

HOUSE OF REPRESENTATIVES
COMMONWEALTH OF PENNSYLVANIA

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Informational Meeting

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House Environmental Resources
and Energy Committee

Keystone Building
Hearing Room No. 1
Harrisburg, Pennsylvania

Tuesday, October 18, 2005 - 9:00 a.m.

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BEFORE:

Honorable William F. Adolph, Jr.,
Majority Chairperson
Honorable Dave Reed
Honorable Richard R. Stevenson
Honorable Gibson Armstrong
Honorable Martin T. Causer
Honorable Jacqueline R. Crahalla
Honorable Thomas C. Creighton
Honorable Kate Harper
Honorable Scott E. Hutchinson
Honorable Ronald E. Miller
Honorable Jeffrey P. Pyle
Honorable Kathy L. Rapp
Honorable Chris Ross
Honorable Camille George, Minority Chairman
Honorable Greg S. Vitali
Honorable Jim Wansacz
Honorable Daylin Leach
Honorable John T. Yudichak

DJW REPORTING
djwreporting259@suscom.net
2180 Craley Road, Windsor, Pennsylvania 17366
(717) 246-0347

1 ALSO PRESENT:

2

Joseph Deklinski

3 Majority Executive Director

4 Vicki Hoffman

Majority Administrative Assistant

5

Mark Brown

6 Majority Research Analyst

7 Tom Kuhn

Minority Executive Director

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1 CHAIRPERSON ADOLPH: Good morning. The
2 hour of 9:00 having arrived, I'd like to call to
3 order an informational meeting for the
4 Environmental Resources and Energy Committee.

5 Before we get started, I'd like the
6 members of the Committee, starting with my far
7 right, to identify themselves and the district or
8 county that they represent.

9 REPRESENTATIVE HUTCHINSON:
10 Representative Scott Hutchinson with Venango
11 County.

12 REPRESENTATIVE YUDICHAK: John
13 Yudichak, Luzerne County.

14 REPRESENTATIVE STEVENSON: Rick
15 Stevenson, Mercer County.

16 REPRESENTATIVE ROSS: Chris Ross from
17 Chester County.

18 REPRESENTATIVE CRAHALLA: Jacqueline
19 Crahalla, Montgomery County.

20 REPRESENTATIVE CAUSER: Martin Causer,
21 McKean County.

22 REPRESENTATIVE ARMSTRONG: Gib
23 Armstrong, Lancaster County.

24 REPRESENTATIVE CREIGHTON: Tom
25 Creighton, Lancaster County.

1 CHAIRPERSON ADOLPH: Bill Adolph,
2 Delaware County.

3 REPRESENTATIVE MILLER: Ron Miller,
4 York County.

5 REPRESENTATIVE RAPP: Kathy Rapp,
6 Warren, Forest, and McKean Counties.

7 REPRESENTATIVE PYLE: Jeff Pyle,
8 Armstrong and Indiana Counties.

9 CHAIRPERSON ADOLPH: Mark.

10 REPRESENTATIVE REED: David Reed,
11 Indiana County.

12 REPRESENTATIVE HARPER: Kate Harper,
13 Montgomery County.

14 CHAIRPERSON ADOLPH: Representative
15 Vitali has just entered the room, so we can start
16 the meeting.

17 I would like to welcome everyone to
18 this morning's meeting which is the first of
19 several such sessions focusing upon Pennsylvania's
20 energy future.

21 I would also like to offer a special
22 welcome and a thank you to our panel of testifiers
23 that are with us today. The entire Committee
24 appreciates your willingness to be with us and for
25 sharing your expertise.

1 I think we all can agree that
2 Pennsylvania must take a hard look at how we use
3 energy, the opportunities for conservation, and
4 the types of resources that this state is blessed
5 with to create both short-term and long-term
6 energy policies.

7 It is no secret that energy prices are
8 continuing to rise and available supplies will be
9 stretched to their limits. We are hearing every
10 day about the estimated rises in the cost of a
11 gallon of heating oil or the price of a thousand
12 cubic feet of natural gas.

13 We have two very clear choices: We can
14 stand by or we can move forward together to
15 develop a plan to address our Commonwealth's
16 energy supply and demand issues while at the same
17 time continuing our ongoing commitment to a
18 healthy economy and a clean, safe environment.

19 As a legislature, we must uncover what
20 we can do to foster a secure, reliable, and
21 affordable energy future for all Pennsylvanians.
22 We must also realize, however, that there are no
23 quick fixes.

24 We must understand that energy is a
25 complex puzzle with many interlocking pieces and

1 we must find the right matches to create a
2 sustainable energy picture.

3 Therefore, we must approach this task
4 in a very deliberate, cooperative, and coordinated
5 manner using the best and brightest expertise
6 Pennsylvania and the nation have to offer to
7 develop this smart energy future.

8 I look forward to working with my House
9 colleagues in finding opportunity to develop
10 needed legislation that will help us address our
11 short- and long-term needs.

12 I do not see Chairman George here. We
13 expected him to be here; but, unfortunately, some
14 of the problems that we incur here in the
15 Legislature is that not many of us Chairmen talk
16 to each other so we do not coordinate our
17 schedules.

18 And you're going to see during the
19 course of this meeting many members of this
20 Committee will have to leave because I understand
21 there's a very important Finance meeting, which is
22 a voting session, at 9:30. So you're going to see
23 members come and go. Has nothing to do with your
24 testimony.

25 So without further adieu, I'd like to

1 introduce our first testifier, today, is Miss
2 Ellen Lutz of the United States Department of
3 Energy. Miss Lutz is the Director of the
4 Mid-Atlantic Support Office for DOE located in
5 Philadelphia. Good morning.

6 MS. LUTZ: Good morning, Chairman
7 Adolph, and thank you, Representatives, for
8 inviting me to be here with you today.

9 I'm going to go through an overview
10 which I believe Joe Deklinski has already handed
11 out to each one of you which is from the Energy
12 Information Administration on the outlook for
13 energy supply and crisis this winter.

14 This was delivered by the Administrator
15 of the Energy Information Administration about
16 five days ago, so it's the most current
17 information that we have available.

18 If you look on your first chart which
19 is titled U.S. Average Winter Fuel Expenditures
20 are Expected to be Significantly Higher, what this
21 is showing you is for the average household who is
22 using either natural gas, heating oil, propane, or
23 electricity to heat their homes.

24 There is an average price and there is
25 an average expenditures compared to years 1999 to

1 2004 and then comparing that to the increases in
2 2004 and 2005.

3 When you look over to the column to the
4 right of that, you see the winter of '05 and '06
5 is expected to be significantly higher this year
6 than we have experienced in previous years. And
7 I'll take you quickly through these slides. I
8 have about, I think, 12 minutes and we can take
9 care of questions a little bit later.

10 There are several factors that are
11 driving higher expenditures this winter. You've
12 all been reading about them in the newspapers and
13 hearing about them on TV:

14 Low crude oil capacity, which is a
15 worldwide situation; Hurricanes Katrina and Rita
16 have created a tremendous amount of shut in of
17 crude oil, natural gas and refineries; and we're
18 expecting a colder winter this year, which is
19 expected to be about 3.2 percent colder than last
20 winter.

21 This third slide just shows you that
22 the crude oil prices and supply are strained this
23 winter due to tight global markets. There are
24 several factors for this:

25 There's weak production in the OPEC

1 countries; there's low worldwide spare production
2 capacity, even before the hurricanes; and
3 geopolitical risks from Iraq, Nigeria, and
4 Venezuela.

5 The fourth slide shows you the
6 significant crude oil production that was shut in
7 due to Hurricane Katrina and Rita. The upshot of
8 this is that you will look on that slide at
9 September 19th and you'll see there's a tremendous
10 spike around the time of Hurricane Katrina. Also,
11 the shut in capacity greatly increased.

12 What calmed the prices there -- you'll
13 see the prices starting to calm down and go
14 down -- was the release of strategic petroleum
15 reserves and also a decrease in the demand from
16 the industrial sector.

17 Prices for crude oil are expected to be
18 about \$64 a barrel between October and December of
19 '05 and \$63 on an average monthly throughout 2006.

20 The next slide, slide 6, just shows you
21 the -- refinery capacity that was shut in as
22 opposed to production, which the last slide I
23 showed you. And the important point here is that
24 by December of '05, gasoline prices are expected
25 to be about \$2.73 a gallon and Diesel about \$2.55.

1 So a little bit less than we're seeing now.

2 Natural gas prices, on the next slide,
3 you can see the shut in capacity due to Hurricanes
4 Katrina and Rita; and the prices are following
5 that more closely because we don't have a
6 strategic reserve of natural gas that we can let
7 out there.

8 Natural gas price by December of this
9 year is expected to be about \$11.96 per million
10 cubic foot.

11 The demand for petroleum products in
12 2005 was down .9 percent due to a number of
13 factors: The hurricanes, the supply and demand in
14 the industrial sector. But in 2006, the demand
15 for petroleum products is expected to go up 2.2
16 percent.

17 And the low demand this year, again,
18 was due to low worldwide crude oil capacity,
19 political tensions, and the low supply --

20 Natural gas demand growth, which you'll
21 see on this 9th slide, you'll see that in 2005
22 natural gas demand was down 1.2 percent and in '06
23 it's expected to be raised by 3 percent. So the
24 growth in oil and natural gas are expected to
25 increase in 2006.

1 We are expecting a slightly colder
2 winter, as I mentioned before. Slide 10 will show
3 you that in more detail, but the upshot is that
4 we're expecting 3.2 percent colder winter this
5 year than last year.

6 Okay. Crude oil prices on slide 11,
7 the WTI is the West Texas Intermediate. Crude oil
8 prices, are expected to -- the base case to be \$64
9 per barrel. If we have a colder winter, it will
10 go up to \$68 a barrel if the winter is 10 percent
11 colder than the base case.

12 How will this affect the residential
13 household? The impacts for natural gas in the
14 Northeast, the total expenditures for the
15 individual household will go up about 32 percent.
16 The average price for natural gas will go up about
17 33 percent.

18 The hardest hit region in the country
19 will be the Midwest, which is 75 percent dependent
20 in their residential sector on natural gas; and
21 the total expenditures in the Midwest are expected
22 to go up by 61 percent this year. Also,
23 consumption of natural gas is expected to go up by
24 4 percent.

25 Okay, the next slide just shows you the

1 Henry Hub spot price, which is for those buying on
2 the spot market. Electricity expenditures are
3 expected to be relatively level except in the
4 South. The South will pay about 9 percent more
5 this year for electricity and, in the Northeast,
6 we will be paying between 2 and 3 percent more.

7 The 15th slide shows you winter heating
8 oil expenditures will increase by over 30 percent
9 for heating oil. In the Northeast, the average
10 price will be approximately 32 percent higher for
11 homes heated by oil and the total expenditures
12 about 30 percent more.

13 Okay, coming down home stretch here,
14 retail heating oil prices in the base case will
15 end up at about \$2.54 per gallon in 2006 compared
16 to 2005, which was a dollar ninety-two a gallon,
17 which is an increase of 62 cents per gallon for
18 heating oil in 2006.

19 Propane, which is only used by about 5
20 percent of U.S. households, will go up in the
21 Northeast by about 20 percent. That's a lot of
22 data, I realize that, I've just thrown at you.

23 But in conclusion, nothing is certain.
24 We've seen that over the past six months with the
25 natural disasters that we have incurred. This is

1 the best guess of the Energy Information
2 Administration to date if temperatures remain true
3 to a base case or 10 percent colder or warmer than
4 the base case.

5 What we do know is the average U.S.
6 household will pay about \$260 more for heating
7 this winter due to tight supplies and the
8 hurricanes in the Gulf.

9 Under the baseline forecast, natural
10 gas could be 48 percent higher for the average
11 U.S. household and much higher in the Midwest.
12 Heating oil expenditures are expected to be about
13 32 percent higher for the average U.S. household.

14 And if the winter is 10 percent colder
15 than the base case, these numbers would raise
16 significantly. That would increase to 67 percent
17 for natural gas and 58 percent for heating oil.

18 Thank you, very much.

19 CHAIRPERSON ADOLPH: Thank you very
20 much. I'd like to acknowledge the presence of
21 Representative Wansacz and also the Democratic
22 Chairman, Bud George.

23 At this time, Chairman George has some
24 comments. And because of our schedules, we have
25 some members that have some questions of you, Miss

1 Lutz, before you leave -- before they leave.

2 We'll first turn to Chairman George for
3 his comments.

4 CHAIRPERSON GEORGE: I won't be long.
5 I'm glad to see that we have some expertise here
6 this morning. I don't know whether it's going to
7 require expertise or just a true understanding
8 whether there are games being played.

9 And just the other night I had the
10 privilege of standing on a program with the head
11 of the energy entities here in Pennsylvania. And,
12 you know, it seems like that everybody's blaming
13 everybody for something.

14 And I don't know whether or not that we
15 ourselves are not responsible by not taking this
16 stick and slapping something with it, so to speak,
17 you know. As winter approaches and the
18 preparation begins for colder temperatures, the
19 furnaces will soon be running.

20 Unfortunately, instead of care and
21 compassion, millions of Americans from high energy
22 prices get a high energy kick in the pants.

23 The recently signed Federal Energy Bill
24 will do nothing in short-term to alleviate
25 price --

1 The U.S. House Committee recommended
2 cutting Low Income Home Energy Assistance Program,
3 LIHEAP, by a hundred million dollars.

4 Last winter, Pennsylvania responded to
5 escalating energy prices by making it easier for
6 utilities to shut off delinquent customers at a
7 time when an estimated 15,000 households entered
8 the heating system -- or season with their utility
9 service already terminated. There will be a
10 reckoning, but apparently only after watching
11 pain.

12 I'm pleased to cooperate with the
13 Majority Chairman in identifying the innovative
14 approaches and developing an energy strategy for
15 Pennsylvania.

16 Over the years, I've proposed a few
17 innovative solutions. I asked what is wrong with
18 bolstering heating assistance, revitalizing our
19 Pennsylvania Energy Office, and devising
20 strategies that will help such as -- fuel reserves
21 and prebuying season programs to calm the spikes
22 in energy prices.

23 I proposed all of this and more. The
24 only thing wrong with those remedies is that they
25 run counter to current thinking that are based

1 on -- self-interest and smug complacency.

2 Compassion must be an integral part of
3 an overall energy strategy so our businesses and
4 our communities and citizens can weather the
5 storm.

6 I look forward to working not only with
7 every member of this Committee and listening
8 attentively to those of you that are presenting us
9 the information we seek. Look forward to working
10 with Chairman Adolph to the benefit of all
11 Pennsylvanians.

12 Thank you.

13 CHAIRPERSON ADOLPH: Thank you. We
14 have some questions here for you, Ms. Lutz. Okay.

15 First member is Representative Chris
16 Ross.

17 REPRESENTATIVE ROSS: Thank you,
18 Mr. Chairman. And I have two questions. I'll
19 start with the one I'm worried about the most.

20 In 2005, you showed that the
21 consumption numbers was down; and I'm assuming
22 that probably the higher prices drove those
23 numbers down. But now you're projecting some
24 increases in demand for 2006.

25 And I'm wondering if you could explain,

1 if we're expecting continued high prices, what is
2 behind the projection for the increase in demand
3 for 2006?

4 MS. LUTZ: Representative Ross, are you
5 speaking about crude oil and natural gas increases
6 in demand?

7 REPRESENTATIVE ROSS: I'm looking at
8 your U.S. Petroleum Products Demand Growth chart
9 here for 2006. There's a 2.2 percent total growth
10 projection there and increases in all of the motor
11 gas, jet fuel oil, fuel oil and others.

12 MS. LUTZ: I can't speak exactly for
13 the chairman of the EIA as to why all of these
14 predictions were made. My understanding is that
15 prices are expected to stabilize by the end of
16 this year. As of December, the amount of shut in
17 capacity will be greatly reduced.

18 We are not predicting any further
19 natural disasters and we expect the supply
20 situation to ease up in some of the countries
21 where it has been constrained.

22 REPRESENTATIVE ROSS: One more?

23 Thank you, Mr. Chairman.

24 The other question I had, and that had
25 to do with Hurricanes Katrina and Rita, shut in

1 capacity in the Gulf. And if I'm reading your
2 chart correctly, there was a relatively short
3 spike for the first hurricane and then a much
4 longer spike for the second hurricane. And I'm
5 worried now that there's some kind of a tropical
6 storm floating around down in the Gulf again.

7 Are we getting some kind of cumulative
8 effects going on down there? And why was the
9 second event that much worse than the first?

10 MS. LUTZ: It makes sense that it's a
11 cumulative effect, because you can see there we
12 started out with a fair amount of shut in
13 capacity.

14 REPRESENTATIVE ROSS: Okay. Thank you,
15 Mr. Chairman.

16 CHAIRPERSON ADOLPH: Thank you.

17 Representative Gib Armstrong.

18 REPRESENTATIVE ARMSTRONG: Thank you
19 for your testimony. Just one technical question:
20 If you could explain to us what shut in capacity
21 is and how that affects the market?

22 MS. LUTZ: Sure. The shut in capacity
23 is that capacity in both production and refining
24 capacity for crude oil and natural gas that is not
25 capable of either being produced or refined due to

1 both hurricanes.

2 There can be other reasons why we would
3 have shut in capacity, but this is particularly
4 reflecting the hurricane. So it's the amount of
5 production in crude oil, refining petroleum, and
6 production of natural gas that's not capable of
7 being utilized.

8 REPRESENTATIVE ARMSTRONG: So that's
9 crude oil that's arrived on barges that can't be
10 processed?

11 MS. LUTZ: (No audible response.)

12 CHAIRPERSON ADOLPH: Thank you.

13 Next question is from Representative
14 Ron Miller.

15 REPRESENTATIVE MILLER: Thank you,
16 Mr. Chairman. I enjoyed this presentation. I
17 just have a question. This is October 18th. And
18 I notice -- I believe that you get, like, the
19 gasoline prices or a nationwide price average.

20 But I noticed that I bought gas on the
21 way up here this morning for 2.47.9, which is
22 lower than the projections. I'm just wondering,
23 as things change and the potential for more
24 hurricanes or more destruction is involved, is
25 this a packet, is this spreadsheet on the turn-in

1 slate for the U.S. Department of Energy?

2 MS. LUTZ: Yes.

3 MR. MILLER: Is there something we can
4 monitor as the year progresses?

5 MS. LUTZ: Yes. Thank you for that
6 segue. There is an Internet site that the Energy
7 Administration operates, www.eia.energy.gov. And
8 if you are interested in the impacts of energy
9 prices, it will be the most useful website to put
10 on your favorites.

11 Every day prices are -- prices are
12 changed. You'll see what the prices are that day
13 for all fuels. You will also see a short-term
14 outlook that is revised on a weekly basis along
15 with a lot of other information. This
16 presentation is on there. It's a wealth of
17 information.

18 REPRESENTATIVE MILLER: Thank you for
19 that.

20 Thank you, Mr. Chairman.

21 CHAIRPERSON ADOLPH: Thank you. I'd
22 like to acknowledge the presence of Representative
23 Daylin Leach from Montgomery County. And I
24 believe that's all the questions -- oh, we have
25 one other.

1 Representative Kate Harper, do you have
2 a question?

3 REPRESENTATIVE HARPER: I do.

4 CHAIRPERSON ADOLPH: Then you need the
5 mike.

6 REPRESENTATIVE HARPER: Thank you very
7 much, Mr. Chairman. And thank you, Ellen, for
8 your testimony.

9 I was struck during your testimony by
10 how much of -- how much of this field is way out
11 of our control. Certainly we can't control Mother
12 Nature. Whether we're going to have a hot or cold
13 winter seems to me only marginally capable of
14 prediction.

15 So in light of that though, I was
16 thinking about the factors that we may or may not
17 have any control over. And there have been some
18 media reports that U.S. petroleum companies have
19 been selling, basically heating oil and other
20 things overseas to other countries.

21 Do we have any control over that at
22 all? And in what ways does that -- can you
23 comment on whether that has any affect on supply
24 and the market prices here in the U.S.?

25 MS. LUTZ: Well, I think in a free

1 market system it would have to somehow
2 impact -- can you hear me? I have to move closer.
3 Can you hear me now?

4 In a free market system, I think there
5 would have to be some impact to that action. But
6 I would say the Department of Energy has
7 absolutely no control over that. We do not
8 regulate oil companies.

9 REPRESENTATIVE HARPER: So -- but
10 nobody does, really. From a perspective of where
11 they sell the product --

12 MS. LUTZ: No.

13 REPRESENTATIVE HARPER: -- there's no
14 regulation on that?

15 MS. LUTZ: As far as I know, there is
16 not. I don't know what priorities OPEC has set
17 out.

18 REPRESENTATIVE HARPER: Thank you very
19 much. Thank you, Ellen. Thank you, Mr. Chairman.

20 CHAIRPERSON ADOLPH: Thank you. Are
21 there any other members with questions for Ellen
22 Lutz?

23 (No audible response.)

24 CHAIRPERSON ADOLPH: Seeing none, I
25 want to thank Ellen for your testimony this

1 morning.

2 And our next testifier is Mr. Scott
3 Miller. Mr. Miller is the Executive Director of
4 the State Policy PJM Interconnection. PJM is the
5 operation of the transmission system in our
6 region. Good morning, Scott.

7 MR. MILLER: Good morning,
8 Mr. Chairman. Good morning, members of the
9 Committee.

10 I appreciate the opportunity to speak
11 before this Commission and I appreciate your
12 interest as well as the interest of others in
13 Government of the Commonwealth of Pennsylvania.

14 We've had a long and fruitful
15 relationship with various entities inside the
16 Commonwealth, including the Public Utility
17 Commission and the Department of Environmental
18 Protection.

19 As you're likely aware, PJM operates
20 but does not own the transmission system for the
21 utilities in the region in which Pennsylvania
22 resides. This region now stretches from Chicago
23 in the west to Newark on the Hudson to the Outer
24 Banks of North Carolina in the south.

25 It's a very, very large system. But

1 PJM has operated a large system previous to that
2 as a power pool. So Pennsylvania and PJM have had
3 a relationship going back to 1927 when the first
4 company was formed, PJM Power Pool.

5 We also administer and have since 1997
6 various wholesale -- and I emphasize
7 wholesale -- energy ancillary service markets.
8 And when I say ancillary markets, unfortunately,
9 in the electric industry we have a habit of making
10 our nomenclature very difficult to understand.

11 Since electricity is a realtime product
12 that is consumed and cannot be stored reasonably,
13 ancillary markets are proxys for storage, quite
14 frankly.

15 I would like to emphasize that one of
16 the things that allows us to -- allows PJM to have
17 been a success thus far is that we're an
18 independent entity.

19 We are not affiliated with any market
20 participant, any utility, any municipal or any
21 cooperative. This is fundamental to our existence
22 and allows us to operate in a competitive market.

23 In fact, the wholesale competitive
24 market PJM administers is the largest in the
25 world. These bring significant benefits to the

1 people of Pennsylvania. As anyone in this
2 Committee can attest, we have more suppliers. The
3 more varied numbers of suppliers, the more
4 competitive the prices are.

5 And this is one of the reasons for the
6 expansion of PJM, was to afford wholesale
7 customers more opportunities to have access to
8 more suppliers.

9 I mentioned a variety of generation
10 supplying PJM a moment ago. Obviously, one of the
11 key things that this Committee is concerned with
12 is fossil fuels. These are the feedstock for many
13 of the electric generation resources in our
14 region.

15 And, of course, those prices have been
16 going up and were going up prior to the hurricane
17 situation in the Gulf of Mexico. And in many of
18 these areas of the country -- and this is a real
19 concern because of the large rise in fuel oil and
20 natural gas prices.

21 Many areas of the country have seen
22 dramatic rises in the amount of generation that is
23 fueled by natural gas. PJM's also seen a
24 significant amount of new generation of natural
25 gas-fired facilities.

1 But, unlike other areas of the country,
2 natural gas still constitutes a very small amount
3 of our overall generating capacity. As a matter
4 of fact, natural gas is used to only generate
5 about 7 percent of the region's electricity and
6 PJM fuel oil accounts for around 1 percent of our
7 energy capacity on an average basis.

8 One of the nice things about PJM is we
9 have a significant amount of fuel diversity, not
10 only the natural gas and fuel oil, but nuclear
11 coal resources that form the bulk of our energy
12 supply.

13 We've also have a significant amount,
14 relative to the rest of the country, of renewable
15 generation, particularly wind. To date, there
16 have been 443 megawatts of wind generation built
17 in PJM, 287 of which are in Pennsylvania.

18 In addition, over 7600 megawatts of
19 wind generation is under development in PJM, of
20 which over 1700 is in Pennsylvania.

21 One of the reasons for this fairly
22 dramatic amount of development interest in PJM has
23 to do with our transparent markets which afford an
24 opportunity for renewable resources to obtain
25 revenue sources that they might not otherwise have

1 in their choice for their utility system where
2 there's one buyer.

3 The other aspect of PJM which makes
4 renewable resources attractive here is our
5 unbiased transparent interconnection process. We
6 don't own the transmission lines, yet we oversee
7 the interconnection process and we do it in an
8 unbiased manner.

9 And as a matter of fact, one member of
10 the American Wind Energy Association in testimony
11 before the International Trade Association said,
12 If all areas of the country were like PJM, there
13 would be significantly more wind resources
14 deployed nationwide.

15 Another initiative that PJM has
16 undertaken to try to further enhance diversified
17 resources and renewable resources is our
18 Generation Attribute Tracking System. This is a
19 system that, as it says, tracks the output of
20 power plants by an independent entity, issues
21 emissions certificates.

22 These certificates can be traded in the
23 open market. They help facilitate renewable
24 portfolio standards. They also generate and,
25 quite frankly, augment the economic rationale for

1 an awful lot of low emission and renewable
2 resources because it provides another way for them
3 to access buyers and sellers.

4 We've done this through a subsidiary,
5 PJM Environmental Information Systems; but we've
6 worked on this with the Pennsylvania Utility
7 Commission, the New Jersey Board of Public
8 Utilities, as well as other state commissions in
9 the eastern part of PJM and have found that this
10 is beneficial not only for the states in their
11 efforts to diversify the fuel resources, enhance
12 their renewable portfolio standards, but to
13 diversify the fuel within -- in our region.

14 A key consideration of this Committee I
15 would assume would have to be the performance of
16 markets such as PJM. And there have been
17 challenges in terms of markets in the rest of the
18 country, and PJM is not a perfect -- and there is
19 no such thing as a perfect market; but we have had
20 some success in developing a competitive market

21 In fact, our Market Monitoring Unit,
22 which is an independent entity within PJM itself,
23 has reported on a regular basis that our energy
24 markets are competitive.

25 In fact, in the most recent statement,

1 market reports have been on a fuel adjusted basis.
2 And I'll get into that in a second. Our prices
3 actually fell by 4.4 percent.

4 I understand that we, you know, that's
5 a key consideration when you say on a fuel
6 adjusted basis, because, as I said, the natural
7 gas, oil, coal, things like that, are the fuel
8 stock, or feedstock, for our generation resources.

9 But it's similar to when the U.S.
10 Department of Commerce puts out core inflation
11 rates that exclude volatile commodities like food
12 and energy. It's a way to demonstrate the
13 performance of your market, generally speaking.

14 So, we have competitive markets. We
15 have certified these before the Federal Energy
16 Regulatory Commission which regulates us and our
17 markets and the transmission system which we
18 operate.

19 We do have challenges ahead, even
20 though our markets have performed well. PJM's
21 been working with our market participants, the
22 Public Utility Commissions and others, to ensure a
23 resource advocacy is met in the region.

24 As I indicated, electricity is a unique
25 commodity because it can't be stored. And so we

1 try to effect a proxy for storage in something
2 called capacity markets.

3 We proposed something that is somewhat
4 controversial before the Federal Energy Regulatory
5 Commission. We continued to, with our
6 stakeholders and entities like the Public Utility
7 Commission, to try to refine this so that we can
8 come to some general agreement how we can ensure
9 reliability going forward.

10 PJM is also anxious for demand to play
11 a greater role in our markets. We have very
12 competitive supply in our markets. We are now
13 working with state commissions to try to make sure
14 that demand balances the supply as much as
15 possible.

16 This is the -- in our estimation, this
17 is the surest way to ensure a very, very
18 competitive market that always yields the best
19 results.

20 We are going -- we have been working
21 with the Department of Energy and other utility
22 commissions on the Mid-Atlantic Distributive
23 Resources Initiative to try to model and to try to
24 come up with models both within PJM and retail
25 access tariffs that provide for more robust demand

1 response and distributed resources.

2 And we've also -- and the enactment of
3 the Alternative Energy Portfolio last year by this
4 Legislature was -- has been very helpful in
5 pushing the sort of region along towards a more
6 cohesive approach towards alternative portfolio
7 standards.

8 In conclusion, we're appreciative of
9 the interest of this Committee. We hope to be a
10 useful partner for Pennsylvania and our states in
11 the region, and we hope to make sure that we
12 provide for a market that always provides the most
13 efficient result for all of the wholesale
14 providers and, ultimately, the end-use customers.

15 And we look forward to working with all
16 entities inside the Commonwealth of Pennsylvania,
17 including the Public Utility Commission.

18 Thank you.

19 CHAIRPERSON ADOLPH: Thank you, Scott.
20 We do have some members that have questions. I'd
21 like to ask you, Is our electric generation supply
22 keeping up with our demand? And, secondly, will
23 Pennsylvania continue to be a electric exporter?

24 MR. MILLER: Well, the supply of
25 Pennsylvania in the region, generally speaking,

1 has kept up. As a matter of fact, it exceeds the
2 amount of growth, demand growth that has occurred.

3 A lot of that happened in the previous
4 years of 2001/2002 where we built up a large
5 surplus. There are areas of Pennsylvania where
6 the margin is a little tighter than it is
7 otherwise because of the vicissitudes of
8 transmission.

9 Sometimes it's difficult to get energy
10 into areas that want it, and so you need
11 generation close to the load resources, places
12 like Philadelphia and Pittsburgh. But generally
13 speaking, Pennsylvania is in good shape.

14 And generally speaking, Pennsylvania is
15 an exporter except during periods of really,
16 really high peak. And then what happens is a lot
17 of resources from the western part of PJM -- Ohio,
18 Indiana, and Illinois -- displace more expensive
19 resources in Pennsylvania.

20 So I would say it's kind of a win/win
21 situation for Pennsylvania in that respect.

22 CHAIRPERSON ADOLPH: Thank you.

23 Representative Ron Miller.

24 REPRESENTATIVE MILLER: Thank you,

25 Mr. Chairman.

1 Scott, we all are familiar with the
2 high demand in the summertime, the air
3 conditioning, things that -- we see some
4 brownouts, a portion of them we've seen full
5 blackouts. But mostly we've experienced
6 brownouts.

7 We saw the pricing from the Department
8 of Energy for natural gas and fuel oil and propane
9 for this coming winter. I would expect that we're
10 going to see people trying to shift more of their
11 heating costs to electricity in one way or
12 another.

13 Are we anywhere -- is there any
14 potential there for brownouts caused by this shift
15 this year?

16 MR. MILLER: Well, we have had in our
17 history some -- we had a voltage event once in the
18 recent past in the winter. Generally speaking,
19 PJM's a summer peaking system, like most regions
20 in the northeast part of the United States.

21 Unless there is a fuel disruption -- in
22 1994, for instance, we had significant numbers
23 of -- I don't know if you remember, but it was in
24 the early part of that year we had a lot of ice
25 storms. And what that had sustained -- coal

1 couldn't get up the rivers and coal piles actually
2 froze. I recall a bulldozer blade breaking on a
3 coal pile one time.

4 Absent those sorts of situations, the
5 PJM system should be in good shape, you know, or
6 lots and lots of generation outages should be in
7 good shape for winter.

8 REPRESENTATIVE MILLER: One follow up.

9 CHAIRPERSON ADOLPH: Yes.

10 REPRESENTATIVE MILLER: I also noticed
11 in your testimony that -- in your testimony, I
12 didn't notice any reference to nonutility
13 generators. Are most of the wind farms and
14 everything else owned by a utility, they're not
15 private entities? What is the percentage of
16 nonutility electricity generation within PJM?

17 MR. MILLER: I don't have the statistic
18 with me. I can certainly get it for you. It's
19 still a minority amount of the generations at PJM,
20 but a significant amount. I'll be happy to supply
21 that to the staff.

22 REPRESENTATIVE MILLER: Thank you.

23 Thank you, Mr. Chairman.

24 CHAIRPERSON ADOLPH: Thank you. I've
25 been notified that our sound system isn't really

1 working that well, so the questions -- I ask the
2 members to speak a little louder. I don't think
3 they'll have a problem with that.

4 Representative Gib Armstrong.

5 REPRESENTATIVE ARMSTRONG: Thank you,
6 Mr. Chairman. Thank you, Scott, for your
7 testimony. I have a few questions.

8 The first one is, Gas, if you can just
9 tell us a little bit more about the Generation
10 Attribute Tracking System, how much -- that is,
11 how you see that impacting PJM?

12 MR. MILLER: In all candor, it's not
13 very mature. It just started issuing emissions
14 credits yesterday. And we're looking forward to
15 having a substantial amount of trade in those.

16 But we've done a significant amount
17 of -- how should I say? -- marketing this with not
18 only users, but also the utility commissions who
19 are enthusiastic about this to make sure that
20 everyone knows how to use it, how it's going to be
21 used.

22 But we anticipate it to add substantial
23 liquidity to the trading and emissions credits.

24 REPRESENTATIVE ARMSTRONG: I would
25 assume this involves some kind of accounting? And

1 is there a cost to either the consumer for the
2 generation?

3 MR. MILLER: No, but there is a
4 subscription fee and there is the usage fee.
5 There is no cost to the consumer. I will say that
6 the New Jersey Board of Public Utilities helped
7 finance the initial financing of this entity, but
8 there is no cost.

9 There is expected -- that is expected
10 to be paid back. And any profit that is generated
11 out of this is going to be driven back into a
12 subsidiary of PJM.

13 REPRESENTATIVE ARMSTRONG: You
14 mentioned that our fuel prices actually fell on a
15 fuel adjusted basis. If you could just explain a
16 little bit about what that is.

17 MR. MILLER: Yeah. We have actual fuel
18 data on all of our original generating units
19 before we started -- on all generating units
20 inside PJM.

21 And what we've done is on our market
22 monitoring unit, actually, has on a every five
23 minutes noting the cost of fuel and where -- how
24 much fuel they're using for every unit over the
25 course of a year and has done a very systematic

1 analysis of how the bidding occurred and
2 subtracting out the actual fuel usage based on
3 fuel data that we have and determined where prices
4 were relative to after use of tracking out the
5 actual fuel cost for each unit inside PJM that was
6 running each hour.

7 And so yielded a determination that,
8 compared to 2003, prices in 2004 were 4.4 percent
9 less. I would note that, using the same
10 rationale, 2003 was the last on a fuel adjusted
11 basis and 2002.

12 REPRESENTATIVE ARMSTRONG: Can you
13 attribute that to any particular variables?

14 MR. MILLER: I would attribute that
15 probably to increased numbers of generators that
16 are trying to be competitive inside the market and
17 compete -- you know, when you have more people
18 competing against each other, they find ways of
19 being a little more efficient.

20 As PJM expanded, it helped because
21 there were more and more generators competing
22 against each other.

23 REPRESENTATIVE ARMSTRONG: And my last
24 question is, I was glad that you talked about
25 demand playing a more significant role in the

1 price of electricity.

2 Can you tell us just a little bit about
3 realtime pricing and how you see that playing into
4 the sale of electricity at PJM?

5 MR. MILLER: That's an excellent
6 question. Realtime pricing has always been the
7 sort of thing that everyone's, particularly those
8 who want to provide competitive demand response,
9 been waiting for realtime pricing.

10 Realtime pricing exists within each
11 zone in PJM because we post our wholesale prices.
12 However, realtime pricing for each end-use
13 customers has not been available until meters are
14 installed in those locations realtime, what they
15 call a revenue quality meters, which are a little
16 bit different than those that are on most people's
17 homes.

18 I think where the great benefit for
19 those sorts of meters exists will probably be in
20 the retail and -- I mean, the commercial and
21 industrial sector, to a limited degree in the
22 residential sector. But it is going to be key to
23 increasing demand response abilities.

24 REPRESENTATIVE ARMSTRONG: Can you
25 project a time frame of when we're going to see

1 this?

2 MR. MILLER: That's something that
3 I -- we've -- we've been hoping for the
4 development of -- a lot of it has to do with the
5 willingness of the retail provider to install
6 those.

7 The good news is -- and this is -- this
8 is a sort of the retail side of the market that we
9 hope will develop that will affect the wholesale
10 market. But I think those are probably better
11 directed at the PUC.

12 REPRESENTATIVE ARMSTRONG: Thank you,
13 Mr. Chairman. And thank you, Mr. Miller.

14 CHAIRPERSON ADOLPH: Thank you.
15 Chairman George has a question for you,
16 Scott.

17 CHAIRPERSON GEORGE: I don't know which
18 way to approach this, and I'll just apologize if I
19 offend you in any way.

20 But I remember after the deregulation
21 when a big company came in and bought one of our
22 generator -- their instruction to me was that they
23 weren't going to get on the PJM.

24 So I got a couple little questions.
25 First off, are you getting all the back-up

1 generation that you need to be able to handle
2 those in your service area?

3 MR. MILLER: Yes, sir, we are.

4 CHAIRPERSON GEORGE: You are.

5 And you're getting that from fuel
6 regenerators, are you not?

7 MR. MILLER: No. We're actually
8 getting it from more generators.

9 REPRESENTATIVE GEORGE: You're getting
10 them from where?

11 MR. MILLER: You're saying we're
12 getting --

13 REPRESENTATIVE GEORGE: I'm saying that
14 there aren't as many generators today as there
15 were prior to deregulation and yet you're still
16 getting the amount of energy you need?

17 MR. MILLER: In fact, in terms of
18 generating units, there are more generating units
19 than there were before deregulation.

20 REPRESENTATIVE GEORGE: Now, as far as
21 the price is concerned, are we going to throw out
22 the theory that the more competitive an item is
23 that it should be cheaper? Because if that is
24 true, then it doesn't prevail with the electric
25 utility pricing in that.

1 Most companies that haven't been guided
2 by contracts such as the one in my area where
3 they're bound by an agreement till 2009 and, look
4 out, the price is going out.

5 Am I a little bit close to the factors
6 that are now under deregulation, that a generator
7 is not prompted in any way by the public utility
8 in regard to price they pay for a commodity or
9 fuel or the things they do, even though the
10 transmission part of it they still control on a
11 rate base but the generators are no longer
12 controlled by them? Isn't that true?

13 MR. MILLER: That is my understanding
14 of the relationship, that the Public Utility
15 Commission controls the rates and the
16 transmission, which would affect whoever's buying
17 for the generator. And then it's incumbent on the
18 entity dealing business with the generator to
19 negotiate the best price.

20 REPRESENTATIVE GEORGE: Unfortunately,
21 I've been around a long time and I was here when
22 the fuel injunction was here. And that's when
23 they turned in the tips to the waitresses and
24 everything, those people that generated -- those
25 people that provided the transmission so they

1 could keep the rates up.

2 Now I'm a little bit concerned in that
3 we have no say whatsoever over the generators.
4 And probably you can tell me, is it stable or in
5 the next year or so are we going to see that
6 increases?

7 MR. MILLER: That -- in terms of retail
8 prices, I can't say simply because we operate on
9 wholesale market. What retail prices are, at the
10 end-use customer, are not something that's -- what
11 we're trying to provide is the most number of
12 generators so that whoever's buying on behalf of
13 the end-use customer has more choices.

14 REPRESENTATIVE GEORGE: I thank the
15 Chairman for this instructional meeting; but,
16 again, what I hear and I see, the rise of oil was
17 long before the catastrophe in New Orleans and
18 Mississippi.

19 And I look around, and every time I
20 read something I read where we want to blame it on
21 that. And the truth is that this gouge and this
22 costing, that started to raise seven months before
23 this thing happened.

24 Maybe we should be grateful -- I don't
25 know how say that -- because now maybe we

1 Legislators will get off our duff and find out
2 just who's gouging and why, to do try to do
3 something about it. Because that should be our
4 obligation.

5 I thank you for your time.

6 Thank you, Mr. Chairman.

7 CHAIRPERSON ADOLPH: Representative
8 Ross.

9 REPRESENTATIVE ROSS: Thank you,
10 Mr. Chairman.

11 And you may not want to answer this
12 question, but I'll ask it anyway.

13 MR. MILLER: I appreciate the advice.

14 REPRESENTATIVE ROSS: Just a warning.

15 The question of the demand side
16 management -- and, obviously, some of the new
17 renewable alternatives are not always available
18 when -- I'll give you an example: It's available
19 some of the time, but not others and working on
20 peak demand at different times and trying to make
21 sure from your point of view that you have
22 significant capacity in the system to be able to
23 address that.

24 The -- I know you're looking at trying
25 to make more realtime price signals get through

1 the system and also perhaps enable some of the
2 types of alternatives that might fill in when
3 there are other kinds of shortage to be, perhaps,
4 achieve the appropriate support in the marketplace
5 to justify their being created.

6 I know you're working with the PUC on
7 that issue. Do you feel that there is enough
8 ability through what you have working with your
9 marketplace under your current capacity and the
10 regulatory capacity and the Public Utilities
11 Commission to fully bring that forward? Or do you
12 see any places where there might need to be
13 legislative assistance?

14 MR. MILLER: There's a large -- most of
15 this is under the purvey of the states and so not
16 PJM's per se. Having said that, we are encouraged
17 by the willingness of the PUC and others to look
18 at what they can do to create a larger demand
19 market.

20 The reality is they create a market,
21 let's say, Pennsylvania, New Jersey, Delaware as
22 opposed to just Pennsylvania; then you have more
23 economies of scale. And so PJM is a good place
24 for that to come together and we can facilitate
25 that.

1 Then they need to determine whether
2 they need legislation to help them do what they
3 collectively agree that they want to do to create
4 this regional retail market that will still be
5 under the state jurisdiction, but they're trying
6 to make it fit with this regional wholesale
7 market.

8 REPRESENTATIVE ROSS: Just as a offer
9 to you, I guess is the best way to describe it, If
10 you see areas where either there are legislative
11 barriers or there are gaps in the enabling
12 legislation, we'd certainly be interested in
13 that.

14 And perhaps -- although I'm not very
15 familiar with them, I know that there are
16 interstate compacts out there that may be another
17 vehicle that might be a useful way, particularly
18 given the interstate nature of PJM, that we might
19 want to work on as well.

20 I for one would at least be interested
21 in hearing more about that if something like that
22 along the lines occurs to you and your colleagues.

23 MR. MILLER: I appreciate that, and
24 we'll be working with the PUC to help identify
25 anything along those lines.

1 REPRESENTATIVE ROSS: Thank you.

2 CHAIRPERSON ADOLPH: Thank you.

3 Scott, I want to thank you for your
4 presentation.

5 And our next panelist is Kate Brown.
6 Kate is a Energy Policy Specialist with the
7 National Conference of State Legislatures.

8 Good morning, Kate.

9 MS. BROWN: Good morning. And thank
10 you, Mr. Chairman, members of the Committee. I've
11 been asked to discuss how other states across the
12 country are approaching their state energy policy.

13 And in the limited amount of
14 time -- you actually have two handouts: One the
15 is Power Point presentation and the other is a
16 summary of the states that I plan on covering. I
17 think there's also a third which gives you the
18 website addresses for the policies I'll be
19 covering today.

20 The first state I'd like to start with
21 is Kentucky. I spoke with Representative Pullin,
22 who is the head of the Energy Committee -- Chair
23 of the Energy Committee there.

24 After much prompting by Representative
25 Pullin, the Governor decided to create a task

1 force which comprised of seven members: The
2 Secretaries of Finance, Education, Economic
3 Development, Natural Resources, Commerce, and in
4 the Senate and House Energy Committee Chairs.

5 The task force met and held day-long
6 meetings across the state and came up with over 50
7 recommendations for the State Energy Policy. From
8 the time the task force was created until the
9 first piece of legislation was created -- or
10 passed from one of those recommendations took only
11 three months.

12 According to Representative Pullin,
13 this policy is a guiding policy. And I think this
14 is probably the best way to explain one of the
15 most appropriate ways to address state energy
16 policy.

17 The guiding policy is a long-term
18 policy which can actually adapt to the State's
19 energy situation. The Governor took six
20 recommendations from the policy and created
21 executive orders. And then Representative Pullin
22 plans to draft two pieces of legislation each
23 session from the recommendations.

24 So the specifics of the State's Energy
25 Policy come from the recommendations and are

1 turned into legislation and executive order.

2 One of the first recommendations was to
3 create an Office of Energy Policy in the Commerce
4 Department. This office of two people is supposed
5 to oversee the Energy Office and the Department of
6 Natural Resources, the Public Service Commission,
7 the Environmental Agency, and the coal-related
8 agencies in the state. So bringing in the state
9 government leadership is very important in the
10 process.

11 In Kansas, under a new governor, the
12 State Energy Resources Council became the Kansas
13 Energy Council. The Council includes public and
14 private energy sector representatives.

15 And the focus of the council was
16 expanded after they were accused of being too
17 fossil oriented. So now energy conservation and
18 renewable energy are a part of that council.

19 The Chair of the Council is actually
20 the Chief Policy Advisor to the Governor. So,
21 again, bringing in the State Government
22 leadership, and the structure of the Council is
23 set up by executive order.

24 In the first three to four months,
25 Kansas -- the Kansas Energy Council sat down and

1 gathered energy data and statistics and then began
2 to develop a policy. And now they meet every
3 other month.

4 The Council developed five legislative,
5 three executive, and four agency recommendations
6 and they plan to update parts of the policy on a
7 staggered basis; meaning, that they'll review some
8 parts annually.

9 The policy, according to Representative
10 Holmes, is always in movement. Ideally in, the
11 future, they hope to have the outlook go for five
12 to ten years rather than the shorter time period
13 that it looks at right now.

14 From the recommendations of the
15 Council, they've accomplished several things in
16 Kansas: They've passed ethanol and electricity
17 transmission bills and also they developed a
18 transmission authority.

19 In Wisconsin, I'd like to point out an
20 interesting piece of their energy policy
21 legislation. Last year, the Public Benefits Fund
22 was raided to close a budget gap in the state.

23 And so in order to avoid another raid
24 on the fund, the new Energy Policy Legislation
25 actually insulates the fund from being used for

1 nonenergy purposes. It does so by paying for
2 energy efficiency investments out of utility rates
3 base. So that was an important thing that went on
4 in Wisconsin's energy policy.

5 In North Carolina -- Sorry. I'm moving
6 very quickly. Slow me down if you need to, but I
7 want to get it all in.

8 The Energy Policy Council is required
9 by statute and it comprises four legislators and
10 five department heads and representatives
11 appointed by the Governor.

12 The Energy Policy Council created a
13 working group of its members to create an energy
14 policy. The energy policy working group held nine
15 days of expert sessions featuring state energy
16 experts as well as regional and national
17 specialists on specific energy issues.

18 The nine days also allowed for
19 comprehensive stakeholder input from industry, low
20 income groups, home builders, community planners,
21 petroleum suppliers, automobile retailers,
22 bankers, renewable energy experts, and farmers.
23 So they really ran the gamut there of who they
24 could get input from.

25 The working group actually drafted a

1 set of recommended policies and programs to the
2 Energy Council. The Council approved 93 measures
3 from their nine days, and those would become part
4 of the energy plan.

5 From those 93 policies and programs,
6 the Council determined 15 measures which would
7 require action by the Governor, the North Carolina
8 General Assembly, the Public Utilities Commission,
9 and other regulating or administrative agencies.

10 The requests that were made to the
11 General Assembly include the development of an
12 RPS, a Renewable Portfolio Standard. And that was
13 not passed last year. And also they requested the
14 investigation of a public benefits fund.

15 Two other interesting things that North
16 Carolina did in their energy policy process was
17 involve the university sector. They had an
18 Appalachian State University Energy Center
19 contractor actually plan the nine days of sessions
20 and also worked with the State Energy Office to
21 write up the plan, which is a key point, because
22 there are a lot of states who don't have the
23 funding or the manpower to create a policy, to
24 write it up and to do all the edits, formatting,
25 that sort of thing. So that was an interesting

1 piece that North Carolina did.

2 North Carolina agencies, to give the
3 policy teeth, are actually required by statute to
4 incorporate the State's energy recommendations
5 into their energy strategy.

6 In New York, every four years New York
7 develops a State energy plan. It's required by
8 statute. Several full-time employees at the New
9 York State Energy Research and Development
10 Authority, or NYSERDA, work all year to produce
11 this plan.

12 Also another interesting thing in New
13 York is that all major energy suppliers are
14 required to submit a 20-year forecast for demand,
15 supply and prices, and how they plan on meeting
16 that demand.

17 This would include basically anyone
18 who's receiving fuel shipments in the state, and
19 that's required every four years.

20 The statute regulates that every state
21 agency has to make decisions based on the plan.
22 So again, this policy has teeth that makes sure
23 that when you're creating this policy it's not
24 just sitting there on paper, it's actually being
25 used within the state.

1 Within the statute in New York is a
2 requirement for what's called a State Energy
3 Planning Board. The Chair of NYSERDA is the
4 president. The PU -- sorry. The Chair is the
5 NYSERDA president.

6 The PUC Chair is also part of that
7 group and then three commissioners from the
8 Environmental Conservation, Transportation, and
9 Economic Development groups.

10 The Planning Board initiates the
11 planning proceedings, which involves the
12 stakeholders. From those proceedings, a draft
13 plan is then developed. The plan goes out for
14 public comment, and then at least three public
15 hearings are required by the Statute.

16 Last year they actually held nine
17 public input groups. The public comments are then
18 included by NYSERDA and the plan is submitted to
19 the Board.

20 Each year, the accomplishments are put
21 into an annual state report which goes to the
22 Board and the public. And then several
23 accomplishments from the New York policy include a
24 Regional Greenhouse Gas Initiative, Renewable
25 Portfolio Standard, and then currently there is a

1 reliability study being implemented.

2 Lastly, I'd like to cover California.

3 During the electricity crisis, Senator Bowen
4 created SB 1389, which was passed, and it outlines
5 the California Energy Commission's Requirement to
6 create an Energy Policy Report.

7 Principally, state organizations are
8 invited to provide input into this report. Once
9 it's developed within the California Energy
10 Commission and it's reviewed by the full
11 Commission, it's then sent to the Governor and his
12 office, the Energy Staff cabinet members, and his
13 cabinet of economic advisors provide suggestions
14 and input and the report goes to the Legislature.

15 Statute 1389 requires -- sorry -- the
16 California Energy Commission to prepare a biennial
17 Integrated Energy Policy Report for the Governor
18 and the Legislature with an update due in the even
19 years.

20 The topics and objectives of this
21 policy and others are created in the summary
22 review handout that was passed out to you all.
23 And if there are any questions on that, feel free
24 to follow up with me. Joe Deklinski has my
25 contact information.

1 Just to wrap it all up, the first thing
2 that I mentioned before was to create a guiding
3 policy. And, again, this is a long-term policy
4 that can be specified within legislation and
5 executive order.

6 Adopting the specific goals, four-year
7 policy, means that if you're setting a goal to
8 diversify fuel use in the state, then there should
9 be recommendations that actually speak to meeting
10 that goal. So you'll set up goals and objectives
11 and then you'll have recommendations to meet those
12 goals and objectives.

13 An entity for analysis in the state is
14 important so that it ensures that someone is
15 actually paying attention to the fuel use, the
16 imports and exports, and the trends occurring
17 within the state.

18 The other thing I mentioned was giving
19 the policy teeth so, again, it's not just sitting
20 on paper, it's actually being used within the
21 state.

22 The governing body to develop a plan is
23 quite important. As you heard, there are very
24 different means by which to create this group.

25 Lastly, involving the state government

1 leadership is important to get the whole state on
2 board, both sides of the aisle, etc., to make sure
3 that this policy, again, is really being followed.

4 And that's all I have. Thank you,
5 Mr. Chairman.

6 CHAIRPERSON ADOLPH: Thank you, Kate.
7 Are there any members that have questions for
8 Kate?

9 (No audible response.)

10 CHAIRPERSON ADOLPH: Seems that you've
11 answered all the Committee members' questions,
12 Kate, during your testimony.

13 I want to personally thank you for
14 coming in. Kate flew in from Denver yesterday,
15 flew into Philadelphia and then drove to
16 Harrisburg last night. So I want to thank you.
17 Your testimony was very informative and it
18 certainly gave this Committee and its Chairmen
19 some good ideas.

20 MS. BROWN: Thank you, Mr. Chairman.

21 CHAIRPERSON ADOLPH: I want to thank
22 all the testifiers for coming today, and I
23 appreciate your testimony.

24 I want to remind the members that we're
25 going -- this is just the first in many series.

1 Our next policy session will be held the week of
2 November 14th. So I'm looking forward to
3 developing a state policy and, with your help,
4 we're going to be able to achieve that.

5 I think we learned today that the time
6 frame, it's not going to happen overnight. Most
7 states that have developed a policy are giving
8 themselves about a two-year period. So I think
9 it's going to take that length of time to develop
10 a policy here as well.

11 So without further adieu, I'd like to
12 adjourn this meeting. Thank you.

13 (Proceedings concluded at 10:06 p.m.)

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1 I HEREBY CERTIFY that I was present
2 upon the hearing of the above-entitled matter and
3 there reported stenographically the proceedings
4 had and the testimony produced; and I further
5 certify that the foregoing is a true and correct
6 transcript of my said stenographic notes.

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Deirdre J. Weyer, RPR
Notary Public