

November 6, 2015

Re: Opposition to SB 805

Dear Senator:

On behalf of our tens of thousands of members in Pennsylvania, the undersigned respectfully ask you to OPPOSE SB 805, which is scheduled for second consideration this Monday, November 16. This bill would allow industrial and large commercial customers to opt-out of energy efficiency programs under Act 129. We oppose this because it would: 1) reduce the statewide energy savings and associated benefits we are able to realize under Act 129, and 2) increase electric rates by increasing demand for electricity and possibly increasing Act 129 program fees paid by all other customer classes.

Act 129 of 2008 is the Commonwealth's most effective tool for cutting energy waste. Energy efficiency is the most cost effective energy resource we have; it is far cheaper to eliminate wasted electricity than to generate and transmit an equivalent amount of electricity. Phase I of Act 129 was a resounding success: efficiency programs in Phase I saved a total of 5.4 million MWh per year, and delivered \$2.40 in savings for every \$1 spent.<sup>1</sup>

The savings reported above for Act 129 only count these direct savings. In addition, all customers, even those who do not participate in efficiency programs, benefit from efficiency's reduction of wholesale energy prices. When system-wide demand for electricity is reduced, fewer generating resources must operate. Under PJM Interconnection rules, the most expensive generators are displaced first, which can lower the wholesale price of electricity significantly. Over time, reduced demand also lowers the need for and price paid for generating capacity. A recent study commissioned by the Ohio Manufacturer's Association found that in that state, the savings from reduced energy prices and capacity payments was greater than the cost of program delivery over the life of the projects.<sup>2</sup> This means that ratepayers in Ohio experience net savings through efficiency programs even when they do not participate in those programs. While we are not aware of a similar study conducted in Pennsylvania, the same concept applies here.

In addition to the tremendous economic boost of energy savings, efficiency investments provide other benefits, including:

- Job creation and economic development in a broad range of fields;
- Reliability benefits, through reductions in peak demand and transmission congestion, which increases the margin of safety for both generation and transmission;
- Prevention of air and water pollution, including reductions in carbon pollution that will help us comply cost-effectively with the Clean Power Plan.

If large commercial and industrial customers were to opt-out of Act 129, electric customers from other rate classes would be forced to unfairly subsidize the customers opting out. This is because every ratepayer benefits from the price suppression, reliability, and public health benefits

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<sup>1</sup> Act 129 Final Annual Report for Phase I, at p16.

<sup>2</sup> Neubauer et al, 2013. Ohio's Energy Efficiency Resource Standard: Impacts on the Ohio Wholesale Electricity Market and Benefits to the State. ACEEE Report #E138.

discussed above, but some customers would be allowed to withhold financial contributions to the programs that are responsible for those benefits. Either these benefits would be reduced while most customers continue to pay the same rider, or the rider would have to increase to maintain the current level of benefits.

Senate Bill 805 is not the solution to industry concerns with Act 129. A better first step would be for industry to engage the Public Utility Commission and utilities who offer Act 129 efficiency programs to design better options for large customers, or to create custom-designed programs for those customers. While there is no doubt that large customers have the potential to save large amounts of energy,<sup>3</sup> existing programs may not always be well suited to individual businesses.

A well-designed industrial “self-direct” option could also address most large customer concerns. Participating customers would continue to pay the energy efficiency rider, but the majority of the payments (perhaps 90 percent) would be reserved for the customer to make energy efficiency investments in their own facilities. Any unused portion of the 90 percent would be pooled and offered to other customers on a competitive basis. The remaining portion (10 percent) would be used by the EDC for administration of the program and verification of savings. The American Council for an Energy Efficient Economy (ACEEE) has done extensive analysis of this type of program, and could serve as a resource if there is interest in developing a self-direct option in Pennsylvania. We would consider supporting a self-direct option as an alternative to the opt-out policy, if such a program were designed to be fair and deliver similar energy savings as currently anticipated under Act 129.

When efficiency is properly viewed as a resource in the same way that generation and transmission are resources, it seems very strange indeed to exempt any one class of customer from paying for that least-cost resource. Act 129 has been very successful in making Pennsylvania more efficient and therefore healthier and more economically competitive. We should not weaken this policy. On the contrary, we should be looking for ways to implement even more cost-effective energy efficiency.

Please tell your leadership that you OPPOSE SB 805 and vote to preserve Pennsylvania’s ability to invest in our most cost-effective energy resource: efficiency. Thank you in advance for standing up for electric customers throughout the Commonwealth and OPPOSING SB 805.

Sincerely,

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<sup>3</sup> Over the next ten years, industrial customers in Pennsylvania can cost-effectively reduce electricity consumption by nearly 20% using existing technology. Energy Efficiency Potential Study for Pennsylvania. February 2015, <http://www.puc.pa.gov/pdocs/1345079.pdf>, at page 49