Act 129 Fuel Switching Working Group

Reply Comments of Metropolitan Edison Company, Pennsylvania Electric Company and Pennsylvania Power Company March 12, 2010

Metropolitan Edison Company, Pennsylvania Electric Company and Pennsylvania Power Companies ("the Companies" or "FirstEnergy") submit these reply comments regarding the Act 129 Fuel Switching Working Group subcommittee cost-benefit analysis of fuel switching programs. These reply comments address the comments filed by various parties on February 12, 2010 and the discussion of those comments during the February 26, 2010 meeting of the Fuel Switching Working Group.

The Commission commenced a Fuel Switching Working Group ("FSWG") in June 2009 in relation to the Technical Reference Manual ("TRM") proceeding at Docket No. M-00051865 to identify, research and address issues related to fuel switching with the possibility of its inclusion in future versions of the TRM. The Commission directed the FSWG to provide recommendations by March 31, 2010 and whether changes to the TRM or Total Resource Cost Test are justified.

After reviewing the comments of other parties and participating in the discussion of those comments, FirstEnergy maintains their strong belief that the Commission should: (1) continue to direct that fuel switching programs are ***voluntary*** and not mandate the inclusion of broad based fuel switching programs in EE&C Plans going forward; and, (2) to the extent the fuel switching measures are to be considered, provide regulatory guidance as to efficiency standards for eligible gas equipment (i.e., standard efficiency or better than standard efficiency) and avoided cost treatment for gas and other alternative fuel sources.

The Companies adduced evidence for this position in the comments filed February 12, 2010. However, the discussion of the comments on February 26, 2010, identified two major areas of uncertainty regarding fuel switching programs that the Companies comment on here. These areas of uncertainty pertain to: (1) the potential savings from fuel switching programs; and, (2) the incentives required to induce customers to switch fuels.

The discussion of the potential for fuel switching programs during the February 26, 2010, meeting indicated that there is uncertainty about the magnitude of the potential for savings that could be realized with a fuel switching program. The discussion during the meeting indicated that natural gas already has been garnering a major market share in the new construction market. The potential savings for fuel switching would therefore come from a change to natural gas use from electricity use for existing homes. The number of electric-using customers with the ability and desire to switch from electricity to gas is not known. The Companies have not conducted any targeted surveys addressing this issue. Collecting such information would be appropriate before any fuel switching program(s) could be reasonably formulated. What is known (as discussed in the Companies' comments of February 12, 2010) is that there is strong evidence that the energy use for water heating, space heating and clothes drying for households using electricity is noticeably lower than for households using gas, making their potential for savings lower[1].

In addition, FirstEnergy believes it is important to point out that the FSWG initially agreed that any fuel switching measure, if permitted by the Commission, should be fuel neutral. The only examples set forth by the subcommittee and commented on to date addressed natural gas technologies and no other substitute fuels have been considered. To optimize choice for customers, including those without access to natural gas, it is vital for the FSWG to consider other fuels such as propane or oil.

Another topic of concern regarding fuel switching programs pertains to the incentives that would need to be offered to households. In the analysis presented in FirstEnergy's comments of February 12, 2010, it was shown that the payback from a customer's perspective for switching from electricity to natural gas for water heating was less than six months. Thus, incentives to promote electric to natural gas fuel switching for water heating may not be needed. On the other hand, based on the numbers used for the space heating cost-benefit analysis, the payback from a customer's perspective from switching from electric to natural gas for space heating would be nearly 20 years. This implies that a considerable incentive would be needed to induce households to make the fuel switch for space heating. Again, obtaining survey information regarding the ability and willingness of the Companies' customers to switch from electricity to natural gas would be necessary to consider what incentives would be required to support a viable program. The Companies intend to follow through with tracking fuel switching information as directed by the Commission via Order entered on October 28, 2009 at Docket Nos. M-2009-2092222, M-2009-2112952 and M-2009-2112956.

Given these uncertainties regarding market potential and required incentives, as well as the points made in the comments of February 12, 2010, by the various parties, the Companies continue to urge the Commission to make the consideration and inclusion of fuel switching programs in the EE&C Plans ***voluntary***.

Respectfully submitted,

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[1] The "snapback" effect of fuel substitution programs involving increased energy use associated with a reduced price commodity is likely a material factor in the net savings associated with any fuel substitution program.