations have released projections of what consumers could pay in 2010 when rate caps expire. For example, PPL and Allegheny Power Co. have used actual winning bid prices from their competitive auctions to project future default service prices. Percent changes based on actual auction prices are more accurate. PPL's current market prices are not included in the above chart because it has purchased about 87 percent of their load, and its price for the post rate cap period is established for the most part. According to the company, residential consumers would see a 30.4 percent increase when rate caps expire on Dec. 31, 2009. If current market trends continue, consumers may be able to achieve better prices through a competitive electric generation supplier when PPL's rate cap expires. In the future, PPL and Allegheny will conduct its remaining auctions, and other electric utilities such as Metropolitan Edison Company (Met-Ed), PECO Energy Co., and Pennsylvania Electric Co. (Penelec) will begin to secure their 2011 energy through energy auctions. With each completed auction, the rates that customers will actually pay in 2011 will be more precisely known.

Lastly, the Commission expects that prices for large industrial and commercial customers that acquire their supply from competitive retail electric generation suppliers will likely be able to secure supply at rates below the prices provided by these models. Large customers are encouraged to proactively engage competitive suppliers to obtain further estimates for electricity for the post-rate-cap period.

The PUC also has promoted energy efficiency and demand side response; required electric utilities to educate their customers about rising energy prices and the resources to help them understand energy conservation, low-income programs and choice; increased its involvement at the federal level where wholesale energy prices are set; sought to remove barriers to competition; and proposed a statewide consumer-education campaign. In furtherance of its goal to educate consumers, the Commission intends to post quarterly updates to these calculations on the PUC Web site, www.puc.state.pa.us. Select "Electric" from the pull-down menu and select "Electric Price Estimates."

The Pennsylvania Public Utility Commission balances the needs of consumers and utilities to ensure safe and reliable utility service at reasonable rates; protect the public interest; educate consumers to make independent and informed utility choices; further economic development; and foster new technologies and competitive markets in an environmentally sound manner.