

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Investigation of Conservation, Energy :  
Efficiency Activities, and Demand Side :  
Response by Energy Utilities and Ratemaking : Docket No. M-00061984  
Mechanisms to Promote Such Efforts :

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COMMENTS of  
THE ENERGY ASSOCIATION of PENNSYLVANIA

*To Proposed DSR Working Group Report Draft Outline*

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## I. INTRODUCTION

By Order entered October 11, 2006, the Public Utility Commission ("PUC" or "Commission") initiated an investigation of (a) current efforts of Pennsylvania energy utilities to assist consumers to reduce usage, increase energy efficiency and implement demand side response programs and whether additional cost effective and reasonable steps can be taken to increase those efforts materially; (b) whether Advanced Metering Infrastructure should be developed by Pennsylvania utilities; and (c) whether revenue decoupling or other similar mechanisms are necessary or appropriate to assure that energy utilities, and in particular natural gas utilities, aggressively encourage and implement conservation and energy efficiency in their service territories, and whether such mechanisms are fair to customers and otherwise in the public interest.

*See, generally,* Investigation Order, Docket No. M-00061984 at pp. 10-11. The Order further reconvened the DSR Working Group to, *inter alia*, study the issues outlined in this Order, solicit comments from Stakeholders, and provide specific recommendations at the conclusion of the investigation where working group consensus is attained. Where consensus is not achieved, the Order directs Commission Staff to develop a strawman proposal for Commission review and allow parties to comment on the staff recommendation.

Since entry of the Order, Commission Staff reconvened the working group, established a subgroup to address issues relating to revenue decoupling mechanisms, solicited information from energy utilities on current programs and/or pilots promoting

energy efficiency/conservation/demand side response and on in place advanced metering infrastructure and held a number of meetings with both the entire Working Group and Subgroup to present information and perspectives relevant to the Commission's objectives in this investigation. Based on the work to date, a DSR Working Group Report Draft Outline has been developed and circulated for review and comment.

The Energy Association of Pennsylvania ("EAPA") files the instant comments to the draft outline on behalf of the interests of its members, PUC-regulated electric and natural gas distribution companies.<sup>1</sup> The comments submitted do not discuss the distribution companies' perspectives on the substantive topics but suggest additional material, findings and/or discussion points for the DSR Working Group Report. It is the industry's understanding that, in this proceeding, there will be further opportunity to comment on the Working Group Report as well as any Staff developed strawman proposal submitted in the event consensus is not attained. *See*, Investigation Order at p. 11.

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<sup>1</sup> Members of the Energy Association of Pennsylvania are Allegheny Power, Chartiers Natural Gas Co., Citizens' Electric Co., Columbia Gas of PA, Dominion Peoples, Duquesne Light Co., Equitable Gas Co., Gasco Distribution Systems, Inc., Metropolitan Edison Co., National Fuel Gas Distribution Corp., PECO Energy Co., Pennsylvania Electric Co., Pennsylvania Power Co., Philadelphia Gas Works, Pike County Light & Power Co., PPL Electric Utilities/PPL Gas Utilities, UGI Utilities, Inc.-Electric Division, UGI Utilities, Inc.-Gas Division, UGI Penn Natural Gas, Inc., Valley Energy, Inc., and Wellsboro Electric Co.

## II. ADDITIONAL MATERIALS, FINDINGS and/or DISCUSSION POINTS

### A. Summary of Information Collected.

EAPA would include additional materials in this section of the Report such as the National Action Plan for Energy Efficiency, July 2006, facilitated by the U.S. Department of Energy and U.S. Environmental Protection Agency,<sup>2</sup> April 2005 and October 2006 ACEEE Reports, an article by Ken Costello, Brief Paper, Revenue Decoupling for Natural Gas Utilities published by the National Regulatory Research Institute, A Review of Distribution Margin Normalization as Approved by the Oregon Public Utility Commission for Northwest Natural by Daniel G. Hansen and Stephen D. Braithwait, Christensen Associates Energy Consulting, LLC (March 31, 2005) and the Joint Statement of the American Gas Association and the Natural Resources Defense Council on Energy Efficiency, July 2004.

### B. Findings

With respect to the proposed Findings in the Draft Outline, EAPA would expand Finding B and add the following statement:

The development of DSR/conservation programs and the promotion of energy efficient technologies should be individualized by utility service area to account for differences in weather, demographics and housing stock across the Commonwealth.

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<sup>2</sup> [http://www.epa.gov/cleanenergy/pdf/napee/napee\\_report.pdf](http://www.epa.gov/cleanenergy/pdf/napee/napee_report.pdf)

Further, EAPA suggests additional Findings E and F as follows:

- E. A variety of Stakeholders, including customer and environmental organizations, have recognized that current rate designs, particularly for natural gas distribution companies, create a disincentive for meaningful utility involvement in energy efficient efforts. Modifying ratemaking practices so as to align utility incentives with the promotion of energy efficiency and conservation has been implemented and is under consideration for natural gas distribution companies across the United States. Revenue decoupling mechanisms should not be banned in the Commonwealth and should be considered on a case-by-case basis where, and if, proposed by a particular Pennsylvania distribution company.
  
- F. The Electricity Generation Customer Choice and Competition Act as well as the Natural Gas Choice and Competition Act provide for full cost recovery of, *inter alia*, energy conservation programs. 66 Pa.C.S.A §§2804(8) & (9) and 66 Pa.C.S.A. §§2203 (6) & (8). Mandatory full cost recovery denotes timely cost recovery and may be implemented, as with universal service costs, through a reconcilable surcharge. *See, Final Investigatory Order Re: Customer Assistance Programs: Funding Levels and Cost Recovery Mechanisms, Docket No. M-00051923 (December 18, 2006).*

### C. Legal Authority

With respect to the Legal Authority referenced to support Commission action at the conclusion of the instant investigation, EAPA suggests including additional citations to 66 Pa.C.S.A. §§2804(8) & (9) and §2203 (6) as well as

expanding the language to read that "Commission must separately ensure that 'universal service and energy conservation' programs are available in each territory and funded through an appropriate cost-recovery mechanism designed to fully recover costs." (Additional language underscored).

Further, EAPA suggests replacing the word "direct" with the word "authorize" in paragraph C of the Legal Authority section.

#### D. Objectives

In general, EAPA understands the objectives of this Commission initiated investigation to be an identification of current efforts to reduce usage, to increase energy efficiency and to implement demand side response programs and to determine whether additional cost-effective and reasonable steps can be taken to increase current efforts materially; to determine whether AMI should be developed by PA electric distribution companies; and to determine whether revenue decoupling mechanisms, particularly for natural gas utilities, are both fair to customers and necessary and appropriate to assure that utilities aggressively encourage and implement conservation/energy efficiency in individual service territories. The Commission seeks specific recommendations based on a consensus reached by participants in the DSR Working Group and, in the event a consensus can not be reached, a strawman proposal from Staff.

Thus, in examining the Draft Outline, EAPA notes the following for inclusion and clarification:

1. "Non-quantifiable benefits" should not be included as an objective of either the current investigation or policies developed as a result of the investigation. Such "benefits" may be hard to identify, can not be measured and may prove to be a distraction from developing a consensus or specific recommendations for policies and/or programs promoting energy efficiency/conservation.
  
2. While existing programs in other states may have as an objective a reduction in demand or overall improvement in energy conservation, recommendations for specific program implementation should be tailored to the particular circumstances existing in any given service territory with emphasis on weather, demographics, housing stock and current usage patterns.
  
3. Moreover, establishing arbitrary targets for reduction in demand or improvement in overall energy conservation may not be the best means to measure program success. Rather success must be measured by examining whether established programs allow individual customers to voluntarily participate in demand side response, energy efficiency and conservation measures. If well advertised programs are made available to all customer classes for voluntary participation, a study could be conducted with respect to whether there is a material impact on wholesale energy prices and whether there is a quantifiable reduction in demand and improvement in overall conservation but program success cannot be based on these two criteria which are, to a large extent, outside the control of the Commission and the utilities.

4. With respect to AMI deployment, that the key determinant must be a cost/benefit analysis on a utility by utility basis. No barriers presently exist to prevent conservation by individual customers. Further, investigation of and specific recommendations of programs that encourage demand side response without the need for special metering, such as the 10/10 Program referenced in the Order should be included in the discussion points.

*See*, Investigation Order at pp. 6-7.

#### E. Implementation Issues

EAPA would suggest adding consideration of a policy statement as a means to implement recommendations developed through this investigation.

#### F. Funding and Cost-Recovery

EAPA contends that funding and cost-recovery mechanisms for conservation programs must provide for full and timely recovery as set forth in 66 Pa.C.S.A. §§2203(6) & (8) and 2804 (8) & (9). It is suggested, therefore, that the DSR Working Group Report Draft Outline include an additional reference to these statutory sections so as to provide a complete discussion of the Commission's authority to provide funding and cost-recovery to utilities which implement conservation/energy efficiency and demand side response programs.

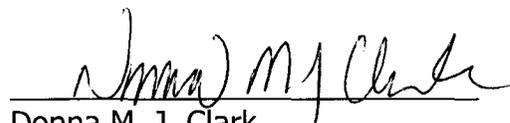
### III. CONCLUSION

The above comments are offered to supplement and clarify the DSR Working Group Report Draft Outline circulated by Commission Staff in advance of the February 23, 2007 Working Group meeting. The suggestions to add materials and include additional discussion points are designed to encourage a complete and thorough discussion of the issues under consideration in this Investigation. It is undisputed that energy efficiency and conservation by consumers is a means to reduce energy usage and to impact the price of energy by lowering demand. Such a policy, however, must be implemented in a cost-effective manner allowing for full and timely cost-recovery and encouraging full and voluntary participation by all rate classes of consumers.

Respectfully Submitted,



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