Optimal ENERGY Integrated Energy Resources

RESPONSE TO SENATE BILL 805

Senate Bill 805 amends Title 66 of the Pennsylvania Consolidated statutes to allow large commercial and industrial customers to opt out of participating in efficiency programs implemented under Act 129. Specifically, the bill states that "any customer that is part of the large commercial class or industrial class, as defined in the electric distribution company's initial plan under this section, shall have the ability to opt-out of participation in the plan…" (§ 2806.1(j.1). The bill further allows any entity with at least one opt-out eligible utility account to exercise the opt-out for all of their other accounts in the state, even if those accounts would not otherwise be considered a large customer.

Our analysis indicates that **this bill would result in the loss of at least $100 million in ratepayer net benefits over a five-year term** and would be detrimental to the Commonwealth's efficiency efforts. Furthermore, each electric distribution company has a different definition of "large" customer. This creates a confusing and unequal playing field across the state, where similar customers are eligible to opt out in one EDC jurisdiction but not in others. This raises concerns regarding equity and economic competitiveness. Finally, while our best estimate is that net benefits from Act 129 would be reduced by at least $100 million over five years, the reality is that the true impact of SB 805 is unknown and could be much higher. This is due to uncertainty in the number of customers eligible for opt-out, the total energy consumption of these customers, and the number of small and medium accounts (and their associated energy consumption) affiliated with customers who also have large accounts.

Most importantly, **residential and small commercial accounts will be directly harmed by this proposal** through increased statewide environmental compliance and health costs and through reduced price suppression effects in the wholesale power market. Wholesale price suppression occurs when the market price of power drops due to a reduction in energy needed from the grid. Because the price of all power is typically set based on the most expensive generation needed, reduced power needs resulting from energy efficiency translate into reduced cost of electricity for **all** ratepayers. A PJM study found that a two percent reduction in the consumption of energy in the PJM region in 2013 corresponds to reductions in total annual costs for electricity of between $3 billion and $4 billion.[1] This is clearly a significant effect, and one

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1 *Potential Effects of Proposed Climate Change Policies on PJM's Energy Market*. PJM. 2009. http://www.pjm.com/~/media/documents/reports/20090127-carbon-emissions-whitepaper.ashx

who's loss would be felt by all customers, not just the large ones that are able to opt-out of the programs.

In conclusion, this bill would result in a significant cost to Pennsylvania ratepayers and has the potential to inflict significant damage to the ongoing and successful efficiency programs under Act 129. At a minimum, the potential effects on Act 129 program delivery and associated benefits to Pennsylvania ratepayers should be clearly enumerated based on EDC sales data. If allowed to proceed, the bill should be revised to provide a fair and equal playing field for all eligible opt-out customers statewide. More importantly, Pennsylvania should consider a self-direct opt-out program rather than a blanket exemption as currently framed. Under this approach, eligible large accounts could opt-out of the program but would have to agree to use the money they otherwise would have paid into the Act 129 program budgets for cost-effective energy efficiency projects at their facilities. This would ensure that these customers are not unfairly burdened by the energy efficiency surcharge while also maintaining the real benefits of Act 129 for other ratepayers.