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Report Calls For Pennsylvania To Support Competitive Electric Market *Good policy now will avoid repeat of California's "ill-fated" electricity crisis*

An independent study of the future of the Pennsylvania energy market concludes that state lawmakers should continue to support a competitive market, and refrain from extending rate freezes.

The study, conducted by Dr. Susan F. Tierney, an expert on energy policy at the Analysis Group, a firm of energy and economic consultants based in Boston, said that while higher energy prices are going to be the "new normal" in Pennsylvania and elsewhere, state regulatory policies that promote the continued development of a competitive energy market, coupled with consumer education and a well-designed wholesale power market will keep prices as low as possible in Pennsylvania.

"This study, by one of the leading experts in the field, concludes that maintaining competitive markets and implementing orderly transition plans is the best course for Pennsylvania to keep energy costs manageable and to keep Pennsylvania businesses competitive," said Mike Love, president of the Energy Association of Pennsylvania.

"Allowing rate freezes to expire as the original legislation intended will likely spur further competition," Love said, "thereby helping to offset energy cost increases while at the same time encouraging investment in infrastructure, and the offering of new services. This study further reinforces the argument that Pennsylvania one of the few states to get it right from the beginning."

Tierney points out in the study, available by going to the Energy Association of Pennsylvania Web site, at www.energypa.org, that Pennsylvanians have benefited from stable electricity prices over the past 10 years, largely due to the passage of the Electric Generation Customer Choice and Competition Act of 1996, commonly referred to as the restructuring of the Pennsylvania electric utility industry.

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She notes, however, that some plans being considered to help guide the state after rate caps expire at the end of this decade could put all that at risk.

“Policy makers should heed the lessons learned in other states when rate freezes were imposed at levels out of line with market conditions,” she wrote, pointing at California’s “ill-fated” electricity crisis of 2000-2001.

She said that the situation was made worse in California when state regulators and lawmakers, in an attempt to control market fluctuations, continued retail price caps “at a time when electricity companies had to buy power at much-higher wholesale market rates.” The result was that the electric utilities had to buy high and sell low. The crisis bankrupted one of the largest utility companies in the country, and nearly took a second over the brink. Californians are still feeling the effect of those events.

Pennsylvania, on the other hand, has an opportunity to craft policy that would “continue to support competitive markets,” she wrote. “A stable regulatory environment will attract capital investments needed to meet Pennsylvania’s power requirements” and provide an economic stimulus to attract and retain businesses and provide for the innovation needed for the 21st century, she said. All the while, this stable environment would help to ensure that the rest of Pennsylvania’s energy customers pay the lowest price possible.

Tierney also pointed out that even today’s higher energy prices, “electricity still provides high value, with prices much lower today than they were 20 years ago, when adjusted for inflation.”

Pennsylvania energy customers enjoy other benefits as a result of the adoption of a competitive energy market, a market that is “more effective than economic regulation in controlling the cost of generating electricity,” providing “innovation and improvements in risk management,” and customer choice.

“Other outcomes have included greater development of renewable resources and technologies designed to assist consumers to reduce their demand for power,” Tierney wrote.

Tierney has post-graduate degrees in regional planning and public policy. She is a former assistant secretary for Policy at the U.S. Department of Energy, a state utility regulator and environmental secretary in Massachusetts, and is now chairperson of the board of the Energy Foundation and a member of the National Commission on Energy Policy.

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