

April 30, 2008

Hon. Edward G. Rendell
Office of the Governor
Room 225 Capitol
Harrisburg, PA 17120

Re: Electric Rate Increases

Dear Governor Rendell:

I am writing in further response to your letter of April 4, 2008, in which you asked me to estimate the rate increases that Pennsylvania electric consumers can expect to experience when the remaining generation rate caps on our electric utilities expire at the end of 2009 and 2010. As you know, five major electric utilities, serving the great majority of Pennsylvania electric consumers, are still subject to rate caps. Of those five companies, the rate cap of PPL expires on December 31, 2009, while the rate caps of the remaining four companies - PECO, Met Ed, Penelec, and Allegheny (West Penn) expire on December 31, 2010.

As I stated in my initial response to you on April 8, 2008, it is not possible to determine with certainty what electric market prices will be when rate caps come off. That is because the retail prices that Pennsylvania customers will pay will be largely determined by the unregulated prices that our electric utilities will be paying for power in the PJM wholesale markets. All five of the companies that are still subject to rate caps are served through the PJM markets.

We do, however, have some indication of the magnitude of our anticipated rate increases, based on the results of wholesale power auctions that already have been conducted by PPL to provide service to customers in the year 2010. The retail price of power for residential customers resulting from the most recent PPL auction held in March 2008 for service in 2010 was \$108.80 per megawatt hour, or 10.88 cents per kilowatt hour. The average retail price for the three PPL auctions held to date for generation service in 2010 has been 10.52 cents per kilowatt hour. To put these numbers in perspective, a typical PPL residential customer using 1000 kilowatt hours per month is currently paying generation charges (including stranded cost recovery) of about \$62.57 per month. If the PPL generation rate increases to 10.52 cents per kilowatt hour, that customer will be paying generation charges of \$105.22, or about \$42.65 more each month, and over \$500 each year.

None of the other four utilities whose rate caps are expiring have acquired any power for the post-rate cap period, but based on recent results in the PJM markets, we would expect that the wholesale prices for PPL's neighboring utilities in Eastern Pennsylvania - PECO and Met Ed - would be comparable to those in PPL's most recent auction, while the results for the PJM utilities in Western Pennsylvania - Penelec and Allegheny (West Penn) - would be somewhat less. We project that the latter two companies' generation prices would be about 9% less than PPL's price, or slightly below 10 cents per kilowatt hour.

It is also important to note that the starting point, that is, the current rates, for each of these companies is quite different. PECO, for example, already has very high generation rates, while Allegheny (West Penn) has very low rates. So the absolute and percentage rate increases that the customers of these companies can expect to experience will be quite different as well.

Based on the assumptions set forth above, we have estimated the following approximate percentage increases in the overall rates of residential customers, comparing rates that are in effect today and rates that would be expected to be in effect for each company after the rate caps have expired:

PPL - 37%

Met Ed -54%

PECO - 8%

Penelec - 50%

Allegheny (West Penn) - 63%

I would note that in the case of Allegheny (West Penn), the projected rate increase will not occur all at once, since the current generation rate cap is already set to increase by a total of about 1.2 cents per kilowatt hour in 2009 and 2010. Even then, however, the projected increase for residential customers at the end of 2010 under these assumptions would be about 41%.

In terms of the total dollar impact on residential customers of the increases for these five companies, we estimate that the increases would amount to approximately \$1.55 billion per year, as compared to current rates. While I have not attempted to prepare a similar analysis for commercial and industrial customers, I would note that residential sales comprise about one third of total sales for Pennsylvania electric utilities, so I would expect that the total rate impact on the residential, commercial and industrial consumers of these five utilities will be substantially higher than the \$1.55 billion estimated increase for residential customers alone. I would also note in this regard that the average of the first three PPL auction results for commercial customers have been slightly

higher than the results for residential customers, and that, based on those results PPL itself has projected a range of average rate increases for commercial customers of between 23.8% and 42.8%.

Needless to say, while the actual rate increases that we experience may be higher or lower than these estimates, increases of this order of magnitude will have a dramatic impact on millions of households and businesses across Pennsylvania. I believe there are steps we can take, however, with respect to procuring the lowest cost generation resources and developing new resources to serve customers, as well as assisting Pennsylvania consumers to conserve energy and use electricity more efficiently, that can help ameliorate some of these future potential impacts. I also believe that it is critical to act now, however, rather than to follow the path of several of our surrounding states, who have responded to similar rate crises through legislative actions only after rate caps had expired and consumer outrage was intense.

Thank you for your letter requesting this information. I hope this response is helpful, and I look forward to continuing to work with you and all members of the General Assembly as Pennsylvania confronts this extraordinary challenge.

Sincerely,
Sonny Popowsky, Consumer Advocate

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