

## PA Act 129 and the Role for State and Federal Regulators and Legislators In Today's Market and Economy

- Act 129 Overview
- Rationale for Act 129
  - An ominous situation
  - Similar Legislative Initiatives
- Legislative Needs Today

# ACT 129 OVERVIEW

- Pennsylvania Act 129
  - Signed into law on October 15, 2008
  - Bill passed with bi-partisan support from both chambers of legislature (In an election year)
  - Signed by Democratic Governor Ed Rendell

- Elements of Act 129
  - Energy efficiency and Conservation
    - 1% consumption reduction goal from 2009-2010 baseline by May 2011
    - 3% consumption reduction goal from 2009-2010 baseline by May 2013
    - 4.5% demand reduction goal in 100 highest demand hours from 2007-2008 baseline by May 2013
    - Cost/benefit analyses done by November 2013
    - Material fines for non-achievement of goals

- Additional Elements of Act 129
  - Smart Meter deployment
  - Time of Use rates
  - Modifications to Alternative Energy Portfolio Standards Act (“AEPS”)
  - Carbon Sequestration studies
  - Default Service and Default Service Procurement
  - Market Manipulation
  - Conservation Service Providers
  - Cost Recovery

Why did they do it?

# THE RATIONALE FOR ACT 129

As the Pennsylvania legislature was debating Act 129, **natural gas prices** were steadily increasing to **Historic Post-Katrina Highs**, Rate caps had recently expired in neighboring MD and DE, and **Rate Caps were set to expire** at the end of 2009 and 2010 in PA, on pace to **100% or greater rate increases**.

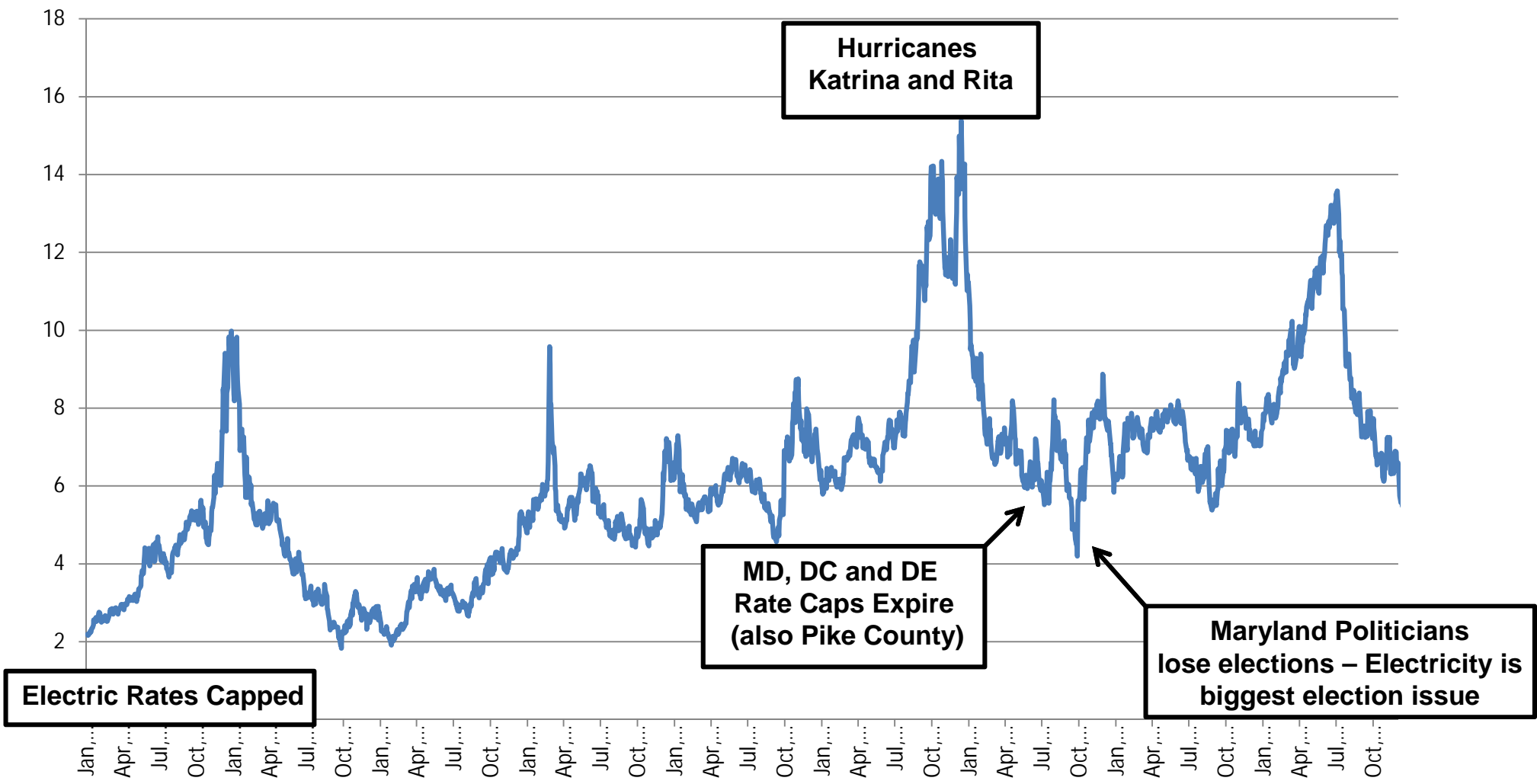
Natural Gas Futures Contract 1 (Dollars per Million BTU)





- Why all of the different elements?
  - PA operates a deregulated retail electricity market
  - Retail electricity rates were capped in 1998 at 1992 levels
  - Gas prices were very bullish in the post-Katrina, strong economic market from 2005 to 2008
  - PA ratepayers were looking at rate increases in excess of 100% when caps expired

## Natural Gas Futures Contract 1 (Dollars per Million BTU)



- What was the goal
  - State goal was to put in place the tools that would allow the market to control energy costs
    - Utility Obligations
      - Put in place EE&C tools allowing customers to reduce demand
      - Put in place default service rules welcoming competition allowing customers to shop
      - Put in place smart technologies allowing customers take advantage of real-time price signals
      - Put in time-of-use rate as a market backstop, allowing customers to take advantage of time-based prices

- What was the goal
  - State goal was to **put in place the tools** that would **allow the market** to control energy costs
    - Other programs
      - Modification to AEPS Act qualified additional resources as “alternative”, bringing economic opportunity to non-fossil resources
      - Carbon Sequestration studies to look at long-term feasibility of coal use
  - Act 129 is not “Command and Control”

- Other Programs that utilize markets
  - CAA of 1992 – allocates market limits for SO<sub>2</sub> and other pollutants, but lets market allocate implementation
  - Building Codes/appliance standards – set limits, but lets market determine best solution
  - CAFÉ standards – sets goals, but allows market to reach equilibrium given the standard
  - Each of these “pulls demand” for new products/services

Where do we go from here?

# LEGISLATIVE NEEDS TODAY

- What does this mean for Legislators Today?
  - 2011
    - Slow economy keeping electricity prices in check
    - Marcellus gas is plentiful keeping gas prices in check
- Energy and Environmental Leadership
  - Non-crisis environment
  - Do we wait?
  - Or act now?

- Innovative Legislative Initiatives
  - Policies should integrate energy and environmental goals
    - Smart Grid Policies
    - Demand Reduction Goals
    - Information Availability
    - Evolving Regulatory Paradigm