

**Committee on Urban Affairs and Housing
Senate of the Commonwealth of Pennsylvania Urban Modernization:
New Directions in Energy**

**Testimony of
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Chairman Yaw, Minority Chair Kitchen and members of the Committee, thank you for inviting me here to testify today. My name is Romy Diaz, and I am Vice President of Governmental & External Affairs of PECO. PECO, headquartered in Philadelphia, is the largest electric and gas utility in Pennsylvania, serving 1.6 million electric customers in Philadelphia, Montgomery, Bucks, Delaware and Chester Counties and 480,000 natural gas customers in the four counties surrounding Philadelphia.

PECO employs more than 2,200 people in the Greater Philadelphia region, where we have invested more than \$2.5 billion in electric infrastructure improvements and operations since 1989. Over the next five years we intend to invest an additional \$1.7 billion.

We take great pride in the special relationship between PECO and our customers. The historic storms of this winter provide a striking example. PECO employees and our contractors worked round-the-clock to respond to the storms that hit our region in December, twice in February and again this past weekend.

Thousands of employees and contractors played a part in restoring all of our customers as quickly and as safely as possible. We, like you, have never experienced a winter like this one, and we deeply appreciate the tremendous patience and support our customers have shown us.

PECO has served southeastern Pennsylvania for more than a century, and we have played a part in every stage of the utility industry's development. We believe it is no exaggeration to say that the changes coming to the industry in the next 10 years – empowering customers and increasing efficiency -- will be as significant as any period before.

While technology changes will spur many of the new directions in the industry, our customers, our political stakeholders and our social responsibilities will drive others.

Our challenge is to align these forces into a complementary set of system investments and customer offerings that will help propel our region and Pennsylvania to a position of national leadership in the emerging green economy.

How will our industry be changing and what will be some of the specific impacts on Pennsylvania -- particularly our urban areas?

First, electric and communications technologies are converging into what is called the "Smart Grid." The Smart Grid is generally defined as a system where real-time information is exchanged between a utility and its customers, and operational controls are highly automated.

It's impossible to say at this time what all the applications of these technologies may be, but it may be useful to keep in mind the incredible transformation we've seen in the telecommunications industry over the last 25 years. As we have seen in telecommunications, technological changes and levels of customer acceptance may take some time to take hold, but ultimately we anticipate a transformational impact on our industry.

Second, economic considerations are driving efficiency at every level of the energy chain -- generation, transmission and distribution, and consumption. Beginning with the move to restructure electricity markets in the 1990s, power generators have greatly improved the efficiency of their operations. With increasingly strict limits on air pollutants required under federal Clean Air laws and the expectation of carbon controls to address global climate change, generation efficiency will become even more essential.

Advanced technology automated transmission and distribution controls will allow system operators to maximize the capacity of our grid network. This will reduce the need for construction of new generating units and, to some extent, power lines. At the same time, Smart Grid technologies will increase reliability, meeting the needs of the most sophisticated high technology companies that will serve as our economic growth engines of the future.

The most dramatic changes in terms of efficiency will likely occur at the customer level. Energy efficiency represents the low hanging fruit of greenhouse gas emissions reduction and customer energy savings. We're seeing unprecedented levels of interest in energy efficiency across customer classes, partially as a result of governmental initiatives such as Pennsylvania's Act 129 programs and increased federal investments.

There are three major transitions occurring in Pennsylvania today:

The Transition to Fully Competitive Electric Markets with the Expiration of PECO's Rate Caps and our Long-Term Fixed-Price Energy Supply Contract at the End of this Year.

With the reduction of wholesale electricity prices over the last two years and a prudent energy procurement strategy, PECO anticipates that post-transition electric generation price increases will be significantly lower than once anticipated.

According to our latest forecasts and even taking into account anticipated electric distribution rate increases -- our first in 21 years -- we now expect that our customers will face cost increases of approximately 10 percent beginning January 1, 2011.

PECO has developed a number of mitigation opportunities for our customers, and we encourage our customers to consider competitive options available to them. Based on developments in areas of the state that have already made the transition to full competition, we are seeing that suppliers will compete and customers will shop once markets are allowed to work.

The execution of Energy Efficiency and Peak Load Reduction Programs to Implement PECO's Pennsylvania Act 129 Requirements.

Pursuant to Act 129 of 2008, PECO and other utilities in the state must achieve 3 percent energy consumption reductions and 4.5 percent peak load reductions by May 2013 to meet our obligations under Act 129. PECO has developed PECO Smart Ideas -- a suite of energy efficient and demand response programs to help customers reduce energy use and save money. We will be offering 14 programs as part of the Smart Ideas campaign, each tailored to meet the needs of our different customer classes.

PECO Smart Lighting discounts program is already a tremendous success. Under this compact fluorescent lamp (CFL) incentive program, more than 2 million CFLs have already been purchased in less than 5 months, which will reduce electricity use by more than 92 million kW hours annually and save our customers nearly \$14 million every year.

We are encouraging recycling of old, inefficient refrigerators and freezers doubling the size of our nationally-recognized low-income programs through our new Low-Income Energy Efficiency Program or LEEP; offering rebates for qualified appliances and heating and air conditioning; and supporting efficiency investments for our industrial, commercial and governmental and institutional consumers.

The Development of an Advanced Metering Infrastructure, or AMI System, and the Mass Deployment of 600,000 Smart Meters over the Next Three Years.

PECO is accelerating deployment of these systems as part of our Smart Future Greater Philadelphia project. This \$436 million project was selected for a \$200 million Smart Grid Investment Grant by the U.S. Department of Energy -- one of only 6 maximum \$200 million grants awarded nationwide.

We are in the final stages of negotiating the terms and conditions of this award and hope to conclude an Agreement in the very near future. As part of the Smart Future project, we are also investing approximately \$100 million in automated Smart Grid control and communications systems to boost reliability and cyber security.

We believe that these transformations in our industry present unique opportunities for our region -- promoting innovation, economic opportunity and environmental sustainability. Southeastern Pennsylvania is home to one of the country's largest concentrations of sophisticated energy users -- manufacturers, educational institutions, medical research facilities and a burgeoning green energy economy.

The Philadelphia area also has a huge stock of aging buildings that are ideal candidates for weatherization and energy efficiency upgrades. We are partnering with the Ben Franklin Technology Partners of Southeastern Pennsylvania to identify emerging technologies that can improve efficiency and reliability on our system.

We are also working aggressively to apply energy efficiency and smart grid technologies to serving the needs of our low and fixed income customers. As I mentioned earlier, we are doubling the size of our nationally-recognized low-income weatherization and efficiency commitments. Over the next three years, we expect our programs to reach approximately 30,000 households in our service territory. We've also expanded and improved our Customer Assistance Program (CAP) and continued our strong support for customer and employee-funded Mutual Energy Assistance Fund program.

In our Smart Future Greater Philadelphia application to the DOE, we established a unique partnership with the Philadelphia Housing Authority to install up to 20,000 smart meters at PHA facilities to empower housing authority residents to gain greater control of their energy use. As part of that commitment, we will work with PHA to have these meters installed by participants in the housing authority's first-of-its-kind, pre-apprenticeship training program.

We also intend to work with other housing authorities in the region to provide meters to their residents, as well as dynamic rate options designed to meet the needs of low and fixed-income customers.

We are seeking to leverage our energy efficiency and smart grid investments to support economic development in our urban centers -- both in the City of Philadelphia and our transit-oriented communities in our suburban counties. These walkable, mixed-use cities and towns are essential elements of the character of our region. As our country seeks to become more efficient and our economy more sustainable, the programs we are developing at PECO can serve as national models.

Of course, environmental commitment starts at home, and at PECO we are already taking aggressive steps to increase the efficiency of our own energy use and reduce greenhouse gas emissions.

Since launching Exelon 2020 in 2008, we have, among other things:

- Opened our first LEED certified service building in West Chester, which utilizes 20 percent less energy, 40 percent less water and includes 20 percent recycled building materials;
- Increased our hybrid vehicles fleet by 11 percent, and we are pursuing utilization of additional compressed natural gas and electric vehicles, including winning a DOE grant for 20 plug-in hybrid electric trouble trucks;
- Completed the largest urban "green roof" project in Pennsylvania at our headquarters building in Center City. This 45,000 square foot project reduces peak roof temperatures, absorbs storm water run-off and improves air quality in the city;
- Became the first Pennsylvania electric distribution company to buy and bank alternative energy credits from wind, solar and other renewable sources to comply with Pennsylvania Alternative Energy requirements beginning in 2011;
- Awarded PECO Green Region grants to local communities for open-space preservation, parks and recreation and conservation,
- Completed the replacement of the landmark Crown Lights atop our headquarters building with LED lighting, improving the efficiency of this system by 20 percent.

In closing, working together with our customers and our community leaders, we believe that our region is uniquely positioned to benefit from these changes and enjoy a more vibrant future.

Thank you for inviting me here to testify today, and I'll be happy to answer any questions.