

What is Hourly Pricing?

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What is Hourly Pricing?

- Hourly Pricing (HP) is a variable rate that changes every hour based on several factors, including:
 1. Weather
 2. Time of day
 3. Season
 4. Wholesale power market conditions
 5. Other factors
- It is not possible to estimate the exact hourly price in advance.
- Purchasing power at hourly prices is more unpredictable than buying power at fixed prices. **It may or may not cost more.**
- HP is composed of a variable and fixed components that make up an hourly rate that is applied to each hour's usage.
- HP charges will appear on your bill as "Hourly Pricing Service Charge."

Wholesale Market

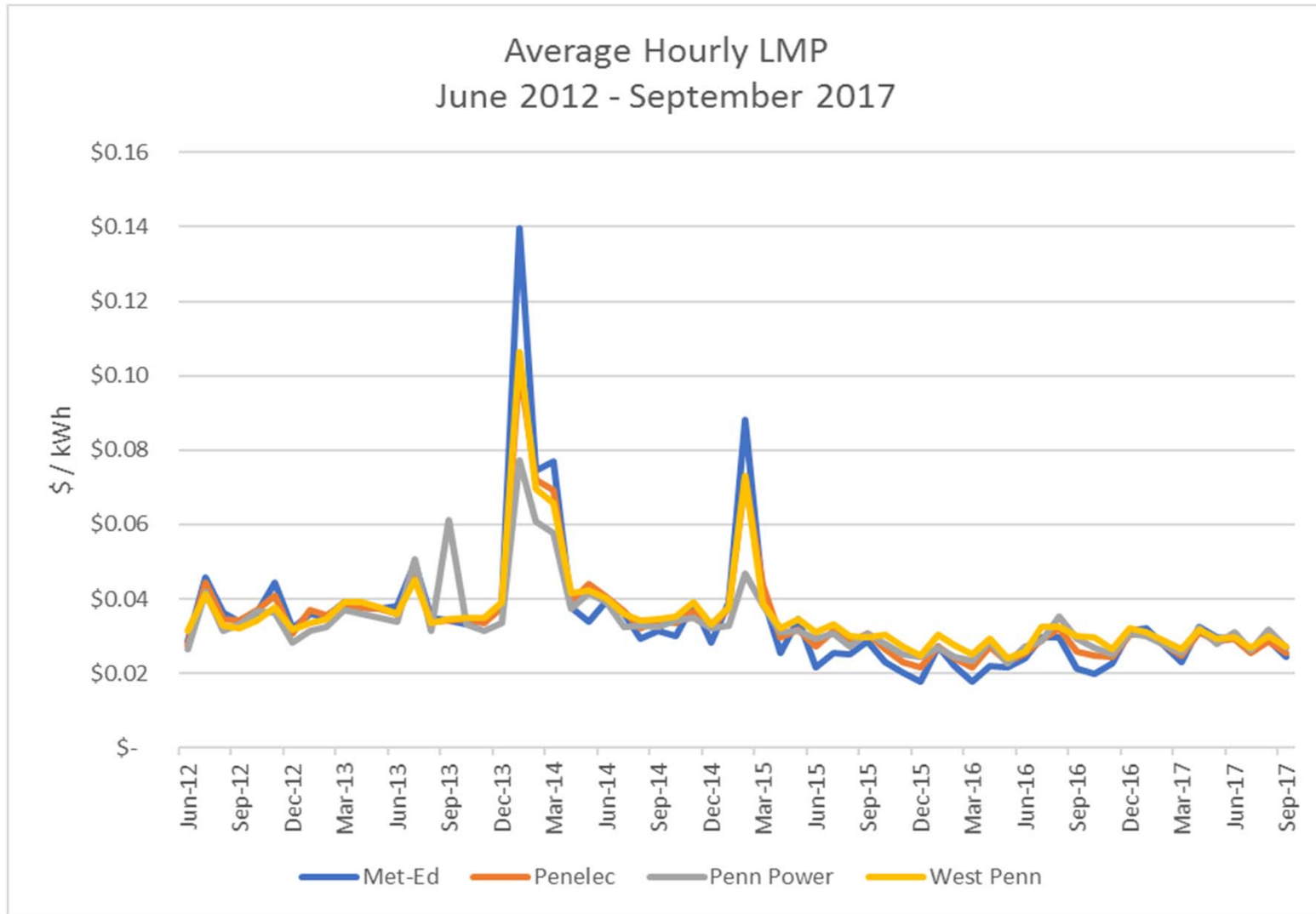
- Generators sell and utilities buy energy for immediate delivery on the wholesale market.
- These energy markets operate every day, and participants in the market establish a price for electricity by matching supply (what generators want to sell) and demand (what utilities and customers want to buy).
- The variable portion of HP is determined by the market price for energy known as the **Locational Marginal Price (LMP)**. The LMP may vary depending on your location.

Wholesale Market - LMP

- LMP is defined as the marginal price for energy at the location where the energy is delivered or received.
- LMP is a pricing approach that addresses Transmission System congestion and loss costs, as well as energy costs.
- The LMP can fluctuate significantly.

Wholesale Market - LMP

- The “Polar Vortex” in January 2014 is a prime example of the LMP’s volatility.



Retail Market – Fixed Rates

- After electricity is bought by utilities in the wholesale market, it can be sold to end users in the retail market. An example of an end user would be a homeowner or business.
- Regulated utilities resell electricity at retail rates approved by the Pennsylvania Public Utility Commission.
- In addition to the variable wholesale LMP price included in hourly pricing, fixed components are included by the utility to cover the costs of providing this service including:
 - 1) HP Other
 - 2) HP Cap-AEPS-Other Purchases
 - 3) HP Administrative Charge
 - 4) HP Uncollectible Charge
 - 5) HP Reconciliation Charge

Retail Market – Fixed Rates

- 1) **HP Other** – Recovers the estimated costs of Ancillary Service. This charge generally does not change.
 - **Ancillary Service** – Ancillary services help balance the transmission system as it moves electricity from generating sources to the end user.
- 2) **HP Cap-AEPS-Other Purchases** – Recovers the costs paid by the company to the supplier for capacity, Alternative Energy Portfolio Standards (AEPS) costs and other costs incurred by the supplier. This charge is subject to quarterly adjustments.
 - **Capacity** – System capacity is the total amount of electricity resources available to use if needed.
 - **AEPS** – Commission-approved standards requiring that a certain amount of electric energy sold from alternative energy sources be included as part of the generation supply for electric utilities.
- 3) **HP Administrative Charge** – Recovers administrative costs incurred by the company associated with providing HP. This charge is subject to adjustment.
- 4) **HP Uncollectible Charge** – Recovers the default service-related uncollectible accounts expense associated with HP. This charge is subject to annual adjustment on June 1 of each year.
- 5) **HP Reconciliation Charge** – This charge is either a credit or debit reflecting the difference between the company's actual revenues and actual costs to purchase electricity for HP. This charge changes every quarter.

What is Hourly Pricing Service – Key Points

- HP is a variable rate that changes every hour and is applied to each hour's usage.
- It is not possible to predict the HP rate with 100% accuracy.
- HP is composed of separate rates, but will appear on the bill as a single rate.
- For more information on HP, please see Rider I – Hourly Pricing Default Service Rider in the company tariff.
- If you wish you to have a fixed generation rate, please visit Papowerswitch.com to shop for a supplier who provides fixed rates.