

## *Electric Competition... it's working for Pennsylvania.*

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Pennsylvanians are rightfully focused on the end of rate caps and what that will mean for their electric bills.

In order to help customers manage the impact of these increases, RESA supports transitional measures, such as a rate increase phase-in or pre-payment plans.

To help customers make informed choices, it is imperative that such programs be implemented in a competitively neutral manner so that all customers can participate - regardless of whether they choose to take the utility's default service or whether they choose service from a competitive supplier.

### **What is a competitively neutral rate mitigation plan?**

Competitive neutrality means that the rate mitigation plan is fair and does not make the utility's default generation service rate appear artificially lower than actual cost of electricity. Information provided to customers on their electric bill by their utility must separately show customers the actual cost of generation service (the cost to produce electricity), distribution service (the cost of wires and poles needed to deliver electricity to homes or businesses), and any cost associated with the phase-in or pre-payment option (i.e. the rate mitigation plan).

*In order for a rate mitigation plan to be competitively neutral, a few things must occur in legislation or regulation authorizing rate mitigation:*

- The plan must be available to both shopping and non-shopping customers. Whether the plan is a phase-in or pre-payment plan, it should not be limited to just those customers who decide to stay on the utility's default generation service. Such a limitation would be anticompetitive and could rob customers participating in the plan of lower prices that may be available in competitive market.
- The customer's price to compare must show the actual cost of generation - even though that price will be phased-in. If a utility's rate mitigation program does not include price transparency, customers will not see the true price of electricity. This will inhibit competitive suppliers and will stifle competition during the rate phase-in period because the utility service will artificially look more attractive than competitive offers.

Competitive neutrality is a win-win for customers because they receive the benefit of the phase-in or pre-payment plan and can take advantage of potentially lower prices from a competitive supplier as Pennsylvania moves to competitive electric markets for all consumers.



## Rate Mitigation: *Examples*

- Generation rate as of December 2010 is \$0.07 per kWh (before rate cap expires).
- Distribution rate is \$0.03 per kWh (both before and after rate cap expiration).
- Customer uses 1000 kWh per month.

### December 2010 Bill from Electric Distribution Company

Generation Supplied by EDC (\$0.07/kWh x 1000 kWh)	\$ 70.00
Distribution (\$0.03/kWh x 1000 kWh)	\$ 30.00
<b>Total</b>	<b>\$100.00</b>

- January 2011 generation rate increases to \$0.10 per kWh (after rate cap expires).
- Customer elects to participate in rate increases phase-in plan.
- Customer considers a competitive offer of 10% off the default generation rate (\$0.09/kWh).

### Competively Neutral Example:

#### January 2011 Bill from Electric Distribution Company

Generation Supplied by EDC (\$0.10/kWh x 1000 kWh)	\$100.00
Distribution (\$0.03/kWh x 1000 kWh)	\$ 30.00
Rate Mitigation Credit (-\$0.015/kWh x 1000 kWh)	-\$ 15.00
<b>Total</b>	<b>\$115.00</b>

*\$15.00 of Generation charges deferred for future recovery.*

*NOTE:  
Price to compare is \$0.10/kWh and reflects the actual generation cost.*

#### January 2011 Bill from Electric Distribution Company with EGS Charges

Generation Supplied by Acme Energy (\$0.09/kWh x 1000 kWh)	\$ 90.00
Distribution (\$0.03/kWh x 1000 kWh)	\$ 30.00
Rate Mitigation Credit (-\$0.015/kWh x 1000 kWh)	-\$ 15.00
<b>Total</b>	<b>\$105.00</b>

*\$15.00 of Generation charges deferred for future recovery.*

*NOTE:  
Customer makes informed decision to shop based on accurate "apples to apples" comparison of generation cost.*

### Non-Competively Neutral Example:

#### January 2011 Bill from Electric Distribution Company

Generation Supplied by EDC (\$0.085/kWh x 1000 kWh)	\$ 85.00
Distribution (\$0.03/kWh x 1000 kWh)	\$ 30.00
<b>Total</b>	<b>\$115.00</b>

*\$15.00 of Generation charges deferred for future recovery.*

*NOTE:  
Price to compare is \$0.085 per kWh even though the actual generation cost is \$0.10/kWh.*

#### January 2011 Bill from Electric Distribution Company with EGS Charges

Generation Supplied by Acme Energy (\$0.09/kWh x 1000 kWh)	\$ 90.00
Distribution (\$0.03/kWh x 1000 kWh)	\$ 30.00
<b>Total</b>	<b>\$120.00</b>

*No amount is deferred because shopping customer is not allowed to participate in rate phase-in plan.*

*NOTE:  
Actual generation rate available from the competitive supplier (\$0.09 per kWh) is actually lower than the utility's default service rate (\$0.10 per kWh), but customer won't shop because they can't get the rate mitigation credit.*