Testimony of
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on behalf of
Industrial Energy Consumers of Pennsylvania ("IECPA")

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Senate Consumer Protection & Professional Licensure Committee and Senate Environmental Resources & Energy Committee

- IECPA Description
    - Large commercial and industrial consumers of electricity and natural gas services
    - IECPA consists of 24 member companies
    - IECPA consumes over 5.5 billion kWh/year and 36 million Mcf/year
    - Spokesman for commercial and industrial manufacturing interests of electricity and natural gas issues since 1981; forefront of electricity and natural gas restructuring and its implementation at the state level

- Governor's Energy Independence Proposal
    - Appreciation of administration's recognition that energy prices to consumers are critical to economic vitality of the Commonwealth
    - Positive result of administration's proposal is heightened debate on energy pricing and motivation of dialogue among customers, suppliers, and electric distribution companies
    - Encouraged by Administration's expressed concern with the need for infrastructure development and improvement
    - While the package does restore a potential solution in the ability of EDC's to enter long-term contracts with industrial customers, only time will tell if that ability mitigates the pain of customers already experiencing dramatic increases in Duquesne Light Company and Penn Power Company territories; the package does not yet provide for meaningful price mitigation upon rate cap expiration in PPL, PECO, Met-Ed, Penelec, and West Power territories in 2010 and 2011, respectively
    - Absent a significant course correction, economic development and employment will suffer in Pennsylvania upon rate cap expiration and exposure to dramatic price increases
    - Portions of administration's proposal, such as the System Benefit Charge ("SBC") would undeniably increase prices to customers in the

short term with a promise of lower prices in the future; IECPA has not seen the cost/benefit support analyses behind the SBC as to whether the alleged longer term benefits are real and would justify short-term price increments

  - IECPA members are mindful of recent history where longer term price benefits were supposed to materialize from non-utility generation projects and contracts under the Public Utility Regulatory Policies Act of 1978, implementation of alleged competitive markets at the wholesale level with a last-bid-in locational marginal price market design, and the recent reliability pricing model capacity market
  - Each of these initiatives, while championed as designed to produce lower prices and greater reliability have <u>only</u> resulted in the assurance of higher prices
  - Thus, understand our skepticism of the SBC
  - If adopted, extremely important to cap at $10,000 for duration of the charge on annual basis applied on per company basis throughout Commonwealth; cannot apply the cap on a "customer" or meter basis, only on a total company basis

- If Governor's Proposal does not solve problem, what does?
  - Need recognition of major component of the problem: wholesale market dictates retail pricing and wholesale market design lacks just and reasonable price results consistent with the Federal Power Act due to last-bid-in locational marginal price market design; state delegations should encourage congressional order to FERC to rethink its granting of market-based rate authority in conjunction with this pricing model
  - Need your help to affect change at federal and regional level to fix wholesale markets

- Absent corrective action at the wholesale level, what can be done at the state level?
  - Acknowledge that state has limitations on solutions given predominance of wholesale market influence on retail prices
  - First, recognize uniqueness of electricity as a commodity
    - Demand side insufficient check on supply
    - Gross complexity of market rules, tariffs, manuals
    - Multiple layers of state and federal political and regulatory oversight
    - Capital intensity of generation and delivery

    - Instantaneous delivery and consumption
    - Concentration in ownership of generation and joint ownership with delivery

- Second, let electric distribution utilities compete in the marketplace through the ability to offer longer term fixed-price contracts, but if priced on LMP basis, will not be a solution; need to price on a cost-plus-reasonable-return basis; IECPA supports pending legislation like House Bill 1530 to permit EDC 's to purchase wholesale power and offer it to industrial customers on a long-term, negotiated-price basis; this could facilitate immediate assistance in Western Pennsylvania
- Third, require generation projects receiving Commonwealth assistance to offer output for sale on cost-plus-reasonable-return basis as opposed to LMP-pricing basis
- Fourth, explore other market responsive opportunities to bypass LMP enabling Pennsylvania's indigenous generation resources to stay in Pennsylvania and price to consumers at just and reasonable prices as opposed to alleged market returns facilitated by the LMP market design

  Examples of market responsive opportunities:

    - Self-generation
    - Cogeneration
    - Public or private power project construction of low cost generation priced on cost-plus basis
    - Encouragement of existing generation to contract on cost-plus as opposed to LMP basis

- Fifth, facilitate meaningful demand response markets where participants properly rewarded for benefits conferred on market price reductions
- Sixth, reduce or eliminate the tax burden on energy consumers – Gross Receipts Tax, Revenue Reconciliation Rider