

Testimony
John Hanger, Secretary
Department of Environmental Protection
before the
Public Utility Commission
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Thank you Chairman Cawley and members of the commission for the opportunity to assure you that the commonwealth is currently in compliance with Section 410(a) of the American Recovery and Reinvestment Act (ARRA) that requires a state regulatory authority to consider rate policies that promote energy efficiency and conservation. Through the implementation of Act 129 and other state energy conservation programs, Pennsylvania has provided rate policies that promote energy efficiency and conservation, while providing timely cost recovery and earnings opportunity for utilities.

Act 129

Act 129 established significant new requirements on Pennsylvania Electricity Distribution Companies (EDC) – including the implementation of Energy Efficiency and Conservation plans, Smart Meter Procurement and Implementation plans, and Time of Use Rates and Real Time Pricing programs. These plans effectively use market forces to reduce consumption, shift some uses to cheaper times of day, save consumers money, and provide system-wide benefits to all consumers.

Act 129 establishes that utilities must decrease electricity consumption by one percent by 2011 and three percent by 2013, as well as achieve a 4.5 percent reduction in peak electricity consumption by 2013. By law, electric utilities that fail to meet these requirements will face steep penalties.

The costs of these energy conservation and smart meter programs are recoverable on a full and current basis through a reconcilable automatic adjustment surcharge under Section 1307 of the Public Utility Code. While lost or decreased revenue resulting from load shifting or decreased consumption is not a recoverable cost under Act 129, such lost revenues may be used to determine appropriate base rates.

The mandated reductions in Act 129 and the penalties for missing the targets will be an invaluable tool in promoting energy efficiency. These efforts can be strengthened through appropriately designed revenue decoupling mechanisms that remove the disincentive for utilities to promote energy conservation. I would like to underline again that Act 129 demonstrates that decoupling is not the only way to align rate policies with energy conservation. Having said that, decoupling done the correct way could benefit Pennsylvania's ratepayers, environment and its economy.

Decoupling

The fundamental purpose of decoupling is to break the link between energy sales and profits for a utility. Currently, revenues received by the utility are based on the amount of energy sold. The result of this circumstance is that successful energy conservation efforts undertaken

by a utility could result in decreased returns to shareholders. With this in mind, now is the time to discuss decoupling utility revenue and shareholder returns from the amount of energy sold to consumers.

There are three key concepts that must be included in a properly constructed decoupling mechanism. First, the primary purpose of decoupling is to promote energy conservation. It is not simply a mechanism to remove all risk from the utility. Second, consumers should see savings in their utility bills from the conservation efforts they undertake. Third, the utility should be encouraged to maximize operational efficiency.

With these factors properly accounted for, rate decoupling can provide significant benefits to consumers. Consumers who receive assistance from the utility with their energy conservation efforts will obviously see a marked decrease in their energy bills. All consumers will also see lower overall bills due to reductions energy costs and reductions in fixed costs associated with the utility's infrastructure.

In addition, decoupling could benefit the environment and public health by increasing energy efficiency and reducing pollution. Energy conservation also creates good paying jobs, promotes the development of innovate energy efficient technologies, and decreases the bills paid by businesses, improving the competitiveness of Pennsylvania's companies. Given these important potential benefits to Pennsylvanians, it is appropriate for the commission to consider rate decoupling.

Conclusion

In summary, while Pennsylvania is in compliance with the requirements of ARRA, I encourage additional discussion and careful consideration of new processes to revise utility rate setting to better align the priorities and goals of energy efficiency and conservation with the priorities of the utilities. The end result of these efforts could well be a combination of lower electricity bills for our ratepayers, a healthy economic future and a cleaner environment.