



**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Reply Comments Of
Citizens for Pennsylvania's Future
(PennFuture)**

Regarding

**Docket No. L-00040169
Rulemaking Re Electric Distribution Companies'
Obligation to Serve Retail Customers at the Conclusion of the
Transition Period Pursuant to 66 Pa. C.S. § 2807(e)(2)**

and

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

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Introduction

Citizens for Pennsylvania's Future (PennFuture) hereby submits Reply Comments pursuant to the Commission's Advance Notice of Final Rulemaking, Docket: L-00040169 - Rulemaking Re Electric Distribution Companies' Obligation to Serve Retail Customers at the Conclusion of the Transition Period Pursuant to 66 Pa. C.S. § 2807(e)(2) and the Commission's Proposed Policy Statement, Docket: M-00072009 - Default Service and Retail Electric Markets entered on February 8, 2007.

These Reply Comments respond to a number of issues raised in comments previously submitted by other interested parties in relation to the Commission's February 8, 2007 request for comments.

Declining Block Rates

Several parties including the United States Steel Corporation and the Industrial Energy Consumers wrote in their comments that they do not want declining block rates to be removed. In their comments, The Industrial Energy Consumers claim that operating at a higher load factor (i.e. more efficiently) results in lower realized per kilowatt-hour costs. Therefore, they state that the cost of the utility to serve their electric needs decreases, as consumption increases.

This argument is simply not true because the long-run marginal costs of electricity production, transmission and distribution are not declining and haven't been since the early 1960s. Higher load-factor customers do lower average fixed costs in the short run. However, most of the rising fixed capital costs of new energy production facilities are related to energy, not peak capacity. New baseload plants (e.g., coal, with or without IGCC) are expensive because of their energy-related capital costs. Pure capacity from a combustion turbine is cheap, while its energy is exorbitantly expensive in fuel costs, which is why baseload plants involve higher capital costs to get lower fuel costs. And of course, all environmental costs, including CO₂, are energy-related and not included in the monetized costs of generation, at least not yet.

Therefore encouraging industrial customers to use more electricity through declining block rates is not going to help reduce demand on our electric system, or mitigate price increases.

US Steel also argues against the removal of declining block rates in their comments. US Steel advises the Commission that large customer default rates that do not incorporate traditional rate design elements such as declining block pricing and demand charges will discourage large customers from using default service.

This argument also does not hold up. It implies that competing service offers will be priced at declining block rates without demand charges, and that these prices automatically will be more attractive to large users than DSP rates. Buyers' preferences among competing service offers will ultimately depend on the total charges they would expect to pay a given amount of electricity service. Sellers' offers will reflect market supply conditions. All providers face the same marginal costs in the long run, based on market-clearing wholesale prices. As indicated above, long-run marginal costs are at best stable, not declining. Sellers may well offer to bundle

capacity charges in their energy prices; they may even offer declining block pricing for energy and capacity. If they do, they will ultimately recover their costs somewhere – i.e., charge higher prices - or suffer losses (or equivalently, below-market returns) that would be unsustainable in the long run.

Consequently, it is sound regulatory policy for the Commission to pursue rate designs reflecting true long-run marginal electricity supply costs and phase-out declining block rates for all customer classes to create an incentive for conservation.

Further Incentives for Conservation

In addition to changing the rate structure to phase out declining block rates, the Commission should mandate a system benefits charge (SBC) on all electricity sold in the state to fund energy efficiency programs for all electric ratepayers in Pennsylvania. Currently Pennsylvania does not have any significant source of funding for energy efficiency. Programs are needed to specifically target each customer class. Customers in every class could achieve tremendous savings from energy efficient upgrades.

Time-of Use Rates

Several parties submitted comments about real-time pricing. In response PennFuture notes that PPL currently has 284 residential customers in a demand response program that utilizes advanced metering to provide on-peak and off-peak pricing during the summer months to help customers shift demand and reduce their electric bills. According to PPL, these programs have been successful. As part of the Commission's Demand Side Response Working Group, PPL submitted information stating that the 284 participants saved, on average, \$4.93 per month for the summer period. The combined savings for all customers was \$3,037 on the generation component of their electric bills. PPL also stated that based on actual Locational Marginal Prices that, over that same period, the shifting of load translated into a savings of about \$2,204 to serve those customers compared to the cost to serve a normal residential load profile.

PennFuture believes that these savings, and the savings realized in other pilot programs, like ComEd in Chicago, clearly show that residential customers are able to reduce their electric bills and help to shift load.

PennFuture urges the Commission to require that all utilities install metering and communication infrastructure over a reasonable period of time (6 years) to all transmission and distribution customers so that every customer could voluntarily purchase real-time pricing products. Initially utilities should be required to make sure that 10% of each customer class has the necessary infrastructure to allow them to purchase voluntarily real-time products by 2010.

Those customers who feel they have the flexibility to move around their peak consumption should have the option of doing so. Not only will this help lower their bills, it will help reduce the overall demand on the electric grid, reducing costs to all customers.

Without approximately 10% of the load capable of moving in response to real-time prices, all consumers will face much higher prices when rate caps expire. This issue is the ultimate test of this Commission. If the Commission again fails this test, the Commission will be responsible for possible sharp price increases when rate caps expire.