PennFUTURE
Every environmental victory grows the economy.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Comments Of Citizens for Pennsylvania's Future (PennFuture)

Regarding

Advance Notice of Final Rulemaking Order

Docket No. M-00072009
Default Service and Retail Electric Markets
Proposed Policy Statement

Submitted by:
Courtney Lane
Policy Analyst
PennFuture Center for Energy, Enterprise and the Environment
March 2, 2007

Introduction:

PennFuture is a statewide public interest membership organization, working to enhance Pennsylvania's environment and economy, with offices in Harrisburg, West Chester, Philadelphia and Pittsburgh. We appreciate the opportunity to provide comments on the Commission's Proposed Policy Statement, M-00072009 - Default Service and Retail Electric Markets adopted on February 8, 2007.

PennFuture has been involved in the Commission's work on integrating the requirements of the Alternative Energy Portfolio Standards Act of 2004 (Act 213) through providing comments on the rulemaking process. PennFuture also participated in the en banc hearings to mitigate the effect of potential electricity price increases, and is continuing to submit comments on the subject. We are also participating in the Demand Side Response Working Group.

As a result of our work, PennFuture understands what is needed to create a stable, reasonably priced electric market for consumers at the end of rate caps in Pennsylvania. We are now facing a critical time and it is vital that the Commission incorporate the below recommendations into the policy statement in order to reduce price increases, reduce dependence on fuel price volatility, increase energy security, and lower overall energy demand.

1. Require, not encourage, default service providers (DSPs) to use energy efficiency and demand side resources.
2. Rate design should not only prohibit declining rate blocks but incorporate a decoupling mechanism as part of mandated energy conservation programs.
3. Specifically allow for long-term contracts for procuring alternative energy supplies.
4. Mandate that 10% of default service load be enrolled in voluntary real-time pricing program by 2010. Then within six years, require DSPs to provide customers with the necessary metering technology to enable them to participate in voluntary real-time pricing programs.

PennFuture elaborates on the above recommendations below and how each can be incorporated into the policy statement and default service regulations.

<u>§ 69.1805. Electric generation supply procurement.</u>

The Commission states that it does not want to be too prescriptive in the rulemaking for default service providers (DSPs) because "requirements that might seem very appropriate today could be rendered obsolete by changes in markets, applicable law, or advances in technology." However, there is one fundamental truth that will never change for electric markets: reducing overall demand for electricity will reduce overall price.

Regardless of future markets, electric consumers in Pennsylvania will always benefit from an investment in energy efficiency. The Commission should mandate DSPs to include energy efficiency as part of its electric supply procurement. This requirement should not only be included in the policy statement, but be mandated in the regulatory requirements for DSPs as part of Docket: L-00040169.

Energy efficiency typically costs $0.03/kWh saved, which is 50-75% of the typical cost of new power sources and can provide real, quantifiable decreases in electric demand. DSPs through contracting with Energy Service Companies (ESCOs) for "negawatts" will help to lower overall costs to electric consumers, reduce the strain placed on the overall electric transmission and distribution system, mitigate the need for costly repairs and increase overall system reliability.

Many will argue that there is already an energy conservation standard in the Alternative Energy Portfolio Standards Act of 2004 (Act 213) Tier II requirement. However, Tier II supplies are already over-subscribed and there will be little to no incentive to invest in more energy efficiency. To protect consumers the Commission needs to require a true portfolio approach to procurement, including renewable energy sources in Act 213, energy efficiency, demand-side and generation sources to hedge against volatile fossil fuel prices.

One question that always arises from this suggestion is how to include energy efficiency in traditional default service RFPs? This question can be easily answered as there are several examples across the country where this portfolio approach is being incorporated into default service.

In October, 2006, the Maine Public Utilities Commission issued an RFP for retail standard offer service for residential and small commercial customers that bundles together demand and supply resources to serve Central Maine Power (CMP) and Bangor Hydro-Electric Company (BHE) standard offer customers beginning March 1, 2007. The RFP seeks to have electricity suppliers partner with Energy Service Companies (ESCOs) to submit a joint bid that includes savings generated by ESCOs from developing, installing and financing cost-effective energy savings from technologies like those stated in the Act 213 Tier II demand side technologies.[1]

Rhode Island provides another example of this type of integration. The state recently adopted the "The Comprehensive Energy Conservation, Efficiency and Affordability Act of 2006".[2] Beginning in 2008, utilities will have to procure energy supply using "least cost procurement". All cost-effective energy efficiency will be obtained first.

In addition, Connecticut and Nevada both have energy portfolio standards requiring a certain percentage of energy efficiency, and since 2003 California has used a "loading order" that ensures all cost-effective energy efficiency is realized before utilities can procure generation.

Incorporating energy efficiency into default service procurement is a proven way to help mitigate the impacts of rising electric costs and must be mandated by the Commission.

§ 69.1806. Alternative energy portfolio standard compliance.

The Commission states that the default service regulations neither prohibit nor mandate the use of long-term contracts to satisfy Act 213 obligations. PennFuture would like to remind the

---

[1] The Maine RFP can be viewed at the following website: http://www.maine.gov/mpuc/industries/electricity/sosmall0306/rfp_packages1006/cmpbhe_mar07.htm
[2] The Act can be viewed at the following website: http://www.dsireusa.org/documents/Incentives/RI04Rb.pdf

Commission that DSPs need regulatory certainty that they will be able to recover costs from entering into long-term contracts.

To balance the DSPs need for certainty with the Commission's desire to create regulations that are flexible enough to change with future markets, we recommend the following language:

> "Long-term contracts shall be permitted only for newly constructed or proposed to be constructed alternative energy sources, as that term is defined in section 2 of the Alternative Energy Portfolio Standards Act. The Commission shall determine when there is significant competition among Tier I alternative energy sources that that acts authorized by this subpart are no longer necessary."

This language will give DSPs the certainty needed to sign long-term power purchase agreements with Act 213 technologies, enabling the growth of alternative energy supplies in Pennsylvania, while allowing the Commission to amend this language if long-term contracts are not needed in the future.

§ 69.1810. Retail rate design.

Energy Efficiency:
We commend the Commission for requiring the removal of declining rate blocks to encourage energy conservation. The Commission, however, needs to take further steps to provide incentives for energy conservation. Market barriers, including lack of financing, lack of customer awareness or misinformation, split incentives, and electric pricing signals, all create barriers for electric consumers to invest in energy efficiency. Simply removing declining block rates is not enough to create a change in behavior.

The Commission should mandate a system benefits charge (SBC) on all electricity sold in the state to fund energy efficiency programs for all electric rate-payers in Pennsylvania. Energy efficiency programs will help reduce overall system demand and lower costs to all electric customers in the Commonwealth. In fact, if energy efficiency programs were used to meet half of Pennsylvania's projected demand growth over the next fifteen years, we could offset the need to build two to three new large-scale power plants, saving billions of dollars.

Now is the time for the Commission to implement an SBC in Pennsylvania as the Competitive Transition Charge (CTC) and Intangible Transition Charge (ITC) will be ending for all Pennsylvania electric utilities by 2010 and there will be an opportunity to mandate funding with little impact on customer's bills. In 2005, electric consumers paid a total of almost $1.2 billion dollars for these stranded costs. The implementation of a $0.001 SBC on all electric retail sales in the state could create almost $146 million in funding for energy efficiency per year and electric consumers would still be seeing savings from the removal of stranded costs.

The Commission has the authority to create an SBC today, and should not wait any longer to do so. The Commonwealth Court of Pennsylvania issued a decision in the appeals case for PPL Electric Utilities rate filing (Docket R-00049255) sustaining the continuation of its system benefits charge. Within this case the Court states that the Competition Act clearly allows for the

Commission to implement a “non-bypassable rate mechanism” to fund “programs for low-income assistance, energy conservation and others, which have been implemented and supported by public utilities’ bundled rates. The public purpose is to be promoted by continuing universal and energy conservation policies, protection and service”. This decision sets precedent, clarifying the ability of the Commission to create an SBC. The Commission should use this power immediately to begin funding programs that will help give customers the tools to reduce their energy bills before rate caps expire.

In conjunction with these programs, we recommend that the Commission require all DSPs to provide a proposal for a decoupling mechanism to further provide incentives to promote energy efficiency programs.

Demand Response:

The proposed policy statement does little to provide recommendations to DSPs on the benefits of demand-side resources. The Commission only mentions that they should be included in a prudent supply mix. This is unacceptable. Not only should demand-side resources be included in the policy statement, they should be mandated as part of the default service regulations.

Marginal decreases in demand, especially peak demand, through load shifting can substantially reduce prices. For example, almost 20% of the cost to serve a residential customer annually is incurred by insuring supply during the 100 hours of highest demand. PJM has calculated that small reductions in peak demand can lead to much larger reductions in peak price, or a 1% reduction in peak demand can lead to a 10% reduction in peak price.

To capture these savings, the Commission should mandate that 10% of default service load be enrolled in voluntary real-time pricing program by 2010. Then within six years, the Commission must require that DSPs provide customers with the necessary metering technology to enable them to participate in voluntary real-time pricing programs. The Commission should allow DSPs to recover the net costs associated with this real-time metering technology.

Advanced metering infrastructure combined with real-time pricing options has been found to not only benefit the consumer but also reduce costs for the utility.[3]

[3] Residential customers participating in a ComEd real-time pricing pilot in Chicago saved on average 10% a year on their electric bills. PPL Electric, through investing in advanced metering, has been able to reduce meter reading costs ($16 million/year); reduce need for service personnel ($4.3 million/year); virtually eliminate bill estimates helping create savings from less call-center inquires ($400,000 per year); not to mention savings on manual bills, energy theft and quicker response time to power-outage events.