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Pennsylvania's Record

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Pennsylvania's Record

by John Hanger(*)

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I. Competitive Market

A. 8,320 megawatts of load have switched to competitive suppliers:

1. 535,000 customers have switched
2. 429,000 residential customers have switched
3. 101,153 commercial customers have switched
4. 4,622 industrial customers have switched
5. 25.5% of Duquesne's residential customers have switched
6. 15.3% of PECO's residential customers have switched
7. Over 16 competitive suppliers offering service to residential customers in PECO Energy territory.

II. For most residential customers, without stranded costs, competitive rates are from 2.0 cents to 4.0 cents below historic monopoly rates.

A. Key Terms

1. Bundled Rate
2. Unbundling
3. Unbundled Rate
4. Generation Rate
5. Transmission Rate
6. Distribution Rate
7. Stranded Cost Charge
8. Shopping Credit
9. Default Rate / Standard Offer
10. Universal Service
11. RTOs/ISOs

III. 2000 Residential Shopping Credits

A. Company Rate (cents/kwh)

1. APS 3.24
2. Duquesne 4.75
3. Met-Ed 4.53
4. PECO 5.65
5. Penelec 4.53
6. PPL 4.63

B. Calculating the Shopping Credit

1. Pennsylvania Shopping Credit = unbundled generation rate minus stranded cost charge

C. Techniques for reducing the per-kilowatt-hour stranded cost charge:

1. Reduce total stranded costs
2. Reduce return on approved stranded cost charges
3. Tie recovery of stranded cost charges to remaining life of stranded asset.

IV. Retail Competition Lessons

A. The most important decision is to decide what is the goal of the transition:

1. Genuine retail competition that features 4 or 5 companies competing for all customer classes;
2. Wholesale competition with a retail dominant company subject to price regulation;
3. Wholesale competition with a retail dominant company not subject to price competition.

B. The Free Market Model would trigger massive shopping, large numbers of new entrants competing for all customer classes, and great competitive pressure on incumbents to defend market share by cutting their prices. This is basically what is taking place in Germany.

C. The Pennsylvania Model allows recovery of 100% of authorized stranded costs, creates conditions that make new entry possible, can provide competitive choices for all customer classes, and breaks retail market dominance of incumbents.

D. The Wholesale Market Model allows recovery of 100% of stranded costs on a fast schedule, limits new entry, creates few or no choices especially for smaller customers, and entrenches retail market dominance of new entrant.

[*] Mr. Hanger is President and CEO of Citizens for Pennsylvania's Future, a public policy research and advocacy organization devoted to improving Pennsylvania's environment and economy. Mr. Hanger was nominated by Governor Robert Casey and served as Pennsylvania Public Utility Commissioner from 1993 until 1998. As a Commissioner, Mr. Hanger was a leading proponent for ending monopolies and beginning competition in the electricity, gas, and telephone industries. He also consistently advocated for policies that assist low-income families and that would benefit the environment, such as the expansion of net metering and renewable energy in the electric industry. Mr. Hanger has 14 years experience in public utility law and regulation. He has testified to the Congress of the United States concerning electric competition and proposed legislation to the Pennsylvania and New Jersey legislatures, authored articles and studies, lectured widely to diverse audiences, and written leading regulatory decisions. Mr. Hanger is a member of the Harvard University Electric Policy Group. He served on the Electricity Committee, the Consumer Affairs Committee, and the Committee on Energy Resources and the Environment of the National Association of Regulatory Utility Commissioners (NARUC). Prior to becoming Commissioner, Mr. Hanger served as legal counsel Pennsylvania Public Utility Commissioner Joseph Rhodes from 1988 to 1993. From 1984 to 1998, he worked at Community Legal Services, Inc. of Philadelphia, serving as Public Advocate representing 500,000 municipal customers of the City of Philadelphia's municipal gas, water, and sewer utilities. Mr. Hanger is a 1979 graduate of Duke University and a 1984 graduate of the University of Pennsylvania School of Law.

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