



ALLEGHENY INSTITUTE
FOR PUBLIC POLICY

PENNSYLVANIA'S ELECTRIC CHOICE
PROGRAM:
PROGRESS THROUGH 2001

*Eric Montarti, Policy Analyst
Allegheny Institute for Public Policy*

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TABLE OF CONTENTS

KEY FINDINGS	2
INTRODUCTION	3
A LOOK AT 2001: TRENDS AND ANALYSIS	4
CRITICISMS OF ELECTRICITY COMPETITION IN PENNSYLVANIA	9
CONCLUSION	11
APPENDIX	
1 st QUARTER 2001	
2 nd QUARTER 2001	
3 rd QUARTER 2001	
4 th QUARTER 2001	

KEY FINDINGS

As of January 1, 2002:

- 551,106, or 10 percent, of Pennsylvania's 5.2 million residential, commercial, and industrial electric customers purchased electricity from a company other than their territory's incumbent electric provider. This total represents a decrease of 17,086 accounts from January 1, 2001.
- There were 3 competitive suppliers competing for residential customers per incumbent provider in 2001. This ranged from a high of 6 competitors in Philadelphia's PECO territory to 2 competitors each for Allegheny Power and PPL.
- Duquesne Light, the incumbent provider for the City of Pittsburgh and the majority of Allegheny County, regained 10 percent of its residential customers from year-end 2000 to year-end 2001. It lost additional commercial and industrial accounts during 2001.
- Another major provider in Western Pennsylvania, Allegheny Power, regained 100 percent of its industrial customers who were buying electricity from a competitor as of January 1, 2001.
- Over 90 percent of the residential customers who use a competitive supplier came from Duquesne Light and PECO's residential classes, two of the highest priced providers in the state. As such, approximately 30 percent of residential customers of these high cost incumbents have chosen a competitive supplier for electricity. Pennsylvania's program is working as intended.

INTRODUCTION

Despite a volatile year for electricity generation and possible setbacks to efforts to further restructure the industry to allow for competition and efficiency, Pennsylvania's Electric Choice Program remained relatively strong. Although the commonwealth's 5.2 million residential, commercial, and industrial customers have the ability to shop for electricity generation from competitive suppliers, the total share of customers actually switching to another company remains around 10 percent.

The restructured competitive landscape for electricity does retain significant regulation. The transmission and distribution infrastructure, which moves electricity from where it is made to where it is used, remains under tight control of the incumbent providers. Those incumbents still recover a "competitive transition charge" which is a per-kilowatt levy that applies to all customers on the distribution grid, whether or not those customers shop for electricity or not. This charge is applied in order for the incumbents to recover stranded costs, or the value of plant investments made under the regulated system that would be unrecoverable in a competitive market.

Pennsylvania's Incumbent Electric Providers

Allegheny Power	Pennsylvania Power (Penn Power)
Duquesne Light	Pennsylvania Power and Light (PPL)
GPU (Metropolitan Edison and Pennsylvania Electric)	UGI Electric
Philadelphia Electric Company (PECO)	

The data in this report is provided by the Pennsylvania Office of Consumer Advocate (www.oca.state.pa.us). That data chronicles the number of customers of each incumbent provider that have opted to purchase electricity from a company other than their incumbent provider.

A LOOK AT 2001: TRENDS AND ANALYSIS

This section presents data on the progress of electricity competition in Pennsylvania in 2001. The data comprises statewide totals for residential, commercial, and industrial customers, which are then analyzed separately. Since residential accounts make up the bulk of the state's customer base, we then conclude this section by examining the competitive options and electric prices for that class in 2001.

Statewide Totals

The table below illustrates the total number of Pennsylvania customers that purchased electricity from a competitive supplier in 2001.

Electricity Shopping In Pennsylvania: 2001

Month	January	April	July	October	December
# of Customers Served by a Competitor	568,492	787,846	591,596	580,154	551,106

As we see from this data, the number of customers purchasing electricity from a competitive supplier hovered around the 10 to 11 percent range for most of the year. The largest jump in the number of customers switching suppliers came in April when an additional 219,354 customers left their incumbent provider. This large increase was caused by the assignment of a significant portion of PECO's residential class to a competitive discount service provided by New Power.

The year-end 2001 total does not differ greatly from the year-end totals of the previous two years.

Year-End Shopping Totals, 1999-2001

Month/Year	Dec-99	Dec-00	Dec-01
# of Customers Served by a Competitor	507,058	568,192	551,106

Expressed in terms of the total customer base in all classes, the shopping total has remained in the 10 to 11 percent range at year's end for the past three years. The year-end total for 2001 fell 17,086 from the year-end 2000 total.

Customer Shopping by Class

In order to determine the effect of restructuring on various classes of customers, the following tables separate the aggregate statewide data into residential, commercial, and industrial components. Each table contains the name of the incumbent provider, their

total customer base for each class, the number of customers that purchased electricity from a competitor at year-end 2001 and year-end 2000, and the relative gains or losses in customers for each incumbent utility.

Residential Competition: Year-End 2000 to Year-End 2001

Company	Customer Base	Number of Customers Served by a Competitor, Year End 2000	Number of Customers Served by a Competitor, Year End 2001	Year End 2001 Total as Percentage of Customer Base	Number of Customers Regained (+) or Lost (-) by Incumbent from Year End 2000 to Year End 2001	Percentage Change in Customers Served by a Competitor, 2000 to 2001
Allegheny	582,615	3,107	1,199	0.2	1,908	61
Duquesne	524,513	176,488	158,301	30	18,187	10
GPU	925,306	43,093	3,576	0.4	39,517	92
PECO	1,351,231	218,850	363,671	26.5	-144,821	-66
Penn Power	132,350	8,245	1,329	1	6,916	83
PPL	1,113,608	22,280	2,312	0.2	19,968	90
UGI	53,580	1,783	81	0.2	1,702	95
<i>State Total</i>	<i>4,683,003</i>	<i>473,852</i>	<i>530,469</i>	<i>11</i>	<i>-56,617</i>	<i>12</i>

The residential sector saw an increase of 56,617 customers who received electricity from a provider other than their territory's incumbent distribution company. Again, the bulk of this increase came as a result of the arrangement in PECO's territory for competitive discount service. The six other incumbent providers regained customers over year-end 2000 totals. GPU, PPL, and UGI regained a significant number of customers; all three exhibited gains equal to or in excess of 90 percent over year-end 2000. Duquesne Light managed to regain over 18,000 accounts, yet as of January 1, 2002, 30 percent of its residential customers received power from a competitor.

Commercial Competition: Year-End 2000 to Year-End 2001

Company	Customer Base	Number of Customers Served by a Competitor, Year End 2000	Number of Customers Served by a Competitor, Year End 2001	Year End 2001 Total as Percentage of Customer Base	Number of Customers Regained (+) or Lost (-) by Incumbent from Year End 2000 to Year End 2001	Percentage Change in Customers Served by a Competitor, 2000 to 2001
Allegheny	81,174	2,648	72	0.1	2,576	97
Duquesne	57,110	9,129	9,447	16.7	-318	-3
GPU	127,077	12,193	452	0.3	11,741	96
PECO	146,582	49,052	7,731	5.1	41,321	84
Penn Power	17,396	1,321	69	0.4	1,252	95
PPL	149,811	17,136	2,249	1.5	14,887	87
UGI	7,035	72	25	0.3	47	65
<i>State Total</i>	<i>586,185</i>	<i>91,551</i>	<i>20,045</i>	<i>3.4</i>	<i>71,506</i>	<i>78</i>

In a manner similar to the residential sector, only one incumbent company lost commercial accounts from year-end 2000 to year-end 2001: Duquesne Light. It had nearly one-fifth of its commercial business buying competitive power at the beginning of this year. Allegheny Power, GPU, Penn Power, and PPL made significant gains over the

year. In terms of absolute totals, PECO regained the most accounts of the seven incumbents with 41,321.

Industrial Competition: Year-End 2000 to Year-End 2001

Company	Customer Base	Number of Customers Served by a Competitor, Year End 2000	Number of Customers Served by a Competitor, Year End 2001	Year End 2001 Total as Percentage of Customer Base	Number of Customers Regained (+) or Lost (-) by Incumbent from Year End 2000 to Year End 2001	Percentage Change in Customers Served by a Competitor, 2000 to 2001
Allegheny	82	9	0	0	9	100
Duquesne	1,541	312	354	23	-42	-13
GPU	5,000	776	59	1.1	717	92
PECO	3,241	1,493	98	3	1,395	93
Penn Power	226	46	7	3.1	39	84
PPL	5,401	453	74	1.4	379	84
UGI	0	0	0	0	0	0
<i>State Total</i>	<i>15,941</i>	<i>3,089</i>	<i>592</i>	<i>3.7</i>	<i>2,497</i>	<i>81</i>

The industrial sector displayed the greatest degree of customers returning to their incumbent provider over 2001 with 81 percent going back to the distribution company. Western Pennsylvania's Allegheny Power had a 100 percent reversal with all nine customers that were switched at year-end 2000 returning at year-end 2001. Again, Duquesne Light was the only incumbent to continue to lose customers over the year. Their 354 customers served by a competitor represented 60 percent of the switching in the industrial class.

Price Competition in the Residential Class

With the majority of customer accounts in the residential class, a competitor entering a territory with a price lower than the incumbent provider has a significant effect. Opening the residential sector to competition was a primary goal of the restructuring legislation since the commercial and industrial sectors did have a degree of choice previously.

Competitive Options in the Residential Class: Second Half of 2001

Company	June		August		December	
	# of Competitors	# of Competitors with a Lower Price	# of Competitors	# of Competitors with a Lower Price	# of Competitors	# of Competitors with a Lower Price
Allegheny	2	0	2	0	2	0
Duquesne	4	1	4	1	4	1
GPU	3	0	3	0	3	0
PECO	7	2	6	2	6	3
Penn Power	4	0	4	1	4	0
PPL	2	0	2	0	2	0
UGI	2	0	2	0	2	0

Much like 2000, all seven incumbents had at least one competitor. In fact, there were at least two competitive suppliers for each incumbent beginning in June of 2001. During the last six months of the year, only one competitor dropped out of the residential market when the number of competitors dropped from 7 to 6 in PECO's territory. Four incumbents--Allegheny, GPU, PPL, and UGI--were the only territories that had competitors that did not beat their price.

CRITICISMS OF ELECTRICITY COMPETITION IN PENNSYLVANIA

When problems began to surface with California's electric choice program in the summer of 2000 and into 2001, critics of the program seized upon the misguided notion that "deregulation" had caused the mishaps with the program and that a return to a regulated monopoly system would be preferable. To be sure, the Golden State's foray into electric competition was not without its faults, but it was the first state to attempt such a tremendous undertaking.

Subsequent states that restructured their electric utilities, including Pennsylvania, learned from California's mistakes and sought to modify their programs accordingly. Pennsylvania has been recognized time and again for its electric choice program. Yet criticisms remain, and it is appropriate to deal with two of them in the context of this report.

Not Enough People are Shopping

It was noted earlier that the total share of customers statewide that have chosen a competitive supplier for their electricity remains around 10 percent. The one exception during the year was in April when the total rose to 15 percent after the PECO arrangement was settled. In July, the number of shopping customers declined by about 250,000. Soon after, articles appeared in newspapers around the state that bemoaned the fact that the electric choice program was "sputtering", "declining", or "fizzling out".¹ These criticisms rest on false foundations.

When electric choice was instituted, the belief may have been that people would run from their incumbent providers to a slew of competitors that would offer better service and lower prices. To be certain, there have been competitors that have exited the Pennsylvania retail market. Some blamed energy prices, others changed their business strategies. The point to remember is all of the 5.2 million customer accounts are choosing their electric provider; the majority have felt that the incumbent provider is the best option. The Public Utility Commission, in a press release early in 2001 that responded to a GPU comparison of Pennsylvania to California, explained how the Pennsylvania program did not cripple incumbent providers:

Pennsylvania did not require utilities to sell their generation plants as part of restructuring as California did. Nearly all of Pennsylvania's utilities own their own generating plants...Pennsylvania does not prevent utilities from entering into long-term power contracts with suppliers...²

¹ Akweli Parker "In PA, Electric Market Sputters" [Philadelphia Inquirer](#), July 8, 2001. Frank Reeves "Electric Choice Customers Continue to Decline" July 4, 2001 and "Diminished Choices" [Pittsburgh Post Gazette](#). William Opalka "Electric Choice Usage Fizzles Out" [Pittsburgh Tribune Review](#), July 6, 2001.

² Public Utility Commission "Pennsylvania PUC blasts GPU for Comparison to California" January 19, 2001.

The Pennsylvania model was not set up to hamstring any provider of electricity. As the market continues to mature and inefficient business models are discarded, the viability of electric competition in the state will only improve.

Restructuring has made our Electric System Worse

In May of 2001 the Keystone Research Center released a study on the state of the working class, utility employees, utility CEOs, and the utility infrastructure in Pennsylvania following "experiments in de-regulation" with electricity, natural gas, and local telephone service. In regards to electricity, the report found that restructuring had led to longer power outages, higher profits, negative in-state reinvestment, and higher executive salaries.³

Contrary to the report's findings, which includes data some four years prior to any real and viable competition in the electric market, some interesting facts come to light about the effects of restructuring:

- Net investment in Pennsylvania by the major electric utilities increased between 1997 and 1999
- Consumer complaints to the PUC increased from 1998 to 1999, but the 4,136 complaints filed in 1999 represent .08 percent of the statewide electric accounts
- The average power outage increased 10 minutes from 1997 to 1999, the same time full-time employment at utilities was increasing

The state's consumers, workers, and corporations are better off under electric restructuring: prices have declined, investment has increased as a result of competition, and new jobs will be created because the cost of doing business declines with electric competition.

³ Scott Rubin "Pennsylvania Utilities: How are Consumers, Workers, and Corporations Faring in the Deregulated Electricity, Gas, and Telephone Industries?" Keystone Research Center, May 2001.

CONCLUSION

As Pennsylvania's Electric Choice Program enters its fourth year, the parties involved with steering it along remain committed to ensuring its continued success. Changes are in store as 2002 proceeds. Consider the following local and national developments:

- Customers in Duquesne Light's territory will see the competitive transition charge disappear as a result of the sale of generation assets.
- The PJM interconnection will begin the addition of 4,000 megawatts onto the grid.
- The U.S. Department of Justice will commence an investigation into wholesale pricing in the PJM grid.
- Larger problems, such as the fallout at Enron and the state of the economy, continue to loom, and may unsettle the progress of restructuring in electricity.

In short, 2002 may prove to be a watershed year for electric choice in Pennsylvania.

APPENDIX

1st Quarter of 2001

Company/Class	Customer Base	1-Jan	As % of Customer Base	1-Apr	As % of Customer Base	Change, + or -, Jan to Apr	% Change
Allegheny							
Res	582,615	3,107	1%	2,152	0%	955	31%
Comm	81,174	2,648	3%	1,343	2%	1305	49%
Ind	82	9	11%	9	11%	0	0%
Duquesne							
Res	524,513	176,488	34%	175,160	33%	1328	1%
Comm	57,110	9,129	16%	7,964	14%	1165	13%
Ind	1,541	312	20%	271	18%	41	13%
GPU							
Res	925,306	43,093	5%	35,973	4%	7120	17%
Comm	127,077	12,193	10%	10,478	8%	1715	14%
Ind	5,000	776	16%	666	13%	110	14%
PECO							
Res	1,351,231	218,850	16%	467,424	35%	-248574	-114%
Comm	146,582	49,052	33%	41,045	28%	8007	16%
Ind	3,241	1,493	46%	1,052	32%	441	30%
Penn Power							
Res	132,350	8,245	6%	8,377	6%	-132	-2%
Comm	17,396	1,321	8%	1,192	7%	129	10%
Ind	226	46	20%	44	19%	2	4%
PPL							
Res	1,113,608	22,286	2%	17,278	2%	5008	22%
Comm	149,811	17,136	11%	15,237	10%	1899	11%
Ind	5,401	453	8%	312	6%	141	31%
UGI							
Res	53,380	1,783	3%	1,707	3%	76	4%
Comm	7,035	72	1%	72	1%	0	0%
Ind	0	0		0		0	
Total	5,284,676	568,492	11%	787,846	15%	-219354	-39%

2nd Quarter of 2001

Company/Class	Customer Base	1-Apr	1-Jul	As % of Customer Base	Change, + or -, Apr to Jul	% Change
Allegheny						
Res	582,615	2,152	1,502	0%	650	30%
Comm	81,174	1,343	98	0%	1245	93%
Ind	82	9	9	11%	0	0%
Duquesne						
Res	524,513	175,160	171,230	33%	3930	2%
Comm	57,110	7,964	5,698	10%	2266	28%
Ind	1,541	271	157	10%	114	42%
GPU						
Res	925,306	35,973	4,262	0%	31711	88%
Comm	127,077	10,478	517	0%	9961	95%
Ind	5,000	666	57	1%	609	91%
PECO						
Res	1,351,231	467,424	393,348	29%	74076	16%
Comm	146,582	41,045	7,474	5%	33571	82%
Ind	3,241	1,052	150	5%	902	86%
Penn Power						
Res	132,350	8,377	1,503	1%	6874	82%
Comm	17,396	1,192	80	0%	1112	93%
Ind	226	44	8	4%	36	82%
PPL						
Res	1,113,608	17,278	2,725	0%	14553	84%
Comm	149,811	15,237	2,588	2%	12649	83%
Ind	5,401	312	84	2%	228	73%
UGI						
Res	53,380	1,707	91	0%	1616	95%
Comm	7,035	72	24	0%	48	67%
Ind	0	0	0		0	
Total	5,284,676	787,846	591,596	11%	196250	25%

3rd Quarter of 2001

Company/Class	Customer Base	1-Jul	1-Oct	As % of Customer Base	Change, + or -, Jul to Oct	% Change
Allegheny						
Res	582,615	1,502	1437	0%	65	4%
Comm	81,174	98	86	0%	12	12%
Ind	82	9	0	0%	9	100%
Duquesne						
Res	524,513	171,230	164,218	31%	7,012	4%
Comm	57,110	5,698	5,809	10%	-111	-2%
Ind	1,541	157	171	11%	-14	-9%
GPU						
Res	925,306	4,262	4,006	0%	256	6%
Comm	127,077	517	458	0%	59	11%
Ind	5,000	57	56	1%	1	2%
PECO						
Res	1,351,231	393,348	390,523	29%	2,825	1%
Comm	146,582	7,474	6,772	5%	702	9%
Ind	3,241	150	101	3%	49	33%
Penn Power						
Res	132,350	1,503	1,420	1%	83	6%
Comm	17,396	80	69	0%	11	14%
Ind	226	8	7	3%	1	13%
PPL						
Res	1,113,608	2,725	2,587	0%	138	5%
Comm	149,811	2,588	2,249	2%	339	13%
Ind	5,401	84	73	1%	11	13%
UGI						
Res	53,380	91	88	0%	3	3%
Comm	7,035	24	24	0%	0	0%
Ind	0	0	0			
Total	5,284,676	591,596	580,154	11%	11451	2%

4th Quarter of 2001

Company/Class	Customer Base	1-Oct	31-Dec	As % of Customer Base	Change, + or -, Oct to Dec	% Change
Allegheny						
Res	582,615	1437	1199	0%	238	20%
Comm	81,174	86	72	0%	14	19%
Ind	82	0	0	0%	0	0%
Duquesne						
Res	524,513	164,218	158301	30%	5917	4%
Comm	57,110	5,809	9447	17%	-3638	-39%
Ind	1,541	171	354	23%	-183	-52%
GPU						
Res	925,306	4,006	3576	0%	430	12%
Comm	127,077	458	452	0%	6	1%
Ind	5,000	56	59	1%	-3	-5%
PECO						
Res	1,351,231	390,523	363671	27%	26852	7%
Comm	146,582	6,772	7731	5%	-959	-12%
Ind	3,241	101	98	3%	3	3%
Penn Power						
Res	132,350	1,420	1329	1%	91	7%
Comm	17,396	69	69	0%	0	0%
Ind	226	7	7	3%	0	0%
PPL						
Res	1,113,608	2,587	2312	0%	275	12%
Comm	149,811	2,249	2249	2%	0	0%
Ind	5,401	73	74	1%	-1	-1%
UGI						
Res	53,380	88	81	0%	7	9%
Comm	7,035	24	25	0%	-1	-4%
Ind	0	0	0	0%	0	0%
Total	5,284,676	580,154	551,106	10%	29048	5%