



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

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April 28, 2006

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PARTIES OF RECORD

Re: Sustainable Energy Fund of Central Eastern Pennsylvania
Docket Nos. M-00031715 F0003; R-00973954

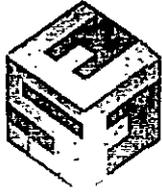
On March 17, 2006, the Sustainable Energy Fund of Central Eastern Pennsylvania ("SEF") submitted the attached letter to the Commission regarding its establishment of a for-profit subsidiary known as Green Connexions, Inc. The Commission has filed this letter at the above-referenced M docket, and will treat it as a petition for approval of the proposal. Interested parties will have 20 days from the date of this letter to file Answers in response to this petition. Parties should address the proposal's adherence to the terms of the PPL Electric Utilities, Inc. restructuring settlement, and the SEF's governing bylaws.

Sincerely,



James J. McNulty
Secretary

Attachment



**SUSTAINABLE
ENERGY FUND**
of Central Eastern Pennsylvania

March 14, 2006

Wendell F. Holland, Chairman
James H. Cawley, Vice Chairman
Bill Shane, Commissioner
Kim Pizzingrilli, Commissioner
Terrance J. Fitzpatrick, Commissioner

RE: The Establishment and Management of a For Profit Subsidiary of the Sustainable Energy Fund of Central Eastern Pennsylvania

Dear Chairman Holland, Vice Chairman Cawley, Commissioners Fitzpatrick, Pizzingrilli and Shane:

The Sustainable Energy Fund of Central Eastern Pennsylvania ("SEF" or "Fund") was formed at the conclusion of the Restructuring Proceeding of the PPL Electric Utilities Corporation ("PPLEU") in accordance with the terms of the Joint Settlement of the Proceeding approved by the Order of the Public Utility Commission ("Commission") entered August 27, 1998 at Docket No. R-00973954. The spirit and intent of the formation of the SEF was to promulgate, support, invest in, and assist in the deployment of alternative and renewable energy services, products, technologies, as well as energy conservation and efficiency within the PPLEU service area. The population of the service area consists of 1.3 million citizens or 16% of the entire population of Pennsylvania, expected to grow to 12.6 million individuals by 2020. SEF was organized as and continues to be a Pennsylvania non-stock, non profit corporation and a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

Initial funding for SEF came out of the Restructuring Proceeding. During the Fund's initial organizational phase, the Commission emphasized the need for the Fund to become sustainable. The By-Laws initially proposed for SEF contained a provision contemplating the eventual dissolution of SEF. The Commission rejected the provision noting its intent that SEF itself become sustainable. *"The proposed by-laws also contained a provision to dissolve the Fund. As we stated in removing a similar provision from the PECO sustainable energy fund by-laws, the dissolution provision is inconsistent with the goal of these funds. It is the Commission's intent that these funds themselves become sustainable, through*

efficient management and the leveraging of monies received from other funding sources. Therefore the proposed dissolution provision has been removed."

The Commission allowed additional, limited funding for SEF, through December 31, 2006, as part of PPLEU's 2004 rate proceeding. The Commission, again, noted its goal that SEF; itself, become sustainable in its Order entered December 22, 2004, concluding the rate proceeding. *"The SEF has helped to foster the development of alternate sources of energy and with the Pennsylvania's Alternative Energy Portfolio Standards Act (Act 213) being signed into law on November 30, 2004 by Governor Edward G. Rendell, the SEF and Pennsylvania's other regional funds will have an additional source of funding. Further, the SEF has effectively managed its funding and has a strong balance sheet, showing unrestricted net assets of \$12,203,454 at June 30, 2003 and therefore is achieving a stated goal of this Commission, that the SEF itself become sustainable."*

The Fund has diligently pursued its mission since inception. It has executed programs using loan, grant, equity, and sponsorship methodologies: approximately 27 loan and equity relationships with investments of approximately \$9 million. One thing is crystal clear, however. Assuming the same "rate of transactions" over the remaining equity in SEF, the SEF can expect to survive no more than five (5) to seven (7) years with a continuing, traditional portfolio of loans, grants, equity and sponsorship methodologies.

SEF has put into motion a project which will allow it to further manage and leverage its existing funding to become, itself, sustainable consistent with the Commission's stated intention. In 2005, SEF established a "wholly owned subsidiary" named Green Connexions, Inc. ("GC"). The purpose of GC was and is to seek out technologies, markets, services, and business opportunities which demonstrated "mission congruency" with SEF. Three such opportunities have surfaced, are being explored, and the expectation is that these activities, once established will act as a funding stream to SEF in order to keep SEF sustainable and capable of continuing its programs. The profits of GC will return to SEF through dividends for the equity investment and market rate interest payments for loans executed by SEF to GC. We anticipate that the investment will represent 10% of the total SEF assets. The activities which are expected to provide this congruency are:

1. The Retrofit of Municipal Traffic Signals in Pennsylvania from Incandescent bulbs to LED modules. It is perfectly clear that an incandescent bulb drawing 67 to 130 watts of power will require more energy and thusly cost, than an LED module drawing 8 to 15 watts. Doing the math with respect to the number of traffic signals within the state, and the ability to finance their acquisition costs through GC, the municipalities, in total can save somewhere in the vicinity of \$11 million annually. This figure does not take into account the potential increase in electric rates anticipated in 2009. As demonstrated recently in Maryland, BG&E

raised its rates to consumers 72% when the rate caps expired, while suburban Maryland and the District of Columbia have seen increases of 38 and 12 percent respectively. GC, as an objective, is committed to providing the appropriate business model for these retrofits and has the cost of these retrofits paid out by a percentage of the energy savings accumulated on a monthly basis. GC believes we can save each municipality, assuming a total retrofit, approximately 75 to 85% of their electrical costs for keeping these traffic signals operational. These retrofits are occurring across the state now but the impact is immeasurable since these change outs only occur when the incandescent bulbs fail. The key component in this program is that the municipality will enjoy a significant percentage of the energy savings in years one through five and ALL the savings in years five through ten.

2. Sixty percent of the land in Pennsylvania is farm land. On many of these farms dairyman are plying their trade trying to not only provide milk to the state but also doing so in an environmentally benign manner. They now must deal with the issue of "nutrient management" on their land and can no longer apply waste manure indiscriminately. The technology that GC anticipates providing these farmers is "thermophilic anaerobic biodigestion" ("AD"). Here again, similar to LED technology, this technology has been applied here as well as California, New York, Wisconsin and elsewhere, but with less than satisfactory results. Regardless of the popular press's description of the current status of AD, we feel that this technology can be optimized to provide inexpensive and "green electricity" to our farmers. GC has the capability of providing this technology using the concept of "build, own, and operate." We will provide the farmer with an "outlet" for his waste manure, generate methane gas anaerobically, convert the gas to "green electricity" and then feed that electricity back to the grid, to satisfy AEPS Act 213 requirements, as well as provide the farmer with "less expensive electricity". This concept has been explored with a number of farmers in Lancaster, Somerset, and Chester Counties and SEF/GC has not only received overwhelming support by the farmers but also attracted enough interest by the PADEP to be awarded an Energy Harvest Grant in the amount of \$440,000 to assist in the establishment of one or two installations by the end of 2007. Revenues from the electrical generation, soil amendments, and bedding materials will also flow back to SEF in the form of payments on loans and dividends from equity investment.
3. GC assumes that most residential dwellings in Pennsylvania can be improved when it comes to energy efficiency. GC is intent on employing Infrared Thermography to "footprint" a residence or commercial facility and provide the owner, not only with a profile of "energy leakage" but also a series of remedial steps which can be taken to reduce his "energy consumption and footprint". This too will be promulgated by GC staff and management.

SEF sees its active involvement in the above projects as a natural evolution of its traditional activities and wholly consistent with the Commission's objective that SEF become sustainable. In fact, absent the foregoing, it is clear that the Fund will not be sustainable. We can't do these projects as SEF because to do so would threaten SEF's non-profit status.

Time is of the Essence

Since each of these activities is "market sensitive", these projects and programs are currently underway and in various stages of rollout. For example, we are in negotiation with the League of Cities and Municipalities to jointly provide a state-wide LED retrofit program geared to all 2,565 municipalities. Due to these types of activities we felt it important to inform the Commission and report to it about the foregoing which are, we feel, consistent with and in the spirit of "sustainability", and the continued existence of the SEF and its mission. We have, in our opinion, struck on a strategy which will accomplish all the prescribed goals mandated by the Commissioners.

In conclusion, the missions of SEF and GC are in synchrony in that both SEF and GC are focused on the main issues that caused the formation of the regional sustainable funds in the first place. Examples of those issues are:

- a. Improvement of Air and Water Quality in Pennsylvania while minimizing dependence on fossil fuels.
- b. Reduce our dependence on high priced foreign fuels.
- c. Generating energy diversity through deployment of renewable energy technologies and energy conservation programs within the Commonwealth.
- d. Create jobs in the energy sector including technicians, installers, analysts, as well as insure no further reductions in the farming communities.
- e. Provide applications that strengthen environmental, ecological, and humanitarian activities.
- f. Provide better economics for energy usage at the residential, commercial, and industrial consumer level.

We thank you for your review of this letter and anticipate that the Commissioners will understand the logic and application of this long term strategy toward insuring the future of the SEF as well as its support for sustainable energy programs.

Dr. Rex A. D'Agostino
President & Executive Director

cc: Robert F. Young, Esquire
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