

**Joint Hearing by the PA Senate Consumer Protection & Professional Licensure
and PA Senate Environmental Resources & Energy Committees**

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**Testimony of
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Thank you, Chairs Tomlinson and White and Minority Chairs Boscola and Musto as well as all of the members of the committees for the opportunity to share our thoughts on energy policy in Pennsylvania. This year, we celebrate 70 years in the energy business. We will continue working every day on this, and we thank you for the opportunity to discuss the issues.

I applaud the Governor and Legislature for being engaged on energy issues. The eyes of the nation are on Pennsylvania as we work toward a comprehensive energy policy. We look forward to the opportunity to assist in this effort as we have been engaged in complex energy matters throughout our existence.

We have the Alternative Energy Portfolio Standards Act. A recent audit by the Legislative Budget and Finance Committee found the Commission is doing a “good job” of implementing the Act. We also have the acts which restructured both the electric and natural gas industries, including the Commission’s obligation to ensure the provision of default service. Each of these must be administered within the context of the overarching mandates of the Public Utility Code which requires safe, reliable and adequate utility service throughout the Commonwealth.

Given these various initiatives that impact energy markets, policies and rates, the Commonwealth needs a comprehensive energy policy that will provide additional direction for state agencies tasked with ensuring Pennsylvanians have safe yet affordable energy available for years to come. This is exactly the right time to engage in a wide-ranging energy discussion in the state and to move forward with legislation.

The PUC is working with legislators, advocates and the media to ensure consumers know about what is going on around them in both the electric and natural gas markets, how it impacts them and what they can do. Many of the things this Commission has been working on are consistent with the goals of this proposed legislation. When you pass legislation that complements our work, we take a significant step together in establishing sound energy policy that inures to the benefit of Pennsylvanians. Also, you add weight to our regulations and policies.

Just last month, the Commission unanimously approved policies to help mitigate any possible price spikes that could result from the expiration of long-term rate caps that were put in place as a part of the restructuring of the electric industry. That culminated a year’s worth of work where the Commission engaged all of the stakeholders in the process of developing a policy. In engaging in a collaborative process, we have demonstrated that complex energy issues can be resolved effectively in contrast to the difficulties that occurred in Maryland last year and presently Illinois. I’m so glad to note that we have been recognized as the most consumer-friendly state commission in the Mid-Atlantic Region.

As part of the overall strategy for addressing generation rates, the Commission developed final default service regulations and a policy statement. The regulations, which govern how electric generation service is provided to customers who choose not

to obtain generation service from an alternate electric generation supplier, will soon be before the IRRC and your committees for review.

The default service regulations are one of the most important rulemakings before the Commission since the restructuring of the electric industry. In developing these, the Commission attempted to craft rules that represented a balanced approach to acquiring reasonable priced supply in a manner that carefully balanced the interests of all stakeholders, while meeting the requirements of the 1996 electric competition law.

Similar to a proposal in the legislation, our default service policy statement required the electric utilities to offer customers the choice of opting into a prepay or deferral option if the total bill increase exceeds 25 percent at the expiration of the rate caps. The policy statement also addressed other retail market issues, interim price adjustments and cost reconciliation.

Meanwhile the rulemaking focuses on competitive safeguards, procurement and implementation plans and rate design – including the “price to compare.” One thing that the rulemaking did not do is expressly mandate or prohibit long-term contracts. This seems to be an issue that has generated significant confusion and is one that we all have a keen interest in because of its effect on economic development. My colleagues will add further thoughts on this issue. We encourage a procurement approach that is consistent with the competition law’s standard that energy be acquired at “prevailing market prices.” In fact, we recognized that the portfolio requirements for alternative energy may not be satisfied without the use of long-term power purchase agreements between the default service provider and alternative energy suppliers.

With that said, the Commission recognized that some elements of the default service rules should be addressed in a policy statement rather than a rulemaking because changes in markets and technology may result in an approach that is too narrowly tailored or may become too unresponsive to serve the state’s interests.

I would encourage you to consider a similar approach when developing the final legislation. Because the wholesale electricity markets have not yet reached maturity, the markets of today may not be the markets that we see tomorrow. This is a lesson that we have all learned over the last ten years. In passing legislation, it is my hope that you would paint with a broad brush when it comes to issues such as how electricity supply is obtained. Doing so allows the flexibility to adapt easily if and when the wholesale electricity market changes.

Demand Side Response (DSR) is yet another issue that the proposed legislation complements our agency’s efforts. Study after study in the electric industry has shown that providing consumers with the tools they need to help “shave the peak” effectively reduces demand while increasing reliability of the grid and in the end should help to moderate the cost of electricity.

As proposed in the legislation, one way to reduce demand is through the use of smart meters. The technology that empowers consumers to control their energy usage is available. The smartest part of the meter is the customer. But in Pennsylvania, very few residential consumers currently have access to it. There will be costs to the utilities associated with installing this technology in our homes. An important question to consider is how and when those utilities will seek to recover those costs in future rate proceedings before this Commission.

In the coming weeks, we will act on staff recommendations based upon the work of the Commission's DSR Working Group – which again engaged the stakeholders in the process. Their work included a comprehensive overview on cost-effective and reasonable efforts that natural gas and electric utilities can take to help consumers conserve energy or use it more efficiently. I look forward to reviewing the final recommendations that result from the efforts of the DSR Working Group and enacting policies based upon their work, especially since I believe many of those policies will be in line with the proposed legislation.

The proposed legislation also includes a proposed System Benefit Charge (SBC). Recently, the SBC was proposed during a case for consideration before the Commission. At that time, I did not feel that the Commission had the statutory authority to enact such a charge. The proposed legislation would give the Commission that authority. At a time of increasing energy prices, I believe that the enactment of the SBC is a policy decision for the legislature as you work to balance the impact on ratepayers with the need for alternative energy programs as part of a broader energy policy.

The proposed legislation is expansive and includes many new and innovative ideas. It is my belief that some areas should be the subject of further discussion before this legislation becomes final such as proposals to procure electricity by fuel mix; micro-grids; merchant generators; and oversight of the agency responsible for allotting the monies collected through the SBC. Also, there is the decision as to whether or not the default service process should be designed in a manner that will further environmental policies and goals – recognizing the costs associated with that.

Again, I would like to thank you for the opportunity to testify before you on these issues. Pennsylvania is situated to further its reputation as an energy leader. I look forward to participating in further discussions of the issues as we all work together to shape Pennsylvania's energy future.