WHERE WAS THE ELECTRICITY? 
AGENDA SETTING AND THE 
POLITICS OF ELECTRIC-RATE 
CAPS IN PENNSYLVANIA 

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Electric-power deregulation policy in the United States has served as useful research material for political scientists. This article uses a case study of the implementation of electric-rate deregulation in Pennsylvania to draw conclusions about broader agenda-setting theory. Case studies are useful for testing and improving broad theoretical concepts, particularly when deviations from the expectations of those theories occur. There was reasonable expectation for a policy punctuation surrounding electric-rate mitigation in 2008, but that punctuation never came. This article supports the notion that punctuations do not always follow periods of policy stability, even if policy has become misaligned with preferences. In this case, environmental factors (i.e., economic conditions) served to release pressure in the system for policy punctuation. This article also reinforces the usefulness of case studies in political science.

The deregulation of electricity supply in the United States has provided political scientists with useful research material. For instance, Ka and Teske (2002) used deregulation policy to draw conclusions about the influence of legislative ideology and bureaucratic professionalism on redistributive and technical policies, respectively. Likewise, Andrews (2000) used the spread of electric-rate deregulation legislation among the American states in the 1990s to augment the literature on policy diffusion. A case study of the implementation of electric-rate deregulation in Pennsylvania in particular tests our current understanding of the agenda-setting stage of the policy process and how agenda dynamics drive policy outcomes.

In the midst of expiring electric-rate caps, rising energy prices, active policy entrepreneurs, consumer concern, multiple legislative proposals, and
a supportive governor, a window was open in Harrisburg in 2008 for policy to mitigate the negative effects of the impending expiration of rate caps on electricity. But that policy never came. The deep recession triggered by the collapse of major financial institutions in 2008 and the protracted state budget battle in 2009 substantially altered the policy agenda in Pennsylvania. Changes in the political and economic environments acted like a pressure-release valve, dissipating political pressure for rate-cap mitigation.

This article contributes to the agenda-setting literature in political science by presenting a case study of the history of rate caps in Pennsylvania. It illuminates four aspects of agenda setting: policy punctuation (Baumgartner and Jones 2009; Jones, Baumgartner, and True 1998), pressure valves (Berkman and Reenock 2004), policy windows (Kingdon 2003), and feedback loops contributing to the evolutionary nature of policy change (Majone and Wildavsky 1978). Such a case study clarifies how these broad theoretical ideas actually operate within state government. Additionally, the article shows that sudden changes in either the economic or the political environment can act as a safety valve releasing the pressure for policy punctuation. This finding is important because it facilitates better understanding of punctuated equilibrium.

The article begins with a discussion of these concepts and their importance as cornerstones of our understanding of agenda setting. It then provides background information on the issue of electric-market regulation in Pennsylvania. After setting the stage in terms of theory and history, the article addresses the opening and closing of the policy window on rate caps. The article ends with conclusions about both the contribution of this case study to the literature on agenda setting and the usefulness of case studies generally in providing deeper context on broader theoretical concepts.

**Agenda Setting and Policy Outcomes**

Because the policymaking process in the United States is complex, scholars have largely taken a piecemeal approach to ascertaining its dynamics (Sabatier 1991), even with the narrow agenda-setting phase of the process. Hence, some scholars study issue framing (Rochefort and Cobb 1994) and media effects (Cook 1989; 2005), whereas others focus on specific institutions, such as Congress (Sulkin 2005), the presidency (Beckmann 2010), and the U.S. Supreme Court (Baird 2006). More recently, scholars have developed macro-level models of the process (Baumgartner and Jones 2009; Jones and Baumgartner 2005; Kingdon 2003). The core argument for examining the process of agenda setting is that who sets the agenda—and how they do it—provides insight into the question why particular political outcomes are produced.

Kingdon (2003) and Baumgartner and Jones (2009) provide different explanations for the macro-level dynamics of agenda setting. Starting with
Cohen, March, and Olsen’s (1972) “garbage can” model of organizational choice, Kingdon built a garbage can model of agenda setting through detailed interviews of policy actors at the national level. Essentially, the model describes a process whereby policy ideas are metaphorically floating around in a garbage can. When a policy window is opened by events and policy entrepreneurs who draw attention to a problem, legislators reach into the garbage can and retrieve a solution to the problem. A significant drawback of Kingdon’s model is that it really addresses only substantial policy change (i.e., policy punctuations), not incremental changes, which are far more frequent. Much past work on policymaking in the United States has focused on these incremental changes (see Davis, Dempster, and Wildavsky 1966; Lindblom 1959).

Baumgartner and Jones (2009) and Jones and Baumgartner (2005) depart from this previous work on agenda setting by fusing both incremental and substantial policy change into a single theory of punctuated equilibrium (see also Jones, Baumgartner, and True 1998). They argue that a key to this pattern is the ability of government to process policy information both serially and in parallel. Typically, the system processes information in a parallel fashion where, for example, Congressional committees pass noncomprehensive policy changes or bureaucracies institute new rules that slightly alter existing policy. This process continues until policy becomes misaligned with the preferences of new or previously marginalized actors. Subsequent mobilization of these actors causes pressure to build for a shift from the current equilibrium to a new one. To achieve this shift, the legislature must enter a mode of serial processing where it focuses attention on a single policy area.

The Affordable Care Act of 2009 (ACA) is a useful example. The election of Barack Obama, combined with Democratic control of Congress, brought considerable attention to healthcare policy in the United States. The government thus devoted substantial political resources to healthcare reform, which facilitated passage of comprehensive legislation. The ACA altered the policy equilibrium not only for the national government but also for the states. One example of serial processing at the state level is the occasional use of special legislative sessions to focus governmental attention on a particularly pressing problem. Granted, not all special sessions achieve their intended policy goals, and given the high resource demand of serial processing, such sessions are short lived.

Subsequent research by Berkman and Reenock (2004) adds to the macro-level punctuated equilibrium theory by addressing why periods of incremental change are not always followed by punctuations. Their work examined the reorganization of state administrative agencies over time. Although they found both comprehensive and incremental changes to state organizational structures, they did not find that incremental changes were always followed by punctuations. Instead, they concluded that “incremental
steps may be enough of a middle-level response to relieve internal political pressure that comes about . . . from the growing misalignment of design with demands” (Berkman and Reenock 2004, 810). In this way, incremental changes act like a pressure-relief valve instead of contributing to a buildup of pressure for punctuated change.

Additionally, the cyclicality of the policy process is widely understood and consistently communicated in most courses and textbooks on public policy. Indeed, a political matter is not settled merely because a law has been passed. Bureaucracies must implement that policy, and policy entrepreneurs (and the bureaucrats themselves) continue to work to achieve their desired policy outcomes. Moreover, the subsequent success or failure of implementation leads to feedback loops where policymakers turn their attention to implementation problems and adjust a policy over time. In this way, policy has a tendency to evolve after reaching the implementation stage and implementation may, in turn, have an effect on agenda setting (Majone and Wildavsky 1978; see also Sabatier 1986 and 1991 for reviews of the implementation literature).

The work by Bryan Jones and Frank Baumgartner on punctuated equilibrium has gained widespread attention in political science as a compelling macro-level explanation of agenda setting. Nonetheless, many quirks and deviations in a given macro-theory inevitably appear when examining actual cases of a particular process. Closer review permits better understanding of the occurrence of deviations that remain unexplained by macro-theory. The work of Berkman and Reenock (2004) is a good example. Finding both support for the macro-theory of punctuated equilibrium and cases where the expected outcome was not realized, they added to our understanding of how the theory plays out in real life. That is also the intent of this article, which affirms the usefulness of case studies. The contextual information they provide, particularly in cases where a macro-theory does not play out as expected, can enrich theoretical understanding.

Through use of a case study, the remainder of this article connects the process of electric-rate deregulation in Pennsylvania to the relevant literature. After first presenting some background information on electric-rate regulation in the United States and Pennsylvania, the article then addresses the opening and subsequent closing of a policy window for policy intended to mitigate rate increases due to the expiration of electric-rate caps, showing how rapid changes in the political and economic environments can quickly alter the government’s agenda and deflate the pressure for policy punctuation.

**Electric-rate Regulation in the United States**

Understanding the basic structure of the electric-power market is important for understanding how electricity has been regulated and
deregulated in the United States.1 The electric-power system has three primary elements: generation, transmission, and distribution. Generation involves the production of electricity from various sources, such as the sun, wind, coal, natural gas, and nuclear power. Demand for electricity is spread across the United States, but generation tends to be centralized. Therefore, the transportation of electric power (i.e., transmission), sometimes across great distances, is essential for matching supply with demand. Once the electricity arrives at the desired location, it is reduced to a lower voltage and distributed to residential, commercial, and industrial customers. Traditionally, electric-power companies controlled this entire supply chain (referred to as a vertical monopoly).

Regulation of the electric-power industry has its roots in a U.S. Supreme Court case about grain elevators (Munn v. Illinois 1877) where the Court ruled that the Fourteenth Amendment does not prevent states from regulating private property that affects the public interest. Through the Public Utility Holding Act of 1935 (PUCHA), regulation of electric power has become a shared responsibility of the national government and the states.2 The Federal Energy Regulatory Commission (FERC) regulates the wholesale market for electric power that involves interstate transactions between suppliers and retailers of electricity. After retailers procure electric power from wholesale markets, they sell it to end users through retail markets that are regulated by the individual states. The electric-power industry in Pennsylvania is regulated by the state’s Public Utility Commission (PUC).

More than 40 years after PUCHA subjected electric-utility holding companies to increased national and state regulation, the Public Utilities Regulatory Policies Act of 1978 (PURPA) started the process of electric-rate deregulation. PURPA was passed at the beginning of a sustained period of deregulation in the United States that touched a broad array of industries including transportation, natural gas, financial services, and telecommunications. The most significant national step toward electric-rate deregulation came with the passage of the Energy Policy Act of 1992 (EPAct), which opened the wholesale electric-power market to competition and encouraged the participation of independent generators of electricity. Although FERC could enable “all players to request access to new wholesale markets” (Public Utility Commission 1995, 15), it could not force deregulation of retail electricity markets that remained under state jurisdiction. In essence, states still held power over whether individual consumers could shop for their own power.

**Competition in Pennsylvania**

It did not take long for deregulation of the retail electricity market to take hold in Pennsylvania after passage of the EPAct. On April 14, 1994, the
Pennsylvania PUC started an investigation into the merits of deregulation in the Commonwealth. Before the PUC issued its report, the state’s House of Representatives passed what would eventually become the Pennsylvania Electricity Generation Customer Choice and Competition Act. On August 4, 1995, the PUC released a staff report concluding that partial deregulation of the electricity industry was prudent for Pennsylvania. Governor Tom Ridge stood behind deregulation and argued that low-cost electricity resulting from competition would serve as “an enormously powerful economic development tool” (Ridge 1996, 2; Ridge 1997, 2). On November 25, 1996, the Pennsylvania Senate approved the amended Act, the House concurred, and restructuring of the electric-power industry was signed into law by the governor on December 3, 1996. Pennsylvania thereby became the nation’s fourth state to restructure its electricity markets.

The electric-power market was only partially deregulated (i.e., restructured). The Act allows for competition among electric-power suppliers, but not for distribution or transmission. Monopoly control of these two aspects of electric-power supply and related regulation of distribution rates and transmission line sighting by the PUC are still in place. As a result of restructuring, the PUC was granted the additional authority to license competitive suppliers who wished to enter the marketplace. The PUC also negotiated restructuring settlements with each existing electric-power supplier in the Commonwealth. A key outcome of these negotiations was the implementation of caps on electricity prices charged by these providers of last resort. Rate caps were put into place “to ensure that the transition to competition didn’t lead to increased rates for consumers” (Ridge 1997, 4). In exchange for these caps, utilities were allowed to recover stranded costs for investments (e.g., new generation) that would be unwise or unnecessary in a newly deregulated environment.

Initially, Pennsylvania enjoyed much success with competition. Kiesling (2001) reports that customers saved $3 billion between 1999 and 2001 as electric-power rates fell by 3%. Kiesling (2001) also reports that 130 competitive suppliers operated in Pennsylvania in 2001, and 600,000 customers had switched to a competitive supplier. That same year, Pennsylvania’s deregulation program was ranked number one in the nation by the Center for the Advancement of Energy Markets.

Kiesling (2001) credits this success to multiple factors. The first is the level at which default-service prices and rate caps were set. Pennsylvania set higher default-service prices on the basis of “market models and forecasts” to encourage the entry of competitive suppliers (Kiesling 2001, 4). In addition, Pennsylvania had a rapid four-year phase-in of competition that allowed the benefits of increased competition and lower rates to be realized more quickly. Other factors that Kiesling (2001) credits with promoting competition were the lack of a divestiture requirement, which would have
forced utilities to sell off their generation (although many did anyway), and Pennsylvania’s participation in the PJM regional electricity market. In 2001, the PUC’s chairman, John Quain, noted that “before electric choice, Pennsylvania electric-power rates were 15% above the national average, and now our rates are 4.4% below the national average” (Office of the Governor 2001, 2). This success would prove to be short lived.

**Rate Mitigation and an Open Window**

Even though Pennsylvania enjoyed initial success with electric-power competition, the recession in 2001 and rising energy costs drove competitive suppliers out of the state. Figure 1 below illustrates this trend using data on customer shopping for electric power collected by Pennsylvania’s Office of Consumer Advocate. It shows the total number of customers—residential, industrial, and commercial—served by alternative suppliers from 1999 to 2011. Competition increased during the first three years of deregulation but then steadily declined beginning in 2002. Instead of turning to various competitors vying for business and providing lower prices, most customers simply relied on their original local distributor of electric power (i.e., providers of last resort) for purchasing their power.

Complex circumstances led to this situation. One major problem was the difficult economic environment that utilities faced after deregulation. Munson (2005, 173) writes that the recession that began in 2001 “curtailed

**Figure 1**

*Total Number of Customers (All Types) Served by an Alternative Electric Supplier, 1999-2011.*
power demand and put enormous financial pressure on entrepreneurs and others thinking of entering the power business.” Following directly on the coattails of this recession were dramatic increases in the price of fuels like natural gas, coal, and oil. This price increases caused a significant rise in the cost to produce a kilowatt of electricity (see Edison Electric Institute 2006a and 2006b; Edison Foundation 2006). According to the PUC, while natural gas prices increased 88.2% and coal prices rose 91% from 1996 to 2006, the average price for electricity in Pennsylvania increased only 6.53% (Public Utility Commission 2008a). Artificial rate caps thus kept electricity prices stable for consumers while simultaneously creating an artificial price ceiling that drove out competitive suppliers.

The impact of economic conditions and weak competition on electricity rates became clear as rate caps began to expire across the state. In 2002, Duquesne Light customers saw a 20% decrease in the cost of their electric power when the company’s rate caps expired. The drop was steep because Duquesne charged one of the nation’s highest rates for electricity until deregulation and thus had an unusually high cap. Furthermore, the expiration occurred in the midst of the recession during the early 2000s and before the subsequent rise in energy prices. In contrast, by the time Pike County Light and Power’s rate caps expired in 2006, competition was tepid and energy costs had spiked because of the devastating effects of Hurricane Katrina. Consequently, Pike County’s customers saw an increase of roughly 70% in their electric-power costs. Pennsylvania Power residential customers also saw their rates rise 20%–30% after their caps expired in 2006.

These large rate increases occurred during a period of what Baumgartner and Jones (2009) call “parallel processing” when multiple smaller organs of government are working on an issue and making incremental changes within their jurisdiction. Pike County Light and Power’s experience showed that the remaining 85% of the state’s consumers who were under rate caps could face substantial rate increases in 2010 and 2011 when the remaining caps expired. While awareness of this issue increased, parallel processing continued. For instance, in the lead up to rate-cap removal the PUC proposed a statewide consumer education campaign that would be a joint effort of the PUC and default electric-power suppliers. Legislative proposals and hearings on strategies for mitigating rate increases became serious after Sonny Popowsky, Pennsylvania Consumer Advocate, announced in May 2008 that rate increases for the five remaining capped companies would likely range from 8% to 63% (Levy 2008a).

The growing reality that rate-cap expiration in an unfavorable economic environment with limited competition would cause double-digit rate increases spurred the state government to consider rate mitigation strategies. In fact, Governor Ed Rendell called for a special session on energy during the 2007–8 legislative session. The window was open as
Pennsylvania’s government moved from parallel to serial processing of the rate-cap issue. During this time, state officials proposed four approaches to rate-cap expiration: reregulation, rate-cap expiration, rate-cap extension, and legislative phase-in. Each of these potential solutions is recognizable within the agenda setting framework outlined above.

**Reregulation**

Of the four options, reregulation of the electricity industry most closely resembles Baumgartner and Jones’s (2009) idea of policy punctuation. It is also a substantial enough policy response that it could be explained using the elements of Kingdon’s (2003) garbage can model. Reregulation would require considerable state attention and resources and would therefore be a major shift in policy. To unwind deregulation completely, utilities would have to repurchase electricity generation facilities so that the original vertical monopolies could be restored.

Given the political and economic costs, full reregulation was not widely promoted in Pennsylvania. Apt, Blumsack, and Lave (2007, 78) argued that a return to a fully regulated electric-power industry in Pennsylvania “would send electricity prices skyrocketing” because of utility buyback of power plants. Moreover, utilities would revert to being fully regulated by the PUC and lose the opportunity to earn greater profits in the free market. A profit-driven corporation clearly would not favor this option. Even though this approach would have been a clear punctuation, there was never enough political pressure for such a change.

A less drastic option that still includes increased state regulation of the electricity market was presented as an alternative to reregulation. It involved the creation of a state Power Authority that would essentially become an alternative supplier of electricity along with the development of a long-term plan for financing the construction of new generation in an uncertain marketplace. This option garnered more political support in Harrisburg than did full reregulation. In fact, Representative Camille “Bud” George (D–Clearfield) introduced legislation in 2008 and 2010 that would have created such an authority. PUC’s vice-chairman, Tyrone Christy, was a vocal proponent of this option (PA House 2009b), but he was fairly alone in the endeavor (see, e.g., Powelson 2010).

**Rate-cap Expiration**

At the opposite end of the policy spectrum from reregulation, the second option for the General Assembly was simply to do nothing and allow deregulation to run its course. This option would have put state government back into a parallel processing of the problem, leaving rate-cap mitigation to
agencies like the PUC and related committees in the General Assembly that could pass less comprehensive mitigation policy. Utilities were particularly supportive of this option, as they would be able to charge market rates for power that exceeded their negotiated rate caps. In addition, new suppliers were anxious to set up shop in Pennsylvania. In fact, PUC’s chairman, James Cawley (2009, 3), reported that “suppliers have told our Commission that they are eager to enter . . . service territories in Pennsylvania beginning [in 2010].” Proponents assumed that competition would drive down electricity prices in the medium to long term (Apt, Blumsack, and Lave 2007). Accordingly, industry was firmly behind the status quo.

In terms of political support, there were proponents of rate-cap expiration on both sides of the aisle in Harrisburg. To be sure, Democrats in the House and Senate were more skeptical than Republicans about deregulation. Governor Rendell also generally supported the state completing the deregulation process, although he saw the need for some type of rate increase mitigation. In their testimony before the Assembly, PUC’s Chairman Cawley and Commissioner Powelson vigorously supported electric-power deregulation. Outside of state government, interest groups representing utilities, such as the Electric Power Generators Association, actively and vocally advocated deregulation. Altogether, the diverse support for deregulation created a large hurdle for advocates of rate increase mitigation strategies like rate-cap extension and a state-mandated phase-in.

Rate-cap Extension

The option to extend rate caps resembles the pressure-release-valve idea inspired by Berkman and Reenock (2004). It would have provided short-term mediation of rate increases and given the General Assembly more time to develop a long-term solution to volatile electricity rates. The downside was that rate caps would remain barriers to entry for alternative suppliers and thus inhibit the development of new competition. As PUC’s Chairman Cawley noted in testimony, “you can only defy gravity for so long” (General Assembly 2008a, 18). He argued that extending rate caps would have made the situation worse later. Indeed, others argued that utilities would pay a substantial cost for each additional day that rate caps were retained (Fumo 2008) and that artificially low prices result in the “over-consumption of electricity” (Fitzpatrick 2008a).

California was often cited by opponents of rate-cap extension as the worst-case scenario of this policy option (see Crutchfield 2008; Fitzpatrick 2008a; Lesser 2007; Tierney 2008). California has traditionally been a net importer of electricity from neighboring states because it uses more electricity than it produces. During deregulation the state required utilities to divest their generation components and buy power solely from the spot
market rather than through more stable long-term contracts. By 2001, California was facing rising wholesale market prices, increased consumer demand, and capped electricity rates that caused utilities to pay more for power than they could recover. California was not the only state experiencing increased electricity demand. Facing similar difficulties, neighboring supplier states could not meet California’s increased demand. Worse, a shortage of transmission capacity prevented power from traveling to the places where it was needed most. As a result, an electric-power crisis rocked California with rolling blackouts and the bankruptcy of major electricity distributors (Hirst 2001). Forced to intervene to keep the lights on, the state has moved toward reregulation. Although Pennsylvania was arguably in a better position in 2008 than California was in 2001 (see EPGA 2001), there was fear that “the extension of rate caps . . . would bankrupt the transmission and distribution elements of energy, causing undue burden on the industry and consumers alike” (Powelson 2008, 6). This fear was pervasive among industry leaders and regulators.

Despite opposition from regulators and industry alike, there was political support in Harrisburg for rate-cap extension. In 2008, Senate Democrats threatened to “pass a bill to continue the freeze of rates at 1990 levels” if the utilities did not find a way to provide $5 billion in rate mitigation (Levy 2008b). Representative George introduced legislation in the House that would have extended rate caps for 54 months. Senator Lisa Boscola (D–Northampton/Lehigh/Monroe) introduced companion legislation in the Senate. Finally, Governor Rendell expressed support for this policy option as a last resort if no other rate mitigation strategy was put in place. He warned that “if solutions . . . are not approved, the pressure to simply extend the current rate caps will be overwhelming, and none of us here today will be able to resist that pressure, nor should we. Consumers must be protected one way or another. That is our job and we must do it” (General Assembly 2008b, 12–13). Thus, there was a potential well of political support for rate-cap extension in both houses of the General Assembly as well as in the governor’s mansion.

Legislative Phase-In

On July 1, 2008, State Senate Democrats Vince Fumo (Philadelphia), Lisa Boscola, Jim Ferlo (Allegheny), and Sean Logan (Allegheny/Westmorland) held a press conference at which they proposed an alternative pressure-release device to rate-cap extension. It involved a phase-in of electric-power rates. According to the senators, “the purpose of the phase-in is to prevent financial hardship and damage to the state economy” (Fumo 2008, 14). A phase-in allows customers to “adjust to higher prices gradually by introducing increases over a number of years rather than all
at once” (Fitzpatrick 2008b). The Senate Democrats specifically proposed a mandatory phase-in of electric-power rates that would last five years and would not allow the utilities to recover the revenue lost during the rate-raising period. The goal was to phase in the rates “without transferring additional cost to ratepayers” (Fumo 2008, 14).

Alternatively, while the General Assembly considered a state-mandated phase-in, the PUC was allowing utilities to propose their own voluntary phase-in plans. Such plans would allow utilities to defer recovery of revenue lost during the phase-in and collect interest on the deferred amount. The cost of the transition would thus be placed on the ratepayers rather than be absorbed by the utilities. The key question in this debate was who would pay for the phase-in of rates. The utilities and their supporters made clear that they would challenge any mandated phase-in that did not allow them to recover full payment for the electric power they supplied (see Dagan 2008; Fitzpatrick 2008a). For example, in testimony before the House Consumer Affairs Committee (2008, 101), Steve Feld of FirstEnergy alluded to potential “constitutional issues” arising from a “failure to allow a full implementation of the power-procurement costs the utilities will incur [from a phase-in of rates].”

Although the utilities supported voluntary phase-in plans, some interest groups doubted their effectiveness. Local representatives of the American Association for Retired Persons (AARP) testified in support of the voluntary phase-in approach, but they regarded it as the minimal policy option. They spoke of the extra measures necessary to reach out to elderly citizens because “it is difficult for older people to understand [the] options” (General Assembly 2009a, 26). Effectively reaching vulnerable populations like the poor and elderly was challenging for voluntary phase-in plans run by utilities, for such people would not register for a voluntary program that would cost them more in the long run as utilities recovered deferred costs.

As a compromise, Philadelphia’s Mayor Michael Nutter suggested a state-mandated rate phase-in allowing utilities to collect “the difference between the capped rate and the market rate . . . over several future years” (Nutter 2008, 3). Consumers would be required to pay interest to utilities for deferred costs, but the costs would be spread among all users. Politically, Nutter’s proposal appeared to be a good compromise between the competing demands of advocates of deregulation and supporters of rate mitigation. Alas, changes in the economy and legislative attention rendered such a compromise moot.

The Window is Shut

At a legislative hearing in February 2008, Representative Carole Rubley (R–Chester/Montgomery) called rate caps on electric power “one of
the most important issues our residents throughout the state are going to be facing in the next few years” (General Assembly 2008b, 75). Not apparent at the time was that the substantial recession that had already begun in the United States would change the economics and politics of deregulating electric power in Pennsylvania. The recession proved to be the release required to dissipate political pressure on the rate-cap issue and prevent policy punctuation.

The deep global recession in 2008 and 2009 brought a subsequent drop in the price of electricity that was particularly stark given the record-setting heat of the summer of 2008. Figure 2 below shows a plot of the weighted average wholesale price of electricity for PJM West (Pennsylvania) between 2007 and 2010. A smoothed trend line shows price movement during that time. The ramp-up and subsequent collapse of the cost of electric power in the wholesale market during 2008 is clear. Overall, the price recovered slightly before remaining relatively steady through the expiration of the remaining rate caps.

Figures 3 and 4 below illustrate how the recession and changes in the wholesale price of electricity affected retail prices in Pennsylvania. Both figures are drawn from spot estimates of rate increases for residential customers that were calculated by the PUC for the utilities whose rate caps expired in 2010 and 2011. Figure 3 shows the estimates for each provider of last resort. All the territories experienced downward pressure on their estimates as a result of the 2008 recession; PECO customers even went from estimated double-digit increases to single-digit decreases in their rates.

![Figure 2](image_url)

*PJM West (Pennsylvania) Weighted Average Prices, 2007-2010.*
Allegheny Power went from the highest estimated increases to the second lowest in less than a year.

Figure 4 shows the average rate increase for residential customers in Pennsylvania, as calculated by the PUC. These data clarify how expectations for increases in electricity prices changed across the Commonwealth following the imposition of rate caps. The average increase dropped dramatically from a high of 73% in June 2008 to a range of 8%–20%. This rate drop reduced the fear of large increases typified by the OCA’s spring 2008 projections. In fact, the PUC encouraged utilities to speed up procurement of long-term contracts from the wholesale market to lock in favorable prices and thus reduce increases in electric-power rates following the imposition of rate caps (Powelson 2009). As a result of all these factors, the dire situation that had drawn attention in 2007 and the spring of 2008 had changed substantially by the fall of 2008.

While rate mitigation continued to receive media and political attention in the Commonwealth in 2009 and 2010 (e.g., Tom Knox centered his 2010 gubernatorial campaign on the issue), most attention rapidly refocused on the economic downturn and its effects on state revenues and spending. The depth of the recession meant that Harrisburg could not simply spend its Rainy Day Fund to ride out the storm. Indeed, deeper cuts were necessary across multiple budget years.9

The protracted state budget battle in 2009 is a good example of how the poor budgetary environment affected issue attention. The Commonwealth
faced a projected $3 billion budget deficit and a closely divided government with the Senate in Republican control, a slim Democratic majority in the House, and lame-duck Democrat Ed Rendell in the governor’s mansion. As a result, the Commonwealth endured a 101-day budget impasse between Governor Rendell and Senate Republicans. As Senator Pat Vance said in November 2009, the budget process “sucked the oxygen out of every issue” (Seltzer 2009). Little will was left to tackle major legislation like rate-cap mitigation.

Data from the Pennsylvania Policy Agendas Project prove that Pennsylvania’s agenda shifted drastically with the recession. One of the datasets includes a random sample of daily press clippings from the governor’s press office that indicates what the press was covering and which issues the governor’s office deemed important on a given day. Figure 5 below tracks attention to economic and energy issues from 2007 to 2010. Figure 5 shows that even though attention to energy issues spiked a bit in 2007 and generally remained higher than attention to economic issues in fall 2007 and spring 2008, attention clearly shifted to economic issues as the recession became more severe in late 2008 and early 2009. The economy again becomes highly salient during the budget battle in 2009. These data show that attention to the economy far surpassed attention to rate-cap mitigation during its most important period. By January 2011 all the remaining rate caps had expired.

Although the Commonwealth was unable to pass a comprehensive rate increase mitigation strategy, it did not stop working on the issue. In fact,
the PUC and relevant committees in the General Assembly continued to process the issue jointly, even as the Commonwealth was more attentive to economic issues. As can be expected from parallel processing, these actions were incremental. For example, the PUC required utilities to provide individual education plans to consumers, it encouraged default suppliers to speed up their procurement of power contracts after rate caps were imposed so as to capitalize on lower electricity prices, and it approved voluntary rate phase-in plans proposed by the electric-power companies (see Powelson 2009; Public Utility Commission 2008b; 2008c; 2009a). These measures allowed the PUC to work within its jurisdiction to enact incremental change. In addition, the General Assembly passed two laws during the special session on energy that concerned the promotion of alternative energy in the Commonwealth. Finally, Act 129 of 2008 required electricity utilities to create plans for reducing electricity consumption, thus reducing demand pressure within the market. All these policies were incremental and promote long-term reductions in rates through investment in new technology and reduction in demand.

**Conclusion**

Electric-power deregulation policy in the United States continues to provide political scientists with insight into significant theoretical concepts.
The history of deregulating electric power in Pennsylvania presented here leads to important conclusions regarding the broader theories of punctuated equilibrium and the interaction between policy implementation and agenda setting through feedback loops. In terms of punctuated equilibrium theory, Pennsylvania is a case where a reasonable expectation for policy punctuation was not realized. After the drastic rate increases experienced by Pike County Light & Power and the subsequent dire projections by the OCA for the remaining 85% of Pennsylvania’s electricity consumers, Harrisburg turned its attention to rate mitigation. With the special session on energy, the General Assembly appeared to be in serial processing mode, and calls for action were coming from multiple actors. Yet the rapid shift in public attention to the economy in the fall of 2008 deflated the apparent pressure for punctuation. This finding builds on the idea of Berkman and Reenock (2004) that punctuations do not always follow periods of stability where policy becomes misaligned with preferences. Indeed, shifting environmental factors (e.g., the economy) that are beyond government control can deflate this pressure.

This finding also supports aspects of Kingdon’s (2003) garbage can model, such as policy windows, entrepreneurs, and focusing events. The window for governmental action opened when attention focused on the potential for double-digit price increases for electricity after the expiration of rate caps. Meanwhile, policy entrepreneurs from inside and outside of government worked to draw attention to the four policy options described above. Unfortunately, another major focusing event—the recession—drew governmental attention away from rate caps and slammed the policy window shut. Yet that is not the entire story. The PUC and committees of the General Assembly were still able to parallel-process the policy and produce incremental changes to address rate-cap mitigation, thus confirming the argument of Baumgartner and Jones (2009) that models of large policy change like Kingdon’s (2003), as well as models of incremental change (e.g., Lindblom 1959), do not fully capture the dynamics of attention in American policymaking.

Finally, this case study of the implementation of electric-power deregulation in Pennsylvania affirms the notion that policy is often evolutionary. Indeed, a relationship exists between the final implementation stage of the process and the initial agenda-setting stage. In fact, deregulation of electricity rates in Pennsylvania is particularly well suited as a case study of this phenomenon because there was a 15-year gap between the passage of the Choice Act and the expiration of the final rate caps. Even though the early process of implementing retail electric-power choice was fairly smooth, misalignment between capped and market rates went largely undetected until rate caps expired for Pike County Light & Power and Pennsylvania Power in 2006. The attention of state government was drawn
to this potential implementation problem and deregulation found itself back on the agenda. Through the incremental policy changes made by the PUC and the General Assembly, deregulation evolved somewhat to account for this growing problem.

In a field that has most recently been celebrating macro-level theories that explain the aggregated actions and outcomes of our political system (e.g., Erikson, Mackuen, and Stimson 2002), this article shows the continued usefulness of the much maligned case study for testing and building on broader theory. Although these theories prove to be robust in explaining the norm, practical politics is not always normal. This case study reveals how policy punctuations do not always occur when expected by examining temporal variation in attention (see Gerring 2004). By using a case study to determine how deregulation policy and issue attention in Pennsylvania changed over time, this article augments broader theories of agenda setting, thereby demonstrating that case studies remain an important research method in political science.

Notes

1 For a more comprehensive explanation of the electric-power industry, see Philipson and Willis (2006).

2 PUCHA was a response to the collapse of large electric-utility holding companies during the Great Depression. Before the Depression, holding companies had absorbed many smaller electric utilities into much larger corporations. This development resulted in fiscal mismanagement and high rates for customers, as well as control by 19 holding companies of 90% of the electric-power providers in the United States. See Energy Information Administration (1993) for a more detailed history of PUCHA.

3 The law was passed on June 12, 1995, as House Bill 1509.

4 Discrepancies in totals for April 1, 2003, and October 1, 2003, are due to addition errors in OCA reports (see Office of Consumer Advocate 1999–2011).

5 Two clear outliers require additional explanation. The spike in competition on April 1, 2001, is the result of PECO’s electric-power restructuring agreement. The plan required that 300,000 residential customers not already being served by a competitive supplier be randomly selected and switched to the New Power Company’s Competitive Discount Service. Customers could then either opt out of the program or choose an alternative supplier without any penalty. The New Power Company left Pennsylvania in 2002 and PECO absorbed its 180,000 remaining customers. The smaller jump, reflected in the OCA report of January 1, 2004, is attributable to PECO’s Market Share Threshold Program, which required PECO to “turn over” a portion of its customers to a competitive supplier as a stipulation in the settlement of the merger between PECO and Unicom (Henderson 2004, 3). This requirement provided a short-term bump in competition that returned to the normal rate of decline after customers switched back to PECO.

6 Fuel prices were not the only driver of increased production costs for electric generators. Other factors included environmental regulations, construction costs for new generation, infrastructure investment, and political uncertainty regarding proposed regulations (see Electric Power Generation Association 2008).

7 Quotation from Senator Robert J. Mellow (D–Lackawanna).

8 These are spot estimates rather than projections, meaning that had rate caps suddenly been removed in June 2008, for example, electric rates for Allegheny Power’s
residential customers would have more than doubled. This does not mean that the PUC was projecting in June 2008 that Allegheny’s rates would double in 2011. For this reason, the PUC’s spot estimates are useful for tracking how the retail price of electricity in each territory was changing between 2008 and 2011. See Public Utility Commission 2009b; 2010).

9 See Schlosstein (1975) on how state fiscal responses differ according to the depth of a recession.


11 Because the number of press clippings varies over time, the absolute number of clippings on a given topic is not useful. Therefore, like the Agendas Project recommendation, I used the proportion of the total news coverage in a given month for each topic to generate Figure 5. See http://www.temple.edu/papolicy/DatasetDescriptions.htm#NewspaperArticles.

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WHERE WAS THE ELECTRICITY?


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