

ELECTRIC GENERATION RATE CAP EXPIRATION AND THE IMPACT ON LOW INCOME CUSTOMERS

Introduction

Pennsylvania consumers may soon be experiencing electric rate shock; and low income utility customers will be among those hardest hit. The Commonwealth restructured its regulated electric distribution companies (“EDCs”) in 1996 with the passage and enactment of the Electricity Generation Customer Choice and Competition Act (“the Act”). 66 Pa.C.S. § 2801 et seq. Safeguards were built into the Act in the form of generation rate caps to allow the market to mature and to protect consumers if prices did not decrease as expected. Over the ensuing years, the cost of generating electricity has increased substantially due to a variety of factors, primary among which is the increase in the cost of fuel. However, the impact on customers has been muted because generation rate caps prevented EDCs from passing on this cost to the customer. This reprieve is about to end.

The change is coming soon; consumers should be prepared. Generation rate caps for all Pennsylvania EDCs are scheduled to expire no later than December 31, 2010, and the overall cost of electricity for retail customers is expected to increase, dramatically in some service territories: PPL customers, for example, can expect increases of about 30 percent. As a result of the worldwide economic downturn and recent decreases in the cost of fuel, current estimates of the cost of electricity after rate cap expiration are significantly lower than those projected a year ago. However, with the economy now coming out of recession, this mitigation in energy costs is likely to be temporary. Consumers should expect to see increases in the cost of electricity.

Impact on Low Income Customers

Price increases will have the most significant impact on low income residential customers. These customers, generally subsisting on a fixed income with no savings, will have no ability to absorb into their household budgets the increased electricity bills. For this population, who will need to choose between paying for electricity or for food or other essentials, we can anticipate sharp increases, above the currently historically high levels, in involuntary service terminations due to nonpayment

Reducing the amount of electricity consumed will be essential. Fortunately, there is some hope for these households in the form of governmental and public utility administered weatherization programs that can help low income households reduce the amount of electricity they consume and, therefore, reduce their electric bills.

Low income households in Pennsylvania have access to three key programs providing free weatherization and conservation services: the Department of Energy’s Weatherization Assistance Program (“WAP”), Low Income Usage Reduction Programs (“LIURP”), and the Act 129 Energy Efficiency and Conservation programs operated by local EDCs. By helping low

income households reduce electricity usage, these programs help mitigate the impact of high energy prices on low income families.

Weatherization Assistance Program: The United States Department of Energy annually funds WAP, which is administered in Pennsylvania by the Department of Community and Economic Development (“DCED”). WAP provides to low income households free weatherization services that help reduce energy consumption and energy bills.

The services available under this program include a home energy audit, the installation of energy efficiency measures, and in-home education about energy conservation. The energy efficiency measures installed can range from the installation of roof or wall insulation to the replacement of inefficient furnaces and appliances. A standard cost benefit test is used to determine whether a dwelling will receive a particular measure. The 2009-2010 budget for WAP is \$25,400,552 with which DCED anticipates weatherizing 2,824 households.

This year the federal American Recovery and Reinvestment Act (“ARRA”) injects into the WAP program an unprecedented level of funding: \$252.8 million for use over the next three years. As a result, the average expenditure per home will be \$6,500, which is significantly higher than the usual program average expenditure of \$2800 per home. With ARRA funding, WAP estimates it can serve 29,700 households over the next two to three years and create nearly 1,000 new jobs in the Commonwealth.

The Low Income Usage Reduction Program: LIURP is administered by local electric companies under the oversight of the Pennsylvania Public Utility Commission. The programs are governed by regulations at 52 Pa. Code §§ 58.1 et seq. LIURP is an education and conservation program targeted to high energy users. Qualifying households receive three services. First, the household receives an energy audit to assess household condition and energy usage. Second, where the audit deems it cost effective, the household receives the free installation of energy efficiency and conservation measures (i.e. insulation, shell sealing, appliance installation, etc.). Finally, the household receives free education on energy conservation and usage reduction.

Act 129 of 2008: House Bill 2200 was signed into law as Act 129 of 2008 (“Act 129”) on October 15, 2008. 66 Pa.C.S.A. §§ 2806.1 and 2806.2. Act 129 requires the Pennsylvania Public Utility Commission to administer and oversee the design and implementation of Energy Efficiency and Conservation Plans by regulated electric utility companies serving at least 100,000 customers. The overall goal of Act 129 is to reduce electricity consumption in the Commonwealth.

Importantly, the General Assembly recognized the special plight of low income customers by including requirements that low income households receive special programs and attention. Because of these special requirements, EDCs covered by Act 129 will all be providing targeted, free energy efficiency and conservation programs to help low income customers reduce their electric consumption and reduce their overall electric bill.

Conclusion

The expiration of generation rate caps will increase the cost of electricity in Pennsylvania, dramatically for some customers. This increase will have a disproportionately negative impact on low income households. The Weatherization Assistance Program, Low Income Usage Reduction Programs, and Act 129 low income programs are three programs which will help low income families attempt to mitigate the effect of electric rate increases through weatherization and energy efficiency measures.