

**BEFORE THE PENNSYLVANIA
PUBLIC UTILITY COMMISSION**

**Comments of
SONNY POPOWSKY
CONSUMER ADVOCATE OF PENNSYLVANIA**

**Regarding
Energy Prices and the
Need to “Prepare Now” for Winter**

**Harrisburg, Pennsylvania
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My name is Sonny Popowsky. I have served as the Consumer Advocate of Pennsylvania since 1990 and I have worked at the Office of Consumer Advocate (OCA) since 1979.

I want to thank the Commission for holding this public hearing and for inviting my Office to participate. The “Prepare Now” campaign has been an important and valuable initiative since 2003 and I commend the Commission’s efforts on this campaign. My Office has been pleased to work with the Commission on these and other consumer education programs and we look forward to continuing to do so in the future.

It is with great trepidation that I approach the upcoming winter as we consider the potential impact of high energy prices on the lives of millions of Pennsylvania consumers.

Natural gas commodity prices have come down somewhat after reaching post-Katrina heights earlier this summer, but those prices are still substantially above where they were at this time a year ago. Wholesale spot gas prices at the Henry Hub rose from \$6.25 on July 3, 2007, to a mind-boggling \$13.31 on July 3, 2008. Fortunately, those prices have declined over the last two months, but as of the end of August, 2008, the spot price was still over \$8.00, as compared to \$5.51 at the same time a year ago. These price increases are also clearly reflected in the retail commodity rates charged to natural gas customers in Pennsylvania. In September 2007, the commodity portion of the purchased gas cost rates charged by Pennsylvania utilities ranged between about \$8 and \$11 per thousand cubic feet. In September 2008, the current commodity portion of those rates are in the range of \$11 to \$14.

Electricity generation prices remain capped for the majority of Pennsylvania consumers, but the expiration of rate caps looms at the end of 2009 and 2010, and both my Office and the Commission have prepared estimates of what types of increases might occur when capped rates are replaced with market-based rates. As the Commission well knows, it is not unreasonable to expect overall rate increases of 50% to 60% or more for residential customers of some of our

electric utilities that currently have relatively low generation rates, such as Met Ed, Penelec, and Allegheny (West Penn).

Home heating oil prices are also substantially above the already high levels of last winter, though they too have moderated somewhat over the last two months. While this Commission does not regulate home heating oil, it is important to recognize that when oil customers cannot afford to fill their tanks in the winter, they often turn to less efficient and more dangerous alternatives to stay warm, including electric space heaters. Such low-income customers may be temporarily protected from electric terminations during the winter shutoff moratorium, but then may lose their electric service when April arrives and they have incurred unaffordable electric space heating bills.

There are a number of programs available to Pennsylvania consumers that can assist them to get through this winter and future seasons, and one benefit of a hearing such as this one is to make the availability of these programs better known to the public and specifically to the consumers who need them. But this hearing is also an opportunity to express the need for greater assistance to those consumers who still face the catastrophic loss of basic energy service, or who must give up or cut back on other necessities in order to pay their increased energy bills.

First, with respect to existing programs, it is important to note that the General Assembly has authorized the payment of \$10 million per year, over the next four years, into an Emergency Energy Assistance Fund to be administered by the Department of Public Welfare. This \$10 million can serve as a supplement to the federal funding that is expected to be received under the Low Income Home Energy Assistance Program, or LIHEAP. This commitment of state funds is an important step because Pennsylvania has been one of the few cold-weather states that has not provided such funds in recent years. These funds can only be utilized, however, if the Governor issues a declaration that either weather conditions, disasters, or high energy prices are a threat to

public health. I would respectfully submit that the extremely high energy prices that Pennsylvanians will likely face this winter justify the issuance of such a declaration and I would urge the Governor issue such a declaration as soon as possible.

I would note in this regard that we are already seeing an alarming increase in service terminations by our electric and natural gas utilities. As of the end of July, 2008, electric utility terminations had increased from 77,900 to 100,291, or by 29%, as compared to the same period in 2007; natural gas utility terminations had increased from 54,916 to 64,273, or by 17%, in the same period. Pennsylvania energy consumers clearly are having trouble paying their bills during this difficult economic period. This is exactly the type of situation in which additional state energy funding is appropriate, and I hope that the \$10 million authorized to assist energy customers this year will in fact be utilized.

LIHEAP and the new potential \$10 million state supplement for emergency energy assistance are particularly important because they are funded by all state and federal taxpayers – that is, by our society as a whole. This is in contrast to our utility Customer Assistance Programs, or CAPs, which are funded entirely through the rates paid by customers of each respective utility, and in most cases under this Commission’s current policy, only by residential customers. Each of our electric and natural gas utilities has developed a CAP program under the Commission’s guidelines, and I believe these programs overall are among the best in the Nation. But as the cost of these programs has increased in response to higher energy prices, the burden of the program on non-participating residential customers, including those customers who barely fail to qualify for those programs because their income is only slightly above the applicable limit, has become a significant portion of utility bills. My Office has argued that the costs of these programs should not be limited to residential customers, but should be shared by all customer

classes, and an appeal of this issue by my Office is currently pending before the Commonwealth Court.

The new state funding for Emergency Energy Assistance is a part of legislation that was signed by the Governor on July 9, 2008, the Alternative Energy Investment Act. That Act also contains a number of other provisions that are of immediate importance to Pennsylvania energy consumers because they provide grants and incentives for individual consumers to take steps to conserve and use energy more efficiently. It has become a cliché to state that the cheapest kilowatt hour of electricity (or cubic foot of natural gas) is the one that isn't used, but it is true nevertheless.

The Alternative Energy Investment Act includes \$92.5 million in funding over the next eight years to be used for loans, grants, reimbursements, or rebates to residences and small businesses toward the purchase of "consumer energy conservation projects." Such projects are defined under the Act to include (1) energy efficient windows and doors; (2) geothermal heat pumps; (3) insulation, air-sealing and other energy saving projects; (4) energy efficient or alternative energy heating and cooling equipment or systems; (5) energy efficient solid fuel residential furnaces; and (6) energy efficient lighting systems for small businesses. The development of regulations and implementation of the Act are the responsibility of the Department of Environmental Protection (DEP), but I believe that the PUC, the Office of Consumer Advocate, and many of the other parties represented at this hearing should work with DEP in ensuring that the availability of these funds is made known to the residential and small business customers who can directly benefit from these funding opportunities.

Consumers can also benefit from the availability of \$25 million in grants and loans under the Act for the renovation or construction of residences and small business that meet high energy performance standards, as well as low-interest loans of \$1,000 to \$10,000 for home energy

efficiency projects. Again, I believe it is incumbent on all of us at this hearing to help ensure that consumers are aware of these programs.

Legislation that would require greater commitments for energy efficiency and demand response measures for customers of our regulated electric distribution utilities, is, of course, now pending before the General Assembly, and I fully support those legislative efforts. I believe it is important to establish goals for reductions in both inefficient energy usage and excessive peak period demands that produce higher bills for individual consumers and also increase costs – and therefore rates – for the system as a whole. An example of the benefits of load reduction programs can be seen in the activities of Pennsylvania’s consumer-owned rural electric cooperatives. Even in the absence of a legislative mandate (and even without the enhanced smart metering capability that the cooperatives are currently installing throughout their system), our co-ops have long operated a highly successful direct load control program involving the ability of the co-ops to control electric water heating usage at customer locations during times of peak demand. As a result of these programs, it is my understanding that the Pennsylvania co-ops have been able to reduce their peak demands by as much as 50 megawatts, or between 8 and 10% of their peak load, thus reducing the costs to all coop customers by millions of dollars. This direct load control program is part of the portfolio of resources – or what they term a “patchwork quilt” -- that is used by the co-ops to provide reliable service to their customers at the lowest reasonable cost.

This brings me to another pending legislative initiative, which will not bring immediate relief this winter, but which I believe is absolutely necessary to reduce costs for Pennsylvania electricity consumers in the future. That is, legislation that would mandate a change in the standard and the manner in which our regulated electric utilities secure generation for the vast majority of consumers who purchase “default” generation service from those utilities. Unlike

our natural gas utilities, which are required by law to follow a least cost gas procurement policy, our electric utilities are only required to acquire generation for their default service customers at “prevailing market prices.” Legislation now pending in both the Pennsylvania House and Senate would require our electric utilities to secure a portfolio or mix of long-term, short-term and spot market resources with the express goal of providing service to customers at the least cost over time. I would strongly urge the General Assembly to pass this legislation this fall, so that there is at least a chance that our utilities will begin to develop a portfolio of resources to serve their customers at reasonable prices after their current rate caps expire.

Finally, I would support efforts to mitigate the impact of what now appear to be inevitable post-rate cap electricity rate increases by spreading those increases out over time.

In closing, I would again thank the Commission for holding this important hearing. I would also commend the General Assembly and the Governor for the legislation that already has passed this year that can provide emergency energy assistance and conservation incentives to many consumers across Pennsylvania. But I would also respectfully urge the General Assembly and Governor to use the upcoming legislative days to address the issues of least cost generation procurement, rate mitigation, and energy efficiency and demand response that are still before them.

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