

Statement
of
PAMELA C. POLACEK
on behalf of the
INDUSTRIAL ENERGY CONSUMERS OF PENNSYLVANIA
and the
INDUSTRIAL CUSTOMER GROUPS
for the
PENNSYLVANIA PUBLIC UTILITY COMMISSION'S
Technical Conference on
Compliance of Commonwealth of Pennsylvania with Section 410(a) of the American
Recovery and Reinvestment Act of 2009
Docket No. I-2009-2099881

November 19, 2009

The Industrial Energy Consumers of Pennsylvania ("IECPA"), Central Penn Gas Large Users Group ("CPGLUG"), Columbia Industrial Intervenors ("CII"), Duquesne Industrial Intervenors ("DII"), Met-Ed Industrial Users Group ("MEIUG"), Penelec Industrial Customer Alliance ("PICA"), Penn Power Users Group ("PPUG"), Philadelphia Area Industrial Energy Users Group ("PAIEUG"), PNG Industrial Intervenors ("PNGII"), PP&L Industrial Customer Alliance ("PPLICA"), UGI Industrial Intervenors ("UGIII") and West Penn Power Industrial Intervenors ("WPPII") (collectively, "Industrial Customer Groups"), appreciate the opportunity to participate in the Pennsylvania Public Utility Commission's ("Commission" or "PUC") technical conference regarding the Commonwealth of Pennsylvania's compliance with Section 410(a) of the American Recovery and Reinvestment Act of 2009. I am Pamela Polacek of McNees Wallace & Nurick LLC. McNees has the privilege of serving as counsel to IECPA and the Industrial Customer Groups.

IECPA is a 25 member ad hoc group of energy intensive industrial customers of electricity and natural gas. Members of IECPA consume 6 billion kWh of electricity, and more than 41,000 Pennsylvanians are employed by IECPA member companies. The Industrial Customer Groups are all ad hoc groups of commercial, institutional and industrial customers that participate in various electric and natural gas proceedings before this Commission.

IECPA and other Industrial Customer Groups submitted Comments in July regarding the Commission's inquiry into compliance with Section 410(a). We recognize

that the Commission's actions in undertaking this investigation will make additional funds available to Pennsylvania under the ARRA that would not otherwise be available if Governor Rendell had not made the certification that we would undertake the process to ensure that Pennsylvania's ratemaking policies align with the promotion of energy efficiency and conservation. IECPA views the context of this investigation as being particularly relevant. Given the importance of transparency and accountability regarding the unprecedented amount of funds that are being made available by the Federal government to help our nation's economy recover from the recession, the Commission prudently sought input from all interested stakeholders regarding this subject. Contrary to the view expressed by some parties during the comment process, IECPA is confident that the Commission's solicitation of input is not designed to reach a preordained conclusion that changes are necessary to the Commonwealth's policies. This is especially important when the changes advocated by some parties would result in increased costs for Pennsylvania's businesses and manufacturers at a time when those employers are struggling with the effects of the recession.

In an unbundled, restructured environment like we have in Pennsylvania, the most appropriate way to align ratemaking policies with the promotion of energy efficiency and conservation for larger customers is to ensure that the regulated monopoly rates that customers pay for electric distribution and natural gas transportation services reflect proper cost-of-service allocation and rate design principles. In this way, the utilities are held harmless from the energy efficiency and conservation activities that larger customers undertake for their unbundled supply services.

The majority of the Large C&I customers in Pennsylvania purchase natural gas supply from third parties, and rely on the Natural Gas Distribution Companies (or "NGDCs") solely for transportation service. Because the natural gas commodity costs are generally much higher on a per unit basis than the transportation costs that are paid by the customer to NGDC, the prices offered by the third parties will be the primary motivating factor for a customer in evaluating efficiency or conservation. The same is true with respect to electric service in areas of the Commonwealth where the caps on electricity rates have expired. The Commission has adopted several policy decisions to almost ensure that the larger customers will purchase supply service from third parties rather than from the incumbent, regulated utility. The distribution costs paid to the regulated utility are a small portion of total electric costs incurred to operate a manufacturing facility.

In this type of environment, following proper cost of service principles is the most appropriate method to ensure that the regulated natural gas and electric companies do not have a disincentive to promote customers' conservation initiatives. IECPA's Comments contain an explanation of how those principles operate. Fortunately, Pennsylvania has already recognized cost of service as the "pole star" for ratemaking. As a result, Pennsylvania is compliant with Section 410(a).

Thank you for the opportunity to provide this testimony today. I am available to discuss our view of this issue in more detail with the Commission and look forward to your questions.