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HOUSE OF REPRESENTATIVES
COMMONWEALTH OF PENNSYLVANIA

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House Bill 1200

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House Environmental Resources & Energy Committee

North York Borough Municipal Building
350 East Sixth Avenue
York, Pennsylvania

Wednesday, May 30, 2007 - 10:00 a.m.

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BEFORE:

- Honorable Camille George, Majority Chairman
- Honorable Eugene DePasquale
- Honorable James Wansacz
- Honorable Scott Hutchinson, Minority Chairman
- Honorable Ron Miller

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1 ALSO PRESENT:

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3 Majority Executive Director

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Alex Solan

5 Majority Legislative Assistant

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Matthew Maciorkoski

7 Majority Media Representative

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Joe Deklinski

9 Minority Executive Director

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1 CHAIRMAN GEORGE: Good morning to
2 all of you and welcome to this panel hearing.
3 My name is Bud George and I live in Clearfield
4 County. I'm the Majority Chairman of the House
5 Environmental Resources and Energy Committee.
6 It gives me great pleasure to chair this
7 meeting.

8 All of us have heard the griping, the
9 moaning about high fuel and energy prices.
10 Today starts the process of stopping the
11 griping and starting to do something about it.
12 Today's hearing is the first of many. It is
13 planned on Pennsylvania Energy Independence
14 Strategy. Today we focus on Representative
15 DePasquale's House Bill 1200.

16 The legislation focuses on expanding
17 alternate energy production in Pennsylvania.
18 It is a vital part of the Energy Independence
19 Strategy, and I believe that we have some
20 learned and expert officials here today that
21 are ready to testify about the significance and
22 the importance of this hearing.

23 So, before we get into that, it would
24 be my honor to introduce the Co-Chairman, the
25 gentleman Mr. Hutchinson, to ask him if he has

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1 a statement that he wants to --

2 REPRESENTATIVE HUTCHINSON: Thank
3 you. My name is Scott Hutchinson, I'm the
4 Minority Chairman of this committee. I come
5 from Venango County, and it's a pleasure to be
6 here in York County discussing what is a very
7 important subject area both for the
8 Commonwealth and for our country, and that is
9 the future of energy.

10 So I'm just happy to be here. Thank
11 you for the hospitality by Representative
12 DePasquale, and I look forward to an
13 informative hearing today.

14 CHAIRMAN GEORGE: I thank the
15 gentleman. Gentleman DePasquale, do you have
16 an opening statement that you want to make?

17 REPRESENTATIVE DePASQUALE: Just real
18 briefly, Mr. Chairman. First of all, I want to
19 thank both Chairman George and Republican
20 Chairman Hutchinson for agreeing to have this
21 hearing on my bill, which is House Bill 1200,
22 in York County in my district. So welcome to
23 the 95th district, and also welcome to North
24 York Borough, which is actually the smallest
25 borough in the 95th district. But they have

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1 been very gracious in allowing us to use this
2 facility, which is obviously a nice facility
3 and plenty of free parking as well. Those of
4 you that know me know you can't outcheap me.
5 And free parking is always a nice added bonus.

6 That is part of why we're here.
7 Because of how cheap I am, I am tired of paying
8 high gas prices and high energy prices. I
9 believe that we need to diversify our energy
10 resources, that can be in the way of both
11 improve our economy and clean our environment.

12 This is something that I believe has
13 broad bipartisan support. And I will be the
14 first to concede that my House bill does not
15 fix the whole problem. It is part of what we
16 need to develop in the Pennsylvania legislature
17 of a comprehensive solution to move these
18 issues forward in this hearing today.

19 I want to thank again both chairmen
20 for agreeing to hold this because, I want this
21 to be an informative hearing, to make sure that
22 my legislation if it needs to be tweaked,
23 altered, changed, amended, what have you, to
24 get it right so that at the end of the day we
25 have a good product that we can all be proud of

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1 and we can get passed and signed into law by
2 the Governor this year.

3 So again, thank you, Mr. Chairman,
4 for agreeing to come down to York for the
5 hearing.

6 CHAIRMAN GEORGE: Without further
7 ado, I'd like to welcome the gentleman, Mr.
8 Steve Brawley, of Ben Franklin Tech Partners;
9 along with him the gentleman, Mr. Balderston,
10 of the Mid-Atlantic Capital Alliance; and
11 Michael Stubler of Draper Triangle Ventures.
12 Welcome, gentlemen.

13 You gentlemen would be receptive to
14 questions should there be any from the panel?

15 MR. BRAWLEY: Absolutely.

16 CHAIRMAN GEORGE: Please commence.

17 I apologize. The gentleman,
18 Representative Miller.

19 REPRESENTATIVE MILLER: Thank you,
20 Mr. Chairman.

21 CHAIRMAN GEORGE: I'm sorry I didn't
22 get to that. The gentleman on the right is Joe
23 Deklinski, and Tom Kuhn, the chief executives
24 of our committee.

25 Without further ado, gentlemen,

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1 proceed.

2 MR. BRAWLEY: Mr. Chairman, on behalf
3 of Ben Franklin Technology Partners, and
4 specifically my center, Ben Franklin Technology
5 Partners of central and northern Pennsylvania,
6 we'd like to thank you and the committee for
7 the opportunity to be here today and share some
8 of our thoughts on House Bill 1200 and the
9 energy independence initiative.

10 With me today I also have Steve
11 Costantino, who is the Vice President of the
12 Technology Commercialization Group at Ben
13 Franklin Technology Partners of Southeastern
14 Pennsylvania located in Philadelphia. Steve
15 has also taken the lead for the four Ben
16 Franklin centers on our initial efforts to take
17 a look at alternative and renewable energies
18 across Pennsylvania and the technologies that
19 exist and the opportunity for startups and
20 existing companies.

21 Again, we appreciate this opportunity
22 to talk and appreciate Representative
23 DePasquale's inclusion of Ben Franklin in this
24 legislation.

25 To give you just a brief bit of

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1 background on Ben Franklin Technology Partners,
2 we are a 25-year-old technology development/
3 economic development program in Pennsylvania
4 created in 1982 by the legislature to do a
5 couple of key things. One is to advance
6 innovation in the Pennsylvania economy. That
7 can be through the investment of funds in
8 early-stage technology companies, as well as
9 the deployment of technologies out of the
10 university systems which are so robust here in
11 Pennsylvania.

12 We also provide funding, business
13 assistance and many other things to help
14 companies, existing companies implement
15 innovations in their manufacturing and
16 production lines. We feel that this really
17 sets the stage, and this experience is very
18 helpful to us in taking a look at some targeted
19 strategies in the alternative and renewable and
20 clean energy space.

21 We've included some additional
22 background on the Ben Franklin program in the
23 written testimony that we have provided. But,
24 in order to give Steve the ample amount of time
25 to talk specifically about our energy

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1 initiatives and what we are finding in the
2 research that we're doing, I'd like to cut this
3 a little bit short, but would be happy to take
4 questions on it.

5 The four Ben Franklin centers located
6 in State College, Philadelphia, Pittsburgh and
7 the Lehigh Valley currently cover all
8 67 counties in Pennsylvania. We are seeing
9 entrepreneurs surfacing in the alternative and
10 renewable technology space, and we feel that
11 there's a very good opportunity with some
12 additional resources to accelerate the growth
13 of companies in these technology spaces.

14 If we're able to do that, and through
15 the energy initiative we believe that there are
16 some great resources to do it, we feel that we
17 will be able to advance these technologies and
18 advance these companies to the point where they
19 will be attractive and investable to our
20 partners, such as the gentlemen from the
21 venture community which are here today. We
22 feel this is a very nice one, two step in
23 putting Pennsylvania at the forefront of
24 entrepreneurship and energy entrepreneurship.

25 Thank you for the opportunity, and

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1 I'd like to turn it over to Steve to talk
2 specifically about some of the energy
3 activities.

4 MR. COSTANTINO: First of all, as
5 outlined in the background of our testimony
6 document, our organization has a long-standing
7 positive track record in economic development
8 through supporting numerous technologies
9 spanning a wide bandwidth of market sectors.

10 Having our finger on the pulse of
11 technology development, we also recognize when
12 significant opportunities develop and the
13 timing is right to undertake more
14 comprehensive, sector-focused initiatives. We
15 see the Clean Tech sector addressing critical
16 issues related to energy independence and
17 climate change is a prime example of such an
18 area. We see tremendous potential here.

19 As it relates to alternative energy
20 and other clean technologies, we believe that
21 Pennsylvania is second to none in terms of the
22 unique combination of assets and strengths that
23 can be built upon to make our state a leader
24 both in technology and economic opportunity in
25 this sector. We possess a wealth of indigenous

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1 natural resources, a strategic geographical
2 location, an abundance of world-class research
3 and development facilities and institutions, as
4 well as both longstanding and newer anchor
5 companies with significant technology
6 resources.

7 Several of our universities are
8 already recognized as world class in one or
9 more areas of long-standing research directly
10 related to clean technology. As just a few
11 examples, Penn State, through their Institute
12 for Energy and Environment is recognized as one
13 of the premier clean technology research
14 institutions in the nation.

15 Lehigh University is well recognized
16 for their work in catalysts, and work at
17 Carnegie Mellon in solar technology has led to
18 the formation of an exciting new company
19 located in the Pittsburgh area.

20 We are also seeing a greater number
21 of our universities applying their strong
22 talents, resources and capabilities in this
23 area, including a general movement from
24 individual projects toward more comprehensive
25 interdisciplinary and even multi-institutional

1 programs.

2 Examples here include the University
3 of Pennsylvania's newly-formed Energy Working
4 Group, and the Pennsylvania Green Growth
5 Partnership which includes integral
6 participation of seven universities from across
7 the state, working in the areas of energy
8 efficient buildings and sustainable design.

9 Our large anchor firms now include
10 SunTechnics and Gamesa, world leaders in solar
11 and wind energy respectively. Evolving from
12 our strong chemical industry base, we are
13 centered in the emerging hub for the
14 development and commercialization of key
15 chemicals and components that go into advanced
16 fuel cells. Companies of note here include Air
17 Products, Arkema, HydroGen and Johnson Matthey.

18 We are seeing the signs of increased
19 momentum in entrepreneurial and start-up
20 activities in our regions. As an exciting
21 example, Plextronics, located in the Pittsburgh
22 region, who is commercializing a novel
23 technology, originating out of research at
24 Carnegie Mellon, that is directed toward more
25 economic solutions for high efficiency fuel

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1 cells. This new company has received pivotal
2 support from our partner of southwestern
3 Pennsylvania known as Innovation Works in the
4 areas of startup, business management and
5 resources and seed investment. This company
6 continues to grow now through the help of the
7 resources of our venture capital community.

8 We also have a percolating
9 sector-focused venture capital community,
10 including EnerTech Capital and DFJ Element, who
11 are developing two of the largest sector-
12 focused funds in the nation, along with a
13 robust network of nonprofit advocacy and
14 entrepreneurial support organizations.

15 Not among the least, in terms of
16 Pennsylvania's assets, is our geographic
17 location. We're positioned in the heart of the
18 highest energy consumption center in the nation
19 and possess major transportation routes and
20 ports. The combination of geographic location
21 and our natural resources bodes particularly
22 well for our potential in various subsectors,
23 including both wind energy and biomass fuel
24 production.

25 In putting all these assets together,

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1 we are poised to pioneer cutting-edge
2 commercial applications in key areas such as
3 corn-based and cellulosic ethanol, wind and
4 solar power, fuel cells, hydrogen, and clean
5 coal, as well as the development of green
6 materials and sustainable design.

7 Within the realm of Clean Tech,
8 there's a broad range of existing potential
9 commercial applications that require
10 technological advancement. The common view
11 among experts is that there's no one silver
12 bullet to address our energy independence and
13 climate change issues, and at the core of most
14 of the potential solutions is technology.

15 In the attachment you'll see a chart
16 that originated from Lawrence Livermore
17 National Laboratory, with some additions that
18 I've included related to relevant technology
19 plays, that summarizes and strongly supports
20 this point.

21 So, with all these assets and all
22 this potential, then why is there a need for an
23 organization like Ben Franklin Technology
24 Partners to play a role?

25 Realizing the significant potential

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1 here will take a concerted effort from
2 organizations with the right capabilities that
3 serve the broader interest of the Commonwealth,
4 including those engaged and knowledgeable in
5 technology-based commercial development.

6 We have a demonstrated successful
7 track record in facilitating the transition
8 from potential to economic reality in the
9 technology arena. Programmatically, we do this
10 through what we like to refer to as a
11 commercialization continuum where we support
12 activity from early-stage research through
13 early-stage commercialization. This includes a
14 complementary and inter-related set of programs
15 and services encompassing various stages of
16 applied resource support, incubation
17 facilities, start-up management expertise, and
18 pre-seed financing.

19 We provide applied research support
20 through innovative proof-of-concept and
21 translational research mechanisms and programs
22 that also engender university-industry
23 collaboration. While we are already seeing
24 relative success stories evolving from
25 university translational research in this

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1 sector, the significant potential here is
2 largely untapped.

3 Our nationally-recognized,
4 award-winning programs in incubation and the
5 all-too-critical start-up management are also a
6 part of the nurturing environment that we
7 offer. These programs and resources position
8 the new company for an early infusion of
9 capital, including our pre-seed funding
10 programs.

11 The Governor's proposed Energy
12 Independence Greenhouse includes four key
13 elements to be managed by our organization:
14 translational research, incubation,
15 entrepreneurs-in-residence, and pre-seed
16 funding. This approach also matches well with
17 our capabilities and would serve as an
18 effective tool kit in executing our part of the
19 mission to build upon Pennsylvania's existing
20 strengths in this sector.

21 Through these four programs, we would
22 selectively support efforts targeted at both
23 nearer-term technology solutions, such as smart
24 grid-related power, utilization efficiencies,
25 and certain approaches to alternative fuels, as

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1 well as those that may be longer term, but with
2 potentially high impact such as in cellulose
3 and clean coal-based fuels, portable and
4 stationary fuel cells, and novel solar
5 technologies.

6 We also envision a comprehensive
7 approach among the partners, which would
8 include both coordinated regional focus areas
9 and programs, as well as those that stretch
10 across regions, including statewide.

11 Our intent here is to maximize our
12 ability to leverage the resources, talent,
13 expertise and capital, that we bring to bear as
14 part of the added value we intend to bring to
15 this initiative.

16 As a result of the notable increasing
17 activity in Clean Tech around the state, our
18 organization has already been engaged in this
19 sector and is becoming increasingly more
20 knowledgeable. Each of our four partners are
21 already actively involved with companies and
22 research programs in this sector.

23 Additionally, in order to better
24 assess how we can most effectively serve this
25 sector, each partner is engaged in an asset

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1 mapping and SWOT analysis for their respective
2 regions.

3 As an example, I have included in the
4 attachment a portion of the preliminary mapping
5 analysis that was done for the five-county
6 southeastern region. We are collectively
7 sharing and reviewing results across our
8 organizations, and more generally, are working
9 together as a network to develop our specific
10 strategy and implementation plan around a
11 sector-focused Clean Tech initiative.

12 We are very pleased to be included in
13 this bill and would like to request that our
14 organization be mentioned specifically in it.
15 The Ben Franklin Technology Partners have a
16 24-year history of generating results for
17 Pennsylvania, and we look forward to making
18 significant contributions toward the
19 Commonwealth's energy independence. Thank you
20 for your time.

21 CHAIRMAN GEORGE: I thank the
22 gentleman. Are there any questions?

23 (No response.)

24 CHAIRMAN GEORGE: No questions for
25 this gentleman. Next gentleman may proceed.

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1 MR. BALDERSTON: Thank you, Chairman
2 George, Chairman Hutchinson, and members of the
3 committee. We appreciate your invitation and
4 that of Representative DePasquale to appear
5 before the House Environmental Resources and
6 Energy Committee. My name is Tom Balderston
7 and with me is Mike Stubler. We're here to
8 talk about the venture capital industry's
9 orientation and support of the energy
10 initiatives that have been proposed.

11 I'm president and CEO of the
12 Mid-Atlantic Capital Alliance, or MAC Alliance
13 for short. We were previously known as the
14 Greater Philadelphia Venture Group. We're an
15 organization that consists of investors,
16 service providers, entrepreneurs, economic
17 development organizations in the greater
18 Philadelphia area. We have about 125 members
19 representing firms across this span.

20 We're interested in growing the
21 entrepreneurial business community as a means
22 of growing the economy as a whole. We have
23 about a 20-year history, and we work not only
24 on generating our own programming and support
25 for entrepreneurial activities, but also in

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1 collaboration with other organizations that
2 have a similar mission around Pennsylvania and
3 throughout the region.

4 My own background in private equity
5 and venture capital is about 20 years' worth of
6 investment experience. I was a partner at a
7 firm based outside of Philadelphia called TDH,
8 and I moved from that role to start a private
9 equity venture capital investment unit at a
10 Philadelphia-area holding company, a
11 family-owned company called Superior Group, and
12 I was venture capital and private equity
13 investment person there.

14 And then about five, six years ago I
15 started doing my own investing and advisory
16 work for Superior and for some other firms.
17 And I've been investing on my own, actually, as
18 it happens in the alternative and renewable
19 energy area with most of my own direct
20 investment effort. I wear a number of hats.
21 I'm also the CEO of the Mid-Atlantic Capital
22 Alliance as of last year.

23 And, in addition, on the business
24 front, I'm treasurer of Ben Franklin of
25 southeastern Pennsylvania and an active board

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1 member there, so we overlap in a number of
2 ways. Mike.

3 MR. STUBLER: Good morning. My name
4 is Mike Stubler. I'm the president of the
5 Pittsburgh Venture Capital Association, and
6 also a founder and managing director of a
7 venture firm based in Pittsburgh called Draper
8 Triangle Ventures. My biography is attached,
9 so I won't go into great length. I was raised
10 in Oil City in Venango County.

11 REPRESENTATIVE HUTCHINSON: Lots of
12 people with that name up there.

13 MR. STUBLER: Sure. Famous beer
14 distributor.

15 Basically, I've been involved with
16 start-up technology companies both as a
17 co-founder and an early-stage investor in the
18 Pittsburgh area for about 35 years. My firm,
19 Draper Triangle Ventures, we presently have
20 active investments in 17 early-stage, start-up
21 technology companies in the Pittsburgh area.

22 The Pittsburgh Venture Capital
23 Association has over 200 members and is
24 growing, basically represents -- we try to
25 catalyze early-stage activity in the Pittsburgh

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1 and western Pennsylvania region. There's angel
2 investors, angel investor groups, the folks
3 from Innovation Works with Ben Franklin are
4 involved, as well every major venture capital
5 firm in the Pittsburgh, southwestern area.

6 Basically, just to digress for a
7 little bit, what you really have is kind of the
8 funding continuum for how we start companies
9 and launch them. The gentleman mentioned
10 Plextronics from Carnegie Mellon which was
11 years of research out of the McCullough Lab at
12 Carnegie Mellon.

13 The company spun out about four years
14 ago, it was funded by Innovation Works, which
15 is the Ben Franklin group in southwestern
16 Pennsylvania. Nurtured a company, grew it up,
17 helped develop the technology, and my firm then
18 invested \$2 million in the company last year,
19 along with other venture firms. So, we have a
20 very promising, you know, clean technology
21 company that was really supported, you know,
22 starting with the Ben Franklins, you know,
23 coming up through venture capital firms.

24 Basically, in this presentation we're
25 going to highlight our key suggestions

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1 regarding the proposed energy independence
2 program. Most of all, we believe that the
3 program is designed to stimulate the growth of
4 companies in Pennsylvania focused on energy
5 efficiency and independence, and it's a very
6 worthy initiative.

7 MR. BALDERSTON: We think it's wise
8 to take a system approach to the challenge of
9 building energy independence in the
10 Commonwealth. In other words, it's critical to
11 support the whole span of company formation.
12 Mike was describing, this is the span here,
13 from development of innovative ideas,
14 incubation, early technical and commercial
15 assistance -- commercialization assistance,
16 seed-capital funding availability, and then
17 early-stage venture capital.

18 In addition to the financing
19 spectrum, if there is an effort as we under-
20 stand it's proposed, to support market-oriented
21 initiatives, including capital assistance
22 programs and site improvement initiatives,
23 swaps and incentive programs of various kinds,
24 all of these would help support the growth of
25 the system, and we think that's a good thing.

1 We don't yet have a clear
2 understanding of how the various programs will
3 function based on the early drafts of the
4 legislation that we've seen. We have some
5 impressions from the descriptions of the
6 Governor's proposal. We can offer suggestions
7 on those. We'd be happy to be a resource as
8 specific initiatives get shaped in legislation.

9 We understand that there's a proposal
10 to form Energy Independence Greenhouses with
11 \$56 million to be managed by the Ben Franklins
12 in conjunction with the BFTDA and DCED. We
13 think this is a good step. The Ben Franklins
14 are a proven engine for growth in Pennsylvania.
15 The Bens are the right framework to support the
16 new initiative. They have experienced teams,
17 they have administrative support, they have
18 staff, they have technical assistance, and
19 they're skilled at putting out early-stage
20 capital.

21 So, again, we know that a lot needs
22 to be flushed out in the legislation, but if
23 the intention is to use the Ben Franklins as
24 that early-stage greenhouse role, that's a good
25 idea. That's a good step.

1 MR. STUBLER: Next, we understand
2 that there's a proposal to set up an Energy
3 Independence Venture Capital Program with
4 \$50 million to be invested in venture capital
5 funds that invest in the clean energy sector in
6 Pennsylvania.

7 The economic impact of venture
8 capital activity in Pennsylvania is
9 significant. There was just a recent study by
10 Global Insight and the National Venture Capital
11 Association that ranked Pennsylvania third in
12 the number of jobs at venture-backed companies
13 with almost 700,000 jobs.

14 More importantly, what's really
15 significant was, Pennsylvania ranked first in
16 the job growth rate in venture-backed companies
17 from 2003 to 2005 with almost -- with 14.7
18 percent job growth at venture-backed companies.
19 That was more than double the number 2 state in
20 the country, ahead of Texas, California. So
21 that 14.7 growth equated to 167,000 jobs
22 created at venture-backed companies over that
23 period.

24 The study also found that
25 venture-backed companies are creating jobs at a

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1 rate of three times nonventure-backed companies
2 because they're typically growing and growing
3 rapidly.

4 In summary, we believe that the
5 Energy Independence Venture Capital Program
6 would be a catalyst for the continuation of
7 this economic success in Pennsylvania.

8 We also understand that this
9 venture-capital program would be administered
10 by the Ben Franklin Technology Development
11 Authority. Again, we think this is a good
12 idea. We have the impression that the same
13 kinds of investment vehicles would be used for
14 these fund investments that are currently used
15 by the BFTDA program and the Commonwealth
16 Finance Authority. We think this is a good
17 idea as well.

18 MR. BALDERSTON: So our suggestions
19 moving from here forward, we hope that there
20 isn't an effort to reinvent the wheel. There
21 are existing programs like Ben Franklin, the
22 BFTDA, CFA and DCED. Using these vehicles is
23 the most efficient way of moving the whole
24 system along in terms of time and money, and
25 importantly, in terms of market development so

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1 that the Commonwealth takes a leadership role
2 among states in terms of energy strategy. So
3 time is of the essence to move along.

4 Also using market-oriented investment
5 vehicles will enable participants in the
6 process to utilize the capital in the best
7 ways. So making the capital in these programs
8 the types of resources that fund managers can
9 use to augment the money that they're raising
10 elsewhere, this will attract better managers,
11 it will attract stronger co-investors and it
12 will multiple the amount of money that is
13 invested in energy companies in Pennsylvania.

14 MR. STUBLER: You should allow fund
15 managers who are experienced technology
16 investors who are interested in investing in
17 clean energy but not are exclusively investing
18 in energy companies. For example, there's
19 several PVCA-member firms and MAC-member firms
20 who have made investments in the clean energy
21 space as part of their broader, diversified
22 portfolios. Providing capital to diversified
23 technology funds, as well as funds that focus
24 exclusively on the energy space, will stimulate
25 greater investment in the energy area in

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1 Pennsylvania.

2 We also recommend that you evaluate
3 and select managers carefully, but don't place
4 undue burdens on them in terms of unrealistic
5 requirements to raise multiples of capital from
6 other sources or restrictions where they must
7 invest the money. Again, these are not market
8 based.

9 If these kinds of requirements are
10 stipulated, we will likely have fewer funds to
11 choose from. For example, some of the matching
12 requirements and investment restrictions
13 related to the Tobacco Settlement Investment
14 Board Health Venture Account were problematic
15 for smaller venture firms who are trying to
16 attract out-of-state capital into their funds.

17 The BFTDA and CFA programs contain
18 simple and reasonable requirements for matching
19 and investing in Pennsylvania companies that
20 were not a problem for smaller funds who were
21 soliciting out-of-state capital.

22 Also, our understanding is that the
23 monies issued from the Energy Independence
24 Venture Capital Program are to be in the form
25 of loans to venture capital funds. We

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1 recommend that the program adopt similar
2 structure and documentation as the BFTDA and
3 CFA programs. These loan structures were very
4 workable for fund managers, and will provide an
5 economic return to the Commonwealth that is
6 identical to other limited partners in these
7 venture funds.

8 MR. BALDERSTON: There are good
9 analogies for us to follow, including the
10 system approach that supports the life sciences
11 investing. We have testified about that in the
12 tobacco settlement hearings. There, research
13 funding has been coupled with early
14 commercialization in the form of the
15 greenhouses, and then later venture funding
16 provided by the health venture account. That
17 system approach is already an evidence as
18 having had a dramatic impact on the creation of
19 new companies, the funding of them, and the
20 multiplier of additional capital that's been
21 attracted. The model informs us about the
22 system of entrepreneurial growth opportunities
23 in the energy sector.

24 So there are models and approaches
25 also, though, that have been tried in other

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1 regions of the country and other states that
2 aren't so good. So, we're not going to comment
3 on those here, except to say that we can learn
4 from the efforts that we've made in
5 Pennsylvania; we can observe what is going on
6 in other areas of the country, and we trust we
7 can collectively work together to grow energy
8 independence for Pennsylvania.

9 Thank you for your time and support.
10 We're submitting this as written testimony as
11 well.

12 CHAIRMAN GEORGE: I thank you,
13 gentlemen, for your presentation. Let me say,
14 and I'm sure my Co-Chairman will echo our
15 sentiments, that in my 33 years that I've never
16 been so enthused to see legislation that not
17 only deals with helping the economy, curtailing
18 degradation that continues in the environment,
19 but the fact is that the gentleman DePasquale's
20 bill is doing exactly what you would want. It
21 implies that we need alternative energy
22 generators, manufacturers, and products and
23 encouragement of the adoption, and as the
24 Governor said.

25 And I disagree with some who might

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1 believe we're still talking about price, but
2 what the development of this energy does, it
3 does give us an independence, and hopefully
4 those of you in the economics part of this
5 world we live in will then resort to the old
6 cliché that supply and demand is wanted in
7 every essence. It's what is necessary for
8 proper pricing.

9 Now, I would say that should -- You
10 individuals that are in the financial realm of
11 this need to make your opinion known. Both Mr.
12 Deklinski and Mr. Kuhn are receptive in their
13 offices to talk to you at any time. By that I
14 mean, we're willing to listen.

15 Now, there's a package of bills that
16 we'll all be working on. And I can guarantee
17 you that there never will be any bills that
18 will have as many bipartisan cooperative
19 spirits than in these bills, because we
20 recognize what is needed and we also understand
21 it can't be done without venture capital.

22 So you make yourselves available when
23 you feel you want to talk to Mr. Kuhn who will
24 relay this to the gentleman on the other side.
25 We're going to go forth with this and the

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1 opportunity that is out there. If it does
2 nothing else, it will give us independence from
3 the Persian Gulf. That, in itself, is what's
4 necessary.

5 Mr. DePasquale, do you have any
6 questions for these gentlemen?

7 REPRESENTATIVE DePASQUALE: I mean,
8 obviously, I support this since it's my bill.
9 But one thing I -- Obviously, because it's not
10 an education bill. But I think in the
11 southeast we're steaming ahead with keeping our
12 young people there.

13 In the southwest, as someone who
14 admittedly grew up in Pittsburgh and now lives
15 here in York and, obviously, represents it in
16 the legislature, if we -- this infusion of
17 cash, obviously, you know, potentially you're
18 going to be hiring more people. Companies are
19 going to hire more people.

20 How are we doing as far as developing
21 the intellectual capital in the southwestern
22 part of the state to be able to keep those
23 young people there, to hire them? I mean, I
24 think the environmental and economy benefits to
25 me are a no-brainer, but are we going to be

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1 able to use it to help keep our young people
2 there as well?

3 MR. STUBLER: I think the statistics
4 show that we, hopefully, have bottomed out in
5 terms of our population loss. The issue has
6 always been, we've got -- We have tremendous
7 research institutions in southwestern
8 Pennsylvania with Carnegie Mellon University,
9 University of Pittsburgh, University of
10 Pittsburgh Medical Center that really serve as
11 catalysts for new technology creation that
12 ultimately creates new companies.

13 What we need to do is continue to
14 create more opportunities for people to get
15 good jobs, good-paying technology jobs. I
16 think what we have in place, you look at
17 Innovation Works, which is the Ben Franklin
18 program in southwestern Pennsylvania, you look
19 back over the past 10 years and the companies
20 that they've helped bring along, it's a very
21 impressive list. I don't have the employment
22 numbers behind it, but it is significant the
23 impact that that program has had; then feeding
24 up the food chain to firms like mine who can
25 then put bigger money to work to take these

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1 companies to commercialization and beyond.

2 But I think, you know, sometimes
3 we're our own worst enemies in Pittsburgh, in
4 that, we believe the newspapers too much. But
5 we do have a vibrant technology community. I
6 mean, I spent some time in Cleveland, they want
7 to be just like Pittsburgh.

8 MR. KUHN: They always do.

9 MR. STUBLER: The things that we're
10 doing are working. We just need to keep -- We
11 need to keep fueling the pump. We have
12 great -- There's tremendous research coming out
13 of the institutions there in the clean energy
14 space. We need to make sure that we have the
15 proper funds in place to take advantage of it.

16 CHAIRMAN GEORGE: If I may, our
17 colleague Representative Miller.

18 REPRESENTATIVE MILLER: Gentlemen,
19 could I ask for a clarification? Part of the
20 testimony--And I don't understand what it
21 means, so that's why I'm asking--use market-
22 oriented investment vehicles. Make the capital
23 out of these programs as close as possible to
24 the kinds of capital that fund managers raise
25 from outside investors. Can you just elaborate

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1 on that, help me to understand it?

2 MR. BALDERSTON: Sure. Fund managers
3 typically raise money from a broad array of
4 limited partner investors who are putting money
5 into a pooled vehicle. If there are a lot of
6 requirements on money coming from the state
7 that aren't present in the rest of the
8 partnership documents, it actually may serve as
9 a constraint or a hindrance for the general
10 partners to raise money from elsewhere.

11 For example, if there are
12 requirements that all the capital be invested
13 in Pennsylvania; if there are requirements that
14 the capital be in the form of a loan, these are
15 things that other limited partners view as
16 something that is not market for them.

17 So, we have to balance the need to
18 invest in Pennsylvania with the need to enable
19 the investment firms to raise as much capital
20 as possible to invest in these interesting
21 technologies.

22 REPRESENTATIVE MILLER: So what I'm
23 hearing is that, most people that are investing
24 in these venture capital projects recognize the
25 risk that there's a potential to lose money;

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1 there's also a large potential to make money.

2 MR. BALDERSTON: Yes.

3 REPRESENTATIVE MILLER: But they
4 recognize that and there aren't any guarantees
5 required that sort of investor-be-aware-type --

6 MR. BALDERSTON: There is standard
7 agreements, reasonably similar agreements
8 across partnership documents. But yes, you're
9 correct.

10 REPRESENTATIVE MILLER: Okay. That
11 leads to my second question, if I may, Mr.
12 Chairman.

13 CHAIRMAN GEORGE: Absolutely.

14 REPRESENTATIVE MILLER: Fifty million
15 dollars, in the realm of the venture capital
16 that's out there looking for a place to invest,
17 is that significant? Fifty million is a lot of
18 money to me. You know, I recognize that. To
19 the Chairman it's not much money. To me that's
20 a lot.

21 The question is, is that significant?
22 How will that play? I mean, are we talking
23 50 million compared to 50 billion that's out
24 there looking for these opportunities?

25 MR. BALDERSTON: That's a good

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1 question. Among our member firms, combined, we
2 probably have \$20 billion or so in capital
3 under management. But 50 million, if it's
4 divided into, say, two to three to five-
5 million-dollar allocations across a wide set of
6 venture firms; and then those venture firms, in
7 turn, have raised a lot of additional capital,
8 that will be invested across a wide range of
9 different kinds of companies.

10 And, actually, if you view it that
11 way, the multiplier, 50 million from this
12 program would be participating with a lot of
13 additional money, 500 million. It's a little
14 hard to guess at how big, but it would be a
15 part of a much larger investment pool when you
16 tally up everything.

17 We have provided numbers in the
18 tobacco settlement legislation that show about
19 a 30-to-1 multiplier of the capital from the
20 health venture account that then, when added
21 together with the other funds that are invested
22 in the companies, represents a very significant
23 increase. And Ben Franklin has the same
24 multiplier numbers. Did that --

25 REPRESENTATIVE MILLER: That makes

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1 perfect sense, I think. So the concern is, if
2 we put too many constraints on the use of that
3 money, we truly have the tail wagging the dog;
4 the smaller portion dictating to the rest how
5 it has to be done and the rest won't
6 participate.

7 MR. BALDERSTON: That's our concern.

8 REPRESENTATIVE MILLER: Okay. Good
9 enough. I understand. Thank you. Thank you,
10 Mr. Chairman.

11 CHAIRMAN GEORGE: Thank you to the
12 gentleman. May I introduce our colleague,
13 Representative Jim Wansacz, from Lackawanna
14 County who's presented himself, and I thank you
15 very much.

16 REPRESENTATIVE WANSACZ: Thank you,
17 Chairman George.

18 I have a question for you. Following
19 up on those questions, you stated that you
20 would be concerned about saying, keep the
21 investment in Pennsylvania. When we did the
22 tobacco settlement funds or I know that Ben
23 Franklin, I believe all that investment has to
24 be in Pennsylvania companies. I mean, how can
25 we say, here's \$50 million of taxpayer money

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1 and I'm going to go ahead and invest in a
2 different firm outside of the state? Could you
3 actually clarify that?

4 MR. STUBLER: If I could just make a
5 point, because my firm, I have experience with
6 both the CFA program and the BFTDA program.
7 While my firm -- My current fund, my firm runs
8 at \$73 million and it's all early-stage, so
9 we're typically doing smaller investments in
10 seed, early-stage companies. We're the first
11 institutional investor.

12 We have raised money from -- So our
13 limited partners are institutions, pension
14 funds, the state employees' retirement system
15 in Pennsylvania.

16 But we also have limited partners
17 from outside of Pennsylvania, Credit Suisse
18 First Boston. And so, to try to go and raise
19 money outside, we say, all the money to be
20 invested in Pennsylvania, they view that as not
21 a diversified portfolio so it causes problems
22 for you when you're talking to out-of-state
23 institutions.

24 But one way around it, and similar to
25 the CFA program, where my fund had a

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1 five-million-dollar commitment from the CFA
2 program, we agreed to invest four times that
3 amount in Pennsylvania. So under that program
4 we're committed to investing \$20 million in
5 Pennsylvania, which for us is not a problem.
6 We're here, we have a track record investing,
7 we have 17 active companies in the Pittsburgh
8 area and we'll continue to invest.

9 So, you know, rather than setting --
10 I think, you know, saying that you need to
11 match it four to one and 70 percent needs to be
12 invested in Pennsylvania, you could simply
13 follow some of the guidelines that were similar
14 to CFA that I don't think were problematic, you
15 accomplish the same goal.

16 But you can't make a fund manager say
17 you're going to invest all your money in
18 Pennsylvania. We need to be able to look at
19 deals outside of Pennsylvania, but still
20 accomplish the same goals here by -- You know,
21 the \$50 million in this program could be
22 leveraged to 500 million in Pennsylvania
23 investment. But while the funds that are
24 investing that 500 million may be investing
25 another 500 million outside of the state.

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1 CHAIRMAN GEORGE: Chairman

2 Hutchinson.

3 REPRESENTATIVE HUTCHINSON: I was
4 going to ask the exact same question, it sort
5 of raised a red flag, because, you know, we are
6 about Pennsylvania.

7 MR. STUBLER: Sure.

8 REPRESENTATIVE HUTCHINSON: If we're
9 going to put public funds up, of course, we are
10 interested in using those public funds in
11 Pennsylvania. I thank you for clarifying that
12 for us.

13 MR. STUBLER: Another measure too,
14 you know, you can certainly look at a track
15 record of a fund and that they invested in
16 Pennsylvania.

17 CHAIRMAN GEORGE: I would like to
18 offer this as a point of personal view; that
19 the more venture that's coming forward from the
20 outside of the Commonwealth into the
21 Commonwealth not only gives an upper hand to
22 those who ventured, but it lessens a dependence
23 on the state and nonsensical performance of
24 permits and things of this nature. And I want
25 to be very broad about it.

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1 We have an organization coming into
2 Pennsylvania, an area where they're putting up
3 all the money and you know they are going to
4 have a lot more to say about what some of the
5 curtailment should have been that they refused
6 to allow. I just want -- Not that your five
7 million isn't an endorsement. Regardless of
8 what Mr. Miller says, it would take me at least
9 a week to raise a million dollars.

10 Is there any other questions for the
11 panel?

12 (No response.)

13 CHAIRMAN GEORGE: Gentlemen, we thank
14 you for your time.

15 MR. BRAWLEY: Thank you.

16 MR. BALDERSTON: Thank you.

17 CHAIRMAN GEORGE: Now we'll turn to
18 the next panel. I'll introduce the gentleman,
19 Steve Krug. And, in turn, will you then
20 introduce your --

21 MR. KRUG: Actually, Ben will have to
22 do that.

23 MR. WOOTTON: I'll do that.

24 CHAIRMAN GEORGE: Oh, Mr. Wootton,
25 you're going to give the testimony?

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1 MR. WOOTTON: Yes.

2 CHAIRMAN GEORGE: I apologize. You
3 can still introduce the gentlemen to us.

4 MR. WOOTTON: Absolutely. Sitting on
5 my far left is Charles Cross. He is President
6 of United BioDiesel from Pittsburgh
7 Pennsylvania. To his right is Nick Kukrika.
8 He is Chief Financial Officer with United
9 Biofuels right here in York. And to my left is
10 Chief Executive Officer of Keystone BioFuels,
11 Race Miner. They're here to help me answer
12 questions. I'll give the statement.

13 Good morning. My name is Ben Wootton
14 and I'm President of Keystone BioFuels. Our
15 company is based just north of here in
16 Cumberland County and is one of six biodiesel
17 production companies from across the
18 Commonwealth who are founding members of the
19 Pennsylvania Biodiesel Producers Group, our new
20 trade association.

21 We applaud the legislature and the
22 administration for a wide-ranging, bipartisan
23 commitment to addressing Pennsylvania's energy
24 future, and we are impressed with the vision
25 and broad programs being proposed by the

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1 package of new legislation collectively
2 referred to as the Energy Independence
3 Strategy.

4 The packets we are presenting you
5 today showcase our primary public policy
6 objective, which is to clarify a single very
7 important point, that House Bill 1200 needs to
8 include a provision to establish a Pennsylvania
9 in-state production incentive to support the
10 economic viability of our state's biodiesel
11 industry.

12 House Bill 1200 in its present form
13 specifically seeks to provide funding for the
14 economic development of the alternative energy
15 sector through, and I quote: Supporting
16 early-stage activities including incubator
17 support, translational research, early-stage
18 capital, loans to venture capital partnerships,
19 and grants and loans for construction,
20 equipment and working capital. It is currently
21 being proposed that a hundred six million in
22 funding be used for these services.

23 These methods just described are
24 ideal for supporting the research and
25 development needs of an emerging energy sector

1 that is not ready for wide-scale production, or
2 for an energy sector that is commercially
3 viable but lacks a comprehensive distribution
4 system and is, therefore, unlikely to attract
5 sustained private investment.

6 Neither of those descriptions are
7 accurate when we talk about biodiesel in
8 Pennsylvania. When the press refers to
9 biofuels as a whole, in most cases they are
10 actually referring specifically to ethanol.

11 Just last week the New York Times
12 printed a cover story about a claim by some of
13 the nation's largest oil companies that
14 government support for ethanol could drive them
15 to cancel plans for new refineries and other
16 infrastructure enhancements. The article's
17 title read: Oil industry says biofuel push may
18 hurt at the pump, but the article did not
19 mention biodiesel once.

20 That is not unusual, but it is
21 important for us to point out that biodiesel
22 and ethanol, while both accurately described as
23 biofuels, are nevertheless completely different
24 technologies with very different roles to play
25 in the alternative energy future

1 In Pennsylvania, ethanol is still in
2 its infancy. Ethanol is the most talked-about
3 alternative energy option because it has the
4 potential to directly replace, or at least
5 reduce consumption of petroleum-based gasoline
6 in our cars.

7 However, the complexities of
8 production; issues of feedstock supply and
9 demand; research into new options derived from
10 cellulosic ethanol; and the need to create new
11 distribution systems including dedicated
12 pipelines, and achieve widespread modification
13 of automobile engines to accommodate ethanol-
14 based hybrid fuels, mean that ethanol is still
15 in what amounts to be a pre-commercialization
16 stage.

17 In contrast, biodiesel is the
18 technology of today, and it is available in
19 Pennsylvania here and now. All of these
20 companies represented before you today built
21 their plants and started production of
22 biodiesel within this past year without any
23 state-government assistance. These companies
24 derive their feedstock from Pennsylvania
25 sources such as soybeans, animal fats and

1 yellow grease.

2 The fact that we source from soybeans
3 is important to note since Pennsylvania farmers
4 export more than half of their beans out of the
5 state annually. So our role helps the soybean
6 farmers and does not compete against other
7 in-state needs.

8 Biodiesel does not require
9 specialized or modified engines. It can be
10 used as a pour-in replacement for standard
11 diesel fuel, and the technology used to produce
12 and distribute it is mature and well
13 established. The Rabbit Transit buses passing
14 us by here today will likely be using biodiesel
15 fuel thanks to a partnership with United
16 Biofuels here in York, another clear
17 demonstration that biodiesel is the technology
18 of today.

19 So, biodiesel does not need R&D
20 funding and government support to encourage
21 venture capital investment or backing for new
22 plant development, so much as it needs support
23 for its economic viability in the market place.
24 Venture capital firms poured \$261 million into
25 biodiesel plant development last year and

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1 another 176 million to active producers already
2 up and running, and that doesn't count the
3 private investments being made by Pennsylvania-
4 based private investors like the owners
5 represented here today.

6 I say that we need support for our
7 economic viability because, if economic
8 development is the process of providing
9 government support to build an industry in a
10 given place, then economy development is the
11 process of using government support to ensure
12 that an industry, once built, will be
13 competitive and stable.

14 Biodiesel needs that kind of support,
15 and we need it today, now, this year. While
16 our production capacity has grown tremendously
17 thanks to private investment, we are only
18 operating at 10 percent of that now-built
19 capacity because of the fact that out-of-state
20 biodiesel producers are producing and shipping
21 their product into Pennsylvania at a cheaper
22 cost than Pennsylvania's own producers can
23 achieve.

24 Just to be clear on what that means,
25 it means that 80 percent of the biodiesel

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1 consumed today in Pennsylvania is not coming
2 from Pennsylvania biodiesel producers or
3 Pennsylvania feedstocks from Pennsylvania farms
4 or other Pennsylvania sources.

5 The potential impact of this trade
6 imbalance is enormous. We are on the verge of
7 replacing our dependence upon Iraq for our
8 dependence upon Iowa, because we have not taken
9 the fundamental step of establishing an
10 in-state production incentive for biodiesel.

11 Furthermore, a production incentive
12 is absolutely critical if we are to ever reach
13 the Governor's planned in-state production
14 mandate as proposed in the PennSecurity Fuels
15 Initiative. The wording of that proposal
16 demonstrates our predicament, as it reads:

17 PennSecurity will require the
18 inclusion of two percent biodiesel in all
19 diesel fuel sold in Pennsylvania one year
20 after Pennsylvania biodiesel production reaches
21 30 million gallons per year.

22 So it ties a usage mandate to
23 in-state production incentives, but misses the
24 point that users could easily consume
25 30 million gallons of biodiesel in Pennsylvania

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1 but not trigger the mandate, because in-state
2 production could collapse under the threat of
3 price supports from competing states.

4 The logical gap I just described is
5 even more evident since the PennSecurity
6 initiative's briefing document goes on to point
7 out that our in-state biodiesel industry is
8 well on its way to having 60 million gallons of
9 production capacity by the end of 2007.

10 And that's right, but it will be
11 idled production capacity unless we secure an
12 in-state production incentive that supports our
13 Pennsylvania farmers, our Pennsylvania
14 crushers, and Pennsylvania producers today.
15 It's not just having biodiesel at the pump;
16 it's about having biodiesel made here in
17 Pennsylvania from Pennsylvania crops and sources
18 at the pump.

19 Biodiesel is the alternative fuel
20 solution of the day, and it hits at the heart
21 of one of this region's largest issues, air
22 pollution from diesel fuel. Here in south
23 central Pennsylvania, we have the perfect
24 environment to showcase the benefits of
25 biodiesel on a wide scale because we have three

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1 key ingredients: Fertile farmlands which can
2 produce outstanding feedstock; a huge user base
3 in the form of trucking and logistics
4 companies; public transit and school bus
5 operators; and other diesel fuel users; and the
6 presence of a group of currently-operating
7 biodiesel producers ready to serve our state's
8 needs. In fact, three of the six founding
9 members of the Pennsylvania Biodiesel Producers
10 Group are companies within this region.

11 Imagine the impact if we could
12 enhance Pennsylvania agriculture, reduce air
13 pollution, strengthen our economy and achieve
14 true energy independence. With today's
15 biodiesel industry backed by a competitive
16 in-state incentive, we can do that right now.

17 The briefing packets provide further
18 details on our industry's economic impact,
19 growth strategy, and policy positions.

20 Thank you for your time. With the
21 members present, we'll be happy to answer any
22 of your questions.

23 CHAIRMAN GEORGE: I thank you very
24 much, Mr. Wootton. I have a question right
25 away that I'm glad I heard and read your

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1 dissertation. And as we go around we hear
2 continually from those who, for some reason
3 wouldn't want to see these programs get off the
4 ground, that the product that is utilized is
5 going to be become scarce, or fertilizer is
6 going to go up in price, and all that.

7 I say to you, well, maybe we could
8 take some of these lands out of soil bank that
9 the federal government is paying not to plant
10 and we could raise soybeans and corn and
11 things. What is your opinion?

12 MR. WOOTTON: Absolutely. I think
13 that's part of -- one element that has to
14 happen to be successful whether in biodiesel or
15 ethanol.

16 Yeah, biodiesel has an advantage over
17 ethanol as we have many feedstocks to pull
18 from. We can pull from soybean oil, we can
19 pull from animal fats, we can pull from
20 restaurant grease. So we have about a dozen
21 feedstocks that we can use; whereas, ethanol is
22 tied to corn base right now until cellulostic
23 comes on-line. But absolutely, that's a good
24 point to work on.

25 CHAIRMAN GEORGE: I think we ought to

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1 dispel that so that this thing doesn't
2 continue, in that, the purpose of a federal
3 soil bank was to keep farms active, and yet,
4 not put them in a position where they're
5 raising a crop that they can't get rid of.

6 So with the fact that you explained
7 how many -- what the percentage that's coming
8 out of the state now, the fact remains that the
9 state would be capable, we have the ability.
10 Just so we put the effort to be able to raise
11 this product so that we can commence.

12 MR. WOOTTON: Absolutely. It would
13 be a tragedy if biodiesel -- because the
14 production has already been in place here. We
15 as a group commend what you're doing with this
16 House Bill 1200, also 1201, 1202, 1203. You're
17 bringing renewable energy to Pennsylvania,
18 which absolutely we as Pennsylvanians need.

19 What we're trying to educate the
20 committee today and legislators is that
21 biodiesel is already here. And so, we hope
22 that you focus the language in these bills to
23 concentrate on a sustainable energy; not
24 building the market. We want to concentrate on
25 creating a sustainable market and not just

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1 focus on building a market.

2 Right now grants and loan guarantees,
3 which is what we see here, is not going to help
4 the current industry. We've already built it,
5 we're here. What we need is a level playing
6 field. And that's what's happening right now
7 is, Midwest production for some reason--There's
8 several reasons I can list for you--are able to
9 bring in biodiesel cheaper than we can produce
10 it in the state.

11 Pennsylvanians are buying biodiesel.
12 Right now they're buying on an annual basis of
13 about six million gallons a year. About
14 600,000 is coming from us. The four of us
15 sitting here represent about
16 95 percent of the production capacity right now
17 in Pennsylvania. So --

18 REPRESENTATIVE WANSACZ: If I could
19 follow up on that, you guys are saying you
20 produce 600,000. What is your capability of
21 being able to produce that?

22 MR. CROSS: Right now as a group
23 we're capable of producing -- Right now we're
24 able to produce between 10 and 14 million
25 gallons. That's today. That's without any

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1 modifications to either of our -- any of our
2 plants.

3 Right now we're only selling at
4 10 percent capacity, so we have 90 percent
5 capacity. Just like letting the fields grow
6 fallow here in Pennsylvania because these
7 out-of-state producers who have very strong --
8 like in Iowa, have very strong tax incentives
9 from their state --

10 REPRESENTATIVE WANSACZ: Because
11 that's what I was going to ask.

12 MR. CROSS: -- can deliver it here
13 for cheaper than we can get it.

14 REPRESENTATIVE WANSACZ: How are they
15 doing it? Like what is --

16 MR. CROSS: The Midwest?

17 REPRESENTATIVE WANSACZ: For example,
18 we're competing against the Midwest, Iowa and
19 different things. What are they doing to make
20 it to where they can actually grow it, ship it
21 and bring it into Pennsylvania that we're not
22 doing to help you out?

23 MR. CROSS: What happens is, we have
24 to play into the fuels distribution chain.
25 Fuel comes into the United States, comes up

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1 through pipelines and comes to various places
2 here in Pennsylvania called the racks. Those
3 are like your wholesale distributors. From
4 there it's typical distributors then distribute
5 it to your gas stations, to your bus lines and
6 all that.

7 Well, if a distributor has to -- It's
8 at these racks that are just starting to take
9 on biodiesel at the racks. Beforehand, and
10 right now in most places biodiesel, in order
11 for a distributor to pick it up, he's going to
12 go to the rack, get regular diesel. Then he's
13 going to come to one of our facilities and pick
14 up biodiesel to blend with it, which is an
15 extra stop, extra effort, extra time, money,
16 and then deliver it to the customer. That all
17 increases the price.

18 But when it gets to the rack, it's a
19 one-stop shop for those distributors and makes
20 it even. At the racks, the racks are currently
21 purchasing this biodiesel out of state because
22 it's cheaper. They're not buying it from us
23 locally.

24 REPRESENTATIVE WANSACZ: Yeah. But
25 why is it so much cheaper? That is my

1 question.

2 MR. WOOTTON: The Midwest is about
3 three to five years ahead of us in their
4 production. So, there are programs that were
5 established in the last three to five years
6 that helped incentivize ethanol and biodiesel.
7 One, in particular, was the CCC program in the
8 Farm Bill that just sunset last year. That
9 gave a production credit for every gallon of
10 biodiesel or ethanol produced. There were a
11 handful of biodiesel producers five years ago,
12 three to five years ago.

13 Some companies got tens of millions
14 of dollars, so their bricks and mortar are paid
15 for. They don't have the capital structure
16 that other states' producers have to deal with.
17 It's also the home of your ADMs and your
18 Cargills, your multi-national companies. They
19 own the farm, they own the bean, they're
20 virtually integrated. You have that side.

21 You have, the Midwest has aggressive
22 soybean board checkoffs that use dollars to
23 help their biodiesel production on that side.
24 There's also in-state incentive productions
25 that the Midwest has. So that's a combination

0060

1 of how they're able to provide a product and
2 ship it here cheaper than we can produce it.

3 REPRESENTATIVE DePASQUALE: Two
4 questions if I may, Mr. Chairman.

5 CHAIRMAN GEORGE: Let me apologize to
6 you, Mr. Krug. We'll get to you in a minute.

7 MR. KRUG: No problem. I understand.

8 CHAIRMAN GEORGE: The gentleman, Mr.
9 DePasquale.

10 REPRESENTATIVE DePASQUALE: Mr.
11 Miner, can you talk about the small margins
12 that you are currently experiencing at your
13 facility and how the production tax credit, if
14 we were to enact that, would be helpful
15 specifically to your facility?

16 MR. MINER: Specifically to Keystone
17 BioFuels, we're actually working on very large
18 margins. They just happen to be in the
19 negative. Sorry, I didn't mean to scare you
20 there.

21 When I opened the -- started the
22 company, soybean prices were at their
23 historical levels and were trading at
24 historical fluctuations, and OPEC was cranking
25 up -- or was cranking back on production and

0061

1 prices going up for oil. And those are two
2 mutually-exclusive markets that I play in. I
3 sell into the oil industry, but I buy out of
4 the commodities industry, which is
5 agricultural.

6 Since that time -- The first six
7 months business was good, we were ramping up
8 production, we were getting more and more
9 customers on base. But what has since happened
10 is, soybean oil, which is our primary
11 feedstock, has now been seen as an energy
12 commodity. It is no longer an agricultural
13 commodity or food commodity, and it's being
14 traded actively as an energy commodity. And
15 the prices are now at historic high levels.

16 What was 24 cents a pound for soybean
17 oil when I opened the doors is now trading at
18 36 cents a pound. That's a 50 percent increase
19 in feedstock prices. And that feedstock price
20 represents 85 percent of the cost associated
21 with what I make; what the product that all of
22 us make. So, it's pretty easy to see that the
23 margins have shrunk and actually gone into the
24 negative.

25 That being said, there is still a

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1 demand for biodiesel. We are still seeing
2 customers buy it at these historic high prices.
3 We are still more expensive than normal diesel
4 fuel, but we're continuing to sell our product.
5 But, we cannot be competitive with other
6 out-of-state producers for the reasons that
7 were just placed before you.

8 REPRESENTATIVE DePASQUALE: Would you
9 equate this, if you're familiar with it, to the
10 federal government had a production cash credit
11 for the wind industry that still exists today
12 as a way to -- until wind was at a position and
13 until wind gets to a position where it is
14 commercially viable and competitive price-wise?

15 Would you equate it to the same
16 thing, that you wouldn't think that this is
17 something that will be needed forever, but as a
18 gap until you're able to catch up with the
19 Midwest?

20 MR. MINER: I do. I think there's a
21 couple of market dynamics that play into how
22 that scenario would actually unfold. What we
23 see is, we need to support Pennsylvania
24 production.

25 If you think that a Pennsylvania

0063

1 economy for biodiesel production is important,
2 local-produced biodiesel is important to help
3 produce fuel from local agricultural, then you
4 need to support it in the short term. We need
5 to get it to where we can be competitive with
6 those out-of-state production capacities.

7 We equate it to a unitrain, if you
8 will, just a hundred cars of biodiesel on a
9 rail car, or a hundred rail cars. Right now
10 those all come from Iowa right in the State of
11 Pennsylvania if we were to come up with a
12 50-million-gallon market overnight.

13 But what's happening is, other states
14 are producing incentive packages just like the
15 ones being proposed in the legislature in the
16 Commonwealth today. And over time those rail
17 cars are going to start dropping off in all
18 these neighboring states, and what's going to
19 happen is, we're not going to have that supply
20 coming in here any longer.

21 So we think that a properly supported
22 biodiesel production industry in the State of
23 Pennsylvania will be self-sufficient and can be
24 self-sufficient. It just needs the support
25 now. Right now it's in a state of crisis.

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1 CHAIRMAN GEORGE: Representative

2 Miller.

3 REPRESENTATIVE MILLER: Mr. Chairman,

4 my question was just answered, but thank you.

5 CHAIRMAN GEORGE: Thank you very

6 much. Representative Hutchinson.

7 REPRESENTATIVE HUTCHINSON: No

8 questions.

9 CHAIRMAN GEORGE: Representative

10 Wansacz again.

11 REPRESENTATIVE WANSACZ: I'm just

12 interested, how many people are employed

13 currently now with your companies with

14 biodiesel fuel in Pennsylvania so we have an

15 idea of the economic impact that's taking place

16 now?

17 MR. WOOTTON: I would guess a

18 hundred?

19 MR. KUKRIKA: Probably within the

20 companies, but I think then if you add to that

21 the impact that it has not only on the farm but

22 also on the soybean crushing facility or on the

23 rendering plant if you're using animal fats,

24 and then you add to that as well the impact it

25 has on the oil distribution business, because

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1 obviously, it creates a new product line within
2 the oil distribution business, I think you're
3 actually talking about an impact just within
4 these companies that's getting into the several
5 hundred and probably exceeds a thousand easily.

6 REPRESENTATIVE WANSACZ: Thank you.

7 CHAIRMAN GEORGE: Gentleman,
8 concluded?

9 REPRESENTATIVE WANSACZ: Yes.

10 CHAIRMAN GEORGE: Anything else from
11 the panel?

12 (No response.)

13 CHAIRMAN GEORGE: You, sir, are next.

14 MR. KRUG: Thank you. Thank you
15 Chairman George, Chairman Hutchinson. It's a
16 pleasure to be here. Thank you, Representative
17 DePasquale, for the invitation, and
18 Representative Miller.

19 My name is Steve Krug. I'm an
20 architect and I represent AIA Pennsylvania,
21 that's the American Institute of Architects in
22 Pennsylvania. I'm chairman of the Government
23 Affairs Committee. I'm here to share a letter
24 of support from AIA Pennsylvania for the
25 Pennsylvania Energy Independence Strategy.

1 AIA Pennsylvania and AIA National
2 have supported sustainable design strategies
3 throughout the nation for some time. For
4 instance, Representative DePasquale's House
5 Bill 21 (sic) complements the AIA's objectives
6 of green sustainable buildings.

7 If I may share our letter to Governor
8 Rendell: The American Institute of Architects
9 of Pennsylvania would like to express
10 enthusiastic support for your Energy
11 Independence Strategy for Pennsylvania. In
12 advocating and advancing energy efficiency and
13 conservation, you have shown outstanding
14 leadership with your commitment to a
15 progressive energy policy. This initiative
16 will further the growth and development of a
17 sustainable energy sector that is essential for
18 energy security and independence.

19 The Energy Independence Strategy
20 complements AIA Pennsylvania's objectives of
21 green building in both the public and private
22 sectors, and the development of sustainable
23 communities within Pennsylvania.

24 AIA Pennsylvania is also
25 collaborating with AIA National to pursue these

0067

1 objectives through our sustainable 2030
2 challenge. This initiative envisions a
3 stepped-up reduction in carbon emissions,
4 starting with a 60 percent reduction in
5 building energy used by 2010 and reaching
6 100 percent carbon neutrality in 2030. The
7 Energy Independence Strategy supports this.

8 We endorse the goals you have set for
9 Pennsylvania's energy policy and recognize the
10 importance of working together towards
11 developing alternative energy uses. The
12 successful adoption of the Energy Independence
13 Strategy will create a self-reliant, cleaner
14 and economically-dynamic Pennsylvania that will
15 be home to affordable, reliable and secure
16 sources of sustainable energy.

17 AIA Pennsylvania is the voice of the
18 architectural profession in Pennsylvania. We
19 represent and serve and communicate the needs
20 of our 2,800 members by promoting the
21 architectural profession while striving for the
22 highest quality in the built environment.

23 We look forward to working with you
24 and continuing to build a better Pennsylvania.

25 I am available for any questions at

0068

1 any time. I serve as chairman of the
2 Government Affairs Committee for AIA
3 Pennsylvania. I am senior vice president and
4 chief architect for Buchart-Horn here in York,
5 Pennsylvania.

6 My credentials, I'm also lead
7 certified and a certified energy manager, so my
8 background in energy conservation goes back
9 25 years. The results and the outcome of House
10 Bill 1200 and the Energy Independence Strategy
11 really will support our independence on energy
12 through good conservation and building.

13 CHAIRMAN GEORGE: I thank the
14 gentleman. Gentleman, Mr. Miller.

15 REPRESENTATIVE MILLER: No question,
16 Mr. Chairman.

17 CHAIRMAN GEORGE: Mr. Deklinski, do
18 you have a question?

19 MR. DEKLINSKI: No, thank you, Mr.
20 Chairman.

21 CHAIRMAN GEORGE: My colleague
22 chairman.

23 REPRESENTATIVE HUTCHINSON: No.

24 CHAIRMAN GEORGE: Gentleman, Mr.
25 DePasquale.

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1 REPRESENTATIVE DePASQUALE: No.

2 CHAIRMAN GEORGE: Gentleman,

3 Representative Wansacz.

4 REPRESENTATIVE WANSACZ: No, Mr.

5 Chairman.

6 CHAIRMAN GEORGE: We thank you for
7 your testimony. The Chair and I and the entire
8 committee pledge ourselves to work with you.

9 What we do today is just a start of something
10 that can be very important to Pennsylvania.

11 Thank you all.

12 MR. KRUG: Thank you, Chairman.

13 CHAIRMAN GEORGE: We are honored to
14 have the gentleman, Dan Desmond. And at his
15 side the young lady, Rebecca Bagley. Who will
16 be first? You sir?

17 DEPUTY SECRETARY DESMOND: Yes.

18 CHAIRMAN GEORGE: Please proceed.

19 DEPUTY SECRETARY DESMOND: Thank you,
20 Chairman George, Chairman Hutchinson, and other
21 distinguished members of the House Environment
22 Resources and Energy Committee. My name is Dan
23 Desmond. I'm Deputy Secretary for the Office
24 of Energy and Technology Deployment at the
25 Department of Environment Protection. And I'm

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1 joined by my colleague, Deputy Secretary
2 Rebecca Bagley from the Department of Community
3 and Economic Development.

4 I'll make some brief remarks
5 pertinent to House Bill 1200, Representative
6 DePasquale's bill. And at the conclusion, if
7 it would please the committee, we'd like to do
8 an overview presentation, a Pow-R Point
9 presentation of the Energy Independence
10 Initiative.

11 The Pennsylvania Energy Development
12 Authority is a public finance agency with an
13 independent board. It was first chartered back
14 in 1982. And in those days it was housed at
15 the Pennsylvania Energy Office, which was its
16 host agency.

17 When the Energy Office was closed in
18 1995, the Energy Development Authority went
19 dormant. It had during its lifetime issued
20 several hundred million dollars in tax-exempt
21 bonds, mostly for clean waste coal projects in
22 Pennsylvania, but was not active at the time we
23 formed the Office of Energy and Technology
24 Deployment. Governor Rendell took an
25 initiative to reactivate PEDDA in 2004.

1 Currently it has a board comprised of
2 19 members, including four members of the
3 Pennsylvania legislature, Representatives Daley
4 and Reed and Senators Wozniak and Erickson.
5 Since being reactivated in March of 2005, PEDDA
6 has awarded \$21 million in grants and loans to
7 57 Pennsylvania clean energy projects.

8 Now, earlier testifiers here
9 mentioned Plextronics. PEDDA also identified
10 this as a leading break-through company here in
11 Pennsylvania and has made grants totally
12 \$550,000 and a low- interest loan of \$700,000
13 to this company.

14 The reason companies like Plextronics
15 are so important is that, they represent the
16 next generation for things like very
17 inexpensive solar panels. They have an ink
18 technology that you can print like newspaper.
19 The day is not far off where companies like
20 Plextronics will have their product printed on
21 T-shirts where the clothing that you wear will
22 charge your cell phone. So there's quite a set
23 of breakthroughs coming down the road.

24 We are pleased to be able to join
25 with Ben Franklin and private venture capital

0072

1 companies to sponsor companies like
2 Plextronics.

3 That is one of the things that
4 Representative DePasquale's bill, House Bill
5 1200, will further enable. It will give PEDA
6 the freedom and option to get much more
7 involved in joint venture capital work, much
8 more involved in working collaboratively with
9 other state agencies like Ben Franklin so that
10 when there's a chance to pool the resources of
11 multiple government agencies, working with the
12 private sector, we can do that efficiently and
13 with full, you know, legal and procedural
14 authorization to do so.

15 So, this bill, in particular, is
16 going to allow us to move faster, to be more
17 flexible, and to take on a lot more partners to
18 help some of these technologies mainstream.

19 We're also going to be able to
20 enhance our grants for research and deployment.
21 PEDA right now does limited research, and
22 mostly we're focused on the early-market
23 deployment of energy and environmental
24 technology, but we're going to be able to
25 enhance the research aspect of this.

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1 Sometimes there's a bit of a missing
2 piece of the pie where you have to do that last
3 11th-hour piece of research to fully
4 commercialize a technology, and we think that
5 Representative DePasquale's bill will certainly
6 enable us to do that.

7 In addition, it's going to raise our
8 debt ceiling. At present we have a debt
9 ceiling at \$300 million. But we hope to be the
10 agency that will be the bonding authority for
11 the \$850 million of proposed Energy
12 Independence Strategy bonds.

13 So for that and all the other reasons
14 stated, we're highly supportive and
15 appreciative of Representative DePasquale's
16 initiative, and this together with several
17 other key pieces of legislation will, as
18 Representative George stated, really help our
19 Pennsylvania energy economy grow, keep these
20 energy dollars here at home where they belong.
21 Thank you very much.

22 Now, if I may, I'd like to turn over
23 the presentation to my colleague, Deputy
24 Secretary Bagley.

25 DEPUTY SECRETARY BAGLEY: Thank you

0074

1 for the opportunity to be here today. Thank
2 you very much, chairmen, for letting us walk
3 through the overarching initiative and the
4 different components of that in order to give
5 the committee an overarching perspective of how
6 this bill fits into, you know, the Energy
7 Independence Strategy as a whole.

8 So, basically I'll walk generally
9 through the presentation, and please, if you
10 have any questions throughout or if you'd like
11 to save questions until the end, whichever you
12 prefer.

13 The Energy Independence Strategy as a
14 whole will do several things. It will save
15 consumers \$10 million over the next ten years,
16 and that's through some energy conservation
17 measures and a couple other programs within the
18 fund. It will reduce Pennsylvania's reliance
19 on foreign fuels through the PennSecurity Fuels
20 Initiative, and I'll touch more on these things
21 as I go through the presentation. And it will
22 also grow Pennsylvania's energy economy, again
23 through the fund.

24 The Energy Independence Strategy,
25 just to talk about a couple drivers for this,

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1 the main one is that Pennsylvania is going
2 towards a crisis as the rate caps come off.
3 So, Governor Rendell in looking at this crisis
4 that we're about to face said -- wanted to take
5 a proactive strategy, and so, came up with this
6 independence strategy in order to manage the
7 potential spike as those rate caps come off and
8 help to level out that spike.

9 So basically, this just shows a few
10 examples of rate caps coming off in different
11 states, and even in our state in Pike County.
12 But I wanted to just highlight the Maryland
13 example.

14 Maryland's rates when the rate caps
15 came off spiked up 70 percent. That had a
16 direct impact on Alcoa, who was located at that
17 point in Maryland. They shut down a facility
18 with several thousand workers within two weeks
19 of the rate caps coming off and moved that
20 facility.

21 So, that is some of the things that
22 we anticipate that could happen if we do not
23 take active participation in leveling off those
24 rates spikes.

25 Basically, again -- I'll just go

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1 through this fairly quickly to let you get to
2 the meat of your questions. But basically
3 these just talk about demands. Demand is going
4 up, and especially at peak times, so that's an
5 important component of this. And we're really
6 trying to make sure that those peak times,
7 we're trying to shave those off so that demand
8 doesn't continue to increase.

9 If you flip to the next slide, I'll
10 let you use this as reference. It basically
11 just talks about a few of the different studies
12 in which we based our \$10-million-over-10-years
13 number off of. Specifically, I'll highlight
14 later on in the presentation the Cool Appliance
15 Swap Program, as well as Pennsylvania Sunshine
16 and how that solar and appliance swap program
17 can really have an impact on consumer savings
18 throughout the Commonwealth.

19 The next slide talks about some
20 specific cost-cutting measures. So basically,
21 just to back up to 30,000 feet one more time,
22 you have energy conservation, you have
23 PennSecurity fields and you have the fund. And
24 most of what I'm talking about right now is
25 around the energy conservation components. So

0077

1 these cost-cutting tools are tools in which to
2 conserve energy.

3 The smart meters and time of use,
4 really to understand, these two things are
5 coupled together. The example that I always
6 use is just us as consumers, as individual
7 consumers in our home, we will be able to --
8 With these two first bullets coupled together,
9 we'll be able to understand when our energy use
10 is at the highest, how much it costs, and how
11 to change our behavior, if we choose to.

12 Basically what that means, I can know
13 whether doing a load of laundry at 6 p.m. is
14 less or more expensive than doing a load of
15 laundry at 9 p.m. Again, this is voluntary for
16 the consumer but mandatory from the utility to
17 provide these smart meters and time of use.
18 You'll be able to manage better your
19 conservation efforts and your costs within your
20 home use.

21 Cool Appliance Swap Program, I'll
22 explain both that and Pennsylvania Sunshine
23 when I get into the fund a little bit more.

24 A couple of the other bullets within
25 the last half of that, long-term contracts,

0078

1 basically what we're doing is trying to clarify
2 some code already written within the PUC that
3 basically enables both industry, large industry
4 to be able to have long-term contracts with
5 utilities, as well as utilities being able to
6 have long-term contracts for their use of --
7 for their -- buying their energy needs. So,
8 it's both of those two things combined.

9 There's a three-year phase-in for any
10 PUC. Rate increases, which basically would
11 help to, again, alleviate that shock, to be
12 able to stage those increases in. Encouraging
13 microgrids. So, basically, it defines that
14 three users of a power source is definitely not
15 a utility, which before that had not been fully
16 defined. So by doing that you enable different
17 sources of energy to go to, let's say,
18 industrial manufacturers and know that you
19 don't have to end up under the utility code
20 through doing that. So that's an important
21 component.

22 The one other thing that I guess --
23 because, obviously, DEP has had much, much
24 experience in the utilities industry. One
25 thing I didn't know when I came into this that

0079

1 I found very interesting is this idea of the
2 acquisition of power and how the utilities
3 charge for that power. And basically, at this
4 point what they do is, if they need to use, you
5 know, let's say 50 percent comes from coal
6 sources and 70 percent comes from natural and
7 nuclear, and 70 percent -- I messed up my
8 percentages. But, basically, you end up with a
9 hundred percent of natural gas, right?

10 Basically, if you end up with your
11 percentages and the highest at that point is
12 natural gas, they charge you all at the natural
13 gas rate, instead of taking into account that
14 they've had this buildup of coal being cheaper,
15 nuclear being cheaper and then natural gas.
16 So, they charge you the natural gas price for
17 all of those units of electricity, which was
18 surprising. So this would allow that to be
19 kind of unbundled and used at a least cost
20 portfolio rate.

21 Now moving into the second
22 initiative, which is the PennSecurity Fuels
23 Initiative. This is looking at putting
24 biofuels and ethanol into our diesel and
25 gasoline respectively. The goals are

0080

1 10 percent ethanol and 20 percent biodiesel.
2 They have triggers surrounding them. And this
3 is something that I found unique as you look
4 around the other states and what they're trying
5 to do around biofuels and ethanol.

6 The triggers -- We want to make sure
7 that we can have in-state production and that
8 we're able to meet the needs as we integrate
9 biofuels into diesel, and then as well ethanol.
10 So, you can see on the chart, we will not --
11 We'll mandate two percent biodiesel when we can
12 in state generate 30 million gallons; and for
13 ethanol when we can do in-state production of
14 200 million gallons, but also have the rail
15 infrastructure to make sure that we're able to
16 get the raw material in and the ethanol out of
17 the plants.

18 The next then is the fund. This was
19 the goal of creating jobs and growing the
20 Pennsylvania's energy sector. As many of you
21 know, and it's evidenced by being in the
22 newspapers, and everything else, it's one of
23 the fastest growing investment sectors in the
24 U.S. and in the global economy.

25 There's 24 billion invested in the

0081

1 last five years in the sector, and that is a
2 national number. Pennsylvania has been a
3 leader in attracting some of the largest
4 leading -- world-leading advance energy
5 companies, such as CoEnergy, Gamesa. And our
6 universities also have a great base of research
7 in which we can go do some of the bleeding-edge
8 technologies that Dan Desmond spoke about. The
9 goal is to create 13,000 jobs just for the
10 fund's goal, as well as 3.5 billion to
11 stimulate new investments.

12 The fund, basically, has three
13 overarching components to it. It's a hundred
14 six million for venture capital and
15 commercialization of emerging technologies.
16 You heard Ben Franklin and the venture capital
17 folks speak earlier, and this money would be
18 going to them to go to companies. It really is
19 about the companies, but using the
20 intermediaries to be able to develop those
21 technologies.

22 Five hundred million for clean energy
23 projects, and we list biofuels, solar, wind,
24 clean coal and energy conservation as the uses
25 for that, but it's mostly around site

0082

1 preparation, buildings, lead certification
2 buildings, and the like.

3 Two hundred forty-four million for
4 rebates and incentives. Basically, that's
5 44 million for the Cool Appliance Swap Program,
6 which is trading in your inefficient air
7 conditioner or refrigerator for a more
8 energy-efficient unit. And again, that's that
9 peak demand that I talked about where it spikes
10 up. Most of that is done in the summer, and
11 most of it is done through appliances that
12 utilize more electricity. So, by doing that
13 and having the more energy-efficient appliances
14 you're able to shave that down.

15 Also the solar program, it's up to
16 50 percent rebates for solar, both in home and
17 small business, as well as production grants
18 for in-state solar manufacturers.

19 This just lists out those programs
20 that I mentioned, the seven programs that are
21 categorized within the energy independence
22 fund.

23 So where do we get the funding for
24 this? It is a utilities benefits charge of
25 point 0005 per kilowatt hour, so there is three

0083

1 zeros, it's point 0005 per kilowatt hour.
2 Basically, what that means to you and I as
3 individual consumers is about 45 cents a month,
4 or five dollars a year. And what that means to
5 the largest industrial customers is, we capped
6 it at \$10,000, just to make sure that there was
7 no undue strain on any of them.

8 Fifteen other states have implemented
9 these benefits charges, and we are the third
10 lowest, so we're at the low end of the systems
11 benefit charges.

12 Basically, we then take that and
13 securitize it into a bond that generates
14 \$850 million that's backed by that flow of
15 revenue from the public benefits charge.

16 This initiative would generate
17 approximately \$70 million of income, and we'd
18 be saving a billion dollars a year for the
19 first ten years. So you're basically investing
20 \$70 million to save a billion dollars, so that
21 seems like a pretty good outcome.

22 I'd be happy -- I appreciate the
23 committee's attention, and Dan and I both would
24 be happy to take any questions that you may
25 have.

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1 CHAIRMAN GEORGE: I thank the lady
2 for her presentation. Mr. Chairman?

3 REPRESENTATIVE HUTCHINSON: Thank
4 you. I have several questions. Let's start
5 with this, the public benefit charge as you
6 called it. Usually I hear it referred to as a
7 systems benefit charge. You refer to 15 other
8 states that have one.

9 DEPUTY SECRETARY BAGLEY: Yes, that's
10 correct.

11 REPRESENTATIVE HUTCHINSON: My
12 understanding is, they use it in a different
13 way. Could you elaborate on that? Do any
14 other states use theirs the way you're talking
15 about using it?

16 DEPUTY SECRETARY BAGLEY: No. No
17 other states have securitized their systems
18 benefit charge to utilize it for economic
19 development.

20 REPRESENTATIVE HUTCHINSON: Theirs is
21 more about using it for infrastructure; is that
22 correct?

23 DEPUTY SECRETARY BAGLEY: No. It
24 does vary. Do you want to answer?

25 DEPUTY SECRETARY DESMOND: Well, for

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1 example, one of the oldest and most successful
2 is NYSERDA, the New York State Energy Research
3 and Development Authority. They've been in
4 place for several decades and have programs
5 that are not unlike the Energy Development
6 Authority; however, funded, perhaps, in order
7 of magnitude larger. And they're able to do
8 very significant economic development
9 incentives for Green Tech and Clean Tech
10 business, for energy conservation and
11 efficiency, for demand site management, et
12 cetera.

13 And so, that's an example of one
14 state that's had an ongoing and, you know, very
15 successful systems benefit charge.

16 REPRESENTATIVE HUTCHINSON: The state
17 controls that or the companies control that?

18 DEPUTY SECRETARY DESMOND: No, the
19 state takes in the money and then there's a
20 state-financing authority called the NYSERDA,
21 the state energy development authority, but
22 there are several others that do similar
23 things.

24 For example, in Massachusetts there
25 was a -- At the time they deregulated there was

0086

1 a systems benefit charge put in place that is
2 significantly larger than that being proposed
3 for the Commonwealth of Pennsylvania. So, they
4 might have put money programmatically through
5 different channels, but the net outcome is that
6 it's used for conservation, efficiency, demand
7 site management and alternative energy
8 technology development.

9 REPRESENTATIVE HUTCHINSON: The next
10 question along -- talking about smart meters
11 and time of use. Has there been any -- What is
12 the track record? My understanding is that
13 some utility companies or electric
14 cooperatives, et cetera, have programs like
15 that. What has been the track record of people
16 voluntarily using those smart meters or time of
17 use?

18 DEPUTY SECRETARY BAGLEY: The track
19 record has been actually very -- The rural
20 cooperatives right now for the most part have
21 that enabled. The PPL at this point is able --
22 They're enabling their smart meters to be able
23 to do this, but they don't at this point have
24 any time-of-use charges. The only ones that
25 I'm aware of are the rural electrics that have

0087

1 done it.

2 And you do see people who have done
3 basically management of their own use, and most
4 of the time it's not exact time of use. It's a
5 9 p.m. to 9 a.m., or some subset of that type
6 of use as opposed to, this would be more of a
7 minute-by-minute or hour-by-hour ability to
8 look at those costs.

9 REPRESENTATIVE HUTCHINSON: Does that
10 technology exist?

11 DEPUTY SECRETARY BAGLEY: Yes.

12 REPRESENTATIVE HUTCHINSON: What kind
13 of -- Obviously, you have numbers plugged in
14 here for exact savings that you're hoping to
15 get through that. What are you expecting on
16 that?

17 DEPUTY SECRETARY BAGLEY: Exact
18 numbers --

19 REPRESENTATIVE HUTCHINSON: I mean,
20 like, do you think 10 percent of the people
21 will use them and they'll get all their energy
22 from it? What kind of numbers do you have to
23 back up what you expect from that?

24 DEPUTY SECRETARY DESMOND:
25 Representative, I could give you an example.

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1 Right now the way the tariffs are written, the
2 more you use, the cheaper your next incremental
3 block is. So there's a clear incentive to
4 consume as much as possible to get the cheapest
5 net price.

6 One of the things this legislation
7 would do would make it incumbent on the
8 utilities to invest in conservation, efficiency
9 and demand reduction if that was less expensive
10 than new generation. And if this price signal
11 is sent to consumers -- To give you an example,
12 if you were told that the price of gasoline was
13 cut in half after 6 p.m., you probably would
14 avoid filling your tank during the day.

15 And the message that will be sent all
16 over Pennsylvania to consumers who want to have
17 smart meters and time-of-day tariffs put in
18 place at their discretion is that, if they want
19 to move their loads nights and weekends at
20 their discretion, they can get a whopping big
21 cut in their electric bill. That kind of mass
22 market price incentive has just not been in
23 place in the past.

24 REPRESENTATIVE HUTCHINSON: Okay. I
25 think it would have been to be a whopping big

0089

1 cut. Americans, as we are, like to do --

2 DEPUTY SECRETARY DESMOND: Yeah.

3 Except we are facing --

4 REPRESENTATIVE HUTCHINSON: We like
5 flexibility.

6 DEPUTY SECRETARY DESMOND: We are
7 facing a near certain catastrophic increase in
8 electric prices in Pennsylvania when the rate
9 caps end. They start in 2009 terminating and
10 finish in 2011.

11 Our neighboring states of New York
12 and Pennsylvania (sic) and New Jersey and
13 Maryland have had upwards of 70 percent
14 increases in their electric rates when their
15 rate caps came off. We're facing that and
16 more. So, if we act now to put in place
17 pricing incentives, with the way electricity
18 prices are headed, I think there's going to be
19 a lot of people who will want to step up and
20 take advantage of what this bill will offer.

21 REPRESENTATIVE HUTCHINSON: Mr.
22 Chairman, if I may ask one final question.

23 CHAIRMAN GEORGE: Certainly.

24 REPRESENTATIVE HUTCHINSON: I could
25 actually ask questions for a long, long time.

0090

1 But just one other one, and once again, I'm
2 switching subject areas. But I did want to ask
3 about the debt ceiling of 300 million, debt
4 ceiling which you're asking -- This legislation
5 removes that.

6 Do you want a -- Or do you envision a
7 number certain debt ceiling or an unlimited
8 debt ceiling? I think the way this is written
9 it's no debt ceiling.

10 DEPUTY SECRETARY DESMOND: Well, when
11 we talk about debt, what PEDA has done, it has
12 the authority using state IRS volume cap to
13 issue a tax-exempt authorization for private
14 bonds. And literally what this would mean is
15 that, we would authorize up to \$850 million
16 worth of tax-exempt capacity for these bonds.

17 REPRESENTATIVE HUTCHINSON: But
18 that's in addition to the three hundred that's
19 already --

20 DEPUTY SECRETARY DESMOND: No.

21 REPRESENTATIVE HUTCHINSON: -- or
22 three hundred that's not used?

23 DEPUTY SECRETARY BAGLEY: There is an
24 outstanding amount still within the PEDA bonds.
25 So there is an outstanding amount, so that's

0091

1 why the debt ceiling.

2 The other thing that I just wanted to
3 clarify too is, on securization, you don't know
4 exactly to the dollar how much you're going to
5 get until you go to market. So the eight fifty
6 is a very good estimate of that, but it could
7 be eight seventy-five, it could be eight
8 twenty-five, you know. So, I think that once
9 you go to market that's when you know.

10 So by removing the debt ceiling you
11 just enable the capability to, if the bonds are
12 \$10 million more than this or \$50 million more,
13 you're able to be able to issue to the full
14 capacity of what the systems benefit charge
15 will support.

16 REPRESENTATIVE HUTCHINSON: Okay.

17 Thank you.

18 CHAIRMAN GEORGE: Gentleman, Mr.

19 DePasquale.

20 REPRESENTATIVE DePASQUALE: I'm good.

21 CHAIRMAN GEORGE: There's just one

22 question that I was hoping -- or not a

23 question. I just was hoping you would have

24 said something about the fact that --

25 With me being the oldest on this

0092

1 panel, I remember the time when utilities used
2 to give you a better rate if you were an
3 all-electric home. And I also remember during
4 the testimony of the previous speakers where
5 they talked about the fact that the material
6 that we're looking to produce in Pennsylvania,
7 that 90 percent of it is coming from out of
8 state. So, there's an opportunity for us to
9 take biofuels and increase it, bring in the
10 jobs and make the farmers happy and bring down
11 the pricing.

12 But I didn't hear anything about the
13 fact that during the -- And I'm not condemning
14 anyone who voted for deregulation.
15 Fortunately, I was smart enough luckily that I
16 didn't. But you know, it was called a choice
17 bill. And by choice you were going to be able
18 to go to just about anybody and get a cheaper
19 rate. I dare say that if you counted the
20 number in this room, that they would be more
21 than the individuals that were able to get
22 choice.

23 And now with the fact that just about
24 all of the power plants, with the exception of
25 Allegheny and Duquesne which is nuclear, you'll

0093

1 find that all of those individuals that used to
2 produce are now owned by outside investors,
3 whether they be FirstEnergy, or whatever.

4 So I think we ought to give some
5 credit to the Governor's plan of cogeneration,
6 such as used coal and things of that nature so
7 that we can't put all of the burden on the
8 utilities so we can give them an opportunity to
9 burn since the federal government has a law
10 saying that all that you produce above and
11 beyond, your local utility has to buy. What a
12 better chance to help these utilities who are
13 locked into these so-called contracts that are
14 about ready to come up, and then we're worried
15 in 2009.

16 Already in Pike Township the price
17 has come up. So I think we ought to help the
18 utilities a little bit by generating this
19 electricity and giving them a chance to buy it
20 at a price where they can then transfer it to
21 home ownership or industrial ownership at a
22 reasonable price.

23 So again, what we have is, we have an
24 item that is captive. And as long as you have
25 something that's captive, there is absolutely

0094

1 no benefit to anyone, only those who are
2 producing and selling the captivity product.
3 It doesn't do a bit of good for the consumer.

4 So I'd like to hear you pushing a
5 little bit more what we can do in the
6 generation of electricity to help better
7 understand and make good on what we have done
8 that wasn't good by the deregulation. I'd like
9 to hear that.

10 DEPUTY SECRETARY BAGLEY: Do you want
11 to address it at all?

12 DEPUTY SECRETARY DESMOND: Yes.
13 Representative, the reason that the customer
14 choice turned out to be not much of a choice is
15 that there was a bargain that was made with the
16 utilities at the time of deregulation and it
17 went like this:

18 The ratepayers would pay what is
19 called a competitive transition charge on every
20 monthly bill, and that would pay for the
21 balance of the cost of power plants that were
22 deemed to be noncompetitive; principally, the
23 nuclear power plants.

24 And so, since the days of the
25 Deregulation Act in 1997, up through the end of

0095

1 the rate caps, Pennsylvania ratepayers will
2 have paid approximately \$15 billion to pay for
3 noncompetitive power plants. And that was
4 loaded into what was called the shopping rate.

5 CHAIRMAN GEORGE: Sir, there was such
6 a thing called stranded cost --

7 DEPUTY SECRETARY DESMOND: That was
8 it.

9 CHAIRMAN GEORGE: -- that they
10 capped.

11 DEPUTY SECRETARY DESMOND: Yes, that
12 was it. That was what the money went for. So
13 you asked for us to address that, and that's
14 history and it is what it is.

15 But, as we go forward, the demand for
16 electric power, if we're going to keep our
17 economy growing, is going to continue to rise.

18 If you wanted to build a new power
19 plant today, it would take probably five years
20 and well over a billion dollars if you started
21 today with a blank sheet of paper. And there
22 are no new power plants, merchant power plants
23 other than some waste coal plants on the
24 drawing boards here in Pennsylvania.

25 So, once this bill is in place it

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1 will give us the tools necessary to provide
2 incentives to have the cheapest generation
3 possible, and that's the power you don't use.
4 If you have incentives to conserve and
5 incentives to clip demand, it will allow us to
6 go forward until the time that we can have some
7 new very clean power plants, you know, in the
8 hopper. Because, otherwise, we're going to run
9 into a wall where, on the one hand you have
10 sky-high rate spikes; and, on the other hand,
11 you have increased demand and you don't have
12 anywhere to go. So this legislation is a
13 critical catalyst to avoid those problems.

14 CHAIRMAN GEORGE: Ben, I'm with you a
15 hundred percent. But again, we tend to forget
16 the supply and demand. When the demand is
17 greater than the supply, there is no one going
18 to be able to consume or effectively hold the
19 price down.

20 DEPUTY SECRETARY DESMOND: That's
21 right.

22 CHAIRMAN GEORGE: I thank you both
23 for your testimony. Keep on doing the job
24 you're doing.

25 DEPUTY SECRETARY DESMOND: Thank you,

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1 Mr. Chairman.

2 DEPUTY SECRETARY BAGLEY: Thank you.

3 DEPUTY SECRETARY DESMOND: Members of
4 the committee, thank you very much.

5 DEPUTY SECRETARY BAGLEY: We
6 appreciate you having us today.

7 CHAIRMAN GEORGE: Is there any other
8 business before this committee?

9 (No response.)

10 CHAIRMAN GEORGE: Then this committee
11 is adjourned.

12 (At or about 11:50 a.m., the hearing
13 concluded.)

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C E R T I F I C A T E

I, Karen J. Meister, Reporter, Notary Public, duly commissioned and qualified in and for the County of York, Commonwealth of Pennsylvania, hereby certify that the foregoing is a true and accurate transcript of my stenotype notes taken by me and subsequently reduced to computer printout under my supervision, and that this copy is a correct record of the same.

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Dated this 7th day of June, 2007.

Karen J. Meister - Reporter
Notary Public
My commission expires 10/19/10