PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

Re: Motion of Commissioner Fitzpatrick	**Public Meeting May 19, 2006**
POLICIES TO MITIGATE POTENTIAL PRICE INCREASES	**May-2006-C-0012**

STATEMENT OF COMMISSIONER BILL SHANE

Commissioner Fitzpatrick's Motion highlights preparing for higher energy prices in the future. I would also like to examine ways in which higher costs could be avoided.

There are other elements at work in the wholesale energy market which will cause “competitive” wholesale electric charges to be even higher than they are at the present time. The impacts of Locational Marginal Pricing (LMP) are being recognized and questioned by many early advocates of Electric Competition. Additionally, proposals to provide economic incentives for the installation of electric generation "capacity" through a new administratively determined pricing mythology, the Reliability Pricing Model (RPM), will result in significantly increased "competitive" market prices. These wholesale market price methodologies are under the jurisdiction of the Federal Energy Regulatory Commission (FERC). I am sure that the vast majority of Pennsylvania's consumers know little or nothing about these elements. They will continue to look to this Commission for answers and solutions, as they have in the past.

Commissioner Fitzpatrick's Motion notes recent events in the states of Maryland and Delaware. I would also like to mention an example from the state of New Jersey. New Jersey has attempted to manage rapidly escalating energy prices through the use of staged multi-year long-term contracts. By using a portfolio of contracts, New Jersey has been able to cushion the impact of volatile energy costs on consumers. I believe that long-term competitive contracts could also be employed in Pennsylvania to encourage innovative forms of generation while at the same time protecting consumers from volatile energy costs. To that end, I would like to hear proposals concerning multiyear contracts for default energy service supplies. I would like further discussions about the use of long-term contracts to provide incentives for innovative base load facilities.

I agree with Commissioner Fitzpatrick's recommendation that additional consumer education efforts are vital. I am concerned, however, that customers may not respond to a plea about preparing for the upcoming higher energy costs with as much enthusiasm as they do for recommendations to save for retirement or their children's college education. Furthermore, I believe that customers may have thought that Electric Restructuring (Deregulation) would result in lower prices. I fear that is a common perception which no new education initiative will change.

I agree with Commissioner Fitzpatrick's recommendations to encourage energy conservation as the financial and environmental benefits of conservation are numerous.

With the implementation of LMP the Commission must do more to relieve system constraints which allow expensive natural gas generators to set the wholesale market prices. Commissioner Fitzpatrick points out the potential benefits from adopting hourly pricing for default service for large customers. I certainly do not question the potential benefits to LMP from load shifting or other demand-side management initiatives. However, I do question whether it is reasonable public policy to make default service "ugly" simply to encourage fixed price offers from competitive Electric Generation Suppliers. This is manipulated competition, not the robust “free for all” competition we expect and sometimes get from American capitalism. I would welcome comments, particularly from Duquesne Light Company, concerning the impact of hourly default service rates on a utility’s load profile. I am curious to see if the imposition of hourly default service rates has resulted in meaningful shifts in energy consumption which have had an impact on marginal generation costs. It may be the case that default hourly rates have only caused customers to buy fixed price service from other suppliers.

Finally, I would like to have comments concerning the issues the Commission may undertake to identify solutions to system congestion which could lead to high LMP prices. Should the Commission undertake incentive ratemaking to share the benefits of lowering LMP prices? Could interruptible or demand-side management rate designs be implemented which offer financial rewards to both the customers and the default service provider? Could financial incentives be offered which relieve transmission congestion and result in lower LMP prices? Although I do not usually sing hymns to marginal cost pricing, ala` Fred Kahn (former NYPSC Chairman), I would like the utilities to take a shot at estimating the marginal cost of air conditioning, in July, August and September.

DATE: May 19, 2006

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BILL SHANE
COMMISSIONER