



Testimony of
Citizens for Pennsylvania's Future (PennFuture)
Before the
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Informational Meeting on Electric Utilities
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By
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Chairmen Preston, Chairman Godshall and members of the Committee, thank you for inviting PennFuture to testify.

PennFuture is a statewide public interest membership organization, working to enhance Pennsylvania's environment and economy, with offices in Harrisburg, West Chester, Philadelphia, Wilkes-Barre and Pittsburgh.

PennFuture has been working on energy issues for the last 10 years. We were strong supporters of the Alternative Energy Portfolio Standards Act (AEPS) which created a strong foundation for the renewable energy industry in Pennsylvania. This past year, we also worked to help pass the \$650 million Alternative Energy Investment Act. And we thank this committee for its leadership in passing the energy conservation bill that will require utilities to cut the demand for electricity by investing in robust energy conservation programs.

The AEPS has been hugely successful. Pennsylvania now has 10 operating wind farms. By early next year four more wind projects will come online, increasing the state's total installed wind energy capacity to 595 megawatts. That is enough power to meet the needs of 173,769 homes each year. There are another 13 proposed projects at various stages of development in the state. We also have the largest solar project in the country east of Arizona with another one in the development stage. But what is largely forgotten is that the AEPS would not have been effective without the underpinning of the Electric Competition and Consumer Choice Act that passed in 1996. As you know, the competition act opened up retail electricity sales to competitive suppliers and capped electricity rates for 10 to 14 years. It allowed customers to choose their power suppliers and enough opted for electricity generated from renewable energy that it created a small but stable market for renewable energy suppliers. It also attracted other power suppliers who gained a foothold in the Pennsylvania market.

Rate Caps Expiration

But now all rate caps are set to expire over the next two years. If you believe what you read in the newspapers, you may be worried that electric competition has been a failure and that now electric consumers will have to pay the piper with exorbitant rate increases. Fortunately, neither of those things is true.

Competition has not been a failure. It has benefited customers and made Pennsylvania power generators much more efficient. Because power generators in Pennsylvania operate in a competitive market place, they quite simply must run their plants efficiently to make money. The forced outage and breakdown rate has been cut in half. Nuclear plants that prior to competition ran 75 percent of the time or less now operate 90 percent of the time. Power generation and the management of the grid has improved so much that the required reserve margin in PJM has dropped from 22 percent to 15 percent saving Pennsylvania consumers money and cutting pollution from plants that are spinning in reserve but putting no power onto the grid.

And new companies are competing for business. In the Allegheny Power service territory, commercial and industrial customers can choose among 10 competitive suppliers. In the Duquesne territory, three companies are competing for residential customers and 20 are vying for commercial and industrial customers. In fact, there is similar competition for commercial and industrial customers in all utility service territories

The competitive market has attracted new power suppliers, created a renewable energy industry and made the generation and delivery of power more efficient and reliable. But what will

the impact of rate cap expiration be on Pennsylvania consumers and businesses over the next two years? We can learn some lessons by looking at the experience in the six electric service territories where rates have already come off.

In the Duquesne Light service territory, residential customers are now paying less for electricity service than they did prior to restructuring. And competition is robust. Competitive suppliers now serve 20 percent of residential, 16 percent of commercial and 45 percent of industrial customers. For Penn Power customers, the news is even better. This week the Pennsylvania Public Utility Commission approved rate **decreases** that will lower electricity bills for residential customers by 10 percent and commercial customers by almost 14 percent in some cases. Let's put these prices into context – this price decrease will save an average family about \$190 a year, and a woman living on social security is now using less of her income on her electric bill than she did in 1991 or 1996. Additionally, 20,326 customers in the Penn Power service territory have switched power suppliers -11.8% of residential, 12.6% commercial and 67% of industrial customers. It is likely when the remaining rates expire elsewhere that we will see similar movement in customers to competitive suppliers.

The horror stories we hear about the 70 percent increase customers experienced in Pike County happened because the utility entered into a single contract for its power the week after Katrina when prices skyrocketed. Today, Pike County's prices fluctuate with the market and ranged last year from a low of 8.88 cents a kilowatt hour to a high of 12.5 cents. But competitors in the service territory are also offering fixed rate prices at competitive prices.

This week the Public Utility Commission released a report showing what electricity prices would be if rate caps came off today. It showed that in the PECO service territory, prices would rise for residential customers by a mere 1 percent, and prices would **decrease** by 2 percent for commercial customers. The statewide average would be on the order of a 25 percent increase, and that could present a hardship for many families reeling already from the economic downturn and job losses. But extending the rate caps is not a solution.

Keeping electric rates capped will reduce the entry of new competitors and technologies to the marketplace, and discourage conservation. Artificially depressing electricity prices will also hurt efforts to reduce global warming pollution by putting up barriers to the growth of the renewable energy industry.

PennFuture recommends several ways to alleviate these price increases and protect consumers without extending the rate caps. The PUC has ordered electric utilities to offer customers rate increase deferrals for as long as three years. PPL has a successful and popular program allowing customers to pay ahead in anticipation of rate increases and rewards customers by paying them 6 percent interest on the amount they pay ahead.

Also remember that as rate caps expire, so do stranded cost charges. Electric consumers across the state have been paying almost \$1.2 billion dollars a year for these stranded costs that cover uneconomical investments made by utility companies under the old monopoly system. On my PPL, bill stranded cost charges amount to 10 percent of the total.

The work of this committee in promoting House Bill 2200, now Act 129 will give electric consumers powerful tools to help keep electric prices down. Act 129 requires utilities to reduce their overall electricity load by 1 percent by 2011 and by 3 percent by 2013, and peak demand must be reduced by 4.5 percent by 2013. These reductions will be met through the installation of energy efficiency and conservation measures for all customer classes in their service

territories. And customers can even save more if they take advantage of pricing programs that will be offered that reward them for shifting their energy use to times of low electricity demand.

Based on experience from other states, consumers that participate in energy conservation programs are able to save up to 20 percent on their electric bills. Reducing electricity demand saves money for customers who reduce their usage and lowers overall market prices for all customers, whether or not they are participating in conservation programs. Cutting electricity demand saves money because conserving a kilowatt-hour of electricity costs less than generating it. Even small reductions in peak demand can create large savings to all ratepayers. Just a 1 percent reduction in peak demand can yield a 10 percent reduction in peak prices.

AEPS

Finally, PennFuture recommends the General Assembly pass improvements to the Alternative Energy Portfolio Standards Act. Two bills will be introduced to do this – Senate Bill 92, sponsored by Senator Erickson and House Bill 80, introduced by Representative Vitali. These bills would increase the requirement for solar power by six-fold and more than double the requirement for wind and other clean energy sources. In addition, they tackle head on the problem of carbon dioxide emission from coal-fired power plants by requiring 3 percent of our power to come from coal plants that capture and sequester carbon.

Investments in renewable energy will diversify our power supply, and make it more reliable and cheaper. A recent PJM report found that the addition of 15,000 megawatts of wind energy to PJM could reduce electric consumer bills by \$3.50 to \$4 a month, and reduce carbon dioxide emissions by 34-37 million tons.

PennFuture believes that going backwards and extending electricity rate caps is not an option for our economy, our environment or consumers. Implementing the right policies can give consumers real choices, help them use energy wisely and prepare Pennsylvania to compete in a carbon-constrained global economy.