

**Testimony of
Kathleen A. McGinty, Secretary
Department of Environmental Protection
On
House Bill 2200 and HB 2201 Before the
House Consumer Affairs Committee
January 31, 2008**

Chairman Preston, Chairman Godshall and members of the Committee of Consumer Affairs. Thank you for permitting the Pennsylvania Department of Environmental Protection to provide written testimony regarding the vital policies addressed by House Bill 2200 and House Bill 2201. I will make some general observations and then discuss specific areas where we suggest that these bills be modified.

Pennsylvania faces increased energy costs in every area. Consumers are coping with rapidly increasing prices for heating their homes and driving their cars. Small and large companies see their costs on the increase. Soon, electricity prices will also go up sharply. In some parts of Pennsylvania we expect to see residential electric bills increase by more than 50%. We must act now to do what we can to mitigate the potentially devastating effect that the increasing electricity prices will have on our residents, communities and Pennsylvania's businesses. This concern, coupled with rising energy prices prompted Governor Rendell to create his comprehensive Energy Independence Strategy to protect Pennsylvania consumers and businesses, while promoting renewable and sustainable energy sources.

The Governor's strategy will reduce our reliance on imported fuels, encourage energy efficiency; utilize new, clean electricity generation and invest in Pennsylvania's homegrown energy. The initiative emphasis measures in the electricity industry including demand response, effective utility purchasing of electricity and smart meter technology.

The bills being considered today reflect the evolution of the discussion regarding electricity and are a tribute to the efforts of the legislature, the Administration and important stakeholders. This pair of bills addresses electricity rate increases and works toward long-term energy security for the commonwealth. Make no mistake: we cannot turn back the clock on wholesale electric prices that have doubled in this decade. Nevertheless, the thoughtful, thorough approaches in these two bills will help to mitigate the expected impacts. While I see these bills as a strong basis for protecting customers, I want to highlight a few areas in which amendments are necessary.

House Bill 2201, PN 3090

HB 2201 provides for gas and electric micro-grids, consumer education and low-income programs, the method by which default service providers acquire electricity, smart meters, time of use and real time pricing and phase-in or rate increases.

1. Section 2 of the definition of demand-side response (DSR) requires that a qualifying measure reduce consumption of energy (p.2, line 6). However, DSR is about avoiding consumption during high priced peak demand hours, but is not generally about net reductions to consumption. In most cases DSR involves shifting use to a lower cost period. This is particularly true for industrial processes and for air conditioning in larger commercial buildings. It is also true for typical residential time-of-use rates where a customer washes dishes and cloths and heats water during lower cost evening or early morning hours. These are cases where use is shifted, not eliminated. The value here is in avoiding use when prices are high. For example, PJM estimates that peak load reduction has saved hundreds of millions of dollars. There is some conservation impact but what I have seen is that actual energy savings from peak load reduction amount to only a few percent.

Without the concept of cost in the DSR definition, I do not believe that it will be possible to meet the goals for DSR on page 9, lines 17 - 27. I recommend that the words "or cost" be added on line 6 of page 2 so that the language reads "(2) The measure reduces the consumption or cost of energy by the retail customer."

2. The electric distribution company (EDC) is made eligible to provide services as a third party on page 4, lines 9 - 10. This potentially conflicts with the responsibilities of the EDC on page 11, lines 14 through 30 and page 12, lines 1 - 3, where the EDC is made responsible to provide various sorts of support to the Program Administrator (PA) in securing services of third parties. The Administrator and the utility will be vulnerable to criticism of conflict of interest if the EDC both applies as a third party and acts as the PA's advisor on selection of a third party to provide services. I propose that the language on page 11, line 15 be modified to read, "Each electric distribution company **that does not seek to be a third-party entity** shall:"
3. Our hopes for the short term are that demand-side response and efficiency will contribute to softening the price spikes that come with the end of the rate caps. As it stands, 2806.1(e) requires that consumption in 2013 be reduced relative to 2012 levels. This result is far too late to affect prices or help individual consumers in 2010 or 2011. I appreciate that utilities will need to begin work prior to 2013 if they hope to reach the goal of 2.5% reduction from 2012 levels. However, without more specific goals, I expect a minimal impact by the end of the rate caps.

I ask you to modify the goal in 2806.1(e) so that timely results are achieved. Specifically, a smaller interim goal required for the end of 2010 will help PPL customers during the first post-rate cap year while reducing the trajectory on consumption for other areas just as their rate caps end. Likewise, results that PECO, MetEd, Penelec and Allegheny Power customers see in 2011 will help reduce prices and the impacts on individuals.

of those revenues from low-income customers, it appears that less than \$18 million would be allocated. I offer that this section be deleted and replaced with a statement excepting the existing PUC program from the spending cap in 2806.1(a)(2).

Specifically, in addition to deleting 2806.1(c)(6)(ii), I suggest that the following sentence be added at the end of 2806.1(a)(2). "This funding limit shall not include amounts provided for by the low-income usage reduction programs established under the regulations at 52 Pa. Code, Chapter 58.

Conclusion

Again, I am pleased that we have the opportunity to comment on legislation that I believe is a sound basis for Pennsylvania's future electricity policy. I commend Representatives McCall and George for their foresight and great effort in bringing forth these bills.