ELECTRIC DEREGULATION AND RATE CAPS
Before the Senate Consumer Protection and
Professional Licensure Committee
February 7, 2007

Testimony of
Kim Pizzingrilli
Pennsylvania Public Utility Commission

Kim Pizzingrilli, Commissioner
Pa. Public Utility Commission
Commonwealth of Pennsylvania
3rd Floor Keystone Building
Harrisburg, PA 17120
(717) 772-0692

Good morning Chairman Tomlinson, Chair Boscola and members of the Committee. I would like to thank you for the opportunity to testify today on electric restructuring.

Pennsylvania was among the first states to enact retail choice and restructure the electricity industry to transition to a competitive market for generation service. The declarations of policy in the Electric Generation Customer Choice and Competition Act (Competition Act) demonstrate that the Pennsylvania General Assembly was concerned about the level of electric rates paid by Pennsylvania's retail customers. The General Assembly acknowledged that electricity costs were a key factor in the health of Pennsylvania's economy, and that competitive market forces would be more effective than regulation in controlling energy prices.

It has been over a decade since the passage of the Competition Act. As we take a step back and review its impact, it is important to emphasize that we are in the middle of a transition period and the implementation of the Competition Act is still very much ongoing.

At this time, a rate cap structure is in place for most of the larger Pennsylvania utilities keeping rates frozen and unexposed to potential rising costs. While Pennsylvania consumer rates are capped, the market prices for electricity, just like the prices of other goods and services, have risen. The Commission has licensed many electric generation suppliers, however, it can be argued that the price caps have deterred these suppliers from offering service. As the Commonwealth moves forward, we are hopeful that the transition to market-based pricing will encourage more electric generation suppliers to enter the market and offer more alternatives for consumers.

Over the past several years, the Commission has studied developments in retail and wholesale markets. Experience in other jurisdictions and our own suggests that markets rarely develop in the precise manner that was originally envisioned and the transition from rate caps to market-based pricing is an evolving process.

The Commission has been proactive in facilitating the transition to market-based pricing and easing the transition to potentially higher uncapped rates. First, this Committee will soon have for its review Default Service regulations which will define the obligations of companies to serve retail electric customers at the conclusion of the restructuring periods. Additionally, the regulations will be accompanied by guidelines for default service providers regarding the acquisition of supply, the recovery of associated costs and the integration of default service with competitive retail markets.

In June 2006, the Commission took the lead and organized an en banc hearing where consumer and business advocates and industry experts testified on options to mitigate the size and effect of potential increases in electricity prices as utilities transition out of rate caps. Parties suggested a number of price mitigation strategies, including consumer education and the possibility of a statewide campaign, which are being considered by the Commission. Many of the suggestions from the en banc hearing are already underway including initiatives in the area of energy efficiency, conservation, and demand side response.

In fact, the Commission has already initiated a separate proceeding to study these issues more closely.[1] In this proceeding, the Demand Side Response workgroup will provide policy recommendations on how to increase the utilization of these programs and technologies by Spring 2007.

The Commission also actively participates in the Mid-Atlantic Distributed Resources Initiative (MADRI) which includes five Mid-Atlantic jurisdictions, in collaboration with PJM and federal and regional authorities. A joint policy statement was issued advocating accelerated implementation of Distributed Energy Resources (DER) in the region. Such measures, when implemented, could increase utilities' reliance on advanced metering, distributed generation, and energy efficiency. Many DER options can also provide direct benefits to customers in that they are provided with new tools and a means to better manage their electricity usage and bills. Achieving these long term benefits is a valid goal of regulatory policy.

---

[1] *Investigation of Conservation, Energy Efficiency Activities, and Demand Side Response by Energy Utilities and Ratemaking Mechanisms to Promote Such Efforts*, Docket No. M-00061984 (Order entered October 11, 2006).

A study recently completed by the Brattle Group was also distributed to the Committee. This study initiated by PJM and supported by the MADRI states demonstrated savings that can be generated from greater use of demand response. The study concluded that a modest reduction in electricity use during peak hours would reduce energy prices by at least $57 million to $182 million annually in the Mid-Atlantic region.

According to the study, a three percent reduction during the peak use hours for each utility studied would have reduced energy market prices by $8 to $25 per megawatt-hour. Actual demand response typically has been less than one percent of use during peak hours, according to PJM.
This study will be used by the MADRI states as a tool to help educate stakeholders on demand response savings and facilitate demand response initiatives on a regional basis.

Finally, I would like to emphasize that the Competition Act required that the reliability of the electric distribution and transmission system be preserved despite the restructuring changes. I think it is worth noting that the majority of Pennsylvania's electric distribution companies are meeting or exceeding their reliability performance standards.

As you have heard today, the Commission is committed to fostering competition as directed by the General Assembly. In doing so, we are taking steps to prepare consumers for possible price increases through education initiatives and by continuing to explore the tools available to help more efficiently manage energy use. We stand ready to assist the Committee as you continue to monitor the state of electric restructuring and I look forward to answering any questions.