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before the

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***Re: Policies to Mitigate Electric Prices Increases;
Docket No. M-00061957***

A lot has happened since 1996 when the Electricity Generation Customer Choice and Competition Act became law.

Since 1996, the price has increased for cable television by 56%; for water service from some Pennsylvania water utilities by approximately 100%; for college tuition by 69.7%; and for prescription medicines by 43.6%.

Since 1996, nominal dollar incomes have increased for most Pennsylvanians. For example, Social Security payments have increased by 37.5%.

Since 1996, prices for coal, natural gas and oil, all of which are used to make electricity, have increased by approximately 200% to 300%. Virtually none of these fuel increases in the cost of making electricity have been passed through in electric rates paid by consumers, thanks to the abolition in 1996 of the fuel adjustment clauses that existed prior to restructuring.

Though recent sharp declines in natural gas prices (natural gas in June 2006 has been about 15% below June 2005 levels) once again remind us all that energy prices are especially volatile and that what goes up often comes down, for most Pennsylvanians, energy recently has become much more expensive than in 1996, with one notable exception: electricity.

Unlike gasoline, home heating oil, and natural gas, electricity today is a bargain for most Pennsylvanians, which it most certainly was not in 1996.

Back then, Pennsylvania's average price for electricity was approximately 15% above the national average. Indeed in 1996, nearly 40% of Pennsylvania's residential customers were paying as much as 50% more than the national average for electricity, with only a small number paying less than the national average.

For the Pennsylvania Public Utility Commission to make good policy judgments about what to do to prepare for the end of rate caps across the Commonwealth, it must know what customers were paying for electric generation service in 1996 in the various service territories.

In 1996 electricity rates, according to the unbundling of rates done by the PUC, residential customers of the 6 largest electric utilities were paying just for generation and transmission service the following:

In 1996	Consumer Index inflation adjusted for 2006
DQE: 8.75 cents per kilowatt-hour	11.20 cents per kilowatt-hour
PECO: 8.65 cents per kilowatt-hour	11.07 cents per kilowatt-hour
PPL: 6.26 cents per kilowatt-hour	8.01 cents per kilowatt-hour
Met Ed: 5.70 cents per kilowatt-hour	7.30 cents per kilowatt-hour
Penelec: 5:40 cents per kilowatt-hour	6.91 cents per kilowatt-hour
Allegheny: 5.30 cents per kilowatt-hour	6.78 cents per kilowatt-hour

As you can see, there were substantial differences in generation plus transmission rates.

Equally large differences in stranded cost charges exist that most customers are still paying and that will normally be removed from customers' bills when the rate cap on generation ends in a service territory. Indeed for some customers stranded cost charges have been as high as 4 cents per kilowatt-hour, while for others they have been very small. Again stranded cost charges are generally removed from the bills of customers when rate caps end and that could lower bills in nominal or constant dollars for some customers.

These differences in stranded cost charges and historic rates affect whether or not electric prices will in fact go up in 2010 and by how much if they do. Clearly, there will be different answers for each service territory to these questions: will rates go up or down and by how much?

Given the headlines from Maryland, other states, and the Pike Electric case here, some might not believe that there is even the possibility that electric rates might go down in nominal or constant dollar terms in some parts of Pennsylvania by 2010 when compared to 1996. Indeed, this proceeding assumes increases are inevitable with its heading called: "Policies to Mitigate Electric Price Increases."

But DQE teaches that electric prices and rates are substantially lower right now in the DQE service territory in constant dollars and even in nominal dollars than they were in 2006. Duquesne Light's residential customers have benefited enormously from restructuring, with savings for them averaging \$170 per year for non-electric heating customers and \$440 per year for electric heating customers. This Commission, the Office of Consumer Advocate, DQE, PJM Interconnection and competitive suppliers like Dominion all deserve credit for this remarkable success.

In the last few weeks, Dominion offered a 6.6 cents per kilowatt-hour price to residential customers and DQE's provider of last resort price is only slightly higher. This price compares to the 8.75 cents per kilowatt-hour residential customers paid to DQE in 1996.

In DQE, today's residential prices are nearly 25% lower in nominal dollars and 45% lower in constant dollars. In fact, the current Dominion residential competitive price is lower in constant dollars than any utilities' unbundled 1996 generation rate.

Rate caps have ended and stranded cost charges have been removed from bills for several years in the DQE service territory. DQE proves that rates or prices do not necessarily rise in nominal or constant dollar terms when rate caps end.

The news in DQE is good, very good. Of course that means little or no attention is paid to this good news, while a huge amount of attention has been devoted to the very large rate increase in Pike County. The price increase in Pike County is disturbing. It does reflect some relatively unique circumstances such as a very small number of customers

(approximately 4,500) with a small load seeking to source 100% of its requirements at one time during a period that first followed the energy price shock caused by Katrina. Pike County is also the only sliver of Pennsylvania that is in the New York Power Pool which has higher energy prices than PJM. All of Pennsylvania should be in PJM, and I urge this Commission to use its power to make sure that is the case by 2010.

PJM Interconnection now operates a competitive wholesale electric energy market where prices have been remarkably low since 1999. Annual energy prices have ranged from about \$28 per megawatt-hour to \$60 per megawatt-hour. As a result of the sharp increase in gas and coal prices of late, recent prices have been at their highest since 1999. Massive investment in upgrading existing plants and building new plants, greatly improved operations of all plants, and substantial investment in transmission infrastructure have all taken place within PJM. It bears repeating that the forced outage rate of power plants has declined approximately 50% since 1996. Today if a plant does not run, it does not earn revenue for its owners. Prior to restructuring many plants remained in rate base during short, medium, and even long outages.

Thanks to those factors and the geographic expansion of PJM, PJM Interconnection has been able to reduce its required generation reserve margin to 15% from 22%, while maintaining the same generation reliability standard of limiting the probability of rolling blackouts due to generation inadequacy to one-day in 10 years. Indeed, prior to restructuring, some utilities insisted that to meet that reliability standard a generation reserve margin of 27% or more was required. The reduction in the required reserve margin without any reduction in reliability that has taken place since 1996 is a tremendous benefit to consumers and the environment and one of the most important achievements of restructuring the electric industry.

Both DQE and Pike County as well as developments within PJM offer lessons and should be examined. Right now, there is a substantial danger of misinformation or incomplete information distorting our collective thinking about what is sensible policy to prepare for the end of rate caps elsewhere in Pennsylvania.

The PUC must get an accurate picture. By looking at both DQE and Pike County, we learn that the sky is not falling. It has some dark clouds, but the sun is visible too. Thanks to substantial success in restructuring the electric industry in Pennsylvania, today the average price for electricity in the Commonwealth is essentially at the national average. Pennsylvania has moved from a high rate electricity state to one where electricity rates increasingly are competitive with other states.

With the passage in 2004 of the Alternative Energy Portfolio Standard Act and a voluntary market for the purchase of wind, solar, and other renewable energy, Pennsylvania is also making large strides to diversify the fuels and technologies used to make the electricity that is consumed here. Pennsylvania is home to 6 wind farms, and another 2,636 megawatts of wind generation in Pennsylvania has registered with PJM Interconnection and is in various stages of development.

The Commission should adopt a set of policies to culminate the restructuring process that continues the progress made to date to make electricity prices competitive and to diversify how electricity is generated. To achieve these goals, the PUC now must take decisive action that increases the supply of electricity (especially new generation that does not burn fossil fuels) and decreases the demand for electricity by boosting energy conservation and the reduction of peak demand. Boosting supply, reducing demand, especially peak demand, and diversifying the fuels used to make electricity will lower prices.

Marginal increases in supply, especially supply that does not rely on currently expensive and nearly always volatile fossil fuel prices, and marginal decreases in demand, especially peak demand, can substantially reduce prices. For example, nearly 20% of the cost of serving a residential customer in the course of a year may be incurred in insuring supply during the 100 hours or in just 1% of the hours of highest demand or peak usage in a year. 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.

Here is a 7-part, specific proposal for boosting supply, reducing demand, and diversifying the fuels used to make electricity to prepare for the end of rate caps where they have not already ended.

1. Require each utility to file a plan to complete the transition that parties can critique and the PUC can approve, modify or reject. Each plan should cover key issues like consumer education, installing modern metering enabling consumers who want to cut peak demand to do so and be compensated for doing so, compliance with the Alternative Energy Portfolio Standard Act's requirement to build new supply by 2010, funding for LIURP, energy conservation and sustainable development funds and/or the Pennsylvania Energy Development Authority, provider of last resort service, and other matters.
2. Launch a professional well-funded (approximately \$25 million) consumer education program that educates consumers about the end of rate caps in a service territory, how energy can be practically and cheaply conserved, and where to see if other power supply options are available. Changes in consumer behavior, requiring no capital investment, like turning off lights, raising slightly thermostats controlling air-conditioning, and closing windows and doors can cut electric usage approximately 5%. Investment in energy star appliances and other products like efficient lighting and motors can often reduce usage by easily another 10% to 20%. The PUC should support legislation that would create a sales tax holiday when the sales tax would not be charged for Energy Star appliances and then inform consumers of the sales tax holiday if it is enacted. Our society wastes so much energy that a strong consumer education effort can pay large dividends.
3. Insure compliance with the Alternative Energy Portfolio Standards Act and its requirement that new Tier 1 generation is built by 2010. The AEPS requires that by 2011 that 4 % of electricity sold in Pennsylvania come from Tier 1

- technologies. Currently less than 1% of the electricity sold comes from these sources. Compliance with the AEPS will require meaningful new generation be built. Since electricity prices are established on the margin, compliance with the AEPS can bring on important supply that will help to make electricity prices affordable. Compliance with the AEPS will also reduce Pennsylvania's reliance on fossil fuels that have been marked both by sharp increases in prices in the last 5 years and large price volatility. The PUC must fully implement the cost recovery provisions of the AEPS. Those provisions plainly allow the recovery of long-term contracts entered to comply with the AEPS. The PUC should also encourage early compliance with the AEPS and insure the banking provisions of the AEPS are implemented in a manner that facilitates early compliance.
4. The Commission should renew funding for all sustainable development funds and/or direct funding to the Pennsylvania Energy Development Authority (PEDA). Annual funding should be at least \$25 million statewide. Both the sustainable development funds and PEDA have played vital roles in financing new alternative generation that increases electric generation supply, protects reliability, and diversifies fuel sources. Just \$12 million that was dedicated to wind development in Pennsylvania, as part of the Unicom and PECO merger, and that was administered by the Sustainable Development Fund, attracted more than \$200 million of private investment in wind generation here. States like New Jersey, California, Massachusetts, Connecticut, New York and many others are investing each year tens of millions of dollars in similar sustainable development funds to increase renewable energy generation and energy conservation.
 5. The PUC should require every electric utility to install metering, communications, data storage and any other equipment needed to allow every customer on a completely voluntary basis to change its usage in real time. In each customer class, customers exist that want to reduce their usage especially during peak demand hours when electricity prices are highest and want to be compensated with market rates for doing so. These customers want to reduce their bills in this fashion. By doing so, these customers also produce substantial benefits for customers who choose not to change their usage in response to real time prices. PJM has calculated that a 1% reduction in peak demand produces a 10% decrease in peak wholesale market prices. Empowering the 5% to 10% of customers to change their demand in response to price is vital for those customers and all customers. In fact, it is vital to the public interest. The PUC must urgently require the utilities to begin installation of the necessary equipment. Time frankly has been wasted on this crucial matter, and there is no more time to waste.
 6. Funding for the Low-Income Usage Reduction Program should be increased 10% per year between now and 2010. In addition, each electric utility should be required in its electricity transition plan be directed to propose an energy conservation program that could be funded by a combination of electric distribution rates, sustainable development funds, and the Pennsylvania Energy Development Authority that would have the goal of holding electricity demand at 2006 levels through 2011. Energy conservation achieved through consumer education could possibly be included in this initiative.

7. Utilities should honor rate cap commitments, and consumers should honor stranded cost recovery agreements. While this principle is crucial, utilities should be given the flexibility to offer their customers a completely voluntary alternative rate plan for rates between 2007 and 2010. This alternative rate plan could include as part of it phased rate increases. To repeat any such alternative rate plan must allow customers to choose to participate in it or to choose not to do so.

The only thing that any of us know for sure about 2010 is that what electric prices will be then are uncertain. The 7-point plan that I have outlined will position well Pennsylvania to deal with that uncertainty. It will boost electricity supply, reduce demand, especially peak demand, and diversify how electricity is made. It would also give consumers tools and choices to manage that uncertainty. By doing these things, Pennsylvania can greatly increase the chances that rates will remain affordable when rate caps end and may even be lower in constant dollars in 2010 than they were in 1996.