

**TESTIMONY OF JOHN HANGER
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(PENNFUTURE)**

**BEFORE THE
HOUSE CONSUMER AFFAIRS COMMITTEE
COMMONWEALTH OF PENNSYLVANIA**

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Chairmen Preston and Godshall, and members of the Committee, thank you for inviting PennFuture to testify. Chairman Preston, I especially appreciate the time that you, Gail Davis and other committee staff have made available to PennFuture to discuss legislation and issues.

PennFuture is dedicated to improving Pennsylvania's environment and economy, and House Bills 2200 and 2201 are economic and environmental winners. PennFuture urges quick passage of these important bills and suggests just limited changes.

PennFuture thanks Representative McCall, Representative George, as well as the other supporters of House Bills 2200 and 2201. PennFuture is grateful too for the enormous contributions of Representative Chris Ross to the energy conservation issue and to the content of House Bill 2200 and the contribution of Representative Robert Freeman to crafting House Bill 2201. We also appreciate the constructive work of Exelon, PPL, Sonny Popowsky, and Secretary McGinty to fashioning House Bills 2200 and 2201.

Time now is important. Passing these bills promptly must occur, since the economic and energy benefits of the programs and services that these bills create increase every year that they operate. The energy efficiency programs and the metering that will allow more consumers to have more pricing plan options created by House Bills 2200 and 2201 will take time to start and to get running fully.

These programs help more total consumers and conserve more energy the longer that they operate. Each year more families and businesses will receive services from the new energy efficiency programs. Each year more consumers will have smart meters that create more pricing and service options for them to manage their electricity consumption and bills. Each year more energy is conserved, more dollars saved, and more demand reduced, putting downward pressure on market prices.

The expiration of the rate caps on generation and in some cases also transmission and distribution rates is another reason why House Bills 2200 and 2201 must be promptly enacted. As part of the electric restructuring process in Pennsylvania, rates were capped at 1996 levels in all service territories.

Rate caps first ended in the Duquesne Light Service territory in 2002, where regulated rates for residential and small business were among some of the highest in the nation, though a few, favored large industrial consumers received very low regulated rate deals. When rate caps ended in Duquesne Light in 2002 and large stranded cost charges were removed from the bill, competitive market prices saved residential consumers with basic electric service \$170 per year and residential consumers with electric heating service \$440 per year.

Though Duquesne Light was first, rate caps have ended now in six service territories. Rate caps will expire in the remaining service territories by January 1, 2010 and January 1, 2011.

Generally rates for most customers, including residential and commercial customers, are today close to or lower in real or inflation adjusted dollars than they were in 1996 or even 1991. This is a remarkable performance in light of the triple digit energy price increases that have occurred for oil, gasoline, and natural gas in a short period of time.

In the DQE light service territory and Penn Power service territories where rate caps have expired and large stranded cost charges have been removed from bills, significant portions of the industrial, commercial and residential loads have switched to competitive suppliers. Currently residential customers in both DQE and Penn Power service territories can switch to a competitive supplier and receive a 10% reduction on their generation prices.

Not surprisingly, when electric rates have been capped for as many as 14 years, price increases will occur when caps expire, even though the increase may not raise rates measured in real or constant dollars when compared to rates charged in 1991 or 1996. Price increases for electricity after rate caps are likely to be in the 20% to 50% range. These increases are significant but should be put in context.

Electricity price increases will be less than what has occurred here in Pennsylvania for regulated utility services at some water and sewer providers since 1996. Electricity prices increases will be less than what has occurred for regulated natural gas service over a 14 year period. Electricity price increases will be also less than what has occurred for other energy products such as heating oil, gasoline, kerosene, propane as well as other non-energy products like health care, cable TV, and college tuition during that period.

Having put electric price increases in context, I recognize that a 20% to 50% increase after 14 years of stable electric prices creates pressure. Rate caps should expire but consumers must be given energy conservation programs and other tools to reduce their electric bills and to manage their electricity consumption. House Bills 2200 and 2201 do that and must be passed before rate caps expire.

Electricity prices for generation services are now or will be soon set by markets. Market prices are affected by many factors, including the amount of supply, the amount of demand, and the costs of inputs like fuel, labor, health care, and materials like steel and concrete for construction of plant.

Demand for electricity substantially impacts the market price of electricity. Since demand varies with the time of the day and weather, electricity prices in the wholesale market vary throughout the day and throughout the year.

During a mild spring night at 9:00 pm in the evening or at 6:00 am in the morning, demand is low and electricity prices in the wholesale spot market are low too.

Conversely during 1% of the year or the 100 hottest hours of the year, which are usually between 1:00 pm and 6:00 pm on a summer afternoon, electricity demand is very high as a result of massive air-conditioning usage. Demand at these times can stress the grid to

the point where grid reliability is threatened. Demand at these times does drive electricity prices in the wholesale spot market to very high levels.

Put simply, cutting electricity demand at any time of the day or year saves money for customers who reduce their usage and lowers overall market prices for all customers, whether or not they are actually reducing demand. Cutting electricity demand saves money because conserving a kilowatt-hour of electricity costs less than buying it in yearly contracts or building new power plants.

Conserving a kilowatt-hour of electricity can cost nothing. Simply turning lights off and changing behaviors can save kilowatt-hours for no cost. Behavioral changes alone can cut by 5% many electric bills.

Substantially more electricity can then be conserved for less than 3 cents per kilowatt-hour with efficient lighting, automatic thermostats, insulation of hot water heaters, efficient motors and appliances and other low-cost measures. Low cost conservation measures for many consumers can cut electric bills by 20%.

Yet, buying electricity on the market or building a new power plant to supply electricity costs approximately 7 to 10 cents per kilowatt-hour or 2 to 3 times what it costs to conserve electricity.

To repeat, conserving electricity is a much cheaper than building new power plants and power lines or buying 1-to-3-year contracts for electricity on the market.

Reducing electric demand also reduces the consumption of natural gas and other fuels that are burned at power plants. As a result, conserving electricity also conserves natural gas and helps to control the price of natural gas itself. Conserving electricity also decreases pollution that sickens people, greenhouse gases that are trapping heat and raising temperatures, and emissions that harm habitat for plants and animals.

Cutting peak demand during the 100 hottest hours has many economic benefits. First and foremost, peak demand reductions protect the reliability of the grid and insure against blackouts that can cause billions of dollars of economic loss. During these hours, more supply sometimes is not available. The only means of protecting reliability is to reduce demand in real time.

Second, small reductions in peak demand during the 100 hottest hours produce large savings for customers whom do so and lower significantly the market price during those hours for all customers, even for those that do not reduce their consumption. A 1% reduction in demand at such times can yield a 10% reduction in peak prices.

Third, reductions in peak demand can avoid or delay the large cost of new power plants and power lines. The grid must be built to a size that keeps the lights on during the period of highest use. The higher the use at these peak times then bigger and more expensive must be the grid. For this reason, power supply is very expensive during periods of

annual peak demand. In fact 20% of the cost of serving a residential customer for an entire year may be incurred to serve that customer during just the 100 hottest hours.

House Bills 2200 and 2201 will reduce energy consumption and peak demand cost effectively. They will deliver substantial economic, grid reliability and environmental benefits to the consumers of Pennsylvania.

House Bill 2200 requires that:

By May 31, 2013 total annual deliveries to retail customers of electric distribution companies shall be reduced by a minimum of 2.5%. This load reduction shall be measured against the expected load forecasted by the commission for June 1, 2012 through May 31, 2013, based on load for the period June 1, 2007, through May 31, 2008.

House Bill 2200 also requires that:

Cost-effective demand-side response measures to reduce peak demand by a minimum of 4% in the 100 hours of highest demand with provision made for weather adjustments and extraordinary load that the electric distribution company must serve. This reduction will be measured against the electric distribution company's peak demand in the 100 hours of greatest demand for June 1, 2007 through May 31, 2008. The reductions shall be accomplished by May 31, 2012.

The 2.5% overall reduction and 4% peak reduction that must be achieved by May 31, 2013 and May 31, 2012 respectively are achievable and significant. PennFuture supports them.

PennFuture, however, supports including an interim reduction goal of 1% by May 31, 2011 for overall consumption. PennFuture suggests that by May 31, 2011 each electric distribution utility reduce total annual deliveries by 1% of the expected load growth for the period June 1, 2010 to May 31, 2011.

PennFuture suggests also providing more direction to the Commission for the period November 30, 2013 to May 31, 2018. Specifically PennFuture believes that, if the benefits are found to exceed the costs, then the goals for overall energy deliver reductions and peak annual reductions should increase by 0.5% per year from 2013 to 2018, unless the PUC rules after a full hearing that such increases are not cost effective or achievable.

Concerning House Bill 2201, I will restrict my testimony to the smart metering as well as the voluntary real time pricing and time of use provisions.

House Bill 2201 requires that customers responsible for 40% of the company's annual peak demand have a smart meter installed within 4 years after the effective date of the act; customers responsible for 75% of the annual peak within 6 years; and 100% installation within 10 years.

House Bill 2201 also requires that electric distribution utilities offer voluntary time of use pricing plans and real time pricing plans.

Smart metering, voluntary time-of-use pricing plans, and voluntary real time pricing plans will give consumers powerful new tools to manage their electricity consumption and electricity bills. They will enable consumers to save money and will reduce market prices for all consumers even if they remain on fixed average price plans. Indeed some consumers will receive more than lower prices. They will receive checks for agreeing to reduce consumption during peak annual periods.

Smart metering, time-of-use and real time pricing plans will also protect reliability and insure against expensive and dangerous blackouts by offering financial carrots to consumers much like an airline offering passengers a free ticket if they volunteer to take a later flight.

Smart metering, time of use and real time pricing will reduce overall consumption but especially peak demand. By doing so, they will help avoid or delay the need for expensive new power plants and power lines.

PennFuture urges that state facilities themselves be grouped together for early installation of smart meters and for demand response participation in markets. The state can set an example of what can be done. It also can save taxpayers money by being a smart meter and demand response model.

House Bill 2200 and 2201 are sensible, strong policies that will benefit consumers, create jobs, and reduce pollution. House Bill 2200 and 2201 will cut electricity bills, reduce overall demand and peak demand, put downward pressure on market prices as a result, and give consumers ways to manage their electricity usage, electricity prices, and electricity bills. PennFuture urges that they be passed promptly.