

Informational Committee Meeting on PA Electric & Gas Industries

Before the
Consumer Affairs Committee
Pennsylvania House of Representatives

**Remarks of
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Energy Association of PA - Introduction

- Good morning Chairman Godshall, Chairman Daley and members of the Committee. I am Terry Fitzpatrick, President & CEO of the Energy Association of Pennsylvania, a trade association of electric and natural gas utilities operating in Pennsylvania.
- EAP performs a number of functions:
 - Advocacy before state agencies and policymakers- such as the PUC and the General Assembly;
 - Help member companies to share best practices and sponsor educational conferences on operations and consumer issues.

EAP Electric & Natural Gas Members

Electric Utility Members

Citizens' Electric Company
Duquesne Light Company
Metropolitan Edison Company
PECO Energy Company
Pennsylvania Electric Company
Pennsylvania Power Company
Pike County Light & Power Company
PPL Electric Utilities Corporation
UGI Utilities, Inc. (Electric Division)
Wellsboro Electric Company
West Penn Power Company

Gas Utility Members

Columbia Gas of PA
National Fuel Gas Distribution Corp.
PECO Energy Company
Peoples Natural Gas Company
Peoples TWP LLC
Philadelphia Gas Works
Pike County Light & Power Company
UGI Central Penn Gas, Inc.
UGI Penn Natural Gas, Inc.
UGI Utilities, Inc. (Gas Division)
Valley Energy, Inc.

PA Electric & Natural Gas - Quick Facts

Electric Utility Members

- Aka, “electric distribution companies” or “EDCs”.
- Distribute electricity to just under six million residential, commercial and industrial customers in Pennsylvania.
- Employ approximately 9,000 men and women in their Pennsylvania operations.

Gas Utility Members

- Aka, “natural gas distribution companies” or “NGDCs”.
- Distribute gas to just under three million residential, commercial and industrial customers in Pennsylvania
- Employ approximately 5,200 men and women in their Pennsylvania operations.

What Electric Utilities Do

Electric Utility Members

“wires”

- Construct, own, operate and maintain the wires, poles and other infrastructure over which electricity is delivered.
- Interact with customers – providing bills, responding to outages, educating customers on safety & energy efficiency, and administering “universal service” programs to assist low-income customers.
- Serve as the retail market’s “default supplier” - purchase supplies in wholesale market for customers who do not purchase electricity from an electric generation supplier (assured of cost recovery, but do not earn a profit on this service).

Learn more:

www.puc.state.pa.us



What Gas Utilities Do

Gas Utility Members

“pipes”

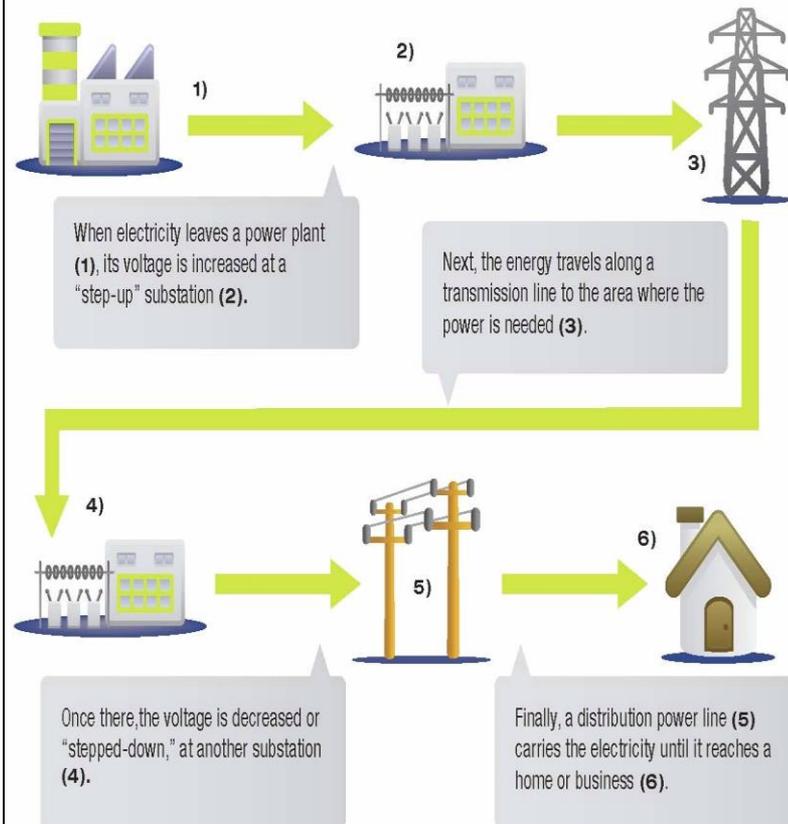
- Own, operate and maintain natural gas distribution pipeline, meters and other infrastructure used to deliver natural gas from the “city gate” to homes and businesses.
- Interact with customers – providing bills, responding to service issues, educating customers on safety & energy efficiency, and administering “universal service” programs to assist low-income customers.
- Serve as the retail market’s “Supplier of Last Resort” for customers who do not purchase their natural gas from a natural gas supplier (assured of cost recovery, but do not earn a profit on this service).

Learn more:
www.puc.state.pa.us

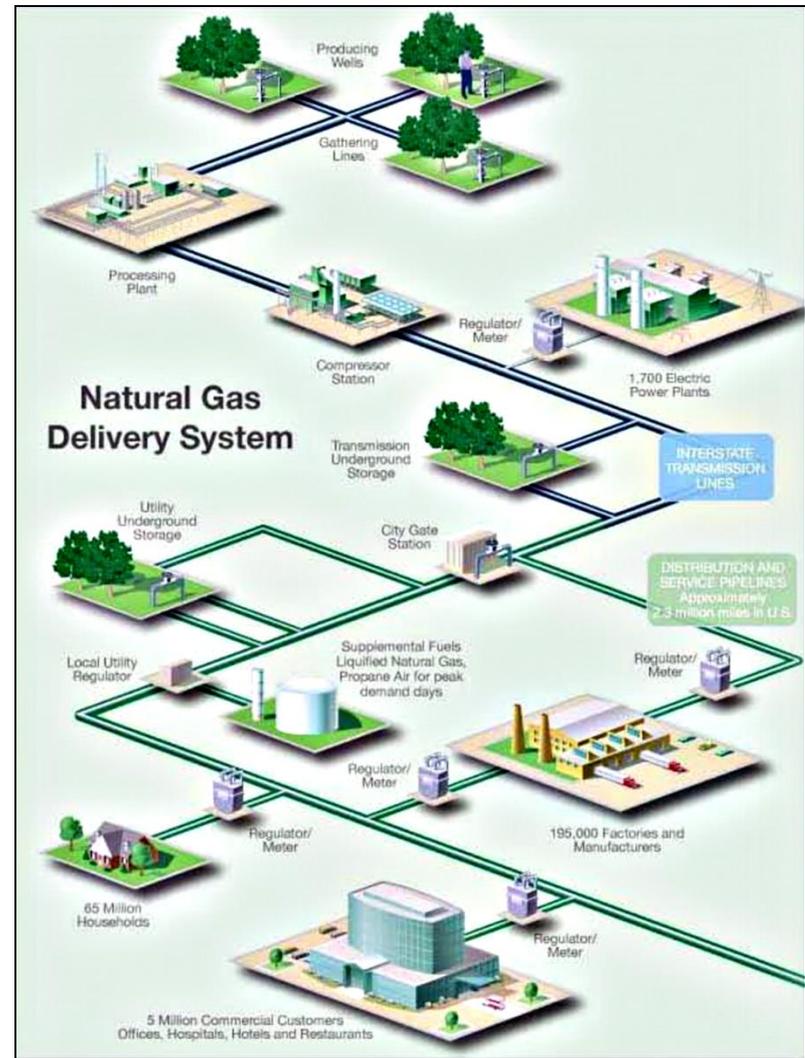


Electric & Natural Gas - Overview

Getting Electricity Where It Is Needed



Source: Edison Electric Institute



Source: American Gas Association

Other Players in the Electric Industry

- **Electric Generators**
 - Own and operate power plants that produce electricity.
 - Sell output into the wholesale market, supervised by Federal Energy Regulatory Commission (FERC) and administered by PJM (regional transmission operator).
- **Electric Generation Suppliers (“EGS”)**
 - Licensed by the PUC to sell supply in competitive retail market.
 - Subject to some rules (e.g. disclosure of contract terms), but prices are not regulated.
 - May compete based on price or other factors (e.g., renewable/green energy, etc.).

Other Players in the Gas Industry

- Gas Producers (e.g., Marcellus Shale)
 - Own, control, manage or lease wells that produce gas.
 - Sell into the wholesale market; supervised by FERC.
- Interstate Pipelines (midstream companies)
 - Transport from the well to the city gate and sell gas for resale; regulated by FERC
- Intrastate Pipelines (midstream companies)
 - Transport from the well to the city gate and sell gas for resale; subject to PUC regulation of rates & service, if serving the general public
 - Safety regulation by federal and/or state agencies
- Natural Gas Suppliers (“NGS”)
 - Licensed by PUC to sell supply in competitive retail market.
 - Subject to some rules, but prices are not regulated.
 - Compete on basis of price or other factors.

Electricity – Demand



- Despite proliferation of electric consumer products, overall electricity demand in Pennsylvania has grown at only an average **annual rate of 1.4%** over the past 10 years.

Source: 2014 PA PUC-issued report entitled "Electric Power Outlook for Pennsylvania 2013-2018"

- Under Act 129 of 2008, last year electric utilities spent roughly \$250 million on mandated energy efficiency and conservation programs.

Did You Know?

The typical U.S. home now has, on average, almost 25 electronic products—99 percent of which must be plugged in or recharged.

99% of households have televisions

99% of households have refrigerators

82% of households have a clothes washer

79% of households have a clothes dryer

79% of households have DVD players

76% of households have at least one computer

61% of households have central air conditioning

59% of households have a dishwasher

50% of households have a DVR

Source: U.S. Department of Energy, Energy Information Administration

Natural Gas – Demand



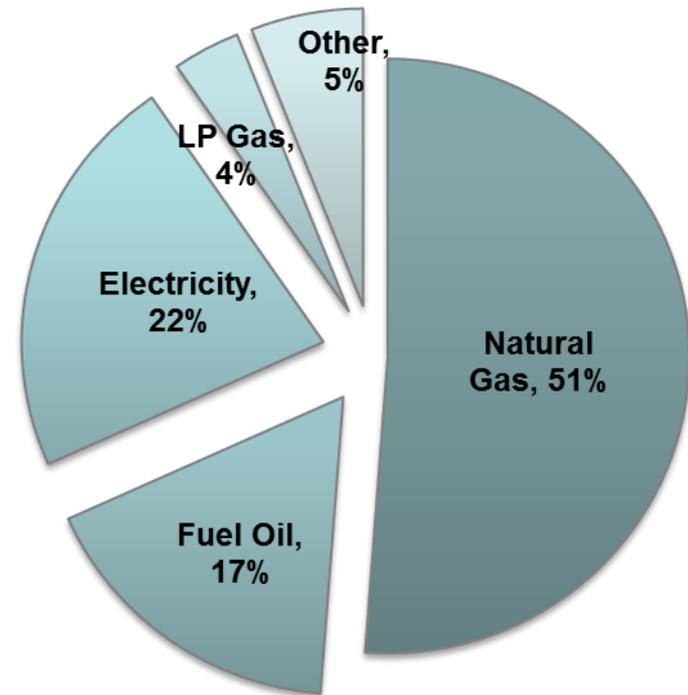
- Natural gas comprises almost one-fourth of all energy used in the U.S. and is directly linked to jobs and economic health.

Source: AGA Natural Gas Facts

- Natural gas usage per household has decreased for a number of reasons, including existing energy efficiency programs, more efficient appliances, & increased thermostat control.

Source: "Natural Gas Efficiency Programs Brief, Investment and Savings Impacts, 2012 Program Year." American Gas Association.

- Gas utilities are currently implementing, or seeking approval for, innovative programs to extend gas service to previously unserved areas across the state.



PA Home Heating Fuel – 2013

Source: Energy Information Administration

Universal Service Programs

- Utility “safety net” programs to help low-income and payment-troubled customers access and maintain utility service.
- Total estimated Universal Service Program (USP) spending by PA electric and gas utilities in 2013 ... more than \$397 million or over \$50 per residential customer.
- Paid for by other customers plus some utility-funded programs.
- Largest component is Customer Assistance Programs (CAP) offering reduced bills based on percentage of income or rate discount and arrearage forgiveness. Over \$347 million spent in 2013.

In addition, the federally-funded LIHEAP* program provided \$204 million in benefits for 2014-15 to low-income Pennsylvanian's using all types of heating sources.

* Low Income Home Energy Assistance Program

Policy Issues Before the General Assembly

- Elimination of the Consolidated Tax Adjustment (CTA) in rate proceedings
- Retail competition enhancements
- Alternative energy and energy efficiency
 - Amend Act 129 of 2008 energy efficiency provisions regarding penalties & lost revenue
- Transfer of Underground Utility Line Protection Law enforcement to PUC
- Gas line extensions

Elimination of the CTA - Background

- The Federal Internal Revenue Code allows affiliated companies to file a “consolidated” tax return – losses of one affiliate can offset income of others
- CTA – a court-imposed policy that requires tax deduction from losses of unregulated affiliates to be used to reduce utility rates.
- The great majority of states do not apply the CTA and determine federal tax expense on a “stand alone” basis in rate proceedings.

Reasons to Eliminate the CTA

- PA is one of a small & shrinking minority of jurisdictions that apply a CTA
- Fairness – just as utility rates may not be increased to recover losses of unregulated affiliates, so too utility rates should not be decreased by applying tax deductions that arise from losses of unregulated affiliates
- Creates incentive for investment in PA – this is why the Federal Energy Regulatory Commission (FERC) eliminated the CTA over 30 years ago.

Thank you

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