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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Comments Of
Citizens for Pennsylvania's Future
(PennFuture)

Regarding

Advance Notice of Final Rulemaking Order

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)

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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 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) entered on February 8, 2007.

In order to protect Pennsylvania electric consumers at the expiration of rate caps PennFuture strongly advises the Commission mandate the following measures within the Final Rulemaking Order:

1. Require, not encourage, default service providers (DSPs) to procure energy efficiency and demand side resources as part of their portfolio.
2. Provide assurance in the marketplace by including specific language authorizing use of long-term contracts for procuring alternative energy supplies.
3. Rate design should not only prohibit declining rate blocks but also incorporate a decoupling mechanism as part of mandated energy conservation programs.
4. Require 10% of default service load be enrolled in voluntary real-time pricing programs 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 discusses these 4 items within the context of the Final Rulemaking Order below.

<u>§ 54.184. Default service provider obligations</u>

In the absence of rate caps, default service customers will become exposed to the volatility of the electric market. Pennsylvania is still too reliant on high volatility fuels like coal and natural gas to make the majority of our electricity. In addition to requiring DSPs to procure a mix of supply-side and demand-side staggered contracts, the Commission should require that DSPs meet all or a percentage of their load through energy efficiency. Including an energy efficiency requirement will not only lower costs to electric consumers, but will also reduce the strain placed on our electric transmission and distribution system, mitigating the need for costly repairs and increasing overall reliability. Additionally, energy efficiency can accomplish all of this at a cost of approximately 3.1 cents per kilowatt-hour (kWh), much less than building new generation supply.

To protect consumers the Commission must require a true portfolio approach to procurement, including renewable energy sources in the Alternative Energy Portfolio Standards Act (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.

The benefits of diversifying procurement outweigh any concern of creating overly prescriptive language and therefore we recommend the following be added into the default service provider obligation section:

> "DSPs shall enter into contracts with energy efficiency and other demand-side resources instead of electric generation facilities to meet any increases in energy usage and peak demand so long as the cost of energy efficiency and demand-side resources is less than the cost of electric generation. To the extent that electric generation is necessary to meet additional load growth, a DSP shall make a good faith effort to procure electricity from alternative energy sources specified in the Alternative Energy Portfolio Standards Act."

§ 54.186. Default service procurement and implementation plans

Long-Term Contracts:

The Commission states in §54.186.B(3) of the proposed regulatory language that "procurement plans may include solicitations and contracts whose duration extends beyond the program". To provide DSPs with the necessary certainty to invest in long-term contracts for Act 213 technologies, more detailed and specific language allowing for cost-recovery of longer-term contracts should be incorporated into the regulations.

We recommend the following language for §54.186.B(3):

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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

"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.

§ 54.187. Default service rate design and the recovery of reasonable costs

§54.187(c) - Declining Block Rates:
We commend the Commission for revising the regulatory language to eliminate "declining blocks" from rate schedules in order to provide normal incentives for conservation in §54.187(c). The Commission, however, needs to take further steps to provide incentives for energy conservation. Simply removing declining block rates is not enough to create a change in consumer 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 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 through education and financial incentives. The decision set forth by the Commonwealth Court of Pennsylvania in the appeals case for PPL Electric Utilities rate filing (Docket R-00049255) demonstrates that state law clearly allows for the Commission to implement a "non-bypassable rate mechanism" to fund energy conservation programs. We also recommend the Commission look to the New York State Public Service Commission Opinion No. 96-12 (Cases 94-E-0952 et al.) that created an SBC in 1996 to fund energy efficiency programs.

In conjunction with energy efficiency programs, the Commission must require all DSPs to submit a proposal for a decoupling mechanism to remove the linkage between electric sales and company profits. Removing the inherent disincentive in the current utility rate structure for DSPs to invest in energy efficiency, combined with well-funded energy efficiency programs will provide a large reduction in electric demand, reducing costs to all electric consumers.

§ 54.187(g) – Demand Side Response:
Section § 54.187(g) requires the DSP to include demand side response and management rates in their default service program <u>if</u> the Commission has mandated that such rates be available. The Commission states that this issue is currently under investigation through the Demand Side Response Working Group and, therefore, any actions should wait until the findings of this group are released.

Inaction is not the way to prepare for the future. 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 replace the language in this section with the following to mandate a real-time pricing option:

> "(g) 10% of default service load shall be enrolled in voluntary real-time pricing programs by 2010.
>
> Within six years of the adoption of the final rulemaking, DSPs shall furnish customers with technology capable of allowing all customers to participate in pricing programs that reflect time of use. A DSP may recover the net costs associated with technology required to implement time of use rates. Cost recovery shall reflect the operating cost savings to an electric distribution company from the introduction of technology to implement time of use rates. Customer participation in time-of-use pricing shall be voluntary."

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. For example, 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.