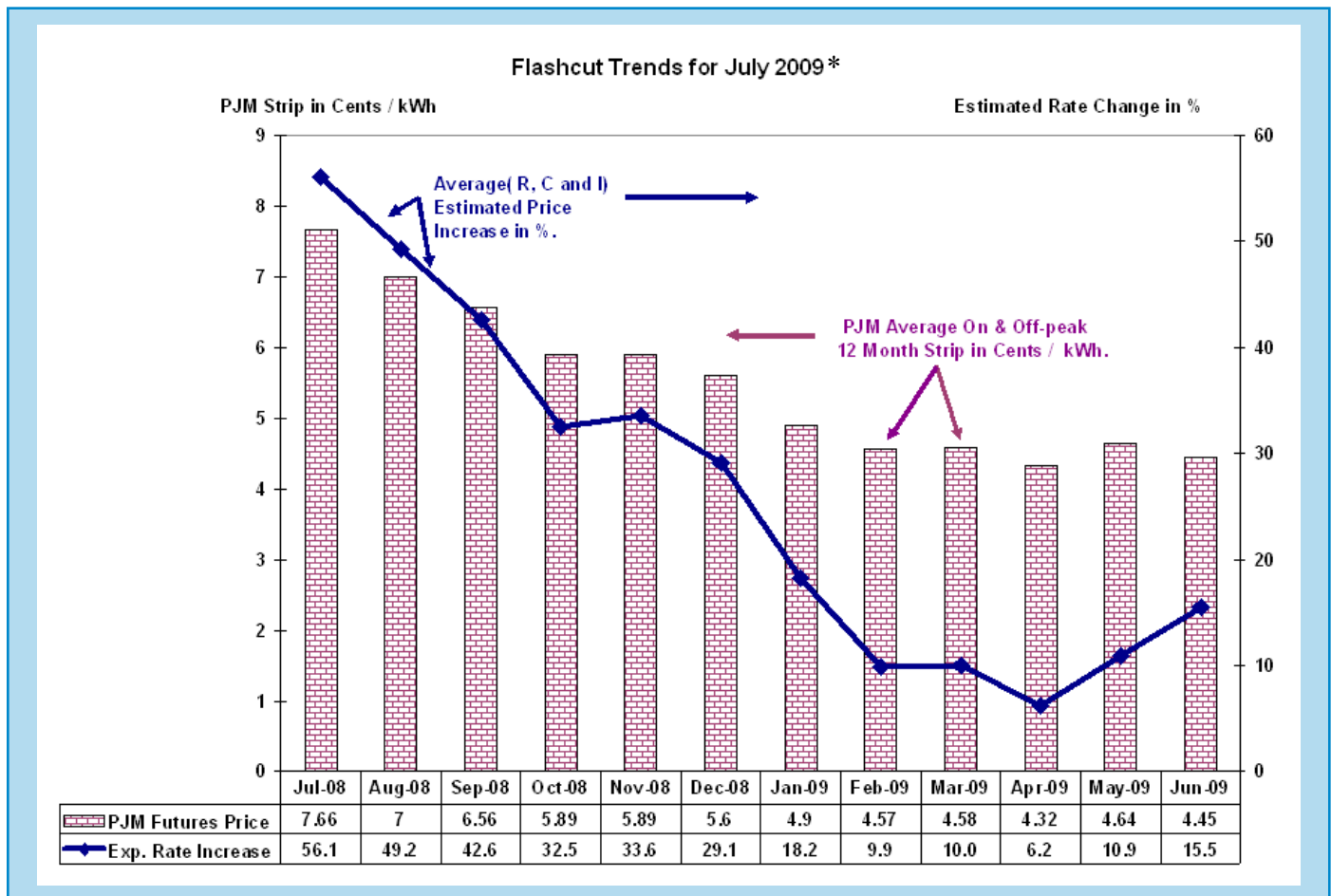


PUC Electric Price Estimates July 2009

On August 7, 2008, the Pennsylvania Public Utility Commission (PUC) began releasing quarterly estimates comparing current market prices for electricity with capped rates paid by consumers now. The following data provide some very general guidance that suggests two important trends: in most cases, current market prices are higher than existing capped rates, and, secondly, market rates can and do fluctuate considerably from day to day, and month to month. The Commission will post updates to these calculations on the PUC website, www.puc.state.pa.us. Select "Electric" from the pull-down menu and select "Electric Price Estimates."

The Commission has developed the following charts, which show the differences between capped rates and estimated forward market prices at recent points in time. These forward market prices largely reflect the average of the NYMEX PJM on- and off-peak 12-month futures price strip (June 30, 2009, trading date data used for the most recent forward price analysis). 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 charts show 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.



* Electric bills consist of distribution, transmission and generation charges. Generation, or market prices, have two major components – capacity and energy. The capacity charge is reset each June through PJM's Reliability Pricing Model, a FERC-approved mechanism for compensating power plant owners to ensure that sufficient generation exists to meet customer needs. The PUC does not set or otherwise approve the capacity payment level. As of June 1, 2009, PJM increased the capacity charge dramatically. Because of this, the estimated rate differential between market rates and capped rates went from about 10% to about 15%. Compared to the previous estimates, energy prices slightly decreased while capacity prices increased. The PUC now estimates that market prices currently are about 1.75 cents/kWh (a 0.73 cents/kWh increase) for capacity and about 5.6 cents/kWh (a 0.1 cents/kWh decrease) for energy.

These prices are not a projection of market prices or the rates customers will pay 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 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 –residential, commercial or industrial. 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. The below estimates identify current market prices in the short term, in comparison with capped rates, and do not in any way represent a Commission projection of future market prices or default service prices when the rate caps expire.

Comparison of Current Market Prices and Existing Capped Utility Rates

Residential						
	Met-Ed	PECO	Penelec	PPL	Allegheny*	Average
06/30/2009	26.4%	-4.6%	22.0%	17.0%	14.2%	15.0%
03/30/2009	22.7%	-7.4%	15.9%	11.0%	7.3%	9.9%
12/30/2008	36.9%	1.0%	29.3%	22.8%	36.0%	25.2%
9/29/2008	48.8%	9.3%	41.4%	33.8%	51.4%	36.9%
6/27/2008	81.0%	34.5%	78.7%	67.4%	104.0%	73.1%
Commercial						
	Met-Ed	PECO	Penelec	PPL	Allegheny*	Average
06/30/2009	29.6%	-9.6%	21.8%	21.1%	13.6%	15.3%
03/30/2009	25.4%	-13.1%	14.0%	13.4%	6.2%	9.2%
12/30/2008	44.0%	-2.0%	31.8%	30.1%	41.9%	29.1%
9/29/2008	59.7%	8.8%	48.3%	45.7%	60.3%	44.5%
6/27/2008	110.9%	41.7%	95.7%	85.4%	126.4%	92.0%
Industrial						
	Met-Ed	PECO	Penelec	PPL	Allegheny*	Average
06/30/2009	27.9%	-6.8%	25.4%	17.6%	16.6%	16.1%
03/30/2009	24.7%	-10.0%	18.3%	11.4%	10.3%	10.9%
12/30/2008	45.0%	2.7%	39.9%	29.3%	48.3%	33.0%
9/29/2008	40.8%	14.9%	60.0%	46.2%	69.5%	46.3%
6/27/2008	109.4%	51.8%	119.8%	88.3%	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% for residential and commercial customers, and 14% for industrial customers. With the rate increase already in place for 2010, the expected remaining increase for Allegheny Power's customers would be 11% for residential customers, 10% for commercial customers and 6% for industrial customers.

As noted, the numbers above may be different than those released or used by utilities and consumer advocates because of differences in models or what is being measured and identified. For example, PPL and Allegheny have completed auctions and purchased significant portions of the loads, have published actual winning bid prices from their competitive auction, and projected future default service prices for certain customer classes. More specifically, PPL has purchased about 87 percent of the load for residential and some commercial customers. Allegheny has purchased about 50 percent of the load for residential customers.

The PPL and Allegheny numbers in the following charts represent these more accurate post-rate cap auction results for each distribution utility, reflecting a portfolio of resources, obtained over time, which mitigated the effect of monthly and daily changes in the market rates for energy.

PPL Competitive Auction Results (to date) and Existing Capped Utility Rates (2010)

Residential	
6/30/2009	30.4%
Commercial	
6/30/2009	18.9% (small business)
6/30/2009	36.8% (mid-sized business)

Allegheny Competitive Auction Results (to date) and Existing Capped Utility Rates (2011)

Residential	
6/30/2009	10.6%

Comparing the charts illustrates that if current market trends continue, consumers may be able to achieve better prices through a competitive electric generation supplier when rate caps expire. The PUC expects that 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 for default service from the utilities. Large customers are encouraged to proactively engage competitive suppliers to obtain further estimates for electricity for the post-rate cap period.

PECO also has begun conducting auctions. When PECO has acquired 50 percent or more of its portfolio, the PUC will provide auction projections for PECO as well. Met-Ed and Penelec have not yet begun to secure their 2011 energy. With each completed auction, the rates that customers will actually pay in 2011 will be more precisely known.

The Commission continues to engage consumer advocates and industry experts in efforts to mitigate any price increases in future electric generation prices. The PUC released the above 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 and Conservation:** 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 have submitted energy efficiency and demand response programs for consumers to the PUC for approval. 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.
- **Smart Meters:** 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. Act 129 required the seven major electric companies to file a smart meter technology procurement and installation plan for Commission approval by Aug. 14, 2009.
- **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 rate-mitigation plans such as phase-in or pre-payment plans after directing 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.

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.