

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES
HOUSE ENVIRONMENTAL RESOURCES
AND ENERGY COMMITTEE

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MAJORITY CAUCUS ROOM
ROOM 140
HARRISBURG, PENNSYLVANIA

WEDNESDAY, OCTOBER 3, 2007
9:04 A.M.

PUBLIC HEARING 1226

BEFORE :

HONORABLE CAMILLE GEORGE, CHAIRMAN
HONORABLE SCOTT E. HUTCHINSON
HONORABLE MIKE CARROLL
HONORABLE MARTIN T. CAUSER
HONORABLE H. SCOTT CONKLIN
HONORABLE EUGENE DEPASQUALE
HONORABLE GARTH D. EVERETT
HONORABLE ROBERT FREEMAN
HONORABLE MICHAEL GERBER
HONORABLE KATE HARPER

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- HONORABLE JOHN HORNAMAN
- HONORABLE RON MILLER.
- HONORABLE JAY R. MOYER
- HONORABLE JEFFREY P. PYLE
- HONORABLE KATHY L. RAPP
- HONORABLE DAVE REED
- HONORABLE CHRIS ROSS
- HONORABLE CAROLE A. RUBLEY
- HONORABLE RICHARD R. STEVENSON
- HONORABLE GREG VITALI
- HONORABLE JAMES WANSACZ
- HONORABLE JOHN T. YUDICHAK

ALSO PRESENT:

- R. THOMAS KUHN, EXECUTIVE DIRECTOR (D)
- JOSEPH DEKLINSKI, EXECUTIVE DIRECTOR (R)

BRENDA S. HAMILTON, RPR
REPORTER - NOTARY PUBLIC

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1 P R O C E E D I N G S

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3 CHAIRMAN GEORGE: The hour of nine
4 having arrived, we'll take up the
5 Environmental Resources and Energy Committee
6 meeting on this Wednesday, October 3rd, 2007
7 in this majority caucus room.

8 On February the 1st Governor Rendell
9 cited the urgent need to cut energy costs and
10 move toward energy independence and stimulate
11 the economy, proposed his energy independence
12 strategy.

13 His plan will put Pennsylvania into
14 the top tier of states taking steps to cut
15 consumer and energy costs and significantly
16 expand the alternate fuel, clean energy, and
17 conservation sectors.

18 In his address to the joint session
19 of the General Assembly on September 14th
20 Governor Rendell stated that renewable energy
21 will dominate the economy over the next two
22 decades the way information technology and
23 life science have dominated the economy of the
24 last two decades.

25 For far too long Pennsylvania has

1 been held back by relying on declining
2 industries, but with renewable energy we have
3 a chance to be a leader in one of the fastest
4 growing segments of this new economy.

5 My pleasure to introduce to you my
6 colleague, the gentleman, Representative
7 Hutchinson, for a few remarks.

8 REPRESENTATIVE HUTCHINSON: Thank
9 you. It's a pleasure to be here. We're here
10 talking about a very important topic this
11 morning as we move through our special session
12 on energy.

13 But I also wanted to point out as
14 we -- I thought it was interesting that right
15 here in the rotunda today is a -- is a very
16 interesting and -- display about the new
17 technologies and the ways to explore and --
18 and develop new oil and gas reserves and oil
19 and gas production in the United States, and
20 in Pennsylvania, and I think that's also a
21 part of our energy.

22 So I look forward to an interesting
23 hearing today and look forward to a lively
24 discussion among the members and those
25 testifying.

1 So thank you for this opportunity.

2 CHAIRMAN GEORGE: I thank the
3 gentleman.

4 I want to thank all of those
5 presenting testimony or responding to a short
6 notice. We have a full agenda this morning.
7 Consequently it is imperative that those
8 presenting their testimony keep their
9 presentation within ten minutes.

10 Your complete testimony should be
11 submitted for the record, if you can avail of
12 that request.

13 Without further ado, our first
14 witness is the gentleman, Russell Redding,
15 Executive Deputy Secretary of the Pennsylvania
16 Department of Agriculture.

17 Welcome this morning.

18 DEPUTY SECRETARY REDDING: Thank you,
19 Mr. Chairman. And on behalf of Secretary
20 Wolff, I want to say we appreciate very much
21 the opportunity to come before the committee
22 to talk about the PennSecurity Fuels
23 Initiative.

24 As you note in your opening comments,
25 it's important to Pennsylvania. It's

1 important to public relationship.

2 Secretary Wolff, by the way, is in
3 southwestern Pennsylvania this morning
4 visiting with ag and renewable energy leaders,
5 talking about the PennSecurity initiative
6 we've done across the state with our fall
7 harvest tour as we call it. This year it's
8 the fall energy harvest tour to coincide with
9 the PennSecurity Fuels Initiative.

10 Response has been strong. Interest
11 is strong. A lot of questions are good
12 questions being raised about where we are as a
13 nation, as a Commonwealth, in our quest for
14 energy independence.

15 My testimony, you have that in
16 writing before you, Mr. Chairman and
17 committee. I won't read that. I'll try to
18 highlight a few points from it for your
19 benefit.

20 And my focus will be on the renewable
21 agriculture energy portion of this testimony.

22 The initiative is an important
23 economic development and Homeland Security
24 issue that touches the lives of every
25 Pennsylvanian in a positive way.

1 As a nation, we must dedicate
2 ourselves to finding alternatives to liquid
3 fuels from nations led by unstable regimes or
4 with political philosophies and ideologies
5 that run counter to Americans.

6 The Governor's PennSecurity
7 Initiative response this fall defined
8 alternatives. The initiative will spawn, we
9 believe, new agricultural markets, help
10 farmers meet on-farm energy needs, and helps
11 the Commonwealth lead the nation in energy
12 independence in a growing demand for energy.

13 The PennSecurity Initiative is a
14 clear statement about what Pennsylvania needs
15 to do to remain competitive and at the same
16 time help our citizens address their energy
17 needs.

18 It supports construction and
19 expansion of new facilities that will produce
20 nearly one billion gallons of homegrown
21 renewable transportation fuels annually. This
22 one billion target will directly benefit
23 Pennsylvania's farmers, create new jobs, and
24 sustainably enhance -- substantially enhance
25 our energy independence.

1 In just ten years, by 2017, that
2 level of production will match Pennsylvania's
3 imports from the Persian Gulf.

4 It also means that we can invest the
5 \$30 billion consumers spend each year on
6 liquid fuels produced beyond our borders right
7 here at home.

8 To achieve this goal, the
9 PennSecurity Fuels Initiative sets production
10 and use requirements for biodiesel and
11 ethanol. The requirements would be phased-in
12 as state production capacity increases.

13 For example, on the biodiesel side,
14 all diesel sold in Pennsylvania by this point
15 will have a minimum renewable content of two
16 percent once in-state production reaches the
17 30 million gallon trigger. It's 75 million
18 gallons of the content would be five percent
19 and increases to 20 percent when production
20 reaches 300 million gallons.

21 For ethanol a statewide use
22 requirement of ten percent would be required
23 when in-state production reaches the 200
24 million gallon mark.

25 How will this be achieved? With the

1 initial construction of corn-based ethanol
2 plants, these plants, we believe, serve as
3 valuable bridge technology to cellulosic
4 ethanol development.

5 We believe that cellulosic ethanol is
6 a promising technology that could help
7 ensure -- provide an answer for our demand for
8 alternative fuels.

9 The resources necessary for
10 cellulosic ethanol are widespread and abundant
11 in Pennsylvania. For example, Penns Woods
12 provides a competitive advantage for this
13 ethanol production. The state contains enough
14 plant material to produce more than 500
15 million gallons of ethanol a year. Plus
16 cellulosic materials are relatively abundant
17 and inexpensive field stock and, important,
18 they're outside the human food chain.

19 A good example of this bridge
20 technology, Mr. Chairman, is the proposed
21 facility in Clearfield County by BioEnergy
22 International. They will have a corn-based
23 facility with ground-breaking technology to
24 produce fuel from organic waste, such as wood
25 and agricultural residues.

1 It is only through continued
2 investment in technology that the cellulosic
3 ethanol will ultimately be profitable and
4 viable. The PennSecurity Fuels Initiative
5 recognizes this and supports these type of
6 investments.

7 Since corn is a primary feedstock and
8 Pennsylvania a livestock dependent state that
9 relies heavily on corn for feed, let me touch
10 on the issue of competition for corn.

11 Without question ethanol production
12 is impacting the price of the corn. However,
13 in response to this demand U.S. farmers in
14 this year, 2007, increase production of corn
15 acreage by 1.45 million acres, and here in
16 Pennsylvania a remarkable 100,000 acres were
17 added in this last planting season. Being
18 harvested as we speak.

19 A point not often discussed in that
20 issue is a byproduct of the ethanol
21 production, is dried distiller's grains.
22 Important to note that that output, that
23 byproduct, retains 80 percent of its nutritive
24 value, which could then be used back into feed
25 and feedstock for livestock.

1 The opportunity to have locally
2 produced feed in this form for livestock
3 producers, we believe, is a real benefit and
4 for agriculture to be on the beneficiary --
5 beneficiary side of the enhanced prices for
6 the crops, would also have a very
7 nutrition-rich byproduct to go back to
8 livestock. That we think is a win/win for
9 Pennsylvania.

10 Mr. Chairman, there's much we could
11 talk about today with regard to agriculture
12 and the role we'll play in today's economy and
13 tomorrow's energy needs, but it begins with
14 the PennSecurity Fuels Initiative.

15 We have to start in that discussion,
16 and PennSecurity Fuels Initiative does that.

17 The Department of Agriculture is
18 committed to protecting and creating more
19 economic opportunities for both producers and
20 consumers, the PennSecurity Fuels Initiative
21 is a win/win for Pennsylvania agriculture.

22 It's a win for a number of reasons.
23 We infuse economic development throughout the
24 state, and particularly the key rural areas.

25 We help sustain land used for

1 agricultural production and we preserve ag
2 land.

3 The best agricultural farm and
4 preservation program is a profitable farm.
5 This PennSecurity Initiative provides an
6 opportunity for folks to be engaged in new
7 markets and new opportunities.

8 In closing, Mr. Chairman, thank you
9 for your leadership and the opportunity today
10 to talk to the committee and brief you on the
11 renewable agricultural components of
12 PennSecurity Initiative.

13 CHAIRMAN GEORGE: I thank the
14 gentleman for his testimony and I will ask
15 that you stand for questions.

16 DEPUTY SECRETARY REDDING:
17 Absolutely.

18 CHAIRMAN GEORGE: And I'll ask the
19 responders, if I may, to keep your questions
20 direct and that we have a number of
21 questioners and we want to be able to give
22 them all time.

23 We will now recognize, the chairman
24 will, Ms. Rubley.

25 REPRESENTATIVE RUBLEY: Thank you,

1 Mr. Chairman.

2 And thank you for your testimony this
3 morning. I do have a number of questions, but
4 I'll limit it to just one.

5 In terms of your definition of
6 ethanol and biodiesel and how inclusive or
7 exclusive is it, I'm just curious about
8 broadening the definition to include renewable
9 materials, like used cooking oil, animal
10 parts, fats in chicken. There are companies
11 that are very, very interested in moving in
12 that direction and I just don't see that as
13 being included in this proposal.

14 DEPUTY SECRETARY REDDING: The --
15 it's a good question. We have focused on corn
16 and soybeans, but it is not exclusive to
17 that.

18 In food, the opportunities are in
19 your -- our agricultural crops, but it's not
20 limited.

21 The -- the points that you made in
22 terms of waste oils, alternative oil seeds
23 that aren't necessarily part of our commodity
24 mix today, are part of that. The biomass that
25 I mentioned, the cellulosic ethanol, are all

1 part of that ethanol production.

2 REPRESENTATIVE RUBLEY: I would hope
3 that could come to the forefront more than it
4 has, and that we should be assured that any
5 grant monies that might be there will be
6 available for all these other alternative
7 processes.

8 Thank you very much.

9 DEPUTY SECRETARY REDDING: Yes. Very
10 good. Thank you.

11 CHAIRMAN GEORGE: The lady
12 concluded?

13 REPRESENTATIVE RUBLEY: I have.

14 CHAIRMAN GEORGE: I thank the lady.

15 Yes. Ms. Harper.

16 REPRESENTATIVE HARPER: Thank you,
17 Mr. Chairman.

18 I just have one question. I hope it
19 doesn't sound too simplistic to you.

20 You had described corn ethanol as a
21 valuable bridge technology or the means of
22 making it a valuable bridge technology.

23 I guess I'm wondering if we're going
24 to be spending a lot of money on this, a lot
25 of taxpayer money on this, would it not be

1 smarter to either jump straight to the
2 cellulosic ethanol or to wait until that's
3 ready to run? Why don't we do that?

4 DEPUTY SECRETARY REDDING: Well, if
5 you wait for all the latest technology, you're
6 years away from making an investment in the --
7 in any of these technologies.

8 I mean in the ethanol technology
9 is -- is changing every day in terms of its
10 sufficiencies.

11 For Pennsylvania, I mean the key
12 point, I think, is worth noting. Pennsylvania
13 farmers today are paying the 3.50, \$4 for corn
14 and we don't have one ethanol plant in
15 Pennsylvania.

16 If you had a plant here, you provide
17 the economic opportunity for Pennsylvania
18 farmers to both benefit as home grown food --
19 feedstock and give them the benefit of the
20 byproduct that would go back into the
21 livestock industry and then look at that
22 technology as a way to -- to jump off to the
23 cellulosic ethanol.

24 There are fundamentals that are the
25 same. The technology just isn't there today

1 for the cellulosic ethanol.

2 REPRESENTATIVE HARPER: I'm a little
3 bit worried that we would be investing -- sort
4 of like those guys that bought the latest iPod
5 and a couple months later it's on sale for a
6 lot less.

7 Do you have any comment on that? I'm
8 a little worried that we'd be investing a lot
9 of money in corn ethanol and being quickly
10 eclipsed by something else and we would have
11 wasted all that money.

12 Do you have a comment on that?

13 DEPUTY SECRETARY REDDING: Yeah, I
14 do. I don't think it would be a waste. I
15 think it's an investment in what we want the
16 economy to look like here in Pennsylvania and
17 a strong statement about our commitment as a
18 Commonwealth to finding alternatives to, you
19 know, our -- our growing demand for oil.

20 I think it's a statement about what
21 we want the Commonwealth to look like.

22 I think in terms of investments,
23 you've got the latest technology that even in
24 the ethanol industry has evolved tremendously
25 in the last couple of years. We've got the

1 benefit of that today, and that plant then
2 becomes your reservoir of -- of, you know,
3 expertise that you're going to -- to need to
4 operate any of these renewable plants.

5 REPRESENTATIVE HARPER: Thank you
6 very much.

7 Thank you, Mr. Chairman.

8 CHAIRMAN GEORGE: Thank the lady.

9 Next to present or next questioner
10 will be Representative Rapp.

11 REPRESENTATIVE RAPP: Thank you,
12 Mr. Chairman.

13 Thank you, sir, for being here to
14 testify today.

15 DEPUTY SECRETARY REDDING: Thank you.

16 REPRESENTATIVE RAPP: We have had
17 some hearings, our policy committee, regarding
18 energy, and there does seem to be concern out
19 there that -- and I'm pleased to hear you say
20 that a thousand (sic) more acres was devoted
21 to corn this year.

22 But there is some concern that to
23 really make this viable that there really
24 isn't enough corn and we will have to
25 export -- or import corn to actually make this

1 workable and produce enough ethanol from
2 corn.

3 Do you see that as an issue that we
4 can actually produce enough corn or import
5 enough corn to actually make this workable?

6 DEPUTY SECRETARY REDDING: Well, I
7 think if you look at the, you know, the
8 production, acreage production increase we've
9 experienced this past year, 1.45 million acres
10 in record crops. It will probably be the
11 largest corn yield in America's history. So
12 there's more corn out there.

13 Yes, there are more plants and
14 there's more demand for it. But at this point
15 there's no shortage of corn.

16 Also important to note that
17 Pennsylvania imports corn every day for
18 livestock production. It comes from the
19 Midwest. That's the, you know, the
20 breadbasket of corn and soybean production in
21 this country.

22 We import it every day. So you're
23 bringing it in as a destination point. Our
24 point would be, let's bring it in here and
25 turn it into ethanol.

1 If you read the Wall Street Journal
2 piece here in the last couple of days, one of
3 the points they've made is the bottleneck in
4 the distribution of ethanol is really part of
5 the challenge for the Midwest right now.

6 There simply aren't enough rail cars
7 and pipeline capacity to move it in and
8 suggesting that the real opportunity is on the
9 coast of this country, East and West Coast.

10 We're well suited to that. We know
11 well the infrastructure in the state and --
12 and our ability to -- to move product north
13 and south.

14 REPRESENTATIVE RAPP: Could you
15 answer a question for me? How many acres of
16 corn to make a gallon of ethanol?

17 DEPUTY SECRETARY REDDING: Michael?

18 Sorry. Trying to clarify. I think
19 it's -- the energy -- I'm sorry. I don't know
20 the answer. I can speculate on the energy
21 efficiency, but I don't know the bushels.

22 REPRESENTATIVE RAPP: Okay. Could we
23 receive that information?

24 DEPUTY SECRETARY REDDING:

25 Absolutely, yeah.

1 REPRESENTATIVE RAPP: I have one more
2 question. And I appreciate the research
3 that's being done on cellulosic and wood
4 products, but I also sit on the task force for
5 forestry at Penn State.

6 And I -- I see growing opposition to
7 timbering of any kind. And I've addressed
8 this to the Secretary of Agriculture and I
9 understand the whole concept of using trees
10 that would not be used for basically anything
11 else, but there is growing opposition.

12 Considering the fact that I have
13 Allegheny National Forest in my district,
14 there is growing opposition to timbering or
15 harvesting of any tree. So I'm concerned
16 about that down the road.

17 And would you comment on that?

18 DEPUTY SECRETARY REDDING: Well, the
19 -- it's a point that clearly we'll have to
20 address. We do see, not unlike in other
21 aspects of agriculture, some local opposition
22 at times to, you know, the production
23 practices or -- or new technologies.

24 But, again, we believe that -- you
25 know, it's not everywhere and we think there's

1 enough private landownership that would
2 certainly look at this as a economic benefit.

3 Even where the harvesting is
4 occurring today, you have a lot of waste
5 product that can be used as a biomass source
6 in one of the -- of these new plants.

7 REPRESENTATIVE RAPP: Thank you.
8 Just a comment though. You have to do the
9 timbering to have the waste product.

10 DEPUTY SECRETARY REDDING: Right.

11 REPRESENTATIVE RAPP: Thank you.

12 CHAIRMAN GEORGE: The gentleman,
13 Representative Ross.

14 REPRESENTATIVE ROSS: Thank you,
15 Mr. Chairman. I'll be brief.

16 Recognizing that we have limited
17 resources for incentive programs and
18 recognizing that business people, and farmers
19 for that matter, once they go down one road,
20 it takes a certain amount of inertia to get
21 them to change, how are you going to prevent
22 the problem of stimulating a corn-based
23 ethanol economy from delaying the cellulosic
24 ethanol?

25 Because you're going to then, after

1 you've created an infrastructure; created an
2 investment by farmers, by industries, they're
3 then going to have to make a switch.

4 I understand for the -- the refiners
5 that that may be in addition to their plant.
6 But if they -- if you've established a
7 situation where they're profitable on
8 corn-based products, we've got farmers who are
9 going to buy equipment to produce corn and
10 have other things that are associated with
11 that, isn't there going to be inertia to you
12 creating or we're creating by going forward on
13 corn-based ethanol that's going to have to be
14 reversed, so that we can switch over to
15 cellulosic and how do we stop that from
16 delaying us moving forward on cellulosic
17 ethanol?

18 DEPUTY SECRETARY REDDING: A good
19 question. I think a couple of points,
20 representative.

21 The nice thing about corn-based
22 ethanol, it doesn't require any new equipment
23 in a sense. This is equipment that's being
24 used every day and every -- every year, you
25 know, to -- to produce that corn. At the farm

1 level I'm talking about.

2 And today, you know, our farmers are
3 benefiting from what's happening in the
4 Midwest in terms of ethanol production. So
5 that stimulus is already there.

6 I don't see it as a limiting factor
7 from making that transition. I don't think
8 the economics that drive it, you know, to the
9 cellulosic ethanol -- I mean I don't see it
10 being a limiting factor in any way.

11 REPRESENTATIVE ROSS: I'm not so
12 confident. But, thank you, Mr. Chairman.

13 CHAIRMAN GEORGE: Thank the
14 gentleman.

15 The gentleman from Armstrong,
16 Mr. Pyle.

17 REPRESENTATIVE PYLE: Thank you,
18 Mr. Chairman.

19 And thank you, Mr. Secretary. I have
20 a question or two here.

21 You mentioned the additional U.S.
22 acreage planted in corn is 1.45 million acres.

23 DEPUTY SECRETARY REDDING: Yes.

24 REPRESENTATIVE PYLE: You also
25 mentioned 100,000 of those are in

1 Pennsylvania.

2 DEPUTY SECRETARY REDDING: Correct.

3 REPRESENTATIVE PYLE: I noted in the
4 program proposed there are production levels
5 that must be achieved to make this achievement
6 level feasible.

7 I'm curious. How many acres do we
8 need planted with corn in Pennsylvania to make
9 an ethanol plant feasible and to keep
10 Pennsylvania dollars in Pennsylvania?

11 And the reason I ask is I have a lot
12 of dairy and beef farmers that are complaining
13 about the price of a bushel of corn.

14 DEPUTY SECRETARY REDDING: Well, the
15 -- you're going to be importing corn out of
16 the Midwest. I mean to support both our
17 livestock industry and -- and ethanol, you
18 know, facilities of some type.

19 We think there's opportunity in
20 Pennsylvania well beyond the hundred thousand
21 acres that were planted this year.

22 But, you know, you're going to
23 need -- right now we've got about seven
24 million acres in Pennsylvania that are
25 actively tilled for production agriculture out

1 of a state that, you know, is in the
2 neighborhood of 14, 15 million acres in total
3 land mass. So there's opportunity there for
4 additional production.

5 But the production triggers that are
6 identified in this PennSecurity Initiative are
7 for Pennsylvania produced, meaning it's
8 produced here through the ethanol plant, not
9 necessarily grown here for that plant.

10 I think it's going to take a
11 combination of homegrown and -- and an
12 imported grain.

13 REPRESENTATIVE PYLE: You're --
14 you're saying that we're going to import a lot
15 of this corn from the Midwest.

16 Do we have the infrastructure in
17 Pennsylvania to handle the trains? We're
18 going to be running out of -- I'm assuming --
19 Kansas, Nebraska.

20 DEPUTY SECRETARY REDDING: Yeah.
21 You'll bring -- you'll draw the Midwest. You
22 do have rail capacity/truck capacity here in
23 Pennsylvania. It's an important component of
24 siting any of these facilities, rail site
25 construction and access.

1 REPRESENTATIVE PYLE: Do you foresee
2 a day at all where we can't become -- here's a
3 phrase you probably heard -- corn
4 independent?

5 DEPUTY SECRETARY REDDING: Yes.

6 REPRESENTATIVE PYLE: I guess we have
7 to import this stuff from those states. I'm
8 aware that those Midwestern states, Kansas,
9 Iowa, Nebraska heavily, heavily subsidize
10 their ethanol production and so I'm trying to
11 get this away from a government-run
12 organization --

13 DEPUTY SECRETARY REDDING: Yeah.

14 REPRESENTATIVE PYLE: -- to a
15 privately operated capitalist operation.

16 DEPUTY SECRETARY REDDING: Right.
17 You're not going to see Pennsylvania be, you
18 know -- you know, independent of the Midwest
19 for their corn. I mean not with the livestock
20 production as our anchor here in
21 Pennsylvania.

22 So you're going to rely on U.S.
23 produced corn. Some of that will come out of
24 the Midwest.

25 REPRESENTATIVE PYLE: I know

1 Representative Ross also asked this question,
2 but I got to follow up.

3 How far are we from cellulosic
4 production?

5 DEPUTY SECRETARY REDDING: It is in
6 the four- to five-year range, we believe, to
7 that -- for that to be, you know, commercially
8 available at our two plants. One in the
9 southern part of this county that has a
10 cellulosic ethanol component to it. And, of
11 course, the one proposed in Clear --
12 Clearfield County has some.

13 But science says you're probably four
14 to five years away from commercially
15 available.

16 REPRESENTATIVE PYLE: Recently the
17 Pittsburgh press -- I'm sorry, Mr. Chairman.
18 I'm almost done.

19 Recently in the Pittsburgh press
20 there's been articles stating that ethanol is
21 not as energy efficient as our current fuel
22 systems for our vehicles, a/k/a, one doesn't
23 get as much mileage. One has to see the price
24 of a gallon of ethanol-subsidized gas drop
25 down by a factor of at least 25 to 30 percent

1 before it's economically feasible.

2 Would you like to respond to any of
3 that?

4 DEPUTY SECRETARY REDDING: I'm
5 sorry. I'm not familiar with that story.

6 REPRESENTATIVE PYLE: Last Sunday's
7 Pittsburgh Post-Gazette.

8 DEPUTY SECRETARY REDDING: Okay.

9 REPRESENTATIVE PYLE: Thank you.

10 CHAIRMAN GEORGE: Thank you. No
11 other questioners. We thank the gentleman for
12 standing before this committee.

13 DEPUTY SECRETARY REDDING: Okay. One
14 -- one -- there was a follow-up question on
15 the number of bushels of corn. Representative
16 Rapp had asked the question.

17 It's one bushel of corn to a gallon
18 of ethanol. Okay? Thank you.

19 CHAIRMAN GEORGE: I may caution the
20 members that we are running short of time. So
21 please keep our questions very prompt and very
22 straight and don't let there be anything
23 confusing.

24 Our next presenter is the gentleman,
25 Dennis Yablonsky, Secretary of the

1 Pennsylvania Department of Community and
2 Economic Affairs.

3 Welcome, Mr. Secretary.

4 SECRETARY YABLONSKY: Thank you,
5 Mr. Chairman. This one? Okay. Good
6 morning. Mr. Chairman, may I begin?

7 CHAIRMAN GEORGE: You may begin.

8 SECRETARY YABLONSKY: Good. I do not
9 have written testimony. So if that's
10 acceptable, I will just summarize my -- my
11 views on all this and then take your
12 questions.

13 CHAIRMAN GEORGE: Proceed.

14 SECRETARY YABLONSKY: Very good. As
15 I think everybody knows, the Governor's
16 proposed energy independence strategy has
17 three key elements to it.

18 The first is programs and rules that
19 would save consumers \$10 billion in energy
20 costs over the next ten years.

21 The second element is -- is a series
22 of programs that would reduce Pennsylvania's
23 reliance on foreign fuels, which I believe you
24 just discussed with the Deputy Secretary.

25 And then the third one is a major

1 initiative to grow Pennsylvania's energy
2 economy.

3 I will focus on the third piece
4 today, knowing that you have testimony coming
5 from other people on the other two.

6 This particular sector of the world
7 economy is now widely known as one of the
8 fastest growing investment sectors, both in
9 the U.S. and in the global economies. As a
10 matter of fact, last year \$71 billion was
11 invested in this worldwide, and that's 43
12 percent more than the year before.

13 It's projected that that double digit
14 rate of increase will continue. So it's a
15 very, very hot sector for a number of
16 different reasons.

17 And Pennsylvania has worked hard,
18 particularly since 2003, in trying to grow
19 jobs in this sector already, and we've been
20 relatively successful in both some homegrown
21 projects as well as attracting some major
22 European firms, such as the Mesa/Conergy and
23 Iberdrola, for example, and we've been able to
24 achieve about 3,000 new jobs in this sector
25 with the programs that we have already.

1 We also have a major world class
2 asset in our colleges and universities. Not
3 only are they producing students that are
4 trained to move into this industry, but the
5 research that they're doing is generating new
6 companies and new ideas.

7 All of this put together, this is a
8 sector of our economy that we believe we can
9 and should take a leadership position in.

10 And our proposal will generate 13,000
11 new, good, family-sustaining jobs and about
12 three-and-a-half billion dollars' worth of
13 direct investment into the projects associated
14 with that.

15 How will that happen? It will happen
16 through the implementation of the Governor's
17 proposed energy independence fund, which is a
18 \$850 million, a significant, a comprehensive
19 fund that has a range of programs in it.

20 The programs and the money is
21 basically broken down into three key strategic
22 areas.

23 The first is \$106 million that would
24 go for early stage translational research,
25 incubation, and capital to try to stimulate

1 the formation and growth of exciting new
2 companies coming out of our universities.

3 One practical example. Solar
4 technology, which is relatively expensive
5 today, mainly because it has to be produced in
6 clean rooms, just like semiconductors are
7 produced, there's a company that's recently
8 been started out of Carnegie Mellon University
9 called Plextronics that has figured out a
10 patented way of imprinting solar cells on
11 plastics, drastically reducing the cost and
12 the time of the production of solar technology
13 and hopefully making it a lot more accessible
14 to a wider range of people.

15 That's one example. This company has
16 already created 50 jobs in two years.
17 Projects to create another 50 jobs in the next
18 year. This is an example of the kind of
19 projects that we would -- we would be
20 supporting with the \$106 million piece of the
21 fund.

22 The second major piece of the fund is
23 \$500 million for project financing for -- not
24 for early stage projects but for major
25 projects, ethanol, biodiesel, solar, wind,

1 clean coal, energy conservation, and lead
2 certified, otherwise known as green
3 constructed facilities.

4 This money would have -- there was a
5 grant component to this \$500 million. The
6 bulk of it is low interest loans which would
7 revolve and allow us to keep funding projects
8 over a period of years.

9 And it would provide money for site
10 preparation. A lot of the sites where these
11 projects go are in areas where there
12 previously was industrial activity. It needs
13 infrastructure, environmental clean-up, et
14 cetera.

15 It would provide working capital to
16 allow these projects to get started. It would
17 provide for loans for machinery and equipment
18 upgrades and for the construction and
19 renovation of the facilities.

20 Finally, there's \$244 million for
21 rebates and incentives for home appliances and
22 solar systems. 44 million of that is the
23 so-called cool appliance swap program which
24 provides the hundred dollar rebates for
25 homeowners and businesses that want to upgrade

1 their air conditioning units and their
2 refrigerators.

3 The other \$200 million is a rebate
4 and production grant program related to solar
5 that would provide rebates of up to 50 percent
6 for the installation of solar systems by small
7 businesses as well as homeowners.

8 And then, finally, the \$850 million
9 question. Where does the money come from?

10 Under the Governor's proposal it
11 would come from a small -- what's referred to
12 as a systems benefit charge of .0005 cent per
13 kilowatt hour.

14 In English, that translates into 45
15 cents a month for the average homeowner, about
16 three dollars a month for the average
17 commercial business, and about \$74 a month for
18 the average industrial customer. And we've
19 proposed a cap of \$10,000 a year for the very
20 largest of industrial users.

21 We would be the 17th state to
22 implement such a charge. Our charge at the
23 level proposed would be the third lowest of
24 the 17 and it would allow us to generate
25 enough annual revenue to support an \$850

1 million revenue bond.

2 My final comment is that not only do
3 we think these are good ideas; but if we don't
4 do something, we will fall behind.

5 Many other states are proposing
6 significant initiatives. California has a \$3
7 billion initiative; Iowa 1.3 billion, Wyoming
8 400 million, and Rhode Island 300 million,
9 just to name a few. So other people are not
10 standing still.

11 So that's the end of my comments. I
12 will be happy to take any comments that the
13 chairs or the members of the committee would
14 like to -- to address to me.

15 CHAIRMAN GEORGE: I thank the
16 gentleman for his testimony. We will now
17 recognize -- you may take the podium in that
18 I'm hear -- I'm not hard of hearing, but
19 there's BlackBerries winging around. So why
20 don't you take the podium, Mr. Reed.

21 REPRESENTATIVE REED: Thank you.
22 Fair enough. I don't think it's turned on.
23 Can I just stand and talk loudly?

24 CHAIRMAN GEORGE: Yeah, you can.

25 SECRETARY YABLONSKY: I think I can

1 hear you, representative.

2 REPRESENTATIVE REED: I seem to do
3 all right.

4 Thank you, Mr. Secretary, for the
5 presentation. I have two quick questions.

6 The first question, you referred to
7 the systems benefit charge being used to pay
8 down the debt from the bond issue.

9 Can you tell me, in the Governor's
10 proposal, does the systems benefit charge have
11 a sunset date when the bonds are repaid or is
12 that proposed as a permanent systems benefit
13 charge?

14 SECRETARY YABLONSKY: The proposal is
15 a permanent systems benefit charge, but the
16 bonds would be paid off in twenty years.

17 REPRESENTATIVE REED: Does the
18 Administration have any position at this point
19 what we're going to do with the fact that
20 we're creating a permanent tax for a temporary
21 program?

22 SECRETARY YABLONSKY: We have not
23 taken a position on that issue.

24 REPRESENTATIVE REED: Okay. My
25 second question would be, you say the

1 Governor's initial proposal is the systems
2 benefit charge?

3 SECRETARY YABLONSKY: Right.

4 REPRESENTATIVE REED: And I'm sure
5 you paid attention over the last six or seven
6 months and it's not really caught fire in the
7 legislature, especially in the Senate at this
8 point.

9 Do you have a back-up plan or other
10 proposals the Governor is considering to fund
11 all or part of the program that you referred
12 to?

13 SECRETARY YABLONSKY: We're -- we're
14 interested in moving these energy initiatives
15 forward. And as the Governor always is open
16 to alternative proposals, if there are other
17 ideas that make sense and that can generate
18 enough interest in the House and the Senate,
19 with the Governor's support, we're willing to
20 listen to those.

21 I haven't seen any details yet at the
22 level that we could respond to any
23 alternatives.

24 REPRESENTATIVE REED: Thank you very
25 much.

1 CHAIRMAN GEORGE: Anybody else?

2 My co-chairman, Mr. Hutchinson.

3 REPRESENTATIVE HUTCHINSON: Thank
4 you. I guess I want to explore a little bit
5 more about the borrowing and the financing of
6 this initiative.

7 And first, I'll ask, you know,
8 there's been a lot of talk about ethanol
9 plants, et cetera, that -- that have been
10 announced and, you know, lots of hoopla
11 around.

12 I'm wondering, have commitments
13 already been made for those facilities? Has
14 the state made commitments of -- of -- of
15 economic development help already to the
16 various places that these announcements have
17 been made?

18 SECRETARY YABLONSKY: Yes, we have.

19 REPRESENTATIVE HUTCHINSON: And the
20 source of those funds?

21 SECRETARY YABLONSKY: Var -- various
22 programs. I would note it's -- it's site
23 specific. So it depends on which -- which
24 project you're talking about. But we have
25 used existing programs to the extent we can to

1 support these things.

2 REPRESENTATIVE HUTCHINSON: I guess
3 that's where I really want to go. Because I
4 think we do have some current programs that
5 are available and we -- we, as a state, I
6 believe, have to set priorities.

7 And if we think that the energy
8 economy is the way we want to go, then maybe
9 we should be using our current programs to
10 fund those kind of things.

11 And I'm also aware that we have in
12 this Administration, you know, starting early
13 on, there's a multi-billion dollar economic
14 development package. It's hard for me to
15 believe that would all be gone. Okay. And
16 you can tell me -- tell us a little bit about
17 that.

18 But -- but if we set priorities and
19 we think that this is -- is the sector of the
20 economy that we want to work in, then the
21 current programs should be -- put an emphasis
22 on these kinds of projects.

23 You want to comment on that?

24 SECRETARY YABLONSKY: Certainly.
25 It's a fair question.

1 First of all, of the \$2.8 billion in
2 the economic stimulus program that was passed
3 in 2004, 2.4 billion of that has been
4 committed to date. So the vast majority of it
5 has been committed.

6 Second of all, while we have been
7 able to successfully secure some projects with
8 our existing sources of funds, I will tell you
9 that for every project that we're able to
10 support, eight or nine we're unable to
11 support.

12 The volume of activity out there is
13 very, very high. The existing programs do not
14 have the level of financing that we need to go
15 after these things.

16 Otherwise, we wouldn't have proposed
17 this additional \$850 million set of programs.

18 REPRESENTATIVE HUTCHINSON: Finally,
19 I just wanted to go back to what I said
20 earlier about wondering about commitments made
21 to -- to the -- has there been seven ethanol
22 plants talked about?

23 SECRETARY YABLONSKY: Well, there
24 have been more than that talked about. There
25 certainly have been about two or three that I

1 can think of where there's been some govern --
2 state government involvement in.

3 REPRESENTATIVE HUTCHINSON: Would --
4 would you expect, if this were to pass as is,
5 would you go back to them and give them more
6 money?

7 SECRETARY YABLONSKY: No. Those
8 deals are -- are done. We've been able to put
9 the level of gap financing in to make the
10 projects work.

11 This money would be used for the
12 whole range of additional projects that we'd
13 like to see funded.

14 REPRESENTATIVE HUTCHINSON: Thank
15 you.

16 SECRETARY YABLONSKY: Uh-huh.

17 CHAIRMAN GEORGE: I thank the
18 gentleman.

19 Are there any other questioners?
20 Hearing none, I thank the Secretary for his
21 time and his presentation. Thank you.

22 SECRETARY YABLONSKY: You're very
23 welcome. I hope it was helpful.

24 CHAIRMAN GEORGE: I'm now pleased to
25 introduce Kathleen McGinty, Secretary of the

1 Pennsylvania Department of Environmental
2 Resources.

3 Welcome.

4 SECRETARY MCGINTY: Thank you,
5 Mr. Chairman, members of the committee. It's
6 a pleasure to visit with you on this set of
7 topics.

8 My colleagues have covered several of
9 the major pieces of the Governor's energy
10 independence strategy.

11 I wanted to focus specifically on the
12 issue of electricity, electricity prices, and
13 the strategies that we might pursue in order
14 to ensure a smooth glide path into the next
15 chapter of electricity deregulation.

16 Let me start with one big picture
17 thought. This is a time of tremendous both
18 challenge and opportunity with respect to
19 things energy for Pennsylvania and for the
20 world as a whole.

21 On the challenges side, electricity
22 and fuels, situation's different, the story is
23 the same, and it's all about cost and price
24 and price escalation.

25 So with respect to electricity, the

1 situation is driven by the natural increase in
2 cost we have seen in fossil fuels, in
3 feedstocks, and the whole host of energy
4 materials, and that obviously then translates
5 into higher energy prices.

6 That also is relevant given the
7 specific design of Pennsylvania's electricity
8 deregulation laws and policies that were put
9 in place, specifically the rate caps that were
10 established about a decade ago to ensure a
11 smooth transition into electricity
12 deregulation.

13 The challenge posed now is that that
14 clock has ticked and what has unfolded in
15 other states that had policies and laws
16 similar to ours are very substantial and
17 spiking increases in those electricity rates.

18 So you've heard some of these
19 statistics before. The state of Maryland, for
20 example, a 72 percent increase in the price of
21 electricity. Literally overnight.

22 In parts of Pennsylvania the rate
23 caps have expired and you've heard me speak
24 about Pike County, for example. There the
25 school district is reporting a 130 percent

1 increase in the price of electricity
2 overnight.

3 That obviously is a destabilizing
4 occurrence when that magnitude of price
5 increase happens so dramatically.

6 With respect to that fact of life
7 that is coming to bear across all of
8 Pennsylvania, the Governor's proposal would do
9 three things.

10 One, in terms of directive to the
11 utilities, it would attempt to achieve two
12 objectives. One is to say take advantage of
13 the fact that we are a deregulated state,
14 which means you can shop around and,
15 therefore, it is your obligation to find the
16 lowest cost energy and provide that to rate
17 payers in Pennsylvania.

18 The second directive in the
19 Governor's proposal to the utilities would be
20 to put cost effective conservation first.

21 So where it is cheaper to invest in
22 the productivity and efficiency of families
23 and businesses in Pennsylvania, let's do that
24 before we invest in things like extended
25 transmission lines that decrease property

1 values in Pennsylvania and drag dirty power
2 from other states across our state.

3 Those are the two objectives with
4 respect to the utility piece of the Governor's
5 proposal.

6 The second major piece is to enable
7 consumers to get into the game. And two
8 pieces there.

9 One, to have the power of information
10 to know what is the price of electricity at
11 any given time and how much electricity is
12 being consumed.

13 And, second, to couple that with an
14 expanded set of rate options, time of use or
15 real-time rate options so that if you change
16 your consuming behavior and consume
17 electricity when it's offpeak, cheaper, you
18 get a reduction in your bill.

19 The third and final piece of the
20 Governor's proposal is aimed at keeping a good
21 thing going. With this legislature the
22 Governor -- all of you have attracted what is
23 now a renaissance in manufacturing activity in
24 Pennsylvania.

25 In 2005 we out-competed every state

1 in the United States of America in new
2 manufacturing starts, and last year we
3 out-competed every state, or nearly every
4 state, in beating out competition for foreign
5 investment dollars to expand manufacturing
6 activity.

7 We are doing very well. But if we
8 have double or triple digit increases in the
9 price of electricity overnight, that will be
10 the train wreck for that manufacturing
11 renaissance we otherwise have brought to bear
12 and, again, we need only look only across the
13 border in Maryland, just after the 72 percent
14 increase in the price of electricity, Alcoa,
15 one of their biggest employers, shut their
16 doors, moved away, a multi-million dollar
17 plant mothballed and thousands of jobs lost.

18 Now, in terms of the response to that
19 possibility, the Governor has chosen a course
20 which is about furthering competition and
21 furthering an open and vibrant market for
22 electricity service in Pennsylvania.

23 He has not done, frankly, what other
24 states have done. The state of Illinois, for
25 example, major penalties imposed on power

1 producers and the state stepping in to say
2 we're taking over the job of power
3 purchasing.

4 We think electricity competition can
5 work, that it has delivered benefits to
6 Pennsylvania, but that we will have in no
7 uncertain terms a train wreck unless we put
8 these course corrections in place and put them
9 in place right now.

10 My last point on that is just to
11 share with you that we are encouraged by some
12 of the new ideas that we do hear from the
13 power companies in their outreach to the
14 Administration in conversation about the
15 challenges we face and some strategies for
16 managing those challenges in a way that will
17 be productive for our economy.

18 Mr. Chairman, members of the
19 committee, thank you for your attention. I'd
20 be happy for your questions.

21 CHAIRMAN GEORGE: We thank the lady
22 for her presentation.

23 I beg your pardon. I think the
24 gentleman from York asked -- did you not ask
25 for recognition?

1 REPRESENTATIVE MILLER: Yes.

2 CHAIRMAN GEORGE: Okay. You're so
3 recognized.

4 REPRESENTATIVE MILLER: Thank you,
5 Mr. Chairman.

6 Thank you, Madam Secretary.

7 In your testimony just now you
8 referenced the dirty power transmitted across
9 our state. If it's transmitted across our
10 state, then it's not really for Pennsylvania
11 residents.

12 Do we have an electric deficit in
13 Pennsylvania at this time?

14 SECRETARY MCGINTY: No, we don't. In
15 fact, we are a net exporter of electricity to
16 the tune of about 30, 35 percent of all the
17 electricity generated in Pennsylvania.

18 REPRESENTATIVE MILLER: So a lot of
19 what we are doing will -- and I understand
20 it. Electric is a fundable product --

21 SECRETARY MCGINTY: Yes.

22 REPRESENTATIVE MILLER: And we can't
23 dedicate that, you know, I can buy my kilowatt
24 hours of electricity.

25 SECRETARY MCGINTY: Right.

1 REPRESENTATIVE MILLER: And I know
2 it's delivered directly to my house.

3 But if we're an exporter of 35
4 percent, what we're really doing with a lot of
5 our conservation is helping people in the
6 other states that this power is being
7 transmitted across Pennsylvania for.

8 I'm not saying we shouldn't conserve
9 electricity wherever we can, but we really
10 need to recognize the dynamics of this.

11 SECRETARY MCGINTY: Well, I want --
12 if I might share a statistic with you. What
13 the Governor's proposal is aimed at is
14 enabling us to avoid the kind of spiking rate
15 increases or electricity price increases that
16 we have seen and increasingly will see.

17 To give you an example of that,
18 August 6th, I think, was the warmest day of
19 the year this summer. On August 6th, where
20 electricity normally trades at \$60 a megawatt
21 hour, that electricity was priced at \$800 a
22 megawatt hour in the PECO service territory
23 and a thousand dollars a megawatt hour in the
24 PPL service territory.

25 So the point here is to give

1 businesses, residents, families the tools to
2 be able to shave at that peak demand and save,
3 at that time of storing electricity, the cost
4 increase.

5 REPRESENTATIVE MILLER: Okay. I
6 appreciate that answer.

7 Thank you, Mr. Chairman.

8 CHAIRMAN GEORGE: All right. The
9 gentleman, Mr. Stevenson.

10 REPRESENTATIVE STEVENSON: Thank you,
11 Mr. Chairman.

12 And thank you, Madam Secretary, for
13 being here today.

14 I think all of us support the goals
15 of alternative energy and moving in that
16 direction in terms of our electric production
17 in Pennsylvania.

18 Very little was said, I think, in the
19 Governor's plan about the real workhorses of
20 electric production in Pennsylvania, nuclear
21 and coal, which produce, I think, the lion's
22 share of all energy consumed.

23 Can you address those two methods of
24 production and what the Governor sees and
25 what the --

1 SECRETARY MCGINTY: Yes.

2 REPRESENTATIVE STEVENSON: --

3 department sees in that regard?

4 SECRETARY MCGINTY: Yes. Thank you
5 very much. And Secretary Yablonsky did refer
6 to one of the major objectives of the energy
7 independence fund, among other things, is to
8 promote and incentivize more clean coal
9 development and production in Pennsylvania.

10 The policy side is important, too.

11 And I'll give you one example of that.

12 As some of you know, we have been
13 working very hard to bring three brand new
14 waste coal power plants on line in
15 Pennsylvania that together would represent
16 something on the order of 1300 new megawatts
17 of electric generate -- generation
18 capability.

19 The project was -- given the current
20 state of Pennsylvania law, one of those
21 projects could not be financed on the basis of
22 a long-term power purchase agreement with one
23 of our utilities as they had proposed to do.

24 What that meant is that they had to
25 build the plant on a purely merchant basis.

1 Build it and just sell it into the grid. Not
2 having a dedicated customer.

3 And what that meant is that Wall
4 Street required a 50 percent increase in the
5 amount of equity that had to be put up
6 up-front on that deal before that project
7 could be financed.

8 The policies the Governor is
9 proposing to enable new power generation,
10 including base -- base load coal generation to
11 be built in Pennsylvania and as cost
12 effectively as possible.

13 REPRESENTATIVE STEVENSON: Thank you,
14 Madam Secretary.

15 With regard to the other part of my
16 question, nuclear --

17 SECRETARY MCGINTY: Nuclear.

18 REPRESENTATIVE STEVENSON: Do you
19 have any thoughts on that method of production
20 and where we're going in Pennsylvania?

21 SECRETARY MCGINTY: Well, I'd say,
22 first of all, nuclear power generation is an
23 absolutely essentially piece of the
24 electricity mix for Pennsylvania.

25 I think it's on the order of at least

1 23, 25 percent of all the electricity we
2 produce is from our nuclear fleet.

3 There are some interesting
4 developments there. We have seen life
5 extensions being proposed and approved at the
6 federal level for our nuclear fleet, and I
7 think we can see that as a signal that the
8 companies that own and operate those
9 generation facilities have been investing in
10 them, keeping them not only up to par but
11 actually expanding their generation
12 capability.

13 At the same time at the federal level
14 we have a new set of very substantial
15 investment incentives for nuclear power and
16 we've seen as a consequence of that at least
17 one of our utilities make a filing to at least
18 express some intention potentially to build a
19 new nuclear unit.

20 So, that's news, in 30 years of not
21 seeing that type of investment activity.

22 I do think that the incentives at the
23 federal level are appreciable and may, in
24 fact, lead to expanded nuclear generation
25 capability.

1 REPRESENTATIVE STEVENSON: Thank
2 you.

3 Thank you, Mr. Chairman.

4 CHAIRMAN GEORGE: The gentleman,
5 Mr. Causer.

6 REPRESENTATIVE CAUSER: Thank you,
7 Mr. Chairman.

8 Thank you, Madam Secretary --

9 SECRETARY MCGINTY: Thank you.

10 REPRESENTATIVE CAUSER: -- for being
11 here.

12 SECRETARY MCGINTY: Thanks.

13 REPRESENTATIVE CAUSER: And I
14 appreciate your -- your willingness to come
15 here and talk with us about the Governor's
16 strategy.

17 And I support many of the components
18 in the Governor's strategy, and I think that
19 we do need to be a leader in alternative
20 energies and we currently do fall behind many
21 other states.

22 But my question centers around --
23 around domestic production.

24 SECRETARY MCGINTY: Yes.

25 REPRESENTATIVE CAUSER: And I think

1 that has to be a component. And
2 Representative Stevenson talked about nuclear
3 and coal.

4 But what about the -- our traditional
5 industries such as increased drilling in
6 Pennsylvania and increased oil and gas
7 production?

8 And I would be interested in your
9 thoughts concerning advocating for -- for
10 opening up drilling on state forest lands or
11 additional drilling in Pennsylvania or
12 advocating for drilling in Lake Erie and --
13 and for offshore drilling.

14 SECRETARY MCGINTY: Yes.

15 REPRESENTATIVE CAUSER: So I'd be
16 interested in your thoughts on that.

17 SECRETARY MCGINTY: Yes. First of
18 all, in terms of the statistics of where we
19 find ourselves, I've shared some of these
20 numbers with the committee previously; but,
21 you know, price is everything. And as the
22 price of conventional fuels has increased, we
23 have seen a very dramatic increase in the
24 interest -- in interest in exploring and
25 developing -- developing gas and oil reserves

1 in Pennsylvania.

2 The numbers are something on the
3 order of now 7,500 or more permits that we are
4 issuing every year, and we've had a series of
5 record-breaking years.

6 So last year, which I believe, again,
7 was on the order of about 7500 new permits,
8 was something on the order of a 30 percent
9 increase over the year before, which itself
10 was a 25 percent increase over the year
11 before.

12 So we have very robust, dramatic
13 action now in that sector.

14 The other thing I'd point out to you
15 is that while we've always had a good level of
16 activity in shallow oil and gas wells, we now
17 are seeing interest and activity in the deeper
18 formations, including the Trenton Black River
19 seam, which, as you know, is quite a deep
20 seam. But it's been actively developed in New
21 York and other states.

22 I want to acknowledge Representative
23 Rapp.

24 Remember, at least a year ago, maybe
25 longer, it was the representative who first

1 put on my radar screen the disparity between
2 Canada's act -- level of activity in Lake Erie
3 and ours and I have learned a few things since
4 that conversation, including, I think, what
5 Representative Hutchinson was pointing out in
6 the display that's in the rotunda today, the
7 advanced horizontal and other multidirectional
8 drilling technologies that are there that may
9 allow an extraction of resource without having
10 to impact the lake per se at all.

11 So I do think all of those avenues
12 first are active and alive now in Pennsylvania
13 but could be further pursued.

14 REPRESENTATIVE CAUSER: I think that
15 would definitely increase domestic
16 production. You know, our traditional
17 resources is something that we need to pursue
18 also.

19 SECRETARY MCGINTY: Yes.

20 REPRESENTATIVE CAUSER: Would you
21 support advocating drilling on state forest
22 lands?

23 SECRETARY MCGINTY: Well, we have, in
24 fact, been active in that regard. Now, my
25 colleague, Secretary DiBerardinis, obviously

1 has the lead on that.

2 But early in the Administration he
3 and I did work together. We brought all the
4 oil and gas producers together around the
5 table, and I think he has now finished the
6 process of revising the state lease that many
7 of those companies had identified as a
8 hindrance to their interest in Pennsylvania
9 properties.

10 They had reasons like, for example,
11 our lease apparently required the disclosure
12 of more what they considered proprietary
13 business information than competitive states
14 required.

15 But I do believe that Secretary
16 DiBerardinis now has finished and that policy
17 is now revamped.

18 REPRESENTATIVE CAUSER: Thank you
19 very much. I think it's an important
20 component as well as promoting alternatives.

21 SECRETARY MCGINTY: Sure.

22 REPRESENTATIVE CAUSER: And I
23 appreciate your questions -- your answers to
24 my questions.

25 SECRETARY MCGINTY: Thank you.

1 CHAIRMAN GEORGE: I thank the
2 gentleman.

3 The next questioner will be
4 Representative Ross.

5 REPRESENTATIVE ROSS: Thank you,
6 Mr. Chairman. I'll be brief.

7 Just to follow up to my colleague
8 from York, Representative Miller, isn't it
9 also true that we have an expectation of one
10 to one-and-a-half percent increase --

11 SECRETARY MCGINTY: That's right.

12 REPRESENTATIVE ROSS: -- in energy
13 and electricity demand that a number of plants
14 that are currently are online are either going
15 to be -- need to be putting huge investments
16 in or perhaps reconsidering --

17 SECRETARY MCGINTY: Right.

18 REPRESENTATIVE ROSS: -- in terms of
19 their operations to continue to operate?

20 And, thirdly, that the Federal Energy
21 Regulatory Commission is looking at congestion
22 across the northeast corridor, the
23 mid-Atlantic corridor, shall I say, with
24 congestion problems in the southern New York
25 and perhaps western Connecticut area and

1 thinking about adding lines over our heads
2 without our direct involvement, and the one
3 place that we can actually mitigate that and
4 put a counter-recommend out to avoid new power
5 lines being driven through Pennsylvania would
6 be to show a successful program to relieve
7 congestion here in the state through
8 conservation perhaps and then --

9 SECRETARY MCGINTY: That -- that's
10 exactly right. And if I could elaborate on
11 the representative's comments.

12 While it is still true, as I shared
13 the statistics before, that we're in net
14 surplus, if you will, exporting 35 percent of
15 the electricity we generate, there is great
16 concern, both within the state and across PJM,
17 that we are seeing a very substantial decline
18 in what are called reserve margins where that
19 standby capacity, that can be cranked up to
20 meet peak demand at any given time, has pretty
21 substantially eroded across PJM.

22 And Mr. Warnock will be able to give
23 you the exact numbers. But it's something on
24 the order of what makes the people who run the
25 grid system comfortable, it's something on the

1 order of maybe a 30 percent reserve margin,
2 and we're down to 18 or less percent reserve
3 margin.

4 Conservation has to be part of the
5 equation in providing that additional energy
6 resource because we can't get there from here
7 with that declining reserve.

8 As we have the increasing demand that
9 Representative Ross just talked about, the big
10 missing asset that we haven't tapped is that
11 generation equivalent in conservation.

12 Mr. Chairman, if I might, I wanted to
13 just hit very quickly two questions that were
14 asked with respect to the biofuels proposal.

15 And the one was Representative
16 Rubley's point. I do want to assure the
17 representative that the policy would
18 include -- the question was with respect to
19 the definition of biodiesel and what counts.

20 The policy would include all
21 renewable resources that can constitute a
22 biodiesel product, and on the investment side
23 we do have two showcase projects.

24 In Philadelphia we have a company
25 that uses trap greases to make biodiesel and

1 in Pittsburgh we have a company that uses
2 fryer oils from restaurants for that purpose.

3 The key point here though, and it's
4 relevant to an amendment that is being
5 proposed that the administration opposes, but
6 -- is -- is that whatever the ingredient is,
7 it needs to be used in a chemical
8 transesterification process.

9 It is through that process that the
10 chemical nature of the combination is changed
11 such that the standards of the American
12 Society for Testing and Materials are met and,
13 therefore, your engine warranty is not in
14 jeopardy.

15 The proposal -- proposed amendment
16 before you does not do that. It is not a
17 chemical transesterification process. It does
18 not meet the ASTM standards. And that
19 presents a risk of engine operation and engine
20 warranty.

21 And the last thing, Mr. Chairman,
22 Representative Harper's question about whether
23 if we invest in corn is it a technology dead
24 end and should we wait until cellulosic, and
25 the piece here that I think is important is

1 that with the exception of one part of the
2 infrastructure, anything you invest in for
3 corn-based ethanol is exactly what you need
4 for cellulosic ethanol.

5 The refinery is the same. The
6 transportation infrastructure is the same.
7 The distribution infrastructure is the same.

8 The only difference is in cellulosic
9 you have an enzymatic process at the front
10 to -- the bugs go in, chew up the material,
11 and spit out the sugar.

12 And in corn-based ethanol you have a
13 mechanical grinding process that extracts the
14 sugar. Everything else is the same. And so
15 it's good investment after good investment as
16 opposed to good investment after bad.

17 Thank you for your indulgence,
18 Mr. Chairman.

19 CHAIRMAN GEORGE: I thank you. The
20 gentleman, Mr. Hutchinson, had one question.

21 SECRETARY MCGINTY: Oh.

22 REPRESENTATIVE HUTCHINSON: I'm --
23 I'm going to wrap two questions in one. And
24 you can answer these very quickly with a yes
25 or no. Especially the one.

1 SECRETARY MCGINTY: Okay.

2 REPRESENTATIVE HUTCHINSON: Number
3 one, is -- is the Administration committed to
4 a continued deregulated electric market?

5 SECRETARY MCGINTY: Yes.

6 REPRESENTATIVE HUTCHINSON: The other
7 thing I wanted to ask about, there are
8 proposals that -- to -- to finance any energy
9 policy that would tap into a -- the -- I'll
10 call it a windfall in the utility gross
11 receipts tax, you know, taking into account
12 the probability and maybe even the fact that
13 our electric rates will be increasing, that we
14 will see a windfall in utility gross receipts
15 tax, is the administration open to using that
16 source of funding for financing whatever the
17 ultimate energy package is?

18 SECRETARY MCGINTY: Well, as
19 Secretary Yablonsky said, the Governor is open
20 to any and all ideas and, mostly, I think the
21 important point is, grateful for the effort
22 that the legislature is investing in putting
23 together ideas for our mutual consideration.

24 REPRESENTATIVE HUTCHINSON: Thank
25 you.

1 CHAIRMAN GEORGE: I thank the
2 gentleman for his question.

3 I thank the lady for presenting --

4 SECRETARY MCGINTY: Thank you.

5 CHAIRMAN GEORGE: -- before the
6 committee. Thank you very much. Thank you
7 very much.

8 The next individual is the gentleman
9 Eugene Barr, vice president of political and
10 regulatory affairs for the Pennsylvania
11 Chamber of Business and Industry.

12 MR. BARR: Mr. Chairman, good
13 morning. Chairman George, Chairman
14 Hutchinson, members of the committee, thank
15 you for the invitation to appear here today.

16 My name is Gene Barr, vice president,
17 government and public affairs for the
18 Pennsylvania Chamber of Business and
19 Industry.

20 The chamber is the largest
21 broad-based business advocacy group in
22 Pennsylvania with 24,000 members and customers
23 representing roughly 45 percent of the private
24 jobs here in the Commonwealth.

25 Clearly energy is an important

1 issue. That's -- obviously goes without
2 saying.

3 For many of our members, when you
4 look at what they bring in, for many of our
5 members energy represents more than 50
6 percent, in some cases as high as 70 percent
7 of their variable operating costs at any given
8 facility. So clearly something we have to
9 focus on.

10 We appreciate the attention of the
11 legislature and the administration in focusing
12 on energy issues.

13 And clearly it's becoming more and
14 more of a concern for our members as our
15 members get calls from customers and others
16 trying to get them to other states where rates
17 in their view are cheaper and perhaps they are
18 certainly trying to woo them to go there.

19 So clearly it's something that's a
20 concern to our members.

21 The other important thing that I
22 think we all need to recognize up-front and is
23 the case certainly in energy, as it is in many
24 other issues, when we look at energy there's
25 no what I call silver bullet. There's no

1 magic solution here.

2 In fact, as someone said about
3 another one, there's no solution, simply
4 trade-offs. Because every source that we're
5 talking about here, whatever it is, has its
6 pluses and minuses.

7 And really when you look at whatever
8 source we're talking about, you have to look
9 at it largely in three factors. There's a
10 reliability factor, there's an affordability
11 factor, and there's an environmental
12 performance factor. And each of what we're
13 looking at has to be assessed in terms of
14 those.

15 We also believe that all energy must
16 be part of whatever we do going forward
17 however we devise anything. That energy
18 includes wind, solar, biomass, nuclear, coal,
19 oil, natural gas.

20 Everything across the board must be
21 brought into the equation because we need all
22 of those sources in order to solve our issues
23 going forward.

24 We know conservation is huge. I
25 would like to use wise use because it's

1 clearly conservation that you can do easily.
2 We could shut all the -- all the lights off,
3 but we know how critical energy is to our
4 society and to our business and industry.

5 And our members typically have been
6 in the forefront because they recognize the
7 impact and the importance of reducing their
8 energy use as much as they can, making wise
9 and efficient use of energy because it
10 directly goes to the bottle line.

11 So our members in most cases have
12 been in the forefront of efficient use of
13 energy. And we have members involved in all
14 of those energy sources that I described. No
15 matter what you talk about, which one you want
16 to focus on, we have members who are involved
17 in that, involved in research, development and
18 deployment, hopefully, of all of those energy
19 sources.

20 What has been put on the -- on the
21 table from the Administration, I think the
22 Chamber has been pretty clear about our
23 concerns with those.

24 And as an example, it has not been
25 fully explained to us, after passing the

1 renewable portfolio standards in '04, which
2 bring -- which -- which require Pennsylvania's
3 energy suppliers to supply 18 percent of their
4 mix by the year 2020 as renewable, it has not
5 been documented to us why a borrowing of close
6 to a billion dollars with a brand new tax
7 needs to be part of that.

8 And we heard some discussion of the
9 tax here today, and it was talked about that
10 large users -- and I guess the implication is
11 large in terms of -- of fiscally solvent,
12 fiscally -- to some large fiscal users or
13 large -- but it really comes down to energy
14 intensive users.

15 And I think an example I received
16 from one of my members is good. This was a
17 large user, and I called him up, and I talked
18 to him and I said, look, I know \$10,000 is not
19 a huge impact to you.

20 He said, it's not. He said, but I'll
21 give you an example. He said, we compete in
22 the marketplace where there are people that we
23 compete against that are niche marketers that
24 are relatively small.

25 He said, \$10,000, and they will pay

1 close to 10,000, in some cases, 10,000 is a
2 huge impact on them, and that's something that
3 they cannot absorb.

4 We also heard today -- and I think
5 this is a bit of concern for us -- we heard
6 that, quote, 17 other states have some type of
7 tax like this. And I think part of the
8 concern that we have is that rather than
9 looking at states that have taxes we don't
10 have, alternative energy companies, as well as
11 all other companies competing here in
12 Pennsylvania, could benefit from looking at
13 aspects in other states where they're more
14 competitive.

15 For example, there's only -- there
16 are 48 other states that have a lower
17 corporate net income tax rate than we do.
18 There are 49 other states that have better
19 provisions for net operating loss which is
20 crucially important for cyclical companies and
21 small start-up companies, many of whom we're
22 talking about here supporting today.

23 There are 44 other states that have
24 reformed their legal system in terms of joint
25 several liability.

1 Rather than focusing on where we can
2 find new taxes in other states that we don't
3 have, our view is we ought to be looking at
4 reforming those things that make for a level,
5 competitive operation that will entice all
6 people coming in, on the tax side and the
7 legal reform side as well.

8 We do have some very specific
9 recommendations I'd like to bring up today.
10 First off, when -- we heard from
11 Representative Causer about one of them which
12 we think is crucially important; that is,
13 developing American resources, particularly
14 Pennsylvania resources, when we can do that.

15 Again, we've talked about wind and
16 solar, crucial. Ethanol, biodiesel,
17 absolutely. But also oil and natural gas.

18 We have significant interest here in
19 exploring natural gas here in Pennsylvania's
20 lands and we know that wind and solar need the
21 back-up for the days when the wind doesn't
22 blow and the sun doesn't shine. So we can use
23 Pennsylvania natural gas as that back-up
24 because that typically functions as the
25 back-up for that.

1 It is unfortunate -- and there was
2 some reference to -- to offshore exploration.
3 About 85 percent of the most promising lands
4 in the U.S have been put off for -- for
5 development and are unable to be developed.

6 It's rather ironic. If you look at
7 the fact that China through a operation with
8 Cuba will be drilling about 45 miles, 90 miles
9 off the coast of Florida where that is
10 unavailable in lot of cases to -- to U.S.
11 companies.

12 We can develop something like the
13 Artic National Wildlife Refuge. Find again
14 American resources. There's concerns
15 certainly over -- over going into the refuge;
16 but when you look at that, the analogy is the
17 size of the development is equivalent to one
18 single letter on the front page of the New
19 York Times.

20 Those are American and, again,
21 Pennsylvania resources, in the case of natural
22 gas, that we can develop.

23 Another thing we think is crucially
24 important. Let's find out from our business
25 and industries here in Pennsylvania what are

1 the impediments, what are the hurdles that
2 they find to developing and rolling out new
3 alternative technologies?

4 There are regulatory impediments we
5 hear from our members from time to time. I'm
6 not saying that they should all be -- that --
7 that all those regulations should be changed,
8 but let's find out where there are
9 impediments to rolling out good, viable
10 operations and good, viable products that we
11 can utilize and let's find out where those are
12 and -- and let's solicit from our operations
13 where we can do that.

14 The other thing that we believe ought
15 to be done, we believe this legislature should
16 review, have a comprehensive review of
17 regulations that in your view have the
18 potential to impact the cost of electricity as
19 we've talked about with the rate caps coming
20 off.

21 And certainly in our view you ought
22 to start with the recently enacted statewide
23 mercury rule, which gives no demonstrable
24 benefit beyond the federal rule that
25 Pennsylvania's utilities are required to

1 hold. That will require a \$1.7 billion
2 up-front and that will be passed on to the
3 consumers without a doubt.

4 Finally, and I think Mr. Warnock will
5 talk more about this, there are rules out
6 there relative to how utilities will procure
7 and then supply their energy. Estimated to
8 cost over \$6 billion over a ten-year period.
9 And, again, we don't believe that imposing
10 these kind of regulations and restricting the
11 flexibility of the marketplace will have
12 anything but higher costs for consumers, again
13 leading to greater anxiety over the issues
14 relative to rate caps coming off.

15 The other thing that we look at, Team
16 PA did a study about a year or so ago and
17 their consensus is they were uncertain whether
18 the renewable portfolio standards would have a
19 positive or negative effect on Pennsylvania's
20 electric rates.

21 From our prospective, until we get a
22 better handle on that, then we ought not to be
23 doing anything that would cause more of that
24 to come in and require and mandate more --
25 what could potentially be more expensive

1 energy onto a system where we know we already
2 have significant anxiety and concern relative
3 to the caps issue.

4 Our concern is that the -- of course,
5 the less flexible we make the market, the more
6 likely it is that it will increase energy cost
7 to the consumers across the board.

8 There was already a discussion about
9 the fact that currently we're concerned about
10 energy independence or energy security, as
11 some people would rather have. We're already
12 a net exporter of electricity. And we ought
13 to be extremely concerned about having an
14 adverse impact on our position as a net
15 exporter.

16 Just a couple brief points relative
17 to the -- to the fuels issue again. The
18 Chamber has a broad-base approach in terms of
19 proposing mandates.

20 You know, by and large, our view is
21 that the consumers ought to decide what it is
22 they'd like to buy and the consumers, be they
23 residential, commercial, business, industrial,
24 should make their own choice about what's best
25 for them, their business, and their families

1 on any given day.

2 Give them a broad array of choices;
3 have all of these options available, whether
4 for electricity or fuels use in the
5 marketplace; have all of those available and
6 let customers decide.

7 There's a broad array now. Customers
8 can decide if they'd like to be supplied by
9 wind or solar, if they'd like to buy
10 biodiesel, if they'd like to buy ethanol.

11 And, yes, we know that there are
12 siting issues with that and we believe that
13 the siting issues need to be addressed. We've
14 got to have these places sited and we've got
15 to come up with a comprehensive way of getting
16 them here in Pennsylvania.

17 Quickly, on ethanol, again, just as
18 the case with everything else, there are
19 pluses and minuses with both. Ethanol for
20 years has functioned as a economic octane
21 booster for -- for suppliers of -- of
22 gasoline.

23 The down side, and one thing that's
24 beginning to concern our stationary sources
25 and other members, is that when you look at

1 ethanol it has a positive impact in terms of
2 CO2 emissions.

3 However, ethanol has a higher
4 volatility, meaning higher volatile organic
5 compound emissions.

6 One of the requirements Pennsylvania
7 has under their Clean Air Act obligations is
8 to reduce VOCs. If we mandate more ethanol,
9 we believe that DEP ought to tell us what that
10 may or may not do to our federal obligations
11 for VOCs.

12 Sources have already committed to VOC
13 reductions and great reductions have been made
14 over the years in VOCs. If we're going to
15 mandate ethanol and that has an adverse
16 impact, we're going to have to take a look and
17 see what that would do to our federal
18 obligations.

19 In terms of the biodiesel, again
20 we've talked about the fact that we have to
21 bring soybeans in and there is a need for
22 additional infrastructure in order to market
23 the biodiesel product that would propose to be
24 mandated.

25 And, again, our concern is that when

1 you look at mandates, what is the cost to the
2 consumer of the mandate?

3 And I think clearly that's something
4 that this legislature needs to look very
5 cautiously at.

6 Again, have the options available.
7 Let the consumers decide what works for them.
8 And then let the consumer decide what is the
9 best options for them and their families.

10 Just in quick summary, I've already
11 said our concerns over the mandates. And
12 there was another issue that Representative
13 Harper brought up, and I think it's one that
14 is of particular concern to us and one that is
15 paramount as we move forward on the energy
16 discussion.

17 Her question was if we move too
18 quickly onto the corn-based ethanol what does
19 that do to the cellulosic and I think it's a
20 great example of one of the concerns we have
21 of a government investing huge amount of
22 dollars and, in my words, picking the wrong
23 technology.

24 When the government gets into a
25 marketplace and chooses winners or losers in

1 the technology, they run the risk, because
2 their own capital is not at stake, of
3 potentially picking the wrong technology.

4 Let's have a free and open
5 marketplace. Let's drop our barriers. Let's
6 drop the impediments to development of
7 sources. Let's have a free and a better
8 business structure. Let's reform other things
9 and let everyone compete.

10 And then in our view we will have
11 taken the better steps towards a better energy
12 future.

13 Thank you very much, and I'll be
14 happy to answer any questions that you have.

15 CHAIRMAN GEORGE: The chair thanks
16 the gentleman.

17 Are there any questions? The
18 gentleman, Mr. Ross, I think is first.

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

21 I take your point about some of your
22 members being concerned about the possibility
23 of having to pay a \$10,000 additional fee
24 without being clear on what they're getting in
25 return for it.

1 Do you feel that your members would
2 have a different attitude if they had a
3 contracted arrangement where in return for a
4 \$10,000 fee they were guaranteed \$100,000
5 savings over a three-year period?

6 MR. BARR: I think if we can bring
7 that guarantee into the marketplace, almost
8 everyone would take it. The problem is that
9 there are very few guarantees in the
10 marketplace and I think that's part of the
11 concern.

12 We're not quite sure what we're
13 paying for with the \$10,000.

14 REPRESENTATIVE ROSS: Well, I'm not
15 talking about the existing situation. I'm
16 talking about an alternative one.

17 MR. BARR: I think we'd be willing to
18 look at things, but, again, bringing in a new
19 tax in the hopes -- in the hopes of reducing
20 dollars is a huge concern and I think we're
21 hard pressed to find a situation where a tax
22 has saved people money.

23 REPRESENTATIVE ROSS: I was not
24 saying hopes. I was saying attractive
25 arrangement.

1 MR. BARR: If there's a situation out
2 there, I'm sure I'd have some people that
3 would be interested in taking a look at it.

4 REPRESENTATIVE ROSS: Thank you.

5 CHAIRMAN GEORGE: Thank you. The
6 gentleman, Mr. Gerber.

7 REPRESENTATIVE GERBER: Thank you,
8 Mr. Chairman.

9 And thank you, Mr. Barr, for doing
10 this today. I have a couple questions for
11 you.

12 MR. BARR: Sure.

13 REPRESENTATIVE GERBER: First, I want
14 to focus in on the comments related to
15 ethanol. As you may be aware, the original
16 language that the House reviewed limited the
17 type of ethanol to agriculturally derived.

18 I offered up an amendment that passed
19 and ultimately when the bill passes out of the
20 House, it now allows for any ethanol, both
21 agriculturally derived and otherwise.

22 I'm not sure why there's still this
23 lingering concern that in some way we're
24 picking winners and losers when we're allowing
25 for any type of ethanol.

1 The reality, in my understanding and
2 my judgment, that the technology for
3 corn-based ethanol is in place and it's
4 economically viable in certain regions.

5 The cellulosic process, while
6 investments has been made, the goal is to put
7 27 million into a cellulosic plant, isn't
8 quite as far along as corn-based ethanol, but
9 when it is online and it is more economically
10 viable, this bill would include it in the
11 portfolio.

12 With that background, assuming -- and
13 I don't know if you'll agree with that
14 analysis -- do you still have this concern
15 that the bill would be picking winners and
16 losers relative to corn-based versus
17 cellulosic ethanol?

18 MR. BARR: That's a good question. I
19 think our concern to ethanol -- because it's
20 been around for 30, 35 years, it is not a new
21 product -- is the fact that typically a gallon
22 of ethanol is more than a gallon of
23 conventional gasoline.

24 So our concern is with a mandate,
25 regardless of what you're mandating in that

1 case, you're going to be increasing the cost
2 to consumers.

3 Again, I would go back to my second
4 point, which is an environmental one, is, as
5 we mandate an ethanol product, what that is
6 going to do for VOC emissions here in
7 Pennsylvania.

8 For -- for many, many years DEP was
9 extremely cautious about bring ethanol in and
10 giving what is required, that is, a one pound
11 waiver of the VOC, and now that we're
12 mandating it, I think what we're asking is
13 what is the impact of the mandate on those who
14 have committed to VOC reductions and what is
15 the impact of Pennsylvania's obligation under
16 the Clean Air Act?

17 So in terms of that, yes, you're
18 opening it up to whoever can come in.
19 Cellulosic is not quite economically viable at
20 this point. Ethanol has been out there.
21 Again, a little more expensive than gasoline
22 but has been out there. Cellulosic
23 certainly -- and -- and, again, both are
24 certainly hopefully going to be developed in
25 Pennsylvania if we can get to that point.

1 But our concerns really go to the
2 mandate itself as opposed to which ones you're
3 doing.

4 REPRESENTATIVE GERBER: And a
5 follow-up to that. Through your membership,
6 are you aware -- and you may not be; I
7 understand that -- but are you aware of
8 significant cost differentials when in the
9 southeastern part of the state gasoline moved
10 from using MTBE's to using ethanol, did that
11 increase the price and were your members
12 affected by that?

13 MR. BARR: It's really hard to make
14 some comparisons among -- across
15 Pennsylvania. Pennsylvania has three
16 different grades of gasoline. In Philadelphia
17 you're required to sell what's called
18 reformulated gasoline under the Clean Air Act,
19 which typically costs more to make than
20 conventional gasoline.

21 So -- and, again, part of the issue
22 here is there's a federal requirement to sell
23 these renewable fuels, which, again, is a bit
24 of our concern, how we overlay a state
25 requirement on top of a federal requirement to

1 sell renewable fuels.

2 So you really have to be cautious
3 about comparing apples and apples. But just
4 as an aside, since I drive to Philadelphia all
5 the time, typically you will see, if you drive
6 on the turnpike, and these same suppliers on
7 the turnpike, fuel in Philadelphia is more
8 expensive than fuel in this area.

9 Now, in my two reasons. One, RFG
10 and, two, because the ethanol component of
11 that is -- required under federal law is more
12 expensive than conventional gasoline.

13 REPRESENTATIVE GERBER: Thank you. I
14 want to move back now to the -- the fee,
15 proposed fee for energy, for electricity.

16 You've expressed a concern that
17 member organizations will see their costs of
18 electricity going up with this fee and that
19 for some of them it could be detrimental.

20 Do you have a sense of the amount of
21 usage that will trigger the max \$10,000 fee?

22 In other words, the amount of the
23 wattage, usage that would trigger that, do you
24 as an organization have a sense of what that
25 number would be, number one, and, number two,

1 how many of your companies will actually even
2 get to that level?

3 In other words, are we talking about
4 hundreds of companies? Are we talking about a
5 select few? Do you have a sense of that?

6 MR. BARR: I don't know the numbers.
7 You can do the -- of course, the mathematical
8 calculation and figure out what it would take
9 to get to that but our problem is we don't
10 know and can't. It's proprietary information
11 what a given member would use at any given
12 site.

13 I will tell you that the concerns
14 expressed have ranged from manufacturing
15 operations, which, as I mentioned before,
16 aren't necessarily large in terms of their
17 fiscal size but large in terms of their energy
18 intensive use, on down to grocery stores who
19 have absolutely significant
20 refrigeration/freezing issues, on down to
21 hospitals who, of course, are very energy
22 intensive as well.

23 Each of whom could hit the \$10,000,
24 and, of course, in that case the additional
25 cost of this tax would cascade down to the

1 consumers as well.

2 REPRESENTATIVE GERBER: If you could,
3 through your organization, using surveys or
4 whatever, to help us get a better sense of the
5 number of company that are -- would be
6 concurring with that, that would be very
7 helpful.

8 MR. BARR: We could try. Again, a
9 lot of them would be reluctant, because some
10 of that would border on proprietary; that is,
11 how much energy you're using versus another.

12 But let us go back and see if there's
13 any way we could provide you more information
14 that would help in your deliberations.

15 REPRESENTATIVE GERBER: That would be
16 great. Because, as you know, I share some of
17 your views on that overall tax structure here
18 in Pennsylvania.

19 I agree with you that we should be
20 considering these things in a holistic way,
21 not in a vacuum.

22 But that type of information from
23 your -- from organization --

24 MR. BARR: Sure.

25 REPRESENTATIVE GERBER: -- would be

1 very helpful because we don't always get the
2 same feedback you get. And we're hearing,
3 particularly from some of the larger
4 manufacturers, that with the benefits they
5 think will come from the program that the
6 \$10,000 fee is worth it.

7 But clearly you hear from a wider
8 swath of companies --

9 MR. BARR: Right.

10 REPRESENTATIVE GERBER: -- that touch
11 on the subject.

12 MR. BARR: I can say honestly that I
13 have had not a single member say, we want the
14 tax.

15 I have had a number say, it's not an
16 impact on us because we're large enough we can
17 easily absorb that.

18 No one has said, we want the tax,
19 because, as I mentioned earlier, our companies
20 typically are such that even though roughly 80
21 percent of our members are a hundred employees
22 or less, a lot of our members have the
23 wherewithal to say we believe we need to move
24 in this direction and can take their own
25 direction and don't need to pay \$10,000 in

1 order to do that.

2 REPRESENTATIVE GERBER: Thank you.

3 CHAIRMAN GEORGE: The lady, Ms. Rapp.

4 REPRESENTATIVE RAPP: Thank you,

5 Mr. Chairman.

6 And thank you, Mr. Barr, for your

7 testimony.

8 I probably should have asked this
9 question to Secretary McGinty. And if this is
10 an area that you can't answer, that's fine.

11 But I have a refinery in my area and
12 just thinking about this issue of corn ethanol
13 and possibly switching to cellulosic ethanol,
14 do you know if there would be an impact on the
15 refineries on having to switch from one
16 ethanol base to another?

17 What's the expense going to be to our
18 refineries if we are, you know, just from the
19 very get-go, having to mix the ethanol at the
20 refinery?

21 And then is -- is there another
22 impact if we would suddenly switch from corn
23 based to cellulosic?

24 MR. BARR: Well, there's lots -- a
25 number of issues with refineries. For

1 example, unlike conventional gasoline, you
2 cannot ship ethanol by pipeline. Hence, some
3 of the questions here today about do we have
4 enough rail cars to ship it in. It has to be
5 brought in by rail car, barge, or tanker
6 truck.

7 The ethanol is typically done at the
8 terminal at the refinery because, again, you
9 want to put a product out on the pipeline that
10 can go for -- for some distance.

11 The other issue, I think, that it
12 presents to refineries goes back to the
13 question that I've already talked about, which
14 is this VOC issue.

15 If indeed ethanol, as we know, has a
16 higher VOC, that is, more ozone precursors
17 come out of a gallon of -- of ethanol than --
18 than a gallon of gas, what will refiners
19 potentially be required to do to reduce that
20 base RVP, Reid vapor pressure, to measure how
21 volatile it is in order to accommodate an
22 ethanol mandate?

23 And that is a reasonable question.
24 And the refinery in question in your area, of
25 course during the '90s went through quite a

1 bit with having to go over to reformulated
2 gasoline that was then unplugged and pulled
3 back and went through some very difficult
4 financial times.

5 And I think your -- your question is
6 a reasonable one and is a very wise one to ask
7 about what the impact is on a refinery such as
8 yours in your area.

9 CHAIRMAN GEORGE: The lady -- the
10 lady concluded?

11 REPRESENTATIVE RAPP: Yes.

12 CHAIRMAN GEORGE: No other hands for
13 recognition, I thank the gentleman.

14 MR. BARR: Thank you.

15 CHAIRMAN GEORGE: Thank you, sir.

16 The next individual that will be
17 presenting will be the gentleman, Aldie
18 Warnock, the chairman of the Electric Board of
19 the Energy Association of Pennsylvania and
20 vice president of the External Affairs for
21 Allegheny Energy, Incorporated.

22 Welcome, sir.

23 MR. WARNOCK: Thank you,
24 Mr. Chairman, and Chairman Hutchinson and
25 other members. I appreciate being here

1 today. It's truly an honor.

2 CHAIRMAN GEORGE: Can you push your
3 button, please?

4 MR. WARNOCK: Sorry. Thank you,
5 Mr. Chairman, Chairman Hutchinson.

6 CHAIRMAN GEORGE: I may not want to
7 hear everything you say, but they might.

8 MR. WARNOCK: Thank you very much and
9 other members for having me here today.

10 I'm honored to be representing the
11 Electric Association Board. And so I'm not
12 representing Allegheny today. I just want to
13 make sure I say that up-front.

14 There have been a number of things
15 said today, and I just -- I'm not a
16 professional speaker. I have 25 years of
17 being battle scarred. I'd like to say a
18 veteran, but I'm not even sure I can say that.
19 I'm just battle scarred.

20 And I've been in California. I've
21 been in Maryland. And what I want to do is
22 compliment the Governor, compliment Secretary
23 McGinty, and others, and yourself, because I
24 think the difference in what happened in some
25 of those places you heard about today is they

1 did not get out in front of it.

2 And I think you all are doing that
3 with your hearings today and other things
4 you're doing, and you should be complimented.
5 And it should have been done in those other
6 states.

7 So I'm glad you all are taking a
8 leading role in that, and you all have been in
9 a leading role for a long time.

10 Mr. Chairman, if I can, because I
11 know you've been here working on many of these
12 issues, like I have, a history lesson, I
13 think, is always very important.

14 And I started with UseLine Power
15 Company in the early '80s, and it was a time
16 of rising prices, because we were trying to
17 keep up with all the growth.

18 We had people screaming for choice,
19 and that's what led to electric deregulation
20 and taxes. But it's interesting. That didn't
21 happen till the late '90s when I came up to
22 Pennsylvania. It was my first time in the
23 Commonwealth.

24 I'm now proud to say that I'm
25 actually a member and I am a resident of the

1 Commonwealth.

2 When a group from Texas, from the
3 legislature, came up to Pennsylvania and --
4 because they said they looked out to the west
5 and they saw the land of fruits and nuts and
6 they decided to look over towards the east,
7 and they came to Pennsylvania.

8 And they came to Pennsylvania and
9 said, those guys have got it right. And we
10 went back, and that's what led to
11 restructuring in Texas at that time.

12 I think it -- it's only important now
13 though to look and see that when we were here
14 you all told us back in the late '90s, when we
15 were looking at this, that there were three
16 important goals. And I'd like to just mention
17 that real quick for those who were back in the
18 '90s.

19 One is that we would shift the
20 financial risk from rate payers to investors
21 around the owning of generation.

22 The second one was providing market
23 incentives to build and operate generation
24 plants more efficiently, and promote
25 competition and innovation in the retail

1 markets.

2 Prices are going up across the
3 country. It doesn't matter if it's regulated
4 markets or whether it's competitive markets.

5 And, in fact, my boss, who was in
6 Florida, even down the in Florida Power and
7 Light Company, I mean, many of the areas are
8 seeing 25 to 35 increases.

9 So I don't want you to think it's
10 only limited to states who have restructured
11 because it's not.

12 And unfortunately it's different than
13 it was in Houston in the early '80s. What
14 you're seeing now is we have aging
15 infrastructure in addition to rising fuel
16 prices.

17 So if you were going to do a report
18 card right now and go back and look, we're ten
19 years later, and look at those issues, and if
20 I was your instructor, I would say I think you
21 have two A's and one incomplete.

22 And let me explain what I mean by
23 that. If your first goal was clearly to
24 transfer the risk of construction and
25 operating of generating plants -- as

1 definitely to investors and that's going to be
2 important, and not to rate payers, because I
3 think what you have to think about is what our
4 kids and grandkids have in front of us for the
5 next 15 years.

6 CERA just came out with a report, if
7 I can, that over the next 15 years there's
8 going to need to be \$350 billion in
9 generation. 50 billion in addition to that is
10 across the United States. 50 billion in
11 addition to that due to environment
12 regulation, mercury and things of that nature,
13 and that does not include carbon.

14 And carbon is, you know, going to
15 be -- and I would expect even larger. And
16 then in addition they're expecting -- that's
17 on top of a \$50 billion in energy efficiency
18 and that's a report that just came out.

19 So as we look at how you want to go
20 forward, you got to think about who do you
21 want to bear that risk of that future
22 investment. Do we want to put it back on the
23 rate payers or do we want to go with
24 investors?

25 Your second goal, that I also give

1 you a A mark, as I did the first one, was the
2 generation facilities operating more
3 efficiently.

4 And, if you haven't heard this, since
5 competition has come in, we've actually --
6 actually increased the output at the base load
7 nuclear and coal plants. We've increased
8 plant availability rates. We've reduced
9 forced outage rates. And we've optimized
10 maintenance practices across the industry that
11 have been to the benefits of the consumers.

12 Now, the last one, I gave you one
13 incomplete. Which one is that on?

14 And I think that's got to be around
15 retail competition. And I think the reason
16 is -- is because customers have really never
17 seen prices decrease because we've had the
18 caps in place.

19 And if I were sitting in your shoes,
20 that's kind of a scary thing. Where do we go
21 from here? We're kind of at a crossroads, is
22 the way I look at it, and which road do you go
23 down?

24 I can tell you that I previously
25 worked at a company -- and I hope they won't

1 mind me representing that today -- Reliant
2 Energy, and we desperately wanted to get in
3 this retail market.

4 And at the time they said you can't
5 touch the agreements that have been done and
6 there's no way you're going to do that. So
7 literally there was a company -- and I know
8 there have been others -- who wanted to come
9 into the state for five or six years and just
10 couldn't.

11 And they're actually looking forward
12 to the day that the caps come off so they can
13 come in and they can offer many of those
14 things that are being offered in other
15 states.

16 If you take a look at the Baltimore
17 area, you have -- and many of the industrial
18 and business customers, 98 percent are being
19 served by other providers, not the utilities.

20 So it's happening, and it's doing it
21 in other states. New Jersey, many of the
22 larger customers the same way. Texas is the
23 same way.

24 So can I say that's going to be
25 replicated here? I don't know. But there are

1 examples where it has worked and normally a
2 lot of those packages are energy efficiency
3 that go with those packages for rates. So
4 they're able to combine a lot of different
5 things.

6 And if I -- if I were sitting in your
7 shoes, I would definitely say, you know, okay,
8 what's going to happen when rate caps are
9 over?

10 And I think there's a tendency on all
11 our parts to want to control. And I totally
12 respect that, and I think there's a way we can
13 look at this. We can either look at it as a
14 glass half empty or a glass half full.

15 I look at it as a glass half full.
16 And the reason I say that is -- is I think
17 there's finally -- I mean you've heard
18 Secretary McGinty and the Governor, they talk
19 about -- and also Secretary Yablonsky --
20 talking about bringing innovation and some of
21 these companies are on the cutting edges.

22 And I think that's what it's going to
23 bring. I think we have so many new
24 technologies.

25 I want to mention this to you. This

1 just got announced yesterday in West Virginia,
2 and Allegheny, who I'm -- I'm with, has been
3 fortunate to be working with the Department of
4 Energy and what we're doing is enabling a
5 smart electric grid.

6 And if you all would just bear with
7 me for two seconds here. The project will
8 enable a portion of Allegheny Powers' electric
9 distribution system in the Morgantown, West
10 Virginia service area to be self-healing, that
11 is, to automatically detect, analyze, respond
12 to problems, and restore electric service.

13 The technologies to be deployed in
14 this project will also help set the stage for
15 energy conservation initiatives.

16 Phase two is bringing in DG,
17 distributive generation. It's bringing in
18 smart meters, which I'm going to talk a little
19 bit about in a second.

20 So I think there's so many things on
21 the cutting edges that we have a chance to go
22 through.

23 If rate caps come in, or if we
24 continue down the path that we're going, I
25 think retail providers are going to be sitting

1 outside of the state waiting to come in and
2 many of these technologies will not be allowed
3 to go -- able to go to.

4 The question is, and I've dealt with
5 it in California and Maryland, is how do we
6 mitigate price increases while at the same
7 time supporting the conservation, demand side,
8 management, things of that nature.

9 We believe those two go hand-in-hand
10 and we need to support the various energy
11 efficiencies and stuff.

12 There's a lot of questions about what
13 happens on prices. And, Mr. Chairman, I'll
14 point you to one silver lining that I'll bring
15 you out of California. And that was what
16 happened in San Diego.

17 In San Diego they actually let the
18 prices go and at that point in time they had
19 the highest reduction in energy efficiency
20 because people cut down more than any other
21 time. Even since the time they've implemented
22 all the DSM responses.

23 So I think there is a silver lining
24 there that customers will respond to price
25 increases.

1 I want to say that we agree totally
2 with Secretary McGinty, that we do need
3 conservation, energy efficiency, and the
4 utilization of demand resource management.

5 It also brings benefits of not only
6 decreased costs for consumers but it also
7 brings a cleaner environment.

8 The one issue that we would raise
9 is -- is that all of these things -- and I'll
10 go back to Gene Barr's comment -- there is no
11 silver bullet. I mean it's not going to be
12 DSM or nothing, or renewables or nothing, or
13 no more coal or no more gas.

14 Quite frankly, we need it all. We
15 have a hugely aging infrastructure. We're
16 going to need those and we need to encourage
17 consumers and push them towards usage
18 reduction.

19 However, there ought to be a cost
20 benefit analysis, are we getting the bang for
21 the buck when we do those programs? And I
22 think when you're talking about a \$50 million
23 energy efficiency tax, Mr. Chairman, we need
24 to make sure we're going to spend it right.
25 This is are benefits to those that are out

1 there?

2 And we think these programs need to
3 be flexible, especially if we're going to keep
4 going with retail marketers coming in, because
5 they're offering a lot of different rates and
6 services and energy efficiency issues.

7 I've seen it down in some of the more
8 competitive markets that are out there.

9 A big issue has been around, as you
10 all know, smart meters, and let me address
11 that real quick.

12 I think, first off, is what's the
13 definition of a smart meter? If the goal is
14 to provide customers today with the ability to
15 go to their meter and see what their price is,
16 like you do at a gas pump, no utility in the
17 state has that that I'm aware of.

18 Even PPL, who, I think, has the most
19 advanced system, can probably do it in 24 to
20 48 hours.

21 So if we're going to move and change
22 into smart meters, that means we're going to
23 have to change meters throughout the whole
24 system.

25 And the question I'd have is that --

1 and we're talking about a \$1 billion change
2 throughout the state if we do smart meters.
3 And I -- I -- we support smart meters. We
4 just want to do it correctly.

5 In recent polling that my company
6 did, we actually found that residential
7 customers -- and I want to compliment you,
8 Chairman George, up here in your front light
9 here that's on your table, I notice you all
10 have little energy efficiency lights.

11 That was the number one issue that
12 residential customers told us that they
13 wanted. And I guess maybe it's simple. They
14 can screw out a light bulb and screw one in.

15 Commercial customers, on the other
16 hand, small and large, actually wanted that
17 price. So a question is, if we're going to do
18 smart meters, who do we go to first and how do
19 we want to educate people on what smart meters
20 do? So I think that's important.

21 And the last thing I would mention
22 is, is that on -- related to smart meters,
23 we're very supportive of it. It's a huge
24 investment. It's about \$250 per family.

25 Do we want to do \$250 on a smart

1 meter? Do we want to do \$250 on these light
2 bulbs, plus additional things that they want?

3 Residential customers told us they
4 wanted home energy audits, energy efficiency
5 lights, and water heater wraps, which really
6 surprised me.

7 We had commercial customers,
8 industrial customers tell us that they wanted
9 audits and they wanted real-time metering, but
10 they wanted to pick when -- when they actually
11 moved their power around.

12 So we have some real challenges there
13 to educate the consumers and make sure we know
14 what they want. So I just want to mention
15 that real quick.

16 On the residential side, if that's a
17 place we want to go, I highly recommend a
18 pilot project and see if we can't try to do
19 that through some type of pilot and see what
20 works with the customers.

21 We just sent out two efficiency light
22 bulbs in Maryland to each of our customers.
23 That was something that they desperately
24 wanted. And the commission allowed us cost
25 recovery to get those out there to help

1 customers out.

2 So the key on smart meters is just
3 making sure we're going down the right way.

4 I do think one thing that's out there
5 right now, you all have been a leader on the
6 Keystone loan program where customers can take
7 out energy efficiency loans and do the
8 programs.

9 However, all of this is only going to
10 serve part of it, Mr. Chairman.

11 I think the other key piece -- and
12 I'm going to be real quick here -- is on
13 procurement.

14 I -- I think that you should feel
15 good in the fact that the PUC has not been
16 sitting back and not doing anything. They
17 have taken in huge amounts of testimony and
18 weighed it, and I think they really do have a
19 very aggressive program that's out there on
20 the way to do procurement for us going
21 forward.

22 I would highly advise this group to
23 be very careful of not doing a
24 government-mandated program. Where that's
25 been done in the past, it's actually resulted

1 in higher prices. If you take a look at what
2 happened in California.

3 And I guess my recommendation to you
4 would be -- is be very careful of that and
5 do -- do your homework before you go down that
6 path.

7 This is a very complicated business.
8 I've been it in 25 years, as I was telling one
9 of the members this morning, and I continue to
10 be overwhelmed with everything going on.

11 It's only getting more complicated
12 when you have carbon legislation and cap and
13 trade and other things that are coming out
14 there.

15 And I think the good thing is if you
16 take a look at procurement done right, I'd
17 point to Duquesne Light over in the Pittsburgh
18 area, where they have -- they have a series of
19 default service plans.

20 And this is pretty amazing to me if
21 you think about it. Is that the residential
22 and small customers total electric rate is
23 lower today and will still be lower in 2010
24 than it was in 1997.

25 I don't know what other commodity or

1 service you could say that that's happened.

2 So if it's done correctly, and where
3 the EDC's are advocating is, is let's continue
4 to build off the development of what the PUC
5 has done. Let's do multiple procurements over
6 a -- different periods of time.

7 And, in fact, in Maryland they've
8 adopted the same strategy after looking at
9 their 72 percent increases. So I compliment
10 the commission for being ahead of that.

11 And, in fact, they've even asked us
12 to go out and start procuring power now for
13 rate caps coming off in two years. So that's
14 some thoughts for you all to think about.

15 I believe those kind of things will
16 bring the price stability that you're nervous
17 about and that will also average out those
18 different things.

19 The last thing is, we are totally
20 supportive of some type of price mitigation
21 plan and we'll be more than happy to work with
22 everybody.

23 Allegheny, my company, has a price
24 mitigation plan right now where it's a ramp
25 up. We're doing that in Maryland. We're

1 finding that customers are very receptive to
2 it. They didn't want the one time hit.

3 Finally, there's just not enough
4 consumer education, and we've got to do more
5 because customers really don't even
6 appreciate, I think, caps are coming off or
7 what's happening, but obviously they will
8 shortly.

9 The last thing I'll leave you with,
10 besides the numbers I just gave you on
11 transmission -- on generation and on
12 environmental, the other numbers that CERA
13 pointed out for the 2000 -- for next 15 years
14 that our kids and grandkids are going to have
15 to deal with, are transmission, 150 billion;
16 distribution, 300 billion; conservation I
17 mentioned is 50 billion.

18 I guess -- and that doesn't include
19 carbon. Which I've heard numbers on even the
20 worst case scenario of being a 20 to 30
21 percent increase on customer's bills for
22 carbon legislation.

23 And I guess I say all that for this.
24 There's -- there's got to be a balance. We've
25 got to have environmental stewardship. We've

1 got to have -- watch prices and we can't let
2 reliability fail.

3 We have an aging infrastructure. It
4 doesn't matter if it's bridges in Minnesota or
5 if it's our electric system. We haven't built
6 anything in a long time.

7 And so with that, I would say we look
8 forward to working with you as an association
9 of our parties.

10 And I'll leave you with this. I
11 think you take a look at all the parties
12 here. Sonny Popowsky, I think, is one of the
13 best consumer advocates in the country. I
14 think you have a phenomenal PA PUC. I think
15 you have others that are here, Secretary
16 McGinty, the Governor. We're all trying to do
17 the right thing.

18 We all have different ideas maybe
19 about exactly how to address the details. And
20 I think that's what we have to work together
21 on.

22 And I compliment you, Mr. Chairman,
23 and others for trying do that early on before
24 the crisis hits.

25 Thank you very much.

1 CHAIRMAN GEORGE: I thank the
2 gentleman. You've concluded?

3 MR. WARNOCK: Yes, sir.

4 CHAIRMAN GEORGE: We're running out
5 of time. Are there any questioners?

6 Let me finish off by saying thank you
7 very much.

8 MR. WARNOCK: Yes, sir.

9 CHAIRMAN GEORGE: I'm quite familiar
10 with the company you represent. I've had the
11 highest admiration for them all through the
12 years.

13 MR. WARNOCK: Thank you, sir.

14 CHAIRMAN GEORGE: Your testimony was
15 very fine.

16 What I want you and all those to know
17 in this room, that it makes no difference who
18 we are as a committee, we all want to do the
19 right thing.

20 MR. WARNOCK: Yes, sir.

21 CHAIRMAN GEORGE: And there are those
22 who feel it can be reached by one way and
23 others other ways, and the only way it will be
24 reached so that we can get independence,
25 especially on the petroleum products,

1 basically are a concern over the rate cap, and
2 it's been proven what has happened. We've got
3 to come together to get a happy medium,
4 understanding that the electric industry and
5 all other industries are important to us here
6 in Pennsylvania.

7 But the consumers and all of us from
8 time to time claim that we take care of the
9 ailment and in some ways feel we haven't. So
10 let's go forward and try to do the right thing
11 for all concerned or all involved.

12 Thank you very much and I thank those
13 of you that have provided your time.

14 And we will have another meeting and
15 it will be directed to what our approach will
16 be and what changes are going to be
17 instituted. Thank you all for coming.

18 (The proceedings were concluded at
19 10:48 a.m.)

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I hereby certify that the proceedings
and evidence are contained fully and
accurately in the notes taken by me on the
within proceedings and that this is a correct
transcript of the same.

Brenda S. Hamilton, RPR
Reporter - Notary Public