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*House of Representatives*  
COMMONWEALTH OF PENNSYLVANIA  
HARRISBURG

COMMITTEES

CONSUMER AFFAIRS, CHAIRMAN

INSURANCE  
LEGISLATIVE BUDGET AND FINANCE

**MEMORANDUM**

**DATE:** June 2, 2008

**TO:** All House Members

**FROM:** Representative Robert W. Godshall, Chairman  
House Consumer Affairs Committee

**SUBJECT:** Electric Deregulation

A handwritten signature in black ink, appearing to read "R. W. Godshall".

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As we all are well aware, the generation rate caps for electricity are set to expire for most electric service distribution areas in the next two years, resulting in an increase in electricity rates for Pennsylvania ratepayers.

While we consider what course of action is most appropriate to take relative to the rate cap expirations, I thought that I would share some information which I believe puts the potential rate increases in some level of perspective.

The Electricity Generation Customer Choice and Competition Act passed in 1996 and implementing regulatory decisions has saved, conservatively, consumers about **\$10 billion**, produced billions of dollars of new power plant investment, and played a role in creating thousands of jobs in new power industries using alternative energy technologies such as wind and solar.

Consider these 10 facts:

1. In 1996 Pennsylvania's electric rates were on average **15%** above the national average. Today they are **2-3%** below the national average.
2. In 1996, power plants on average were not operating due to mechanical problems about **11%** of the year or more than **5 weeks** each year. Today plants are out of service due to mechanical problems about **6%** of the time. Plant operators do not get paid now if plants don't operate but did typically get paid under the old monopoly system even when plants did not operate through subsidies that were included in rates.

Memo to: All House Members

3. Prior to 1996, nuclear plants typically operated about **75%** of the time. Today nuclear plants operate nearly **95%** of the time, providing great economic benefits to consumers. This is like getting the output from several new nuclear reactors without new reactors having to be built.

4. Since 1996, Pennsylvania's utilities have not been allowed to recover the cost of fuel increases to make electricity. Under the monopoly system, every dollar of increase in fuel costs was passed through to consumers. This change alone has saved consumers a great deal of money.

5. Since 1996, **9,000** megawatts or enough power for, conservatively, **7 million** homes of new generation has been built in Pennsylvania without any of the costs of these plants being added to rates. Shareholders of competitive power companies paid fully for this large amount of new generation.

6. Since 1996, the new generation that has been built plus the better performance of existing plants plus the expansion of the PJM power pool to include now 13 states has allowed the size of the reserve margin needed to keep service reliable to be cut from **22%** to **15%**. This reduction in the amount of reserve capacity needed to produce the same level of reliability has saved consumers a great deal of money and will keep doing so.

7. In the Duquesne Light and Penn Power service territories, where rate caps ended in 2002 and 2007, **more than 50%** of the commercial and industrial load has switched to competitive electricity suppliers and are saving money by doing so.

8. In the Duquesne Light Service territory and Penn Power service territories, substantial numbers of residential customers have also switched to competitive electric suppliers.

9. In the Duquesne Light Service territory, rates actually fell to 1980 levels for most customers, and residential customers saved an average **\$170** per year starting in 2002.

Memo to: All House Members

10. Since 1999, Pennsylvania has had a boom in new alternative energy companies that now have a legal right to connect to the grid and also serve retail customers. Pennsylvania has 10 operating wind farms and will have enough wind energy to supply nearly **200,000** homes by the end of 2008. Thousands of jobs have been created in building wind and solar equipment. These jobs are located in Bucks, Erie, York, Cambria, Delaware, Somerset, Wayne, Schuylkill, Fayette, Lehigh, Lebanon, and many other counties.

The world is in the middle of a global energy crisis. The prices of fossil fuels have increased by **5 times since 2000**. Since the caps were enacted, fuel oil has increased over **180%**, natural gas and unleaded gasoline – approximately **140%**, and the costs for coal have increased over **50%**.

The price of steel, concrete, and other equipment needed to build new power generation has **doubled** just recently.

Electricity prices will increase, especially after rates have been capped for 14 years. We cannot expect that given the skyrocketing costs of the raw materials used to produce electricity, that there would be no impact on the costs of electricity production.

Competition forces greater efficiency and makes possible new technologies, helping consumers. In Connecticut, another competition state, Direct Energy is even offering free electricity during certain evening hours. We need to provide consumers new technologies, energy conservation programs, and pricing plan options to manage their bills. We need to provide a phase in of increases that are inevitable after a 14 year rate cap. And we need to understand facts about the Electricity Competition and Customer Choice Act.

Thank you.

RWG:jh