

**Testimony of Charles V. Fullem
Director, Rates and Regulatory Affairs (PA), FirstEnergy
Before the Pennsylvania House of Representatives Policy Committee Hearing
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Good morning, Chairman Reed and members of the House Policy Committee. I'm Chuck Fullem, Director of Rates and Regulatory Affairs for FirstEnergy in Pennsylvania. Our regulated utilities – Met-Ed, Penelec, Penn Power and West Penn Power – serve more than 2 million customers across a 32,000-square-mile service area in the Commonwealth. FirstEnergy employs more than 6,000 people in Pennsylvania.

I appreciate the opportunity to offer FirstEnergy's perspective on the impact of state-mandated energy efficiency and conservation programs, smart meter deployment, and demand response. While I will not specifically address Alternative Energy Portfolio Standard (AEPS) requirements in my testimony, I would be happy to respond to any questions the Committee may have on AEPS. I also would like to discuss our efforts to carry out the requirements of these programs and what we have learned from the implementation process. I'll conclude with some suggestions for improving the effectiveness of energy programs as we strive to comply with the requirements of Act 129.

This is an opportune time to discuss possible changes to Act 129. It's important to consider that the law's highly ambitious targets for energy efficiency, demand response and smart meter implementation were set in a vastly different economic landscape. For example, in the summer of 2008, flash-cut projections provided by the Public Utility Commission forecasted rate increases in January 2011 when generation rate caps expired for our Pennsylvania utilities that varied between 78 and 104 percent. Act 129 was a tool provided by the Legislature to help customers mitigate those significant increases.

But as all of us are aware, the world has change dramatically since then. The recession – along with the increased availability of natural gas – have significantly reduced demand and prices for electricity. As a result, the actual increase that our residential customers saw in January was between 2 and 16 percent. In addition, Met-Ed's current distribution sales

forecast for 2012 is 14 percent lower than the sales forecast we projected when Act 129 was passed.

The problem is, the mandates of Act 129 are based on economic assumptions that no longer apply, and these mandates should be changed to reflect the current economy. For example, lower energy prices and reduced consumption have made energy efficiency and conservation measures less of a priority. And, while many customers would say they support programs that encourage energy efficiency, we're beginning to understand that in this difficult economy they do not want what amounts to a "tax" on their electric bills to cover the cost of programs they did not choose and may not want.

That said, our Pennsylvania Electric Distribution Companies (EDCs) continue to do their part to help encourage the wise use of electricity. Our utilities currently offer a variety of energy efficiency and conservation programs to help customers save energy and money. Our programs for residential customers range from discounts on compact fluorescent light bulbs and rebates for recycling old appliances, to incentives for installing more efficient lighting and HVAC equipment for commercial and industrial customers.

We aggressively promote our energy programs through marketing campaigns designed to encourage greater customer participation. For example, newspaper and radio ads are used to promote energy conservation and offer tips for saving energy and money. Print and radio and promotional events target commercial and industrial customers, while bill inserts reach all customer segments with energy efficiency messaging.

As a result of these and other efforts, our Met-Ed, Penelec and Penn Power utilities met the residential and commercial energy-efficiency goals by May 31 of this year as required by Act 129, reducing electricity use by more than 400,000 megawatt-hours since the programs were launched in March 2010.

And, to help achieve its energy efficiency and conservation goals, our recently acquired West Penn Power utility has recently filed an update to its program portfolio for Commission

approval. The new plan includes programs similar to those successfully used by our other utilities in Pennsylvania.

On a cumulative basis, our Pennsylvania utilities met the total goal across the footprint of Met-Ed, Penelec, Penn Power and West Penn Power.

Despite this progress, we remain concerned about the costs to execute these programs. Across our four utility companies, our residential customers pay an average of \$2.24 per month. West Penn Power's largest customer pays approximately \$45,000 per month for energy efficiency measures. In total, our two million customers pay approximately \$6.3 million per month for these programs. We project the total cost of implementing our energy programs during the period of November 2009 to May 2013 will exceed \$272 million.

As I mentioned earlier, we achieved our energy efficiency targets this year in three of our four service areas. Efforts to implement the most cost-effective programs first appear to have been effective. For example, customers have been receptive to installing compact fluorescent light bulbs because they offer an easy and affordable way to save energy and money. But as more customers install CFLs, there will be fewer opportunities for them to easily achieve incremental energy savings, and we will need to turn to more costly and complex programs that customers have been less willing to support.

Act 129's smart meter requirements also warrant further review. We are currently assessing smart meter technologies and processes as approved by the Commission. However, we have not yet filed our deployment plan with the Commission. As you may know, smart meter programs are facing significant headwinds from consumers in communities where these devices have been installed. In Pennsylvania, our utilities have received numerous letters, phone calls and complaints from customers objecting to the Smart Meter Charge on their bills, questioning the need for smart meters, asking not to have a smart meter installed, and raising privacy concerns.

Although Act 129 did not require a cost/benefit test, current projected costs of our smart meter program are estimated to be \$500 to \$700 million. In addition, nearly one-third of our

Pennsylvania customers use less than 500 kilowatt-hours of electricity per month and have few opportunities to save through the use of smart meters. We believe that sound public policy would dictate that widespread implementation of smart meters should only occur if they are proven to be cost-effective and useful to the vast majority of our customers.

Turning to demand response, we believe it will be challenging for our EDCs to meet the peak use reduction mandates of Act 129. Under the law, utilities are required to curtail load 4.5 percent during the top 100 hours of demand over the summer. Although customers participate in curtailment programs that include a potential for interruption of service, we are seeing less interest from customers in programs that include a mandatory minimum curtailment period. Also, a 4.5 percent target might be easy to achieve during a hot summer, but virtually unattainable when summer temperatures are mild and demand is lower due to the economy. In addition, it can be difficult to predict when the top 100 hours of demand will occur, and many customers are unwilling to have their power interrupted – and comfort compromised – in return for lower rates.

Commercial and industrial customers have widely taken advantage of lighting programs, but businesses that invested in energy-efficient lighting before Act 129 programs were launched have concerns that should be addressed. For example, some of these customers have questioned the fairness of costly riders that fund the efficiency efforts of large commercial customers who didn't make improvements before Act 129 programs were available.

And, in this economy, some industrial customers that use significant amounts of electricity have voiced opposition to paying for Commission-approved energy efficiency and conservation plans that add costs to their operations and reduce their ability to compete outside of Pennsylvania.

In addition, we believe that EDCs should not be penalized if reasonable efforts were made by the utility to follow and implement the energy and conservation plan approved by the Commission, even if the Act 129 goals were not met. To the extent that penalties are used to punish EDCs that do not achieve these goals, such penalties should be assessed at the discretion of the Commission. Furthermore, when reviewing plan results, other factors that

impact individual EDCs should be considered – such as electricity costs, population density, and mix of residential versus commercial customers. For example, it is easier and more efficient to operate an appliance recycling program in an urban area compared to a sparsely populated rural region, yet EDCs serving both areas are held to the same performance standards.

It also should be recognized that Act 129 placed low-cost EDCs such as West Penn Power at a cost disadvantage. Therefore, Act 129 should be revised to ensure that no utility is forced to spend less than the statewide average cost per megawatt-hour invested in energy efficiency programs and measures.

Looking forward, FirstEnergy recommends that policymakers focus on the impact of lower projected energy prices and higher costs as state-mandated energy programs are implemented. The impact on system reliability as a result of these programs also needs to be fully understood. To that end, EDCs should be entitled to collect lost distribution revenues in the energy efficiency rider – which, in turn, would help ensure appropriate future investment in our state's energy infrastructure.

In closing, we must be mindful of our region's difficult economy and customers' willingness to pay for the additional cost of energy efficiency, demand response and smart meter programs. We also believe it's important to distinguish between Act 129 as it was enacted and what we can do today to make achieving its goals more cost effective for customers.

I appreciate the opportunity to discuss these important issues with you. And, as always, FirstEnergy remains committed to working with this Committee, the General Assembly and the Public Utility Commission to help customers better manage their energy use and save money.

Now, I would be glad to take any questions you might have.

