

The Top 10 Things You Need to Know about *Electric Choice*



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YOU MAY HAVE been hearing a lot about “Electric Choice” in recent months. That’s because Pennsylvania is about to enter a fully competitive market for electric generation. Under Electric Choice, generation rates will be based on market prices — and consumers will have the right to choose their generation supplier.

To prepare for Electric Choice, generation rates for investor-owned utilities (IOUs) have been capped for the past decade. Those caps have been coming off in recent years, allowing for alternative generation suppliers to enter the market to sell generation. Rate caps for the remaining investor-owned utilities, including Allegheny Power, Met-Ed and Penelec, will be lifted at the end of 2010.

As an electric cooperative consumer-member, you may be wondering how all of this impacts you. The following is a guide to help you navigate the new Electric Choice landscape.

1. *What is Electric Choice?*

Electric Choice, Retail Choice, Retail Competition, Deregulation — call it what you like — it all means the same thing. Electric Choice allows customers the ability to choose the company that generates their electricity.

2. *Why do we have Electric Choice?*

It goes back to 1996, when the Pennsylvania General Assembly enacted the Electricity Generation Customer Choice and Competi-

tion Act, which gave consumers the right to choose their generation provider. The legislative goal behind the act was to lower electric prices for consumers. Similar legislation was going into effect around the country to help control the cost of electricity.

3. *What happened under restructuring or deregulation?*

To get Electric Choice to work, the state had to first restructure — or deregulate — the electric utility industry. This was accomplished by separating the various components of the utility business model — namely, the distribution and generation components.

Think of distribution as what your local electric cooperative does — they maintain the poles, handle the billing and get power into your home. Generation refers to the power plants that produce the electricity you use.

Because it wouldn’t have been practical to encourage competition on the distribution side (think of a bunch of companies putting up different sets of utility poles up and down your street to compete for your business), the state made the generation component competitive. As a result, traditional power companies no longer could generate and distribute electricity. They sold off their generation assets, thereby making generation a commodity that could be bought and sold on the open market. With this new structure in place, the stage was set for competition.

4. *What exactly are we choosing with Electric Choice?*

The “choice” refers to the generation portion of your electric bill. Consumers now have the right to choose the company that generates their electricity — the electric generation supplier or EGS.

The distribution of electricity remains the same, meaning your distribution company would remain the same. The quality, reliability and maintenance of your electric service would still be the responsibility of your electric distribution company or, in your case, your local electric cooperative.

5. *If it started in 1996, why are we hearing about it now?*

While the legislation was passed in 1996, Electric Choice actually first took effect in 2000-01. In the beginning, a large number of electric generation suppliers moved in to market electric generation to consumers, and it appeared to be working. Unfortunately, the market price for electricity shot up dramatically, and soon all the EGSs disappeared.

To keep Electric Choice alive, the Legislature decided to step in and cap rates at 1996 prices. This made for a more stable market, but also resulted in virtually no competition over the past 10 years.

The rate caps have been coming off over the past few years, with the last of them set to expire at the end of 2010.

As the rate caps have come off, several EGSs have been marketing extensively in Pennsylvania, which is the main reason consumers are hearing about Electric Choice again.

6. *What has been the impact of the rate caps coming off?*

As rate caps started coming off almost three years ago, customers started having to pay market prices for electricity. After 10 years of rate caps, the market rates have been higher — dramatically so in some cases.

In Pike County, Pennsylvania, rates went up 73 percent. In central and northeastern Pennsylvania, PPL’s service territory, rates went up over 30 percent at the beginning of 2010.

Rate increases are also expected in the Allegheny Power, Met-Ed and Penelec areas as those caps come off at the end of 2010.

7. *What has happened to the EGSs?*

With the increases in rates, some EGSs have returned to many investor-owned utility areas.

Though not in the great numbers they once were when Electric Choice began, several EGSs are actively marketing generation in Pennsylvania, and more are expected to enter the market as the remaining caps come off.

8. *Why should anyone switch?*

The most obvious reason anyone should switch is price. If you could



lower your electric bill, then that’s all the reason you would need to switch.

Electric Choice, in some instances, has also delivered the possibility of choosing the type of electricity you purchase. For example, you may have the opportunity to receive generation from an EGS that markets only renewable energy. While that may be more expensive, consumers in those areas may be willing to pay a premium for that type of generation.

Another reason consumers might switch has to do with special incentives. EGSs today are coming out

with all kinds of marketing campaigns to lure customers. For example, you may be offered points in a travel rewards program, or a gift card for a retail shop for switching your generation supplier.

9. *What will be the impact on my cooperative when rate caps come off?*

Cooperative rates have never been subject to rate caps, so there will be virtually no impact once all the rate caps come off. Further, unlike the investor-owned utilities that sold off their generation assets, Pennsylvania’s cooperatives held onto their power resources and are not totally dependent on the market for generation. In fact, close to 70 percent of your power comes from self-owned and long-term generation resources. As a result, your cooperative generation rate is likely the lowest you’ll find anywhere, which is quite remarkable in this new competitive environment.

10. *Can I switch as a cooperative consumer?*

Everyone has the right to choose an alternative electric generation supplier under Electric Choice. But “choice” goes both ways: You have the right to choose, but an EGS may choose to not serve your area. Electric Choice, as it’s been made clear by the Pennsylvania Public Utility Commission and other entities, is not available in all areas.

Predictably, most of these companies make money based on volume sales. As our cooperative history has shown, private power companies have not found our sparsely populated rural areas profitable. It’s the very reason cooperatives were formed in the first place.

So while you may have the right to choose, you might not have generation options to choose from. But the good news is that if an EGS would want to serve a cooperative area, it would have to beat the lowest generation rate around. 🌱

For further information on Electric Choice, please visit the following sites.

PA Power Switch:
www.papowerswitch.com

Utility Choice:
www.puc.state.pa.us/utilitychoice

Office of Consumer Advocate:
www.oca.state.pa.us