



POLICY BRIEF

from the COMMONWEALTH FOUNDATION

Vol. 22, No. 03
February 2010

Business Guide to Electric Choice & Competition

ELIZABETH BRYAN & KATRINA CURRIE

BACKGROUND

Why are we now getting competition and electricity choice?

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 per designated region. Then federal regulations 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 generation competition and consumer choice.

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, state legislators tweaked the bill to place temporary rate caps on utilities. These actions caused havoc in the market when the cost of producing electricity increased, preventing competitors who could not beat the artificially low rates from entering the marketplace. But as rate caps expire, all companies will now 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 generator 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. As of January 1, 2010, rate caps have expired in all but four territories: Metropolitan Edison, PECO Energy, Allegheny Power, and Pennsylvania Electric. Their caps will expire on December 31, 2010.

Is rate cap expiration good?

Consumers now have a choice and, thus, greater control over their electric bill. Consumers can leave a generator 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?

For several reasons, PPL's electricity rates are increasing by an average of 18.4% for small businesses, 36.1% for mid-sized businesses, and 33.6% for large commercial and industrial customers.

First, capped rates are being adjusted for inflation.

Second, rising fuel costs have made the process of generating electricity more expensive. For example, the cost of fuel rose rapidly from 1999 to 2008 (coal and natural gas increased by 200% and 300%, respectively).

Finally, PPL purchased its electricity for 2010 at a time when energy costs were higher than they are today. Current projections indicate that the average cost increase for territories like Pennsylvania Electric, where rate caps expire in December 2010, will be significantly less than expected.

SHOPPING GUIDE

When can I shop?

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

How do I shop?

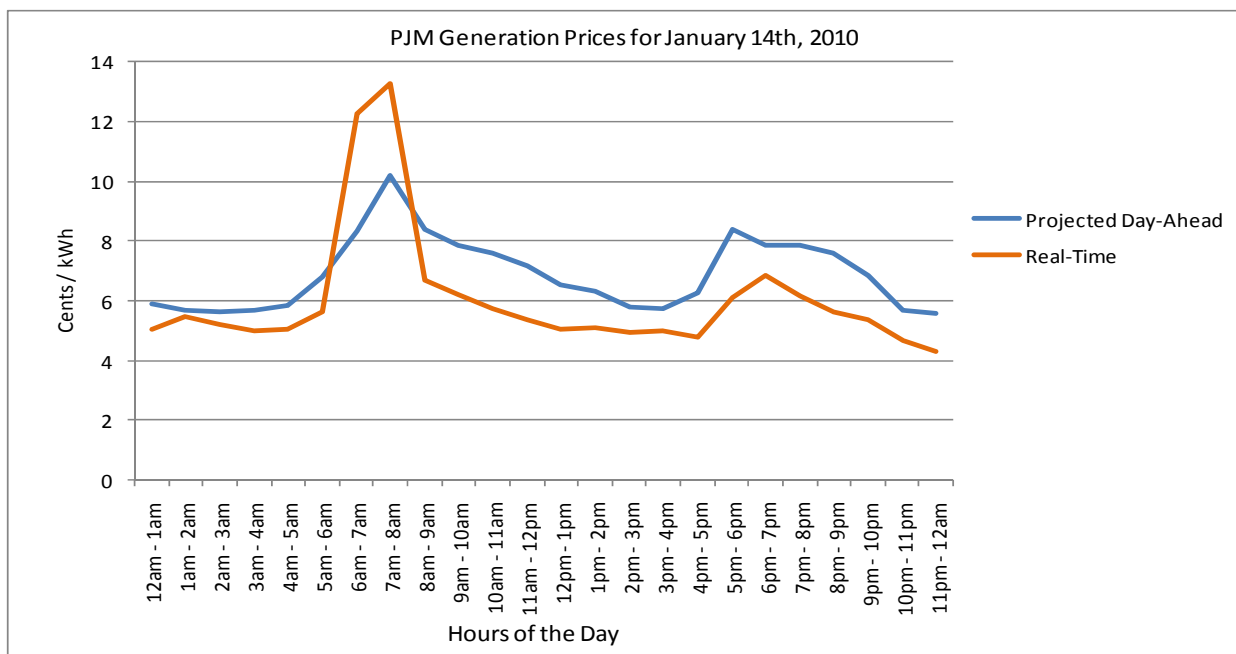
1. Find the rate you will pay in 2010 with your default generator. PPL's prices by rate schedule are available at the end of the guide. This will be your rate to compare as you shop. Rates for areas where the rate caps expire on December 31, 2010 will be available in the fall of 2010.
2. Gather utility bills to determine your company's energy usage. The Manufacturer & Business Association has an energy savings worksheet to help you estimate your 2010 bill. The worksheet can be found at <http://www.mbausa.org/eea-worksheet/>.
3. Determine how much risk you are willing to take. For example, do you want a long-term or short-term contract? A fixed rate or a variable rate?
4. Contact alternative suppliers and use your price to compare to negotiate an acceptable rate for your business. A current list of PPL area providers is listed at the end of this guide. A list of generators for other territories is available at <http://www.puc.state.pa.us/utilitychoice/listofsupp.aspx?ut=ec>.
5. Also consider special discounts and energy pools set up by regional business organizations.
6. Once you've decided on an energy generator, they will walk you through the switching process.

The price to compare for large commercial or industrial customers will vary monthly depending on electricity use, which can be found on the summary page of your electric bill.

What is the price to compare?

The price to compare when shopping is the cost for **electricity generation plus transmission**; this price is per kilowatt-hour (kwh) and is offered by electric generators. PPL's commercial generation schedule for 2010 is in the appendix. Currently, PPL offers a **fixed rate** to businesses. Beginning in March, small businesses can utilize PPL's **time-of-use rate**. Alternative suppliers may offer different pricing options better suited for your businesses needs. Fixed, variable, and time-of-day rates are the most common, but combinations of these are available.

- **Fixed rate:** The price of electricity will remain the same throughout the contract.
- **Variable rate:** The price of electricity will vary monthly depending on the market.
- **Time-of-use 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. PJM manages the electricity market in Pennsylvania; estimating the market price a day in advance (known as the day-ahead price) and publishes real-time prices. The graph below shows the market prices vs. the projected day-ahead price for electricity generation on January 14th, 2010.
- **Combinations** of different pricing options are available based on your business's risk tolerance and ability to adjust energy usage according to market prices.



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

What are my options?

Businesses have three options: they may switch directly to a new generator, use a professional aggregator, or join a program provided by a membership organization. You can find a list of generators in your region by going to the PUC Electricity Choice Web site www.puc.state.pa.us/electricitychoice/listofsupp.aspx?ut=ec.

- **Alternative generators** generate the electricity your business will use. The commercial suppliers available depend on what electric distribution company territory you live in.
- **Energy consultants** can be aggregators, which purchase electricity and then sell it to businesses or brokers, seeking out the best deal for you. Consultants often provide more individualized service, including energy audits that can reduce current consumption through increasing efficiency and/or altering usage patterns, but it is important to understand the terms of the contract and fees before entering into such a contract.
- **Member organizations** provide a variety of options. Pools are non-profit entities that bring businesses together to create more purchasing power in order to secure cheaper rates for their members.
 - Members of the Manufacturers & Business Association can enroll in **Employer's Energy Alliance of Pennsylvania**, which utilizes a unique approach by purchasing electricity directly from the grid. Contact your regional representative at 814-833-2200.
 - Pennsylvania County Chamber of Commerce members can join a pool through Chamber Choice. Contact your regional organization for more information.

Is my business considered a small or large commercial or industrial customer?

This depends on your rate schedule located on your electric bill. For instance, PPL categorized small businesses as any GS-1 that used 25 kilowatt-hour or less during high peak times (typically the middle of the work day). If you are unsure which category you fall under, contact your distributor. This is not essential information for switching generators, but it may be helpful in contract negotiations.

Can I get renewable energy?

Some suppliers offer renewable energy plans. 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. You can find alternative energy suppliers on the PUC Electricity Choice website.

What questions should I ask before switching?

Before switching, carefully review the contract and consider:

- The length of the agreement;
- The generation price or price to compare;
- Additional metering costs;
- Usage limits;
- Details of your billing process-will you receive one bill or two; and will you see information about your individual companies' usage;
- Cancellation fees;
- Minimum time commitments; and
- Early cancellation fees.

What should I do when I am ready to switch?

When you are ready to switch, have previous utility bills available. The new supplier will need to know your company's energy needs as well as your account number (s). Most suppliers allow you to begin the process online or by phone. If you would like to streamline this process,

you can allow your distribution company to share this information with competitive generators. Contact your distributor for details.

What happens if I don't shop?

If you decide **not** to shop, you will pay the distributor's fixed rate under your rate schedule. Large industrial consumers lock in to a fixed rate or pay PJM's hourly prices, which tend to be more volatile and difficult to predict. Large commercial and industrial customers may an hourly market pricing option.

What happens if I shop and my provider goes out of business?

You can return to your distributor as the Provider-Of-Last-Resort (POLR) service at any time with no penalty.

What happens if I shop but than decide to return to my distributor?

If your business decides to return to your distributor, you will pay no penalty (unless your alternative supplier has cancellation fees) and will pay their fixed rate. Large business and industrial customers however may have an option to pay an hourly market price.

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

Your distributor will remain the same if you choose a different generator. The distribution company (PPL, PECO, Met-Ed, etc.) will still be responsible for regular maintenance of your meter and power lines. If you have a question related to the generation of your electricity you can call your new generator.

ADDITIONAL QUESTIONS FOR BUSINESSES

Will my taxes go up?

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

What happens if I move my business?

If you shop and then move into a different distributor territory, you may need to shop for a new generator. Contact the distribution company in your new location to see if you can keep your current generator. Depending on the generator, you may have to pay an early cancellation fee for leaving before your contract expires.

What happens if I collect EDI/IDI credits?

Economic Development Initiative and Industrial Development Initiative credits were awarded to individual businesses in the 1980s through 1990s. These credits adjusted businesses price to compare. On January 1, 2010 all credits expired. For 2010, the estimated price will be the same for all customers.

What happens to the transition charge?

A transition charge is applied to every customer accessing the transmission network and was designed end once an electric utility's rate caps expired. However, PPL undercharged small businesses and will continue the transition charge until the end of 2010, regardless of the generator.

GLOSSARY

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

Generator— 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 customers put off electricity-intensive activities for low-demand hours when power usage is not high or at the “peak.” *Time-of-use rates stem from this concept.*

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

PPL'S 2010 Commercial and Industrial Price to Compare

Rate	Price Cents per KWH	Rate	Price Cents per KWH
RS	10.448	SM (per lamp)(9500 Lumen)	\$7.972
RTS	9.098	TS	10.402
RTD	10.448	SI 1	7.596
RWO	10.448	SI 1 (per lamp)(600 Watt)	10.402
RW1	10.448	TS (cents per watt)	\$2.161
BL	10.402	GS3	10.402
GS1 G1D	10.402	G3V	10.448
G1V	10.448	G3C	10.402
G1C	10.402	IS1	10.402
GH1, H1P, H1Q	10.402	LP4	9.448
GH2 H2R	10.402	L4C	9.448
SA	10.402	ISP	9.448
SA (per lamp)	\$6.821	LP5	8.993
SE (cents per kwh)	10.402	L5S	8.993
SHS	10.402	LP6	8.993
SHS (per lamp)(9500 Lumen)	\$4.439	IST	8.993
SM	10.402		

Source: PPL Electric website http://www.pplelectric.com/NR/rdonlyres/AE591167-D035-42F7-B31B-A05348F14C04/0/2010PricetoCompare_12172009.pdf

Licensed Alternative Suppliers for PPL Territory

Whole-Sale Aggregator

Employers' Energy Alliance of Pennsylvania	814.833.3200	www.mbausa.org
--	--------------	----------------

Alternative Suppliers

Allegheny Energy Supply Company LLC	888.321.2553	www.alleghenyenergysupply.com
Constellation NewEnergy Inc.	410.470.1927	www.newenergy.com
FirstEnergy Solutions	800.977.0500	www.fes.com
Pepco Energy Services	800.363.7499	www.pepcoenergy.com
PPL EnergyPlus, LLC	877.375.8726	www.pplenergyplus.com
Direct Energy	888.925.9114	www.directenergy.com
GDF SUEZ Energy Resources NA Inc.	866.999.8374	www.gdfsuezenergyresources.com
UGI Energy Services, Inc.	800.427.8545	www.ugienergyservices.com
Hess Corporation	800.437.7872	www.hess.com/index2.aspx
Sempra Energy Solutions LLC	877.273.6772	www.rbssempra.com/solutions
Anthracite Power and Light	570.622.3000	www.anthracitepower.com
ConEdison Solutions	800.316.8011	www.conedsolutions.com
Exelon Energy Company	610.765.6625	www.exelonenergy.com
Liberty Power Holdings	866.769.3799	www.libertypowercorp.com
Dominion Retail Inc. d/b/a Dominion Energy Solutions	888.216.3721	www.dom.com/products/index.jsp
Champion Energy Services LLC	877.653.5090	www.championenergyservices.com
Gexa Energy Pennsylvania LLC	866.961.9399	www.gexaenergy.com
BlueStar Energy Services	866.258.3782	www.bluestarenergy.com
Glacial Energy of Pennsylvania Inc.	401.474.4776	www.glacialenergy.com
MXenergy - Small Businesses	800.785.4373	www.mxenergy.com

Energy Consultants

UtiliTech Inc.	610.777.3200	www.utilitech.com
Commercial Utility Consultants Inc.	800.296.2821	www.commercialutility.com
Chrislynn Energy Services Inc.	412.431.1553	www.chrislynnenergy.com
Affiliated Power Purchasers, Inc. (APPI)	800.520.6685	www.appienergy.com
OnDemand Energy Solutions	412.299.8900	www.ondemandenergy.com
Richards' Energy Group	717.898.6330	www.richardsenergy.com
Select Energy, Inc.	888.810.5678	www.select-energy.com
Usource, L.L.C.	888.686.4845	www.usourceonline.com
Taylor Consulting and Contracting LLC	877.237.9936	www.utilitymodule.com

Non-Profit Cooperative

Energy Cooperative of New York	800.422.1475 ext. 211	www.ecny.org/pa
--------------------------------	-----------------------	-----------------

Source: PUC Utility Choice website <http://www.puc.state.pa.us/utilitychoice/listofsupp.aspx?ut=ec&ShowSupp=9>

ABOUT THE AUTHORS AND THE COMMONWEALTH FOUNDATION

Elizabeth Bryan is a Research Associate and Katrina Currie is a Research Fellow with the Commonwealth Foundation.

The Commonwealth Foundation is an independent, non-profit research and educational institute that develops and advances public policies based on the nation's founding principles of limited constitutional government, economic freedom, and personal responsibility for one's actions. More information is available at www.CommonwealthFoundation.org

GUARANTEE OF QUALITY SCHOLARSHIP

The Board of Directors and Staff of the Commonwealth Foundation is dedicated to providing the highest quality and most dependable research on public policy issues in the Keystone State. To this end, the Commonwealth Foundation guarantees that all statements of fact presented in our publications are verifiable, and information attributed to other sources is accurately represented.

Committed to providing Pennsylvanians with reliable information, the Commonwealth Foundation welcomes critical review of its work. If the accuracy of our research is questioned and brought to the Foundation's attention with supporting evidence in writing, the Foundation will respond. If an error exists, the Commonwealth Foundation will issue an errata sheet that will accompany all subsequent distributions of the publication, which constitutes the complete and final remedy under this guarantee.

For additional information or questions on this policy email info@commonwealthfoundation.org