PPL Electric Utilities Files Plan to Smooth Impact When Rate Cap Expires

PPL Electric Utilities filed a plan Friday (11/30) with the Pennsylvania Public Utility Commission that would give customers an option to ease the effect of a price increase expected to occur when a cap on generation supply costs expires in 2010.

“This voluntary option would let our customers spread out the increase over time and earn interest on the money they pay into the plan in 2008 and 2009,” said David G. DeCampli, president of PPL Electric Utilities.

“No one wants to pay more for electricity, but after more than a decade under a rate cap on generation supply, the prices in 2010 will reflect significant increases that already have been seen elsewhere in Pennsylvania and in other parts of the country,” he said.

The increases, which have affected customers in both regulated and deregulated states, are largely a result of higher prices for fuels used to generate electricity: uranium, coal, natural gas and oil. For example, oil sold for about $25 a barrel when the rate cap started and is now selling for close to $100 a barrel.

If the PUC approves the plan as filed, customers of PPL Electric Utilities could choose to make additional payments on their electric bills from mid-2008 through the end of 2009. Those payments, plus a credit for interest paid by PPL Electric Utilities, would be applied to their electric bills in 2010 and 2011, giving customers a gradual phase-in to the full generation charge starting in 2012.

“An average residential customer who participates would see increases in the range of 6 percent to 7 percent a year from 2008 to 2012, rather than a substantial one-time increase when the rate cap expires in 2010,” DeCampli said.

PPL Electric Utilities has asked the PUC to issue a decision on the plan by April 1, 2008. The proposed effective date of the plan is July 1, 2008.

From April to July, PPL Electric Utilities will conduct an extensive communications program to help customers make an informed decision about whether to participate, DeCampli said. The cost of communications, advertising and all other administrative requirements of the plan will be incurred by PPL Electric Utilities and will not be charged to customers.

Customers will be given ample opportunity to elect not to participate, and may leave the plan any time through December 2011.

Under Pennsylvania law and PUC regulations, PPL Electric Utilities must obtain electricity supply in the competitive market for customers who do not choose their own supplier. The cost of that electricity is passed directly through to customers without markup, and is shown as the generation charge on customers’ bills.

After Pennsylvania deregulated the electric utility industry, PPL split its utility business and its generation business into separate companies. PPL Electric Utilities no longer owns generating plants.

“Market prices of electricity have increased significantly while rate caps have been in place,” DeCampli said. “While the factors affecting electricity supply prices are beyond our control, our objective is to give our customers options that help them use less electricity and manage the effect of the increase on their household budgets.”

One of the actions PPL Electric Utilities has taken to minimize the price risk for its customers after the rate cap ends is a staged approach to obtaining electricity for 2010.

As previously announced, PPL Electric Utilities has purchased one-third of the electricity it needs for 2010. If prices are comparable for the remaining two-thirds, PPL Electric Utilities estimates that the total monthly bill for an average residential customer will increase by about 34.5 percent in 2010. Bills for small business customers would increase on the order of 22.8 percent to 42.2 percent.

“We have been very open in talking about the size of the expected increase,” DeCampli said. “We know that the increase will create a burden for our customers. That’s why we are acting now, with options such as a phase-in plan, increased support for payment assistance programs, and our e-power campaign that can help customers offset much of the expected increase by using less electricity.”

In reaction to the expected rate increases, some policymakers in Harrisburg have suggested an extension of rate caps. Such an extension would have serious negative consequences for consumers, the environment, the economy and PPL Electric Utilities, DeCampli said.

The cost that PPL Electric Utilities already has incurred to purchase generation supply for 2010 is well above 2009 rate cap levels. If rate caps are extended and prices are comparable for the remainder of its purchases, DeCampli estimated that the utility could lose about $100 million a month starting in 2010.

“No business can remain afloat for very long selling a product for half of what it paid to buy the product,” DeCampli said. “An extension of rate caps would immediately put PPL Electric Utilities in a dire financial situation and have serious implications for electric reliability.”

PPL Electric Utilities is a subsidiary of PPL Corporation that provides electric delivery service to 1.4 million customers in 29 counties of eastern and central Pennsylvania.

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