

Statement
of
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on behalf of the
INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA
and the
INDUSTRIAL CUSTOMER GROUPS
for the
PENNSYLVANIA PUBLIC UTILITY COMMISSION'S
En Banc **Public Hearing on**
"Alternative Energy, Energy Conservation and Efficiency, and
Demand Side Response"

November 19, 2008

The Industrial Energy Consumers of Pennsylvania ("IECPA"), Philadelphia Area Industrial Energy Users Group ("PAIEUG"), Met-Ed Industrial Users Group ("MEIUG"), Penelec Industrial Customer Alliance ("PICA"), PP&L Industrial Customer Alliance ("PPLICA"), Duquesne Industrial Intervenors ("DII"), Penn Power Users Group ("PPUG") and West Penn Power Industrial Intervenors ("WPPII") (collectively, "Industrial Customer Groups"), appreciate the opportunity to participate in the Pennsylvania Public Utility Commission's ("Commission" or "PUC") *en banc* public hearing regarding "Alternative Energy, Energy Conservation and Efficiency, and Demand Side Response." I am Pamela Polacek of McNees Wallace & Nurick LLC. McNees has the privilege of serving as counsel to IECPA and the Industrial Customer Groups.

IECPA is a 24 member ad hoc group of energy intensive industrial customers of electricity and natural gas. Members of IECPA consume 6 billion kWh of electricity, and more than 41,000 Pennsylvanians are employed by IECPA member companies. PAIEUG, MEIUG, PICA, PPLICA, DII, PPUG and WPPII are all ad hoc groups of commercial, institutional and industrial customers that participate in various proceedings before this Commission.

The Industrial Energy Consumers of Pennsylvania's Concerns

IECPA and other Industrial Customer Groups participated actively in the Commission's prior working groups on demand response, and we look forward to providing input to the Commission as it moves forward on these issues. Many larger customers are already engaging in Demand Side Response ("DSR") and conservation efforts because it makes economic sense. The efforts of some customers to independently explore DSR and Energy Efficiency ("EE") options creates concerns among some of our members regarding intraclass subsidization, especially among those that have already undertaken such efforts. A delicate balance must be achieved in program scope and costs, especially if the costs will be recovered from ratepayers

The Commission's list of questions for this hearing highlight important issues related to program evaluation and cost recovery that will impact customers. Act 129 provides some guidance on the issues of program design, evaluation and cost recovery for Energy Efficiency and Conservation programs. As mandated in the new act, these programs must be available equitably to all customer classes, thorough testing is required to ensure that a cost-benefit test is met and cost recovery must prevent interclass cost shifting. IECPA will review the various proposals discussed today and in the ongoing Act 129 implementation process, and will more thoroughly address those issues at the appropriate time.

My testimony today focuses on two issues that should be considered by the Commission in developing any DSR plan for the Commonwealth, regardless of whether that plan is statewide or Electric Distribution Company ("EDC")-by-EDC. Specifically, those two elements are maximizing the use of available State and Federal funding

mechanisms as part of the plan, and incorporating the PJM Interconnection, L.L.C. ("PJM") Load Response Programs ("LRPs") into the plan.

State and Federal Funding Sources

In July of 2008, Pennsylvania enacted Act 1 (Special Session House Bill 1), which resulted in \$650 million in grants and other subsidies for renewable and Energy Efficiency projects. Although not all of this funding is directed at customer Energy Efficiency projects, a significant portion of this amount is earmarked for such efforts. In addition, it is likely that there will also be additional emphasis on Energy Efficiency and similar issues at the Federal level after January 2009, when the new President and Congress are sworn in.

IECPA urges the Commission to closely examine whether and how funding mechanisms at the State and Federal levels can be incorporated into the DSR and EE plans developed for Pennsylvania to mitigate any funding requests that may be made to Pennsylvania consumers. If the rate caps on electricity are allowed to expire, customers in Pennsylvania will see very significant rate increases over the next 14-26 months. Those increases should not be compounded by asking customers to pay for EE and DSR programs if a portion of the costs can be avoided by accessing State or Federal funding sources.

PJM's Load Response Programs for Larger Customers

In addition, PJM's LRPs may be the most direct vehicle by which Large Commercial and Industrial ("C&I") customers can achieve the Commission's mitigation goals by reducing or shifting loads from periods when demand and prices for electricity are high to periods when demand and prices are low, thereby having a decisive effect on reducing overall wholesale energy costs both to the reducer as well as other consumers.

Retail customers can participate in certain PJM markets through an Electric Generation Supplier ("EGS") or Curtailment Service Provider ("CSP"), including the capacity market (*i.e.*, Reliability Pricing Model ("RPM")) and energy market. As shown in the chart below, participation in the RPM Capacity market has been strong, and may be expected to further increase because some of the customers on the legacy utility rates may not be able to participate at this time; however, proposals under consideration would significantly limit, if not eliminate, the Interruptible Load for Reliability ("ILR") program. Because customers have difficulty committing to load response three years in advance, it is important for customers to have the opportunity to participate in the RPM Capacity market on a near-term interval as authorized in the current ILR program.

Pennsylvania Demand Resource Participation in PJM's Reliability Pricing Model Capacity Market¹

	Interruptible Load for Reliability ("ILR")		Demand Resource Bidding into RPM Market (Three-Year Forward Obligation)	
	Sites	MW	Sites	MW
Allegheny Power	31	150.7	22	1.6
Duquesne	30	72.4	4	0.3
Met Ed	78	189.9	16	1.7
PECO	216	243.5	84	34.6
Penelec	49	78.8	24	1.6
PPL	171	333.5	40	4.1

PJM also runs an Economic Load Response Program ("ELRP"), which historically was very attractive, but is undergoing potential design changes in the PJM stakeholder process. A critical facet of the PJM demand response compensation for participation in the PJM energy market was full Locational Marginal Price ("LMP") payment for customers that respond above a certain threshold, which expired in the fourth quarter of 2007. Customers are now compensated at the LMP minus a generation and transmission offset. The statistics below demonstrate a marked diminution in participation in PJM's ELRP across the PJM footprint beginning in the first quarter of 2008, as settlements from before the compensation changed were still in queue for payment.² This general reduction in participation is remarkable given that PJM prices have otherwise increased from 2007 to 2008, which would suggest that there should be more demand response. The peak monthly DSR reduction in summer 2008 amounted to 40,554 MWh (July), while the peak monthly DSR reductions in summer 2007 was 49,454 MWh (August). This 18% reduction in ELRP participation occurred in 2008, even though average 2008 PJM wholesale prices were 25% higher than 2007 during the month of peak curtailments.

¹ See PJM Load Response Activity Report, at 2 (<http://www.pjm.com/committees/drsc/postings/2008-dsr-activity-report-july-31-2008.pdf>).

² Individual service territories may have months that depart from this general trend, such as the increase in activity in the PPL territory in July. Participation in any particular month can be influenced by factors in addition to energy prices, such as whether the incumbent utility exercises any rights to interrupt eligible customers under its tariff. In addition, many customers' decisions to voluntarily curtail load are dictated by production needs, which can vary from month-to-month.

**Pennsylvania 2008 Economic Demand Side Response Monthly MWh
Reductions³**

	JAN	FEB	MAR	APR	MAY	JUN	JULY	AUG	SEPT	OCT
Allegheny Power	1,089	2,080	1,647	2,058	1,534	1,816	1,492	433	456	303
Duquesne	49	132	854	2,289	765	87	110	7	14	0
Met Ed	424	1,078	51	0	0	84	19	73	72	1
PECO	28,055	27,195	27,110	28,164	22,166	19,682	17,932	21,786	5,782	6,027
Penelec	4	30	0	2	19	20	70	241	139	99
PPL	16,731	8,077	11,551	9,196	5,870	6,602	20,931	12,940	2,410	977

Discussions are currently ongoing in the PJM stakeholder process regarding additional charges to the ELRP, with industrial customers advocating for improved compensation for demand response while further protecting against gaming. One contested issue is the continuation of access by customers on LMP-based contracts on an equal basis. This issue is especially important not only because it impacts the attractiveness of the programs for customers that purchase generation supply from competitive suppliers, but also because of the possibility that hourly LMP service may be the default service for larger customers.

IECPA believes that enhancements to the PJM Economic Load Response Program, which are opposed by many generation and utility interests, are vital to maintaining, if not continuing, the upward trend in participation in PJM's programs that was seen prior to 2008. The modifications to the ILR program that are currently under active consideration at PJM would severely diminish its attractiveness to customers and the amount of demand response that can be obtained. IECPA strongly urges the Commission to consider how these PJM programs fit into the overall DSR plan for Pennsylvania, and to actively advocate at PJM for the availability of vibrant DSR programs that will help further the Commonwealth's DSR and EE goals. Rather than developing new programs for larger customers, Pennsylvania may be better served by advocating for a return to the prior PJM compensation and structure with appropriate reforms to prevent gaming, and by safeguarding the ILR program. These are programs that have been attractive to customers in the past and could be valuable parts of the Commonwealth's plan for the future.

Thank you for the opportunity to provide this testimony today. We are available to discuss our view of this issue in more detail with the Commission at your request.

³ See PJM Load Response Activity Report, at 6. Due to the timing of market settlements, the figures for August-October may understate the actual level of curtailments. Updated information is posted periodically on PJM's website.