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Competitive Market

5,370.40 megawatts of load have switched to competitive suppliers:

787,846 customers have switched

708,071 residential customers have switched

77,421 commercial customers have switched

2,354 industrial customers have switched

33.40% of Duquesne's residential customers have switched

34.10% of PECO's residential customers have switched

8,000 megawatts of new generation will be added in PJM market by 2002.

For most residential customers, without stranded costs, competitive rates are from 0.50 cents to 3.65 cents below historic monopoly rates.



Number of Customers Served By An Alternative Supplier as of April 1, 2001

	Residential	Commercial	Industrial	Total
Allegheny Power	2,152	1,343	9	3,504
Duquesne Light	175,160	7,964	271	183,395
GPU Energy	35,973	10,478	666	47,117
PECO Energy	467,424	41,045	1,052	509,521
Penn Power	8,377	1,192	44	9,613
PPL	17,278	15,327	312	32,917
UGI	1,707	72	0	1,779
Total	708,071	77,421	2,354	787,846

Pennsylvania Office of Consumer Advocate
04/03/01



Percentage of Customers Served By An Alternative Supplier as of April 1, 2001

	Residential	Commercial	Industrial	Total
Allegheny Power	0.40	1.60	8.70	0.50
Duquesne Light	33.40	13.90	17.30	31.40
GPU Energy	3.90	8.30	13.30	4.50
PECO Energy	34.10	27.50	32.80	33.50
Penn Power	6.30	6.70	19.60	6.30
PPL	1.60	10.30	5.80	2.60
UGI	3.10	1.00	--	2.90

Numbers courtesy of the Pennsylvania Office of Consumer Advocate



Utilities

- Utilities' bond ratings were not affected by transition.
- Utilities were allowed an opportunity to recover 100% of approved, not claimed, stranded costs.
- GPU and Duquesne have divested about 5000 megawatts of generation.
- No utility was required to divest generation.
- All utilities are free to use any financial instrument to buy or sell power, including forward contracts.
- Nearly all charges for stranded costs and other transition costs expire from 2002 to 2010.
- PECO Energy merger completed; GPU merger pending.



Consumers

- Consumer savings totaled \$2.84 billion by 2000 from rate cuts and shopping savings.
- Most consumers received from a 2% to 8% one-year rate cut.
- PECO customers receive rate cuts from 1999 to 2005.
- Total rates are capped at January 1, 1997 levels until at least 2005 in many cases.
- Generation rates are capped at set levels until 2010 in most service territories.
- Duquesne customers will receive approximately a 21% rate cut in early 2002 when stranded cost charges expire.



Environment & Universal Service

- Budgets for low-income assistance programs have nearly quadrupled from pre-competition levels.
- Budgets for energy conservation targeted at low-income families have quadrupled.
- Renewable energy and cleaner energy products are available. 80,000 customers have switched to such products.
- Pennsylvania has had its first and second wind farms developed and should have 100mW of wind generation operating by 2002.
- Four Sustainable Development Funds have been formed with \$75 million of funding to support clean energy initiatives.
- Dominating the new generation market is gas-fired generation. It is nearly twice as fuel efficient and 99% cleaner on NOx and SOx emissions than many old coal-burning plants.



Pennsylvania Wind Energy Development

Existing	Operator	Online	Capacity	Power Purchaser/User
Hazleton Luzerne County	Energy Unlimited	December 1999	0.13 mw, 2 turbines	Community Energy, Inc.
Garrett Somerset County	National Wind Power	May 2000	10.40 mw, 8 turbines	Green Mountain Energy





New Wind Projects in Pennsylvania

Project	Location	Status	Capacity	Online Date
Mill Run Wind Project	Fayette County	Construction August 2000	15.0 mw	Late 2001
Somerset Wind Farm	Somerset County	Planned	9.0 mw	December 2001
Waymart Wind Farm	Wayne County	Proposed	52.0 mw	Late 2001/ Early 2002



New Wind Projects in Pennsylvania

Project Developer	Location	Status	Capacity	Online Date
Global Winds Harvest, Inc.	Bear Creek & Jefferson Townships	Proposed	18.2 mw	2002
Atlantic Renewable Energy Corp./Zilkha Renewable	Meyersdale	Proposed	30.0 mw	TBD
Keystone Wind	Somerset County	Proposed	25.0 mw	TBD
Energy Unlimited	Mountaintop	Proposed	16.9 mw	TBD



Comparison of Residential Unbundled Embedded Generation to Retail Power Prices (in cents/kWh)

	2000 Shopping Credit	Lowest Retail Price	100% Green Power Prices	Embedded Gen. & Trans.
Duquesne	4.80	4.60	6.49	8.75
GPU Met-Ed	4.53	4.60	7.09	5.70
GPU Penelec	4.53	4.50	7.09	5.40
PECO	5.65	4.65	6.37	8.65
PPL	4.61	4.30	7.09	6.26
Allegheny	3.24	4.90	6.49	5.30

Note: 2001 shopping credits will be moderately higher in some cases.



Forward Prices, PJM, 4/24/01

Month	\$/mWh
MAY	51.25
JUN	75.00
JUL	117.00
AUG	117.00
SEP	46.50
OCT	42.85
NOV	42.85
DEC	42.85
JAN	48.00
FEB	48.00
MAR	40.50
APR	40.50

http://www.energysource.com/Home_News/Pricing/Current_Pricing/

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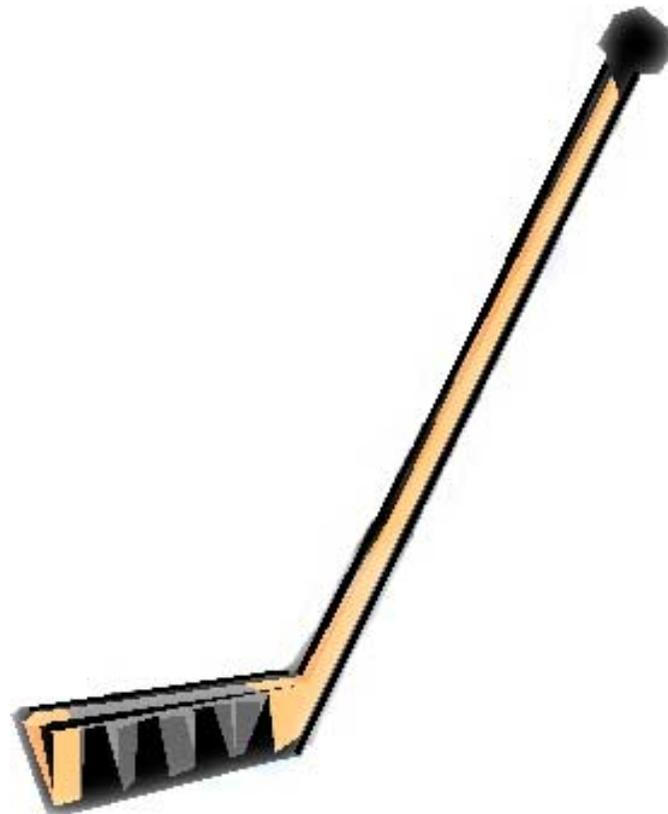
Forward Prices, into Cinergy, 3/20/01

On Peak Power

<u>Month - Cinergy</u>	<u>\$ /mWh</u>
APR	41.25
MAY	49.50
JUN	76.50
JUL	121.50
AUG	121.00
SEP	45.25
OCT	43.00
NOV	43.00
DEC	43.00
JAN	47.50
FEB	47.50
MAR	39.25



The Hockey Stick





Demand-Side Response

- Electric restructuring in Pennsylvania, California, or any other state will not be complete until consumers are able to modify their electricity usage in response to prices.
- These days, the case for fostering demand-side response has never been stronger.
- As the next crucial stage in its electric restructuring, Pennsylvania must now lead the way to increasing opportunities for demand-side response.
- How does it work?
 - Remote appliance controls
 - Time-of-use meters
 - Internet-based energy management platforms
- Until consumers can respond to prices, risks of blackouts, prices, and pollution levels will be higher than they should or need be.



Retail Competition Lessons

1. The most important decision is to decide what is the goal of the transition:
 - a. Genuine retail competition that features 4 or 5 companies competing for all customer classes;
 - b. Wholesale competition with a retail dominant company subject to price regulation;
 - c. Wholesale competition with a retail dominant company not subject to price competition.



Retail Competition Lessons

2. Electric restructuring will not work anywhere unless consumers are able to modify demand in response to real-time prices.
 - How it works:
 - Remote appliance controls
 - Time-of-use meters
 - Internet-based energy management platforms
 - 1% reduction in peak demand can produce about 10% reduction in peak price.
 - Helps solve 100-hour peak demand problems and break the hockey stick.



Retail Competition Lessons

3. Wholesale competition is vital to robust retail competition:
 - a. FERC and Congress have failed so far to meet their constitutional duty of ensuring the interstate commerce of electricity;
 - b. Wholesale markets are balkanized and often not transparent;
 - c. FERC must mandate membership in appropriately-sized, independent regional transmission organizations;
 - d. Failure of FERC and Congress to ensure unimpeded interstate movement of electricity is creating both increased costs, market power abuses, and avoidable risks to reliability.



Retail Competition Lessons

4. Retail competition is vital to healthy competitive wholesale markets.
 - a. Retail market establishes demand
 - b. Demand response can powerfully limit wholesale prices
 - c. Retail market can offer consumers products that increase or decrease exposure to wholesale price



Retail Competition Lessons

5. Successful transition to electric competition requires:
 - a. Genuinely competitive wholesale markets
 - b. Genuinely competitive retail markets



Retail Competition Lessons

6. Transitions to retail competition can be designed to entrench retail market dominance of incumbent utilities. Most, but not all, transitioning states have adopted incumbent entrenching plans.

Transition plans that entrench retail market dominance have several common characteristics:

- a. Setting the amount that customers no longer pay the incumbent if they switch well below what they pay the incumbent for unbundled generation.
- b. The amount not paid to the incumbent if customer switches is usually set at a wholesale market benchmark.
- c. Weak safeguards against cross subsidization and anti-competitive safeguards.
- d. Highly bureaucratic phase-in or customer switching rules.



Retail Competition Lessons

7. Transitions to retail competition can be designed to permit the development of genuine retail competition. Such plans contain several features:
 - a. Setting the amount that customers no longer pay the incumbent as close as possible to what customers pay the incumbent for unbundled generation — the incumbent's unbundled generation rate.
 - b. Divestiture of generation assets.
 - c. Strong safeguards against cross subsidization and anti-competitive practices.
 - d. Streamlined customer switching rules.



Retail Competition Lessons

8. Generally, stranded investment is being recovered, is being recovered much more quickly than the life of the asset that is stranded, and is being recovered in ways that entrench retail market dominance of incumbents.
 - a. Stranded investment recovery is a massive government interference in the free market that is seriously distorting the price signal sent by the total delivered rate of electricity.
 - b. This basic point needs repeating because too many in the electricity industry wish to ignore it for obvious reasons as they parade around under the banner of “Efficient Competition.”



Retail Competition Lessons

9. Sizing the shopping credit or the amount that a customer no longer pays the utility if the customer switches is the **KEY** regulatory decision in designing a transition plan.

Shopping credit is the portion of utility's unbundled generation rate that customers avoid if they switch to a new supplier.

Shopping credit is *not* a payment from anyone to anyone, a subsidy to anyone, or a penalty of non-shopping customers.



Retail Competition Lessons

10. Normal rule of a free market would be that whatever amount the customer was paying the utility for unbundled generation would be the amount the customer no longer pays if the customer switches.

No state has followed this normal rule of a free market, as all states are allowing some stranded cost recovery.

Every state has intervened in the free market to penalize the shopping customer by adding a stranded cost charge to competitive electric offers.

Not surprisingly, these stranded cost charges have deterred shopping, deterred market entry, and entrenched retail market dominance of incumbents.



Retail Competition Lessons

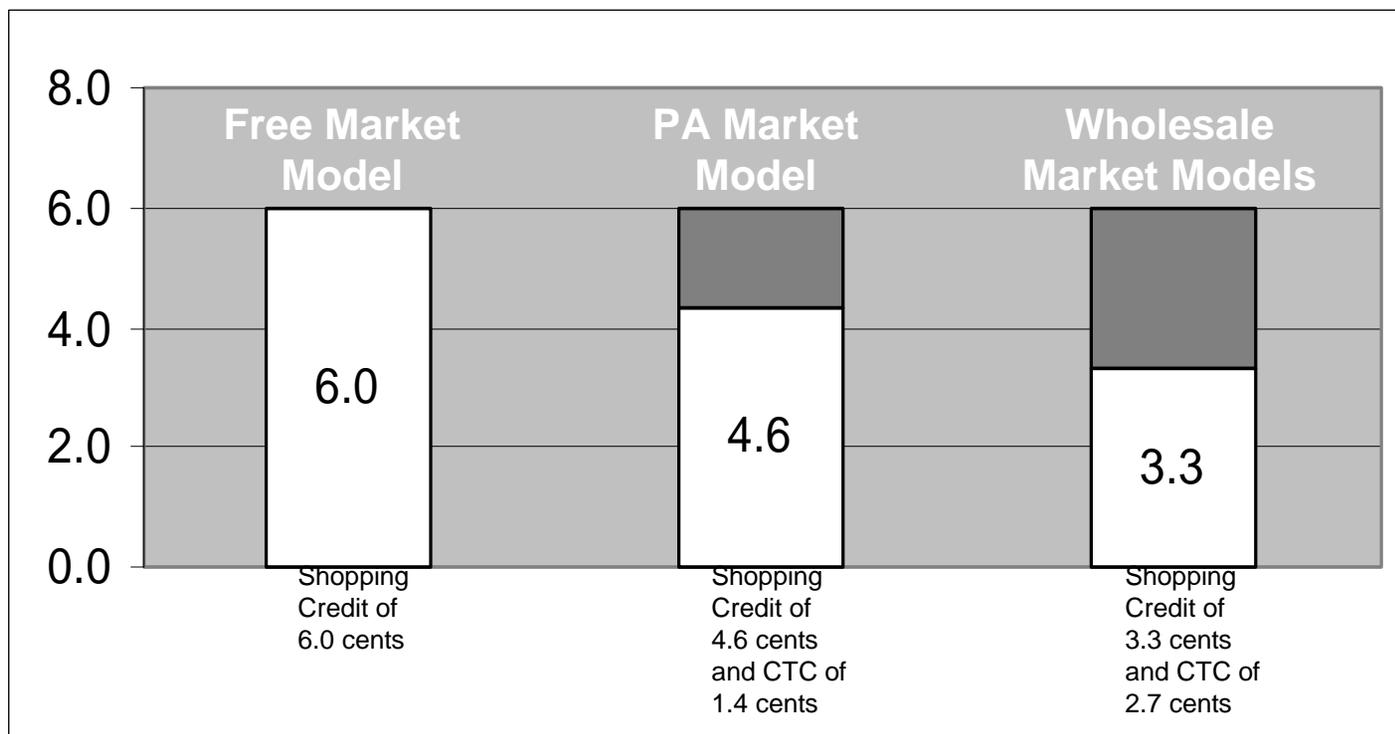
11. Three basic approaches to sizing shopping credit and treating stranded costs have been proposed.

To simplify, these models can be called: the Free Market Model, the Pennsylvania Transition Plan, and the Wholesale Market Plan.



Retail Competition Lessons

The following examples assume a residential customer paying an unbundled generation rate of 6.0 cents per kilowatt hour.





Retail Competition Lessons

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.

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.

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.



Retail Competition Lessons

Under all three approaches the non-shopping customer pays 6.0 cents per kilowatt hour unless the incumbent reduces its prices or the government orders a rate cut. Then the non-shopping customer receives the rate cut and that is all.



Retail Competition Lessons

12. Strong universal service policies are needed. Pennsylvania nearly quadrupled spending on low-income bill assistance programs and on low-income energy conservation programs.



Retail Competition Lessons

13. Environmental regulations and laws are not blocking the construction of new generation:
- a. The PJM market will add 8,000 megawatts by 2002;
 - b. The nation will add 90,000 megawatts by 2002;
 - c. Old plants exempted from original Clean Air Act should be required to meet same New Source Review emissions standards as new plants;
 - d. Closing the old plant loophole in the Clean Air Act is a matter of competitive fairness.



Retail Competition Lessons

14. Competition has benefits for the environment by:
- a. Spurring major new investment in cleaner, more efficient combined cycle natural gas plants;
 - b. Putting pressure on fuel costs that will put a premium on plants that use fuel efficiently;
 - c. Allowing customers to choose renewable energy products who have been denied this option — there is considerable interest in renewable energy products;
 - d. Spurring technological innovations and commercialization of new metering products and distributed generation such as fuel cells.



Retail Competition Lessons

15. Transition plans should include public policies that benefit the environment:
 - a. Establish funds to support renewable energy and energy efficiency;
 - b. Renewable energy portfolio standards;
 - c. Speed deployment of real-time meters and appliance-control technology.



Retail Competition Lessons

16. Competition should produce more savings for customers once stranded cost recovery ends.

High rate utilities have residential generation rates that are as much as 4 cents per kilowatt-hour above residential competitive prices.

Average rate utilities have residential generation rates that are about 2 cents per kilowatt-hour above competitive prices.



Retail Competition Lessons

17. Aggregation can be a powerful tool for small customers to leverage higher savings. Municipalities are well-placed to be aggregators for residential customers.
18. Retail market dominance of incumbents creates risks:
 - a. Competitive savings will not reach consumers when stranded cost recovery ends.
 - b. Rate regulation of incumbents will have to be continued to ensure wholesale price is passed through to consumers.
 - c. Only spot market price will be passed through.