

ACT 129 FUEL SWITCHING WORKING GROUP

REPLY COMMENTS OF SUSTAINABLE ENERGY FUND

Sustainable Energy Fund (SEF) submits these reply comments in response the ACT129 Fuel Switching Working Group.

Although much of the working groups debate has been focused on point source utilization of natural gas SEF views the issue of fuel switching beyond natural gas to include other sources of energy such as biomass, propane, solar thermal systems, photovoltaic's and micro-hydro. By secretarial letter dated December 10, 2009 the Commission directed the Fuel Switching Working Group to provide recommendations as to (1) appropriate treatment of fuel switching in context of ACT 129 (2) whether revision to the TRM or (3) whether revisions to the TRC are warranted.

SEF asserts that (1) it is appropriate to utilize alternative fuels (sources of energy) to meet the reduction goals within ACT129 of 2008 provided they are mechanisms that move Pennsylvania towards a more environmentally sustainable energy future, (2) revisions to the TRM are warranted to reflect common conversions such as electric resistance space heating to high efficiency natural gas equipment and (3)the current TRC equation itself is appropriate for fuel switching but additional specificity is required on items such as forward fuel price assumptions.

EDC Market Share, Revenue Gain or Loss

In creating ACT129 the legislator found that

THE HEALTH, SAFETY AND PROSPERITY OF ALL CITIZENS OF THIS COMMONWEALTH ARE INHERENTLY DEPENDENT UPON THE AVAILABILITY OF ADEQUATE, RELIABLE, AFFORDABLE, EFFICIENT AND ENVIRONMENTALLY SUSTAINABLE ELECTRIC SERVICE AT THE LEAST COST, TAKING INTO ACCOUNT ANY BENEFITS OF PRICE STABILITY OVERTIME AND THE IMPACT ON THE ENVIRONMENT.

IT IS IN THE PUBLIC INTEREST TO ADOPT ENERGY EFFICIENCY AND CONSERVATION MEASURES AND TO IMPLEMENT ENERGY PROCUREMENT REQUIREMENTS DESIGNED TO ENSURE THAT ELECTRICITY OBTAINED REDUCES THE POSSIBILITY OF ELECTRIC PRICE INSTABILITY, PROMOTES ECONOMIC GROWTH AND ENSURES AFFORDABLE AND AVAILABLE ELECTRIC SERVICE TO ALL RESIDENTS.

IT IS IN THE PUBLIC INTEREST TO EXPAND THE USE OF ALTERNATIVE ENERGY AND TO EXPLORE THE FEASIBILITY OF NEW SOURCES OF ALTERNATIVE ENERGY TO PROVIDE ELECTRIC GENERATION IN THIS COMMONWEALTH.

A key provision of the ACT is the requirement that larger EDC's manage Energy Conservation and Efficiency Programs which are **funded by ratepayers for the benefit of ratepayers** and Citizens.

First Energy's Commented that "If the Commission were to mandate fuel switching programs, it clearly would tilt the playing field and facilitate the gas companies' attempt to use Act 129 to leverage success in the competition for heating customers."¹ This comment epitomizes what this debate is not about and puts forth an assumption if true has an inverse that has already disadvantaged more environmentally friendly providers of energy sources for heating such as natural gas, solar thermal and biomass providers.

The debate as framed by both ACT 129 and PUC Secretarial Letter issued Dec. 10, 2009 is not about the competition between electric and gas distribution companies for heating customers but about the health, safety and prosperity of Citizens throughout Pennsylvania. The legislator clearly understood that the implementation of energy efficiency and conservation measures would impact the distribution revenues of utilities and put forth in 66 Pa.§2806.1 (K)(2)

EXCEPT AS SET FORTH IN PARAGRAPH (3), DECREASED REVENUES OF AN ELECTRIC DISTRIBUTION COMPANY DUE TO REDUCED ENERGY CONSUMPTION OR CHANGES IN ENERGY DEMAND SHALL NOT BE A RECOVERABLE COST UNDER A RECONILABLE AUTOMATIC ADJUSTMENT CLAUSE.

If the spirit and intent of ACT129 is realized the weather adjusted average consumption per household should decrease overtime; this declining consumption if realized will result in decreased distribution revenues per household for EDC's who use traditional two-part tariffs.

First Energy's statement asserts that mandatory fuel switching programs would "tilt the playing field" when competing for heating customers. If this assertion is true then the inverse must also be true; if an EDC offers incentives to install high efficiency electric heating equipment in new construction homes the incentives by nature have altered the decision process in favor of electric heating equipment. Additionally there is no provision of ACT129 that protects an EDC's market share of heating equipment.

SEF asserts that issues such as market share; revenue gains or losses for EDC's are irrelevant to the work of this group and in the determination of the (1) appropriate treatment of fuel switching in context of ACT 129 (2) whether revision to the TRM or (3) whether revisions to the TRC are warranted.

Rebate Amount

The TRC Test Order at M-2009-2108601 clearly states in section (d) Incentives Payments From an EDC that "Incentive payments from an EDC to a customer would not be included in the TRC test because such costs would be a cost to the EDC and a benefit to the customer that would cancel each other out."

Although rebate amounts are relevant in the context of each EDC's EE&C plan the amounts are irrelevant to this working group in determining the cost-effectiveness of fuel switching measures.

¹ Act 129 Fuel Switching Working Group Comments Edison Company, Pennsylvania Electric Company and Pennsylvania Power Company February 16, 2010. Page 1.

Public Utility Law Project

SEF supports the comments of the Pennsylvania Public Utility Law Project in that replacement of broken down space heating equipment provides both an economic and societal benefit.

Keystone Energy Efficiency Alliance

SEF supports comments by the Keystone Energy Efficiency Alliance specifically natural gas local distribution companies should be encouraged by the Commission to file natural gas conservation plans that move customers towards more efficient equipment.

Conclusion

SEF asserts that (1) it is appropriate to utilize alternative fuels (sources of energy) to meet the reduction goals within ACT129 of 2008 provided they are mechanisms that move Pennsylvania towards a more sustainable energy future, (2) revisions to the TRM are warranted to reflect common conversions such as electric resistance space heating to high efficiency natural gas equipment and (3) the current TRC equation itself is appropriate for fuel switching but additional specificity is required on items such as forward fuel price assumptions.

Comments such as those by First Energy identified above raise concern that even if the Commission permitted fuel switching that there may be significant resistance by some EDC's to offer and implement effective fuel switching programs. Since the EE&C programs are funded by the ratepayer for the benefit of the ratepayer, only managed by the EDC, cost-effective fuel switching programs should be offered side by side with comparable electric programs. SEF recommends the Commission direct EDCs that offer efficient electric space heating or water heating equipment programs to offer comparable programs that provide equivalent incentives for ratepayers choosing a competing energy source such as biomass, solar thermal or natural gas. If an EDC does not offer space heating or water heating equipment programs as part of its EE&C Plan than it should not be required to offer an equivalent fuel switching program. This methodology will provide the ratepayer with an opportunity to evaluate their specific situation and determine which energy source best meets their needs while at the same time reducing electricity consumption and demand.

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