

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES

ENVIRONMENTAL RESOURCES AND ENERGY
COMMITTEE HEARING

LEHIGH COUNTY BUILDING
PUBLIC HEARING ROOM 111
ALLENTOWN, PENNSYLVANIA

TUESDAY, AUGUST 5, 2008
1:05 P.M.

PRESENTATION ON
ELECTRIC RATE INCREASES

BEFORE:

HONORABLE CAMILLE "BUD" GEORGE, MAJORITY CHAIRMAN
HONORABLE SCOTT E. HUTCHINSON, MINORITY CHAIRMAN
HONORABLE MIKE CARROLL
HONORABLE ROBERT FREEMAN
HONORABLE RON MILLER
HONORABLE JAY R. MOYER
HONORABLE CHRIS ROSS
HONORABLE RICHARD R. STEVENSON
HONORABLE GREG VITALI
HONORABLE JOHN T. YUDICHAK

ALSO IN ATTENDANCE:

HONORABLE LISA M. BOSCOLA
HONORABLE JULIE HARHART

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ALSO PRESENT:

E. THOMAS KUHN
MAJORITY EXECUTIVE DIRECTOR
LEEANN H. MURRAY
MAJORITY LEGAL COUNSEL
DANIEL A. OCKO
MAJORITY STAFF
JOSEPH A. DEKLINSKI
MINORITY RESEARCH ANALYST
BERNARD J. KIEKLAK, JR.
EXECUTIVE ASSISTANT TO SENATOR BOSCOLA

DEBRA B. MILLER
REPORTER

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P R O C E E D I N G S

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CHAIRMAN GEORGE: The Chair apologizes for its lackluster. We are 5 minutes late, but I'm sure we will make up for it as we go along.

This meeting has been called in regard to electric rates and the uncapping that will take place.

First allow me to introduce our members.

On my extreme right, the gentleman, Mr. Vitali. Mr. Vitali is from Delaware County.

And to his left is the gentleman, Mr. Miller, from York, Pennsylvania.

And at my near right is my cochairman, the gentleman, Mr. Hutchinson, from Venango.

And on my extreme left is the gentleman, Mr. Carroll, from Luzerne and Monroe.

And to his right is the gentleman, Mr. Moyer, the Legislator from Montgomery County.

And to his right is Representative Ross from Chester County.

I thank you, as well as all of those who are in the audience and those who will participate on a matter that is of extreme importance.

1 And to my direct left, I have the pleasure
2 to introduce the lady, Senator Boscola, from Lehigh,
3 Northampton, and Monroe.

4 And if I may, State Senator Lisa Boscola
5 began the 2008 legislative session by calling on her
6 colleagues to pull the plug on electric deregulation.
7 For a number of years, she has been a strong voice on
8 the issue of electric deregulation.

9 I cannot envision a hearing in Allentown on
10 electric volatility without her taking part. I am
11 pleased that she has shortened her vacation to be
12 with us today.

13 We are here in Allentown to continue the
14 discussion of impending rising costs of utility
15 prices, with which Pennsylvania consumers will soon
16 be faced when the rate caps expire.

17 The significance of our current energy
18 crisis cannot be denied, and the current rise in food
19 and fuel prices will soon be joined by utility
20 prices. For some, this burden will be too much for
21 them to bear.

22 I have been closely watching as other States
23 in the country tackle deregulation, and to be honest,
24 I am not heartened by what I see. Rate shock has
25 been felt across this country -- Texas, Virginia, and

1 Maryland -- and in Pennsylvania, the worst is yet to
2 come.

3 As price caps are soon to expire, the
4 increase in utility costs could jump anywhere from
5 estimates of 20 to 75 percent. Before the horror
6 stories begin, the Legislature and the industry must
7 come to terms with the reality of skyrocketing bills
8 and the potential of defaulting customers.

9 Let us remember that electricity is not a
10 commodity; it is a necessity, and it helps keep
11 Pennsylvanians cool in the ever-rising temperatures
12 of the summer and warm in the winter.

13 In order to prevent a future crisis, we must
14 continue to follow this closely and try to come up
15 with the solution to this problem before it is too
16 late.

17 I have asked our speakers here today to help
18 steer us in the right direction by providing us with
19 each of their unique points of view. I look forward
20 to a lively discussion on the issues and believe that
21 the more we discuss the issue, the more people will
22 begin to understand the seriousness of what lies
23 ahead.

24 Before I get into the hearing, I'm sure my
25 colleagues here in the House and this committee will

1 join with me while I invite Senator Boscola to be a
2 part of our inquiry. So be it.

3 Senator, would you want to make a couple of
4 statements?

5 SENATOR BOSCOLA: Just very quickly.

6 I really appreciate the fact that
7 Representative George took the time to bring the
8 committee here in the heart of the Lehigh Valley.

9 I have been talking about electric
10 deregulation for, I would say more than a year now,
11 and I see it as an economic train wreck that is ready
12 to happen, unless we step in and try to do the right
13 thing.

14 I mean, the impact on residential customers,
15 small businesses owners, corporate entities, and
16 also the ripple effect on how government agencies
17 are going to have to deal with this -- cities,
18 boroughs, townships, school districts -- there is a
19 ripple effect here, and we need to do the right
20 thing.

21 We need to strike a balance between what the
22 companies need, the electric companies need in order
23 to stay strong and survive, but also, how do we keep
24 rates low enough for the average homeowner and for
25 our business community?

1 Let us do the right thing here, and I think
2 that is what we are trying to accomplish, strike that
3 balance, because I think we can do it, but it is
4 going to take a lot of will on our part and I hope a
5 lot of cooperation on the part of the utility
6 companies.

7 Thank you.

8 CHAIRMAN GEORGE: I thank the lady.

9 And if I may, I would like to ask my
10 cochairman if he has a statement.

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

13 It is a pleasure to be here. I'm glad to be
14 here in Allentown, in the Lehigh Valley, to hear the
15 perspectives of the folks here as well as some of the
16 affected utilities and other interested parties, and
17 hear once again something that is a very important,
18 complicated, yet very timely topic that we are going
19 to be discussing today.

20 I think it is important that we look out for
21 the long-term electric and other energy needs of
22 Pennsylvania, and remember always that reliability is
23 key to that discussion also.

24 So I thank you for holding this hearing
25 today and look forward to an informative day.

1 Thank you, Mr. Chairman.

2 CHAIRMAN GEORGE: The Chair thanks the
3 gentleman.

4 We have a full agenda this afternoon.
5 Consequently, it is imperative that those presenting
6 their testimony keep their presentation within the
7 allotted time.

8 Your complete testimony can be submitted and
9 should have been in written form for the entire
10 committee and for the record.

11 Because of the nature of electric volatility
12 hearings and the expertise of those testifying,
13 questions and answers have a tendency to drag on. We
14 would all be better served if questions and answers
15 are direct and to the point.

16 Without further ado, the first testifier
17 will be the gentleman, David DeCampli, President of
18 PPL Electric Utilities.

19 Is the gentleman with us? Step forward,
20 please. Does everyone have his testimony?

21 You may proceed, sir.

22 MR. DeCAMPLI: Thank you.

23 Good afternoon, Chairman George, Chairman
24 Hutchinson, and members of the committee.

25 My name is Dave DeCampli, and I'm the

1 President of PPL Electric Utilities, which delivers
2 electricity to 1.4 million customers in eastern and
3 central Pennsylvania and employs 2,200 people in the
4 communities we serve.

5 PPL Electric Utilities is a
6 Pennsylvania-regulated subsidiary of PPL Corporation,
7 which has its headquarters here in Allentown and has
8 for nearly 90 years.

9 I thank you for the opportunity to testify
10 today regarding appropriate actions to address rising
11 electric prices in Pennsylvania.

12 While generation rate caps will remain in
13 place for PPL Electric Utilities' customers through
14 the end of 2009, we have been talking with our
15 customers about the issue for more than 2 years
16 already, and we have been taking steps to mitigate
17 the impact of generation rate cap expirations.

18 We believe, however, that more has to be
19 done, and we are pleased today to provide our
20 thoughts on possible measures.

21 First, we should all understand that rising
22 electric prices are not an issue that is unique to
23 Pennsylvania, nor are rising electric prices
24 restricted to the States that have restructured their
25 electricity businesses. In fact, electricity prices

1 in both regulated and deregulated States are on the
2 rise.

3 We also should put the anticipated 2010
4 increase in PPL Electric Utilities' rates into
5 perspective, and I would reference your eyes on the
6 quite small graph that is on the bottom of your
7 testimony, page 1.

8 The red bar at the bottom shows PPL Electric
9 Utilities' current fully-delivered price to a
10 residential electric customer at 10.43 cents a
11 kilowatt hour. And the box that has an arrow
12 pointing to a bar higher up on the chart would show
13 PPL Electric Utilities' rates, all in, provided to a
14 residential customer in the year 2010 at 14.32 cents
15 a kilowatt hour.

16 The point of the slide is, the combination
17 of utilities shown on the page represent those in the
18 Mid-Atlantic region, stretching out as far as Ohio,
19 down South to Virginia, and up into New England, and
20 it shows today how favorably PPL Electric Utilities'
21 prices compare even with the estimated increase in
22 the year 2010, based on our supply contracts where
23 PPL Electric Utilities' all-in price delivered to a
24 residential customer will be in the year 2010. And
25 this assumes none of these utilities experience any

1 other upward rate pressure, which we know is likely
2 to happen and will happen, particularly after 2011,
3 for other utilities in the State of Pennsylvania.

4 Let us return to the larger question. Why
5 are electricity rates increasing around the entire
6 country?

7 Not surprisingly, one of the primary reasons
8 for the increase is an imbalance of supply and
9 demand. Simply put, we are increasing our demand for
10 electricity faster than we are providing new supply,
11 diminishing reserves and causing more expensive
12 generating sources to be used for providing
13 electricity.

14 This diminishing reserve also comes at a
15 time of unprecedented increases in the price of fuels
16 and other commodity materials used in the production
17 of electricity.

18 The bottom line is this: Over the long
19 term, the best way to ensure that Pennsylvanians are
20 getting the best price for electricity is to increase
21 supply and to control or reduce demand.

22 While I work for the PPL company that
23 provides electricity and delivery service to
24 customers in Pennsylvania, other PPL companies are
25 hard at work on expanding the supply of electricity

1 right here in Pennsylvania.

2 Those companies are spending more than
3 \$5 billion to increase capacity and improve
4 efficiency of our Pennsylvania-based power plants and
5 to install state-of-the-art pollution control
6 equipment.

7 A PPL company is also spending more than
8 \$100 million on renewable energy projects, and yet
9 another PPL company is preparing a license request to
10 build a 1,600 megawatt, \$10 billion nuclear power
11 plant, also right here in Pennsylvania.

12 PPL companies are helping to build new
13 generation facilities that Pennsylvania and America
14 needs. The billions of dollars that we are
15 reinvesting in Pennsylvania power plants are proof
16 that PPL believes in the Commonwealth and its future.

17 Another element of the electricity picture
18 is our transmission infrastructure. Building new
19 power plants is of little use if we cannot get the
20 electricity from power plants to customers.

21 PPL Electric Utilities, my company, has
22 invested more than \$200 million in transmission
23 improvements over the past 5 years and is planning to
24 invest an estimated \$1.1 billion over the next
25 several years to improve transmission grid

1 reliability in Pennsylvania and to provide us with
2 additional capacity for the future.

3 Clearly, PPL companies are tackling the
4 supply issue, building new capacity and ensuring that
5 the important assets we have here in Pennsylvania
6 continue to be available to meet our electricity
7 needs.

8 That brings us to the other side of the
9 supply/demand equation, and that is energy efficiency
10 and demand management.

11 The regulated electricity delivery company
12 of PPL has consistently been a leader in encouraging
13 the wise use of electricity. We were among the
14 pioneers in providing customers with information
15 on passive solar systems, on energy-efficient
16 heat pumps, and the benefits of weatherization.

17 More recently, we installed our automated
18 metering system that provides us with a platform to
19 provide our customers with hourly information on
20 their electricity use.

21 Over the long term, we believe that energy
22 efficiency and demand management are essential
23 components of our effort to help customers use
24 electricity cost-effectively.

25 Energy efficiency and demand management

1 helps in two very fundamental ways. They can reduce
2 an individual customer's monthly use, thereby
3 lowering his or her bill, but energy efficiency and
4 demand management also can keep down the overall
5 costs for all customers by lessening the time that it
6 is necessary to run expensive generating facilities
7 to meet peak demand needs.

8 We are very hopeful that the General
9 Assembly will take action on legislation such as
10 House Bill 2200 that will help raise awareness
11 regarding the importance of using energy wisely and
12 give customers the tools to do so.

13 I have spent a few minutes focusing on the
14 longer term here this afternoon because it
15 underscores a very important point as we face the
16 challenge of expiring generation rate caps in
17 Pennsylvania.

18 Three points here:

19 We believe it is clear that to truly deal
20 with the underlying issues of electricity prices, we
21 need to address both supply and demand.

22 Secondly, we believe that government
23 advocacy groups, environmental organizations, and
24 energy companies need to work together to ensure that
25 all of our constituents are best served.

1 Thirdly, we believe that we need to develop
2 an energy policy, educate our constituents about
3 their role in that policy, and we need to stick to
4 it.

5 At PPL, we believe there is a clear path
6 forward, one in which we can protect the most
7 vulnerable in our society while reaping the benefits
8 that a competitive electricity generation market will
9 eventually offer to our customers in the Commonwealth
10 as a whole.

11 In fact, PPL Electric Utilities has been
12 aggressively working on the rate cap expiration issue
13 for several years, and we have been communicating
14 with our customers in a very clear and direct way for
15 more than 2 years.

16 Here are some of the steps we have taken:

17 We are implementing an electricity supply
18 purchasing strategy that reduces price spike risk, or
19 vulnerability, for customers. Under this program,
20 which we took the initiative to propose and the
21 Pennsylvania Public Utility Commission approved, we
22 are spreading out our electricity supply purchases
23 for the year 2010 rather than purchasing the supply
24 all at once, potentially at a time of very high
25 prices.

1 This plan is helping to smooth the
2 transition to competitive electricity markets when
3 PPL Electric Utilities' rate caps for generation
4 supply expire at the end of 2009.

5 So far, we have purchased half of the
6 supplies PPL Electric Utilities' customers need for
7 the year 2010. We are providing customers with
8 estimates of 2010 price increases as we complete each
9 phase of these purchases.

10 Now, to help mitigate these price increases,
11 it is important that customers have options and tools
12 to understand and manage their energy use wisely.

13 PPL Electric Utilities has launched its
14 ePower campaign and its Energy Analyzer Web site.
15 The Web site gives customers access to more
16 information than they have ever had about their
17 electricity use and gives them suggestions for
18 reducing their electricity use.

19 Through conservation, customers can save
20 money now and offset a significant portion of future
21 increases.

22 More than 200,000 customers have visited the
23 Energy Analyzer Web site, and those who do not have
24 Web access can utilize the same tools through dialing
25 our consumer-service organization.

1 Many customers have expressed an interest in
2 having new choices in the way they use and pay for
3 electricity service. To respond to this need, we
4 have increased the scope of our existing time-of-use
5 rate pilot program from 300 to 600 customers.

6 At the same time, we are developing an
7 additional time-of-use pilot that we expect to launch
8 by the end of 2008. We have committed to provide all
9 of our customers with the time-of-use rate option in
10 the year 2010.

11 And late last year, we filed a proposal with
12 the Pennsylvania Public Utility Commission that would
13 give customers the option to spread out the expected
14 2010 rate increase over time if they prefer not to
15 experience a larger one-time increase.

16 Under the plan, customers could have made
17 additional payments on their electric bills starting
18 at the beginning of the program through December of
19 2009.

20 Those additional payments, with interest
21 credited by PPL Electric Utilities, would be applied
22 to their bills in 2010 and 2011 so that the effect
23 would be single-digit increases in each year from
24 2008 to 2012 rather than a single one-time large
25 increase in 2010.

1 All the parties involved in reviewing this
2 proposal, including the Consumer Advocate, agree that
3 it would be a good program to offer to customers,
4 particularly as an alternative. Unfortunately, the
5 PUC has not acted to approve this program as of yet.

6 We have also increased funding for
7 low-income customers by 38 percent. This year, we
8 expect to spend \$30 million for payment assistance,
9 home weatherization, energy education, and reduced
10 payment plans for low-income customers.

11 PPL was an industry leader in developing
12 payment assistance programs for low-income customers.
13 Our Operation HELP program has been in place for
14 25 years.

15 Just recently, we announced a joint program
16 with the Sustainable Energy Fund that will provide
17 small businesses with rebates for lighting-efficiency
18 improvements.

19 We also believe that the Legislature can
20 play an important role in this process. We urge the
21 Legislature to enact House Bill 2200 that will set
22 challenging yet achievable conservation and
23 demand-side management objectives for the State.

24 We are hopeful that the Legislature will put
25 in place a reasonable phase-in plan for customers,

1 one that does not threaten the financial stability
2 and the reliability of the electricity delivery
3 systems in Pennsylvania.

4 It is also important to establish a clear
5 process for future generation procurement by the
6 electricity delivery companies. This process should
7 provide sufficient structure and flexibility to
8 ensure that the rules of the road are very clear to
9 delivery companies, potential suppliers, and
10 regulators but does not inhibit the development of
11 competition.

12 We are also encouraged that the Energy Fund
13 contains \$40 million in funding to assist low-income
14 customers. We urge the Legislature and the
15 Governor's Office to use that funding and to consider
16 additional funding if necessary.

17 There are some things that we think are bad
18 public policy and would harm customers in the long
19 run.

20 The first is putting in place additional
21 requirements as part of the electricity delivery
22 company procurement activities.

23 Two items of concern in this area include
24 additional requirements for the solar component
25 of AEPS and the recent amendment regarding

1 coal gasification, which could lead to higher
2 electricity rates and market uncertainty.

3 The second is, extending rate caps would be
4 very bad public policy in that it would not only put
5 the Commonwealth's electricity delivery companies in
6 serious financial jeopardy but would also dash any
7 hope of improving energy efficiency in the State as
8 well as decrease the likelihood of renewable energy
9 development.

10 At PPL Electric Utilities, we understand
11 that electricity price increases can be very
12 difficult for customers, especially those of limited
13 financial means who are facing rising costs for
14 everything they need.

15 While we have put in place and proposed
16 significant programs to help customers cope with the
17 increase in their electricity bills in 2010, we
18 remain committed to discussing additional reasonable
19 measures with public officials and others.

20 I thank you again for the opportunity to
21 discuss this topic today, and I look forward to
22 responding to any questions that you might have.

23 CHAIRMAN GEORGE: I thank the gentleman.

24 Before I go to the panel, I would like to
25 inform the committee and all that the gentleman from

1 Mercer, the gentleman, Mr. Stevenson, Representative
2 Stevenson, is with us.

3 And over to my left, my friend of 30 years,
4 Representative Freeman, is here.

5 And to his right, the gentleman,
6 Mr. Yudichak, is here.

7 Welcome to the committee.

8 And now if we can, let's inform. Let us try
9 to ask one or two questions and make them pointed and
10 ask them in a manner where they can be answered
11 without a long litany.

12 I turn to my right to Representative Vitali.

13 REPRESENTATIVE VITALI: Thank you,
14 Mr. Chairman.

15 First of all, I want to commend Mr. DeCampli
16 on his endorsement of these demand-side solutions
17 contained in House Bill 2200, like the conservation
18 measures and smart metering. And I especially want
19 to commend PPL for their commitment to provide
20 time-of-use rates within the next 2 years. I think
21 that is very encouraging.

22 I would like you to explain your decision,
23 your company's decision, to install smart metering
24 several years back, even though you are not required
25 to do so and even though it was in a regulated

1 market, and I would like you to explain why you chose
2 to do that, because there seems to be some confusion
3 in the Legislature about installing smart metering
4 and how it is more expensive.

5 So could you just explain how you came
6 about your decision, PPL as a company, to install
7 smart metering, these more expensive meters?

8 MR. DeCAMPLI: Well, as a regulated
9 electricity delivery company in the State of
10 Pennsylvania, we are obligated to operate the company
11 as efficiently as we possibly can, achieving
12 reliability and maintenance targets as established by
13 the commission.

14 The decision several years ago to make a
15 significant investment in changing out our metering
16 was founded in the case of efficiency.

17 We used to read meters by deploying meter
18 readers out to persons' homes. It required a lot of
19 driving, a lot of labor, and was quite expensive. So
20 the basic case to install that metering started on
21 the foundation of that case started with improving
22 costs and efficiency.

23 Second, it moved to providing more accurate
24 meter readings for our customers. We dramatically
25 improved the accuracy of meter reads to customers,

1 which resulted in fewer estimated bills, fewer
2 questions from customers, and just generally more
3 accuracy in that process.

4 The third reason was looking forward to the
5 day in which we really, truly believed that
6 alternative rates, such as time-of-use rates, were
7 going to become part of a formula as energy rates,
8 not surprisingly, were going to go up after a 10- to
9 12-year freeze in prices.

10 We believed it would be vitally important
11 for our customers to have a choice in electricity
12 supply rates, and therefore, we invested not just in
13 the automated meter-reading technology itself but, in
14 the past year, have deployed and invested in all the,
15 I will call it the back-office software to enable our
16 customers to start to view their daily usage, which
17 is available for every single customer on the Web
18 site today, and soon begin viewing their hourly usage
19 and begin to get acclimated to what is going on in
20 their homes and businesses that is driving their
21 energy consumption up and down.

22 Finally and ultimately, to deploy a
23 time-of-use rate option for all customers in 2010
24 when the generation supply caps do come off and rates
25 do go up.

1 REPRESENTATIVE VITALI: Thank you.

2 Would you indulge me with one more question?

3 We are totally on board with -- I am totally
4 on board with everything you have said so far.

5 I may differ with you on the next point. I
6 just want to understand your objections to it, and
7 they would be your objections to increasing the, I
8 believe it is the tier 1 or the solar requirements
9 under the Alternative Energy Portfolio Standard.

10 The people who I rely on for information
11 indicate to me that -- and I'm assuming it is an
12 expense argument you might make. The people who I
13 rely on advise me that the cost line for providing
14 solar energy is now about 17 cents a kilowatt hour
15 and heading down, whereas the grid-generated
16 electricity now is, I do not know, maybe heading up
17 in any event.

18 My point is that at some point in the
19 not-too-distant future, these two lines are going to
20 intersect, and in fact solar is going to be cost
21 competitive. So that, to me, speaks to the cost
22 issue.

23 So to sum it all up, could you explain to me
24 your objections to increasing the solar component
25 under AEPS?

1 MR. DeCAMPLI: Actually, Representative, you
2 covered it quite well. It is primarily a cost issue,
3 the 17 cents per kilowatt hour you referenced, as the
4 reference point you have been provided.

5 Our contracts that I sign for our generation
6 supply requirements in the year 2010 are for
7 residential services at about 10 cents a kilowatt
8 hour. That is just, again, that should be an
9 apple and an apple comparison of the
10 generation-to-generation costs. Still quite a
11 margin.

12 So our concern is that stepping up the
13 requirements for the tier 1 standard is likely to
14 continue to put upward pressure on wholesale electric
15 rates.

16 The generating companies and the marketing
17 companies that we buy our power from in order to
18 supply our power in 2010 have to build the AEPS
19 requirements into what they sell us. So we know
20 today they are likely putting a premium in there for
21 the added cost of the AEPS requirement.

22 So as long as that margin exists, it will
23 put upward pressure on energy supply rates, and that
24 is primarily our concern.

25 In the days in which generation costs are

1 going up on their own, do we want to add fuel to that
2 and require a higher percentage of the electricity to
3 come at even a higher cost than otherwise generated?
4 That is the primary issue for us.

5 If those lines cross, objection to the issue
6 withdrawn, and we will support it wholeheartedly.

7 REPRESENTATIVE VITALI: Thank you.

8 Well, we will continue the debate off the
9 record, but I do thank my Chairman for indulging me
10 with that second question. Thank you.

11 CHAIRMAN GEORGE: Does the gentleman, Mr.
12 Miller, have any questions? Will the gentleman yield
13 one moment?

14 I neglected. I didn't introduce the lady,
15 Representative Harhart. You are welcome to come up
16 with the committee, should you choose. Welcome to
17 the meeting.

18 REPRESENTATIVE HARHART: Thank you,
19 Mr. Chairman.

20 CHAIRMAN GEORGE: The gentleman, Mr. Miller.

21 REPRESENTATIVE MILLER: Thank you,
22 Mr. Chairman.

23 Sir, I was intrigued by your objection on
24 the extending the rate caps of being bad public
25 policy. But the second part of that -- I understand

1 the concerns for the financial jeopardy to the
2 utilities, but the second part of that, you go into
3 it would dash hopes of improving energy efficiency
4 and decrease the likelihood of renewable development,
5 and I would tend to agree with that.

6 My thought process would say that if we keep
7 standard generation of electricity fairly low, it
8 makes it very difficult for the other forms of energy
9 to begin to compete, and it is really not a true
10 ability for anyone else to compete, no matter what
11 the technology is, whether it is solar, wind,
12 something new we haven't tried yet.

13 Is that understanding anywhere near why you
14 make that statement?

15 MR. DeCAMPLI: That is right on point,
16 Representative.

17 Our concern is that we are finally seeing in
18 the Legislature, we are finally seeing from our
19 customer base in the questions we are getting at the
20 call center and the 200,000 customers that have
21 inquired about interest in reducing their
22 consumption, we are finally seeing that now that
23 prices have -- well, actually, our prices haven't
24 even gone up yet. We are seeing it, I think, from
25 the general economic pressures of other commodities

1 and services and food and other fuels that folks have
2 been spending their money on.

3 So we are finally seeing a great interest in
4 conservation. We are seeing an interest in
5 demand-side management. We are seeing an interest in
6 alternative fuels.

7 I think we are seeing that merely because
8 the thread and context of prices are going to go up
9 in the State of Pennsylvania. That is our argument.

10 REPRESENTATIVE MILLER: Okay.

11 And just real quick. I was intrigued by
12 your statement about the filing before the PUC to be
13 able to have customers voluntarily see an expedited
14 price increase to lower the increase down the road?

15 MR. DeCAMPLI: Correct.

16 REPRESENTATIVE MILLER: The question I would
17 have on that -- and this is the first I have heard of
18 it. I'm sorry; I haven't paid close enough
19 attention, I guess -- is that portable? If I sell my
20 home and move to another home, can that go with me to
21 that home?

22 MR. DeCAMPLI: The answer is yes. The
23 program is an interesting one, and it has received,
24 I will call it "interesting" coverage as it was
25 filed. It has been filed for a number of months now.

1 Rather than an estimated, the numbers I gave
2 you on that chart, our electricity rates going up
3 from 10 cents in change to about 14 cents in change a
4 kilowatt hour, it is about a 34 1/2-percent increase
5 for a residential customer.

6 So the alternative we have filed to offer to
7 our customers would have customers see increases of
8 6 and 7 percent over a 42-month phase-in period. So
9 it would essentially stair-step it much more with
10 smaller single-digit increases of 6 and 7 percent
11 versus a single 34 1/2-percent increase on January 1
12 of 2010.

13 That was the nature of it. It has drawn
14 some attention, because in order to be able to spread
15 that out over 42 months and make it economically
16 neutral to the company but beneficial to a customer
17 in that they would receive 6-percent interest on all
18 payments they make before January 1 of 2010, we
19 crafted it so folks would start to pay in advance
20 of the otherwise authorized increase in rates on
21 January 1 of 2010.

22 So it is a prepay. I'm not hiding from
23 that. That is a fact. It is a prepay.

24 You put it into the equivalent of a
25 Christmas account. It accrues interest. We cannot

1 use those funds in the interim, and on January 1 of
2 2010, we draw down the "Christmas account" and
3 supplement the bill increase after that.

4 So the result is a stair-step of 6-, 6-, 7-,
5 7-, 7-percent increases versus a single 35-percent
6 increase.

7 REPRESENTATIVE MILLER: I appreciate that
8 answer and clarification.

9 Thank you, Mr. Chairman.

10 CHAIRMAN GEORGE: I'm going to ask that both
11 the inquiries and the answers be a little bit more
12 direct. We are taking a lot of time, and it is not
13 bringing about any more information than is
14 necessary.

15 The next inquiry will come from the
16 gentleman, Representative Stevenson.

17 REPRESENTATIVE STEVENSON: Thank you,
18 Mr. Chairman, and I will be brief.

19 The gentleman, Mr. Vitali, asked about the
20 solar component. I would like to have you expand a
21 little bit on the second part of that statement in
22 your testimony about the recent amendment regarding
23 coal gasification and your objections to that.

24 MR. DeCAMPLI: We believe that the
25 coal-gasification amendment creates a monopoly

1 situation as it has been crafted, under which
2 only one project can meet the qualifications
3 established.

4 Furthermore, we believe that Pennsylvania
5 ratepayers will be required to fund the project's
6 development through the AEPS Act. That is simply our
7 objection to it.

8 REPRESENTATIVE STEVENSON: Thank you.

9 Thank you, Mr. Chairman.

10 CHAIRMAN GEORGE: I thank the gentleman.

11 The gentleman, Mr. Hutchinson?

12 I turn to the lady, Senator Boscola.

13 SENATOR BOSCOLA: Thank you.

14 Do you agree with the Consumer Advocate when
15 he projects PPL's projected rate increase to be
16 37 percent? Do you think that that projection should
17 be higher or lower? Is that a good indication as you
18 see it today?

19 MR. DeCAMPLI: Our projection -- and this is
20 based on the contracts for supply that we have signed
21 to purchase electricity -- would result in an
22 increase for residential customers of between 34 and
23 35 percent on January 1 of 2010.

24 SENATOR BOSCOLA: Okay, because you know how
25 involved I am in this issue.

1 I have something that is in front of me that
2 is very disturbing. It is going to come out shortly
3 from the Public Utility Commission saying that they
4 think that PPL's residential is going to be closer to
5 67.4 percent, commercial 85.4, and industrial 88.3.

6 Now, I knew it was only going to go up, but
7 I didn't expect it to be hitting these types of
8 numbers. Are they going to be wrong when the
9 Public Utility Commission comes out with this?

10 MR. DeCAMPLI: I'm not sure what the basis
11 for the projection is. Our basis for the projection
12 is contracts in hand and signed.

13 SENATOR BOSCOLA: I always knew it was going
14 to be higher. I mean, all these projections that
15 Sonny made, the Consumer Advocate, they are all going
16 much higher, and if it does reach that, we are going
17 to have serious problems, because people cannot
18 afford this.

19 So my whole point is, when you talk about
20 wind, solar, prepays, all this kind of stuff, what I
21 want to get to, the bottom line is, do you need this
22 increase to begin with?

23 Because when I look at some of these charts,
24 this is your own company, you know. They have it
25 that -- what is the "Improved Power Value"? What

1 does that stand for? And "Higher Capacity Value"?

2 Because every time we talk about how you
3 need these major -- not you alone, not your company
4 alone; this is happening across the State -- you are
5 always saying higher fuel costs, increased
6 environmental costs, but when you look at the chart,
7 that is only \$80 million and \$49 million.

8 But what is the "Improved Power Value"?
9 \$969 million dollars; \$540 million. To me, that
10 looks like it is just profit. I mean, I don't know
11 what is going on.

12 That is the bottom line that I want to come
13 out of this hearing today, is you can talk about
14 wind, solar, all these alternative sexy things, and
15 even smart meters, which I agree with, that could be
16 part of it, but do these companies actually need to
17 increase rates 67 percent? Are the shareholders
18 going to make gobs of money at the expense of the
19 Commonwealth? That is the bottom line.

20 And I'm trying to reach a compromise with
21 you guys on this, because I know you need to raise
22 your rates, I know you need to be strong as a
23 company, but can you work with us so that this
24 economy in Pennsylvania is not devastated by these
25 increased rates that I do not think are necessary?

1 MR. DeCAMPLI: Well, of course we are more
2 than willing to continue discussions, as we have,
3 with the Legislature. We have been an active
4 participant in those discussions. Most of them came
5 to a halt during the break in session at this point
6 in time. But we were very active and we commit to be
7 very active in those going forward.

8 Let me comment just a bit on profits or
9 earnings and what some of this chart may represent.

10 All, beyond the payment of dividends to
11 shareholders of our corporation, all of the remaining
12 earnings have been reinvested in expansion of the
13 company's assets. That includes the very expensive
14 scrubbers that have been built on the
15 Pennsylvania-based coal plant. It includes the
16 intended expansions of our hydroelectric station down
17 in Holtwood. It includes power-up rates at our
18 Susquehanna generating station. All of those
19 funds---

20 SENATOR BOSCOLA: That is \$40 million. That
21 is that little red bar. That is only \$40 million.
22 What is the "Improved Power Value" at \$969 million?

23 MR. DeCAMPLI: That is the expected
24 difference between -- that is the revenue expected
25 from the difference between the wholesale price in

1 2008 and 2010.

2 SENATOR BOSCOLA: Pure profit.

3 MR. DeCAMPLI: No.

4 SENATOR BOSCOLA: Yes.

5 MR. DeCAMPLI: Money to be reinvested in
6 continued expansion and construction on the system.

7 SENATOR BOSCOLA: How much new generation
8 have you been investing in now?

9 MR. DeCAMPLI: Well, let me share some
10 figures with you.

11 SENATOR BOSCOLA: We gave you \$2 billion in
12 stranded costs. Where did that go?

13 MR. DeCAMPLI: Let me just cite some figures
14 for you.

15 SENATOR BOSCOLA: I mean, listen, Dave. The
16 only reason I'm doing this is because this is coming
17 out of your own company. I'm not making this stuff
18 up.

19 Now, what is the "Higher Capacity Value"
20 at \$540 million? That is PJM taking their share,
21 right?

22 MR. DeCAMPLI: No. PJM is a nonprofit
23 organization.

24 SENATOR BOSCOLA: Well, they are a money
25 machine.

1 Okay; so here is the bottom line. You have
2 higher fuel costs that you constantly say is the
3 reason why you have to raise rates this high, the
4 scrubbers and all the things that you are talking
5 about, which is only \$40 million. All this green
6 stuff -- the color of money -- is all pure profit,
7 and that is what I'm trying to get at. Do we need to
8 be there? Can we get that lower? That is what the
9 job should be of this committee.

10 We have got to call it for what it is. All
11 right; I guess I'm done.

12 CHAIRMAN GEORGE: The gentleman, Mr. Moyer.

13 I'm sorry; Mr. Ross. I beg your pardon.

14 REPRESENTATIVE ROSS: Thank you,
15 Mr. Chairman. I didn't put my hand up, but I thought
16 we were all asking, so I didn't think I needed to.

17 I want to state that I'm pleased that PPL
18 is in support of the legislation that you
19 prime-sponsored and is over at the Senate at this
20 point, because, as you know my feelings on that, that
21 is a key way to really mitigate the electric price
22 issue that we are talking about. It is really one of
23 the few things that we have that we will be able to
24 actually implement prior to the price caps coming
25 off.

1 And I hope that the Senators will follow
2 through on that and move that bill forward, because
3 the opportunity is there to reduce some of the costs
4 that we are seeing on this spreadsheet and really hit
5 in.

6 I wanted to focus in on two points briefly.
7 Demand-side management is something that I think a
8 lot of people do not understand too well, and I
9 wanted to have you help quantify what that actually
10 means.

11 The different prices of electricity are bid
12 in, into the PJM system, at different times depending
13 on the demand in the marketplace. Now, PJM, as I
14 understand it, bids in the cheapest first, and they
15 take the power when we are having relatively low
16 demand, and then as we get to peak demand, we wind up
17 having the more expensive power.

18 I have heard numbers, but I think they may
19 be a little bit out of date. Do you have the
20 numbers, approximately, the differential between the
21 base load and the peak load, sort of by a factor or
22 however you might want to describe it?

23 MR. DeCAMPLI: I don't have that readily
24 available to me. They change, as you know,
25 seasonally and time of year.

1 REPRESENTATIVE ROSS: Right.

2 MR. DeCAMPLI: There is a, let us just
3 describe it as there is a substantial difference
4 between the cost of very-on-peak power, 2 to 4
5 o'clock on a summer afternoon, versus the overnight
6 hours and the wee hours of the morning when demand is
7 very low.

8 REPRESENTATIVE ROSS: Okay.

9 Let me throw a number out at you. This is
10 something that has been quoted to me, that there is a
11 differential of as much as seven to eight times
12 between the base load rate and the peak load rate---

13 MR. DeCAMPLI: Yes.

14 REPRESENTATIVE ROSS: ---and that we can
15 avoid those costs or a significant portion of those
16 costs if we can spread that curve out. Is that as
17 you understand it?

18 MR. DeCAMPLI: Yes, that is as I understand
19 it.

20 REPRESENTATIVE ROSS: Okay. And then
21 another follow-up on that, just again to quantify.

22 Well, I take your point that the solar cost
23 is obviously more expensive than regular generation
24 costs. My memory of the Alternative Energy Portfolio
25 Standard legislation and the amendment that is being

1 considered here is we are talking, I think, about a
2 couple tenths of a percent of the total power of
3 generation load that you have.

4 So even if we have a differential of,
5 whatever it is, 10, 15, 20 percent or whatever it is
6 going to turn out to be, we have to take that as a
7 tenth of a percent of the total power generation that
8 you are having to buy.

9 MR. DeCAMPLI: Yes.

10 REPRESENTATIVE ROSS: So it will be factored
11 down to a relatively small amount for people that are
12 actually using the power individually.

13 MR. DeCAMPLI: That sounds accurate. The
14 true impact would be quite small. Our concern is
15 that it has just continued upward pressure on
16 prices.

17 REPRESENTATIVE ROSS: Thank you.

18 CHAIRMAN GEORGE: I thank the gentleman.

19 The gentleman, Mr. Moyer.

20 REPRESENTATIVE MOYER: Thank you,

21 Mr. Chairman.

22 First of all, I would also like to commend
23 you, sir, for the initiatives you have outlined,
24 learning and then trying to educate your customers to
25 the impending rate removals.

1 With that said, that said, last week, last
2 week I participated in a Republican Policy Committee
3 meeting held in Pottstown on this very subject, and I
4 had the opportunity, or we had the opportunity to
5 listen to testimony, for example, from one of the PUC
6 commission members, and I posed this question to him
7 and I'm going to pose the same question to you,
8 because I'm very, very concerned about the impact it
9 is going to have on my constituents in my own
10 district in Montgomery County, which, incidentally,
11 is not serviced by your company, another fine
12 company.

13 But I can tell you on a personal note, I was
14 not a member of the General Assembly when these rate
15 caps went on in 19--- I believe 1997 they were
16 affected. And as a consumer, I was really excited
17 about the possibility of being able to, at some
18 point, choose my own company. If I didn't wish to be
19 with the fine company I am with, I perhaps could go
20 to you or go to someone else.

21 But here we are -- and I'm leading to the
22 question -- here we are in 2008, and the rate caps
23 are coming off in my part of the State in 2010.
24 There has been no competition. There has been no
25 free marketplace.

1 So, sir, my question to you is, and you run
2 a fine company and you are doing a great job, but my
3 question to you is, what guarantee does this
4 committee have, or more importantly the citizens of
5 Pennsylvania have, that when the rate caps come off,
6 if they come off -- and quite frankly, I'm an
7 advocate right now of extending them -- but what
8 assurances do we have when the rate caps come off
9 that the free market will kick in? Because, quite
10 frankly, we are in a decline right now in our
11 economy, both here in the State and in the country.
12 So what assurances, sir, do we have that the free
13 market will kick in and people will have a choice?

14 MR. DeCAMPLI: I think the best example for
15 you would be the territory surrounding Pittsburgh,
16 which is serviced by Duquesne Light Company. They
17 have exited rate caps.

18 I believe the figure is just short of
19 50 percent of their delivered power is being
20 purchased from an alternative supplier other than
21 Duquesne Light as the provider of last resort for
22 that service territory.

23 I think the last number I knew was
24 49 percent of the delivered energy flowing through
25 the wires of Duquesne Light is being purchased

1 directly by a consumer from another supplier than the
2 local utility company. That is what is happening in
3 Pittsburgh.

4 Now, they have been out of caps for a couple
5 of years, so we would expect to see that type of
6 retail competition emerge in our territory once
7 prices go to market rates.

8 Today, the argument today is that with the
9 prices capped at 1997 generation prices, there is not
10 competition, because no one could supply energy to us
11 lower than the capped price since 1997. So
12 competition, although it started to emerge in the
13 late 1990s briefly, it quickly vanished because
14 no one could compete with the capped prices.

15 I would just use Pittsburgh as an example
16 and assurance that retail competition will emerge in
17 the marketplace.

18 REPRESENTATIVE MOYER: Thank you, and thank
19 you, Mr. Chairman.

20 CHAIRMAN GEORGE: I thank the gentleman.
21 The gentleman, Mr. Carroll.

22 REPRESENTATIVE CARROLL: Thank you,
23 Mr. Chairman.

24 I am interested with respect to the
25 time-of-use rate option.

1 MR. DeCAMPLI: Yes.

2 REPRESENTATIVE CARROLL: From the
3 perspective of a residential customer or a small
4 business customer, even an industrial customer --
5 well, maybe we will separate the industrial customers
6 for a moment -- how do you envision the time-of-use
7 rate option being implemented for a regular
8 residential or small business customer? What are the
9 mechanics of how that will work?

10 MR. DeCAMPLI: Let us keep in mind, that
11 will be an option, so customers will have a choice
12 here.

13 Today's rate for all residential customers,
14 except those that are on our pilot at the moment, is
15 a standard flat rate 24 hours a day, 7 days a week,
16 all year long.

17 The mechanics in the future is that a
18 residential customer's meter will be read every
19 60 minutes, all right? And every 60 minutes, they
20 will know how much energy has been consumed in that
21 interval.

22 Now, the pilot that we are launching at the
23 end of this year will be a two-time-of-day option.
24 So there will be kind of an on-peak price and an
25 off-peak price, just two prices during the day.

1 So a consumer---

2 REPRESENTATIVE CARROLL: Let me interrupt
3 you.

4 That is for the 600 pilot customers that you
5 have now?

6 MR. DeCAMPLI: Correct, and we will be
7 expanding that to a year-round pilot at the turn of
8 this year.

9 We are using the pilot to test all the
10 mechanics of the metering system that we have
11 installed, the software, the billing options, et
12 cetera.

13 So in 2010, at a minimum, we plan to offer a
14 two-tiered rate two times a day and likely more
15 advanced rates, including all the way down to 1-hour
16 intervals should customers choose that option. That
17 is what we are planning on filing for.

18 The way the mechanics work is as a consumer
19 uses energy, and the price goes up sometimes seven
20 times higher during peak than off peak, if a consumer
21 can use less energy during on-peak hours, shift that
22 usage to lower priced off-peak hours, they will save
23 a lot of money.

24 So that is essentially how the mechanics
25 work.

1 REPRESENTATIVE CARROLL: Do the customers
2 know on a daily or weekly basis when those peak hours
3 are? How do they come to learn when they should use
4 the electricity as compared to when they should try
5 and conserve?

6 MR. DeCAMPLI: A very important piece of the
7 mechanics is sharing what the forward-looking hourly
8 prices will be.

9 They are available today. Anyone can go on
10 and look at PJM's hourly market price on the Web
11 site, but that is not something an average consumer
12 is going to be able to do. We will need to make that
13 available to consumers who are a part of this pilot
14 and share with them what the prices are going to be
15 or actually estimated to be.

16 REPRESENTATIVE CARROLL: Will those prices
17 change on a daily basis? For example, from the
18 period -- I would have to believe that a high-use
19 time would be sometime midafternoon -- for the window
20 from noon until 3 on a Tuesday in July in 2010, will
21 those prices change for the following Tuesday in
22 July?

23 MR. DeCAMPLI: Well, for our pilot, which is
24 just a two-time-of-day tier, the prices are fixed
25 year-round. You know that it is X dollars, cents per

1 kilowatt hour, between the hours of 10 in the morning
2 and 7 in the evening -- we haven't fixed the hours
3 yet -- and then a lower price for the evening and
4 overnight hours. That will be fixed, and customers
5 will know that.

6 The more complicated or sophisticated rate
7 of actual hourly, real, true interval time of use,
8 that will change every hour, every day, all year
9 long.

10 REPRESENTATIVE CARROLL: It really will be
11 incumbent upon PPL and all the other providers to
12 make sure the customers are well educated with
13 respect to when the times of day are that they can
14 best use electricity in order to save money.

15 MR. DeCAMPLI: Absolutely.

16 REPRESENTATIVE CARROLL: Because at the end
17 of the day, when the rates go up, whatever they
18 go up in 2010, it will be incumbent upon PPL and
19 others to make sure that those of us that are
20 customers know when the best time of day is to use
21 electricity.

22 So I urge you and others to make sure that
23 there is a well planned education program for
24 customers so that they can be participants in trying
25 to minimize the impact.

1 MR. DeCAMPLI: You have my commitment to
2 that.

3 REPRESENTATIVE CARROLL: Thank you,
4 Mr. Chairman.

5 CHAIRMAN GEORGE: I thank the gentleman.
6 The gentleman, Mr. Yudichak.

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

9 In your testimony, you listed major
10 investments that PPL is making on the capacity side
11 -- \$5 billion to increase capacity and efficiency;
12 \$100 million on renewable energy projects;
13 \$10 million for a nuclear plant, and I presume that
14 is the third tower at Salem Township, that that is
15 the project that you are referring to.

16 These investments are being made now. What
17 kinds of investments were being made during the
18 deregulation period? What kinds of investments were
19 the company able to make during that period in
20 looking at the long-term sustainability price in the
21 electric market?

22 MR. DeCAMPLI: I would like to just correct
23 two things so you are sure you have the facts on
24 them. It is \$10 billion for the nuclear plant, not
25 \$10 million. I wish it were \$10 million.

1 And it would not be Salem. That is a
2 different power company site. This would be up
3 toward the Berwick site in north-central
4 Pennsylvania.

5 During the deregulation years -- I'm
6 assuming you are bounding by, say, 1997 on -- I am
7 going to say I am at a bit of a disadvantage in that
8 I have joined this company just about 18 months ago.

9 However, in the 18 months and just
10 foreseeing that, I was aware of major investments in
11 the coal scrubbing of both of our major coal
12 facilities, at Brunner Island in Montoursville,
13 planned expansion for the Holtwood generating
14 station, retirement decommissioning of generating
15 stations. They are Pennsylvania-based decisions.

16 And then lots of investments have been made
17 worldwide in PPL. PPL is an international company
18 with holdings and operations in different countries
19 as well as a number of different States in the
20 United States. So investments have been made there
21 as well.

22 REPRESENTATIVE YUDICHAK: But the point I
23 wanted to get at, and history is always a great start
24 to getting to a problem. And the history of
25 deregulation in Pennsylvania, and our Chairman,

1 Bud George, in voting against deregulation -- there
2 is a reason he is wielding the gavel; he is not just
3 devilishly handsome, he's a pretty smart guy when it
4 comes to energy issues -- and I think that part of
5 the problem as we go forward is that we limited your
6 ability to make investments in capacity and renewable
7 energy. You are just now starting to make those
8 investments.

9 MR. DeCAMPLI: Yes.

10 REPRESENTATIVE YUDICHAK: And what impact
11 could a rate cap, continuing that rate cap have, I am
12 not certain. But there is the issue that the price
13 spike is going to be too much at the wrong time, so
14 that we have to get to some kind of compromise. We
15 have to allow you to make the investment.

16 And I believe that I was correct. Salem
17 Township, which is just outside of Berwick, is the
18 site of the third reactor. To make those kinds of
19 investments, \$10 billion -- and you have to forgive
20 me, but I work for the Legislature, so usually
21 millions of dollars is a little easier. A billion,
22 that is usually on the private-sector side when we
23 get talking about that kind of money.

24 But how do we go beyond this spike. And it
25 is going to be a very tough 2 or 3 years as the

1 failure of deregulation, and I do not know if you can
2 speak to that from your perspective and the company;
3 I have heard other electric companies have said that
4 and were opposed to deregulation back in 1996, that
5 it has been a failure, we have to address the
6 failures of that system and move forward, making the
7 investments but trying to create some kind of
8 stability in the market for our consumers, both on
9 the business side and the residential side.

10 MR. DeCAMPLI: My apologies for Salem
11 Township. I was thinking of Salem Township, New
12 Jersey, another State where there is another nuclear
13 facility. That was what was on my mind.

14 Let me comment on both aspects of that.

15 Deregulation has not quite been fully
16 deployed yet. That is my position on it.

17 When rate caps come off, competition enters,
18 per the previous question. We will see customers
19 saving money by choosing aggressive alternative
20 suppliers who are able to offer our customers a
21 better rate than we can as our default provider
22 service. I truly think that is going to happen, just
23 as it has in Pittsburgh.

24 Now, during the rate-cap period, the one
25 feature of deregulation that has helped Pennsylvania

1 consumers tremendously is they have been purchasing
2 power at a fixed price for 13 years, and in the last,
3 as the years went on, that price that our customers
4 are purchasing energy from us for is much less than
5 the actual daily true market costs.

6 So in one respect you could say that
7 Pennsylvanians have saved billions of dollars in what
8 they otherwise would have paid in energy rates had it
9 been able to stair-step across those 13 years, and
10 that is just evident in States where prices have been
11 going up. Deregulated or not deregulated, prices
12 have been going up substantially.

13 If you go across the Delaware River to
14 New Jersey, residential customers are paying 17 cents
15 a kilowatt hour today -- 17 cents a kilowatt hour
16 today. With our proposed increase in 2010, which is
17 a very dramatic one, and I understand that---

18 CHAIRMAN GEORGE: I think we are going a
19 little bit far with this.

20 We asked the question directly. You just
21 said that you were not here when it first was passed.
22 I was, and I was one of those that voted "no,"
23 luckily.

24 Let us get to the answer in a direct manner,
25 because we as Legislators, regardless of where we

1 are, we are being hit by our constituents wanting to
2 know what they are going to do and what we should be
3 able to do to keep these rates at a minimum.

4 We are not concerned about New Jersey; we
5 are concerned about Pennsylvania.

6 Go ahead, Mr. Yudichak.

7 MR. DeCAMPLI: So that is my answer to, has
8 deregulation worked?

9 And the second part of your question was,
10 what can be done to ease this burden? We think the
11 most effective measure would be some form of a rate
12 phase-in, some form of a rate phase-in over a period
13 of time.

14 And, of course, obviously we would support
15 the filing that we placed with the commission several
16 months ago or some form thereof as long as it
17 supports, you know, an easing of those rates and it
18 is financially viable for the corporation and does
19 not impede reliability of our system.

20 That is what we think is the next best and
21 most important step for the process.

22 REPRESENTATIVE YUDICHAK: Thank you,
23 Mr. Chairman.

24 CHAIRMAN GEORGE: The gentleman,
25 Mr. Freeman.

1 REPRESENTATIVE FREEMAN: Thank you,
2 Mr. Chairman.

3 Thank you for your testimony. I was
4 particularly pleased to see your support for
5 House Bill 2200 and the conservation measures that
6 are entailed in that legislation that has been
7 offered by Chairman George.

8 I am the author of the smart-meters proposal
9 which was incorporated into 2200, and I am pleased
10 that PPL has gone forward in terms of time-of-rate
11 metering, at least in terms of the hardware.

12 You mentioned you have a pilot program,
13 currently 300 utility customers. Can you tell us
14 when that pilot program started and what kinds of
15 results, particularly in terms of rate savings to
16 consumers, have been realized as a result of that
17 technology?

18 MR. DeCAMPLI: The initial pilot of 300
19 customers started prior to my being with PPL Electric
20 Utilities, and it has been in flight for the time
21 that I have been here.

22 The results are mixed. Some customers have
23 clearly changed behaviors and have saved money.
24 Others have not changed usage behaviors, and the
25 program actually has cost them more than otherwise

1 staying on the fixed rate 24 hours a day. So that
2 has been our experience with the small pilot of
3 300 customers.

4 Our intention with the expansion of the
5 pilot, to an earlier question and earlier statement,
6 is really, really educate them on how they can take
7 advantage of such an alternative rate.

8 So we have seen a variety of benefits and
9 consequences from that pilot.

10 REPRESENTATIVE FREEMAN: For those who have
11 taken advantage of the rate option, that purchase
12 their energy at off-peak periods, what kinds of
13 savings have they realized?

14 MR. DeCAMPLI: Well, that is dependent upon
15 the margin between on and off peak, which in the
16 300 customer pilot is still rather narrow.

17 So my recollection, on a percentage basis of
18 a \$100-a-month average customer bill for a PPL
19 Electric Utilities' user, there were customers that
20 saved as much as \$18 or 18 percent a day.

21 REPRESENTATIVE FREEMAN: And obviously if
22 there was a broader base use of that, there is
23 increased savings for the system as a whole, because
24 you are dropping the purchase time throughout the
25 entire utility base.

1 MR. DeCAMPLI: Yes. The real benefit to all
2 customers, of customers going on that type of raise,
3 is that if we can reduce the amount of energy that we
4 have to buy on peak, those benefits would be shared
5 across our entire customer base with the lower
6 generation costs.

7 REPRESENTATIVE FREEMAN: So the more
8 participants, the greater chance of reducing the
9 costs even more so?

10 MR. DeCAMPLI: Absolutely. Absolutely.

11 REPRESENTATIVE FREEMAN: Okay. Thank you.

12 CHAIRMAN GEORGE: If I may, I would like to
13 ask you a couple of questions very directly, and you
14 can answer them one of four ways: "I don't know,"
15 "yes," "no," or "I don't care."

16 I want you to correct me if I'm wrong, but
17 didn't PPL accrue approximately \$4.8 billion as a
18 result of this deregulation? Isn't that true?

19 MR. DeCAMPLI: Sir, I don't know.

20 CHAIRMAN GEORGE: Oh, you don't know?

21 MR. DeCAMPLI: No, I don't.

22 CHAIRMAN GEORGE: Oh, you know how they
23 spent the money but you don't know what they did.

24 Well, let me ask you a second question. You
25 probably will not know: Did they put any of their

1 moneys out of State rather than utilize working men
2 and women in Pennsylvania, resources in Pennsylvania?
3 Did they not buy a hydroelectric power plant in
4 Montana?

5 MR. DeCAMPLI: Yes, they did.

6 CHAIRMAN GEORGE: You know that.

7 MR. DeCAMPLI: I do know that.

8 CHAIRMAN GEORGE: And you know, finally, and
9 we talk about saving money, it was only, and maybe
10 you were just a boy, but it was not too long ago when
11 they wanted you to take and put all-electric heat in
12 to give you a better price. Now we are talking about
13 meters, talking about saving. I don't mind you
14 people making a lot of money, but I want you to put
15 it back in Pennsylvania where you got it.

16 And with that, I thank you for your patience
17 and your testimony.

18 MR. DeCAMPLI: You're welcome. Thank you.

19 CHAIRMAN GEORGE: Next up is David Ciarlone,
20 Manager of Global Energy Services, Alcoa, Inc., and
21 James Engledow, Plant Manager of the Alcoa Lancaster
22 Works.

23 Welcome.

24 MR. ENGLEDDOW: Thank you, Mr. Chairman.

25 MR. CIARLONE: Thank you, Mr. Chairman.

1 CHAIRMAN GEORGE: Again, you heard me
2 admonish. Try to keep your answers and your
3 dissertation so that they are not redundant so all,
4 regardless, have an opportunity and we do not run out
5 of time.

6 You may proceed.

7 MR. CIARLONE: Yes, Mr. Chairman.

8 MR. ENGLEADOW: Thank you, Chairman George,
9 Chairman Hutchinson, and the members of the committee
10 for this opportunity to testify today.

11 My name is Jim Engledow, and I work for
12 Alcoa as the Plant Manager of the company's aluminum
13 rolling mill in Lancaster.

14 With me today is Dave Ciarlone, Manager of
15 Global Energy Services for Alcoa, who is responsible
16 for the procurement and management of natural gas and
17 non-smelting electricity in North America.

18 I will focus my remarks on how the prospect
19 of the rising energy prices will affect our ability
20 to continue to manufacture flat-rolled aluminum
21 products in Pennsylvania.

22 Dave will help with any questions that you
23 might have of a technical nature, including insights
24 into how, based on Alcoa's experience, energy markets
25 and supply work in other States.

1 Lancaster produces aluminum sheet for a
2 variety of markets, including automotive, commercial
3 transportation, consumer electronics, and consumer
4 goods such as cookware. We have been a member of the
5 community since the 1940s and currently employ more
6 than 850 people at our plant.

7 A study released just this spring put our
8 total direct economic impact on Lancaster County at
9 nearly \$240 million annually.

10 As you might guess, heating 32,000-pound
11 aluminum ingots and then rolling them into a sheet or
12 a plate uses enormous amounts of energy. We are
13 among the largest industrial users in Pennsylvania
14 and spend more than \$10 million annually purchasing
15 electricity.

16 I am here before you today because we are
17 concerned about our ability to continue to compete
18 and to grow our business in the face of skyrocketing
19 energy prices.

20 We believe it is critical for our leaders
21 across the State to come together and to find a way
22 to provide reliable, affordable energy with
23 predictable pricing to all customers in the
24 Commonwealth.

25 Before I talk further, let me tell you what

1 we are doing in Alcoa Lancaster Works.

2 As I mentioned above, we are spending more
3 than \$10 million annually for electricity for our
4 plant.

5 Currently, our energy costs are competitive
6 with other Alcoa facilities around the country,
7 though not the best.

8 Recently, for example, our sister plant in
9 Davenport, Iowa, was able to sign a long-term
10 contract with pricing 23 percent below the current
11 level that Lancaster pays.

12 I emphasis "current" rate. With prices
13 projecting to rise 70 percent, or perhaps even 88 as
14 was suggested today, or more at our plant once rate
15 caps end, our energy costs will move from the middle
16 of the pack to among the highest in the company.

17 Our costs will be more than double the rate
18 paid by our plant in Iowa. This will have a real
19 world impact.

20 Most of our products are sold into markets
21 where pricing is very competitive and suppliers come
22 from every part of the world. Passing along that
23 cost increase will be difficult, even unlikely.

24 More likely, our task will be to try to cut
25 costs elsewhere. If we are not completely

1 successful, our higher costs will make it more
2 difficult for us to win new capital investment from
3 Alcoa, which evaluates where to invest the
4 shareholder money based on the prospects for earning
5 and acceptable return. We are competing with
6 different businesses around the world for the capital
7 investment.

8 With that prospect facing us, we formed our
9 energy team to look at all strategies for managing
10 costs in a post-rate-cap world. Our group is
11 examining several initiatives, including a
12 reharvesting of energy-efficiency initiatives,
13 cogeneration, participation in regional
14 demand-response programs, and competitive bidding or
15 negotiations for long-term contracts.

16 Some of these strategies are encouraging,
17 but it is clear there is no single answer to our
18 problem. That is why I'm here today before you.

19 We are aware of a number of proposals before
20 the Legislature that would mitigate the impact of
21 uncapping Pennsylvania electric rates. We applaud
22 Legislators working to address this critical issue,
23 because it will affect every consumer in this
24 State.

25 We believe it is possible to balance the

1 competing needs of all stakeholders. We believe it
2 is possible to provide energy producers with a fair
3 return while shielding consumers of all classes from
4 volatile energy costs and a flawed Federal regulatory
5 regime that wrecks budgets at home and at the
6 factory.

7 We see this balance achieved around the
8 country, working best in States that have continued
9 with traditional cost-of-service ratemaking. Even in
10 those States that have moved toward regulation,
11 several have implemented countermeasures to protect
12 consumers.

13 The fact remains that consumers need
14 protection from Federal wholesale rules designed to
15 maximize revenue, not produce the lowest reasonable
16 price.

17 The proposal to phase out rate caps has
18 merit. So does a hybrid approach. We also believe
19 that Pennsylvania should investigate more
20 comprehensive structural reform that would meet our
21 fundamental need for stability, affordability, and
22 reliability over the long term.

23 Given the complexity of the issue, we urge
24 the Legislature to take the time necessary, even if
25 that means extending the current rate caps to protect

1 consumers in the interim.

2 The risk to families and businesses posed by
3 raising energy prices is real. We have experienced
4 them directly in Alcoa.

5 Our aluminum smelter in Maryland closed in
6 2006, ultimately eliminating 700 family-sustaining
7 jobs. When the State's move to deregulation was
8 completed, we were no longer able to obtain the
9 long-term, competitively priced power.

10 Just a few weeks ago, Alcoa announced that
11 it would idle half of our Rockdale, Texas, smelter
12 and lay off 250 people because of local power supply
13 issues.

14 On the other hand, there are States that
15 have taken proactive measures to avoid these
16 catastrophes. In 2007, Virginia reversed course and
17 returned to a structure based upon cost-of-service
18 regulation. And just this spring, Ohio passed a
19 law, which is now being implemented, that reversed
20 its 1999 deregulation law and creates a hybrid
21 approach.

22 Because of their energy-intensive nature,
23 aluminum smelters are the first to feel the impact of
24 rising energy costs. In other businesses, the
25 results might not be as immediate but are just as

1 real over the long term.

2 While that point is important and I'm sure
3 well understood by the panel, I think there is
4 another aspect of this issue that should be
5 considered.

6 Pennsylvania is not alone in grappling with
7 rising energy costs. This is a global issue. If we
8 can work together on a viable, long-term solution,
9 Pennsylvania could create an economic development
10 advantage that would drive the State's economy for
11 the next 25 years.

12 While difficult, it is not impossible. With
13 the leadership and the support of this committee,
14 your colleagues in the Legislature, Governor Rendell,
15 business leaders, consumers, and energy providers, we
16 can reach a mutually beneficial solution.

17 Thank you for taking the time to organize
18 this hearing and allowing us to offer our thoughts.
19 We stand ready to work with you in the future, and
20 Mr. Ciarlone and I will be happy to answer any
21 questions that you may have today.

22 CHAIRMAN GEORGE: Are you going to testify
23 or just answer questions?

24 MR. CIARLONE: I'm just prepared to answer
25 questions, Mr. Chairman.

1 CHAIRMAN GEORGE: I thank you very much.

2 Rather than go in order, I will look to the
3 right and left. I'll start at the left this time.

4 Mr. Freeman?

5 Mr. Yudichak?

6 Mr. Carroll? One question, please.

7 REPRESENTATIVE CARROLL: Has your company
8 provided any alternatives with respect to purchase
9 options with electricity now in terms of time of use,
10 or do you have any kind of ability to gain some
11 benefit with respect to time of use or any other
12 alternative provider?

13 MR. ENGLEDDOW: Time of use, no, but actually
14 for several years, we have been participating in an
15 interruptible rate with PPL.

16 But because we are a 24/7 operation,
17 depending on whether it is an economic curtailment or
18 an emergency curtailment, it has a pretty severe
19 impact on the mill in terms of dollars as well as
20 disruption to work. But it is one alternative we
21 have.

22 REPRESENTATIVE CARROLL: Thank you.

23 CHAIRMAN GEORGE: I thank the gentleman.

24 The gentleman, Mr. Moyer.

25 REPRESENTATIVE MOYER: Thank you,

1 Mr. Chairman.

2 Just a question. Could you elaborate a
3 little bit on -- you brought up Ohio and Virginia.
4 Could you just elaborate on what the Legislatures did
5 there?

6 MR. ENGLEDDOW: Actually, I think David would
7 be better for that.

8 MR. CIARLONE: Mr. Moyer and Mr. Chairman,
9 very, very briefly, in Virginia, they basically
10 re-regulated the State, and in Virginia, none of the
11 utility companies had sold or divested the generating
12 assets like they have in Pennsylvania.

13 And before the full impact of the
14 deregulation in Virginia took effect, they basically
15 changed the game. Now, they did so with a number of
16 incentives to the utilities to sweeten the deal for
17 them, but that was basically how they did it.

18 In Ohio, they needed to do a hybrid
19 approach, because like Pennsylvania, the Ohio law
20 that was passed in 1999 required the Ohio utilities
21 to divest themselves of their generating assets.

22 However, only FirstEnergy had done so. The
23 utilities for Dayton AEP and--- It escapes me. The
24 other three utilities did not do that. So in hybrid,
25 there is really a hybrid approach in Ohio where some

1 of the utilities were allowed to go forward to a
2 market option. But the hybrid is that for a new
3 generating plant, and Ohio is a little bit surer of a
4 generating plant than Pennsylvania is, but for a new
5 generating plant, it will be done much like a
6 cost-of-service basis.

7 The utility will have to establish a
8 long-range plan, show how that long-range plan
9 satisfies the needs of the community, and they will
10 have to defend the need for the plant and they will
11 have to make sure the plant is built in a
12 cost-effective manner, and that would then be
13 determinative of the rates that come after based on
14 that rate base.

15 REPRESENTATIVE MOYER: So if I could just
16 quickly add then, Mr. Chairman, what I am hearing
17 from you is that if you don't receive some sort of
18 relief, whether it is rate-cap extension or a hybrid
19 like Ohio or Virginia, you will not be able to
20 compete here in Pennsylvania. Is that what I am
21 hearing from you?

22 MR. CIARLONE: Mr. Moyer, thank goodness
23 that decision is not mine.

24 I work at corporate, and when the executives
25 ask me for electricity forecasts, I give them the

1 electricity forecasts. They have to weigh where the
2 Alcoa shareholder capital will be used to best
3 advantage.

4 And we are basically here to try to keep
5 those families afloat in Lancaster, but I'm glad that
6 that is not my decision to make. I just have to give
7 the numbers as I see them.

8 And I have to tip my hat to Senator Boscola.
9 Her numbers are a lot closer to the numbers I see.
10 The percentage increases that we are looking at are
11 frightening.

12 REPRESENTATIVE MOYER: Thank you,
13 Mr. Chairman. And I do agree with your last
14 statement.

15 CHAIRMAN GEORGE: Mr. Ross, for a question.

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

18 I think one thing we have to be careful
19 about is thinking about only the price today and the
20 price the day we come out of rate caps and not
21 thinking about what is going to happen over the next
22 5 or 10 years after. So my question is wrapped
23 around that a little bit.

24 I'm curious as to why you think that a
25 regulated system is going to give you a cheaper price

1 in the long run -- 5, 10 years out -- than the
2 competitive marketplace that has not yet had a chance
3 to operate but would eventually have a chance to
4 operate, understanding that these plants take 5 to
5 10 years to build, minimum, and that the regulatory
6 costs associated with authorizing the plant through
7 the Public Utility Commission ascertaining the rate
8 of increase through that process is very substantial
9 compared to the free market, which you operate in
10 against other aluminum companies and currently are
11 competing against to lower your price without all of
12 those regulatory requirements.

13 Why do you think that is going to give you a
14 cheaper response? In the long run, not on the day
15 after dereg.

16 MR. CIARLONE: Well, I appreciate the
17 opportunity to address the longer term focus of this
18 requirement. We really do need to be thinking 15,
19 20, 25 years out.

20 I think one of the things we got wrong in
21 the nineties was that electricity generation, base
22 load electric generation, the kinds of large plants
23 that you need to operate 24/7 that will support
24 industry, that really is a monopoly enterprise.

25 I mean, look around. In Pennsylvania,

1 96 percent of the base load generating capacity is
2 owned by the utilities or their affiliates or are
3 built by them, and---

4 REPRESENTATIVE ROSS: Excuse me. That
5 really is a confusing response, from my point of
6 view, because basically, again, we are not out of
7 deregulation, and the base load is fed into the grid
8 on a competitive basis right now.

9 So I think, on two points, I think you are
10 probably missing the point there.

11 MR. CIARLONE: With respect, I do not
12 believe that it is competition the way you and I
13 would understand competition to be.

14 To the earlier question, I think why a
15 regulated approach would be better is when you have
16 to spend \$10 billion to build a plant like PPL is
17 talking about building a nuclear plant -- and
18 actually, by some of the numbers I have seen, that
19 may be a little bit low, but it is a very large
20 investment -- for a competition company who is
21 competing for that capital, PPL has to compete in a
22 capital market where they can talk to their investors
23 about 20-percent returns, which is what they are
24 earning now roughly.

25 When you have a regulated regime which is

1 based upon cost of service, we only used to give the
2 utility companies about a 9- or 10- or 11-percent
3 return on their rate base. That interest rate
4 arbitrage right there is a lot of money. That is one
5 of the reasons.

6 And obviously, Mr. Ross, you asked a very
7 complex question. I'm trying my best to not give
8 short shrift, but I'm trying to also follow the
9 admonishment of the Chairman.

10 REPRESENTATIVE ROSS: Maybe it is a little
11 too much for us here. I will let it go.

12 MR. CIARLONE: But it does have to do with
13 interest rates and the fact that it does take a
14 large, well-funded entity with guaranteed customers
15 and guaranteed revenues and guaranteed returns to
16 sustain that kind of long-term focus to build that
17 kind of plant.

18 CHAIRMAN GEORGE: Has the gentleman
19 concluded?

20 REPRESENTATIVE ROSS: Yes, Mr. Chairman.

21 CHAIRMAN GEORGE: My gratitude.
22 Senator Boscola.

23 SENATOR BOSCOLA: My question is like a
24 follow-up to Representative Moyer, because as I
25 researched companies in other States that went

1 through this deregulation process, a lot of
2 companies, especially manufacturing, did move, and
3 where did they move to? They moved to regulated
4 States, because electricity is cheaper in those
5 regulated States.

6 Now, if you have to make that decision, can
7 you, because you lost in Maryland 700 jobs -- this is
8 my question -- could we lose more in Pennsylvania?
9 Can that be a possibility? And you are only one
10 company; I'm worried about them all actually.

11 MR. CIARLONE: Well, I live in Pennsylvania,
12 too, so I'm worried about them all myself, and I
13 think you highlight a very good concern.

14 And I will just add that it is not just
15 other States. I mean, part of the smelting capacity
16 that we lost in Maryland is now being prepared to be
17 going forward in Iceland.

18 SENATOR BOSCOLA: Right. So you not only
19 lost it, but it is going overseas.

20 Okay. Thank you.

21 CHAIRMAN GEORGE: I thank the lady.

22 The gentleman, Mr. Hutchinson.

23 REPRESENTATIVE HUTCHINSON: Mine is going to
24 be a brief, I think, answer once I ask you the
25 question.

1 Carnegie Mellon University has suggested
2 that part of our strategy to deal with the coming
3 increases in prices would be to reduce and/or
4 eliminate the gross receipts tax of, I think it is
5 5.9 percent, which is on top of electric bills. What
6 do you folks think about that? Do you think that
7 makes good sense for us, something which is in our
8 control, which is going to go up when the rates go
9 up, to cut that rate? And they particularly focused
10 that by saying that that would be something that
11 businesses would benefit from.

12 MR. CIARLONE: Well, in terms of the
13 ultimate electricity bill, less is always better.
14 But not being an expert in tax revenue and what other
15 needs would now go unfunded in the State, I would
16 leave it to the expertise of the Chairman and the
17 members of this committee to make those kinds of
18 policy judgments for the State. But directionally, I
19 really like the direction.

20 CHAIRMAN GEORGE: I thank the gentleman.

21 The gentleman, Mr. Stevenson. My apologies.

22 REPRESENTATIVE STEVENSON: Thank you,
23 Mr. Chairman.

24 In your testimony you talked about Texas, a
25 lay off of 250 people because of local power supply

1 issues. And also in Maryland, 700 jobs were lost
2 because of no longer being able to obtain
3 competitively priced power. You are talking about
4 the ability to obtain power, not the price of power.
5 I think they are two different issues.

6 One of the concerns I have is that if we
7 continue the caps too long and make the generation of
8 power unprofitable, we may have happen to us what
9 happened to California a few years ago when they
10 tried to control energy prices there and no one was
11 willing to sell energy, and then you get into that
12 type of an equation where you have no power supply.

13 What was the reason for that lack of power
14 supply? And again, we are talking about power
15 supply, not the price of power.

16 MR. CIARLONE: Representative Stevenson, you
17 have highlighted a great point, and you probably
18 identified a semantical flaw in our testimony.

19 We do not want cheap, cheap electricity that
20 results in unreliable supply. Our mills need to
21 operate 24/7, and we need to be able to schedule
22 them. We need to have power that we can rely upon.
23 And we are prepared to make the fair, reasonable
24 investment to get power that we can rely on in the
25 future, that makes allowances for the carbon issues

1 that are coming, and that makes the utility companies
2 capable of investing for the long term.

3 When we used the word "obtain," I will say
4 it was my fault. I was not able to obtain contracts
5 with pricing that was good enough. It was not a fact
6 of the supply not being there, and we are not talking
7 about the sort of blackouts and brownouts of
8 California nor even of Ohio in 2003.

9 The supply was never an issue; reliability
10 was never in question. It was strictly an obtaining
11 of price, and I beg forgiveness for the semantical
12 error in the testimony that you found.

13 REPRESENTATIVE STEVENSON: Okay. Thank you.
14 I appreciate that.

15 But nonetheless, I do think it highlights an
16 issue that I think Representative Ross was trying to
17 get to. I think there is a delicate balance here
18 that the Legislature is wrestling with as to, how far
19 do we go in trying to insert the Legislature into
20 this process to control that price?

21 At the same time, we want companies, power
22 producers, to build new power plants, produce the
23 kind of power we need---

24 MR. CIARLONE: Exactly.

25 REPRESENTATIVE STEVENSON: ---and have

1 the capacity that allows Pennsylvania to
2 grow.

3 MR. CIARLONE: Mr. Chairman, may I
4 supplement, because you are exactly right.

5 And one of the other things that I think we
6 got wrong when we deregulated it in the nineties was,
7 you know, I used to work for Philadelphia Electric,
8 Mr. Chairman, and back in those days, there was a
9 system planning organization, and that organization
10 kept a 40-year plan of where the demographics were
11 going to grow, where the people were going to go,
12 what the industries were going to do, where they
13 needed to buy land, where they needed to string
14 transmission lines, and it was all about long-term,
15 reliable, low-cost service.

16 And one of the things that happened when we
17 deregulated that, we changed that long-term focus on
18 long-term, reliable, least cost. We have now made it
19 a quarterly exercise for utility companies, or not
20 even really utility companies but for investors
21 that are making quarterly numbers, you know, in
22 Pennsylvania or in Montana or wherever else.

23 So we do share your concerns, and we are
24 right there with you, Representative Stevenson.

25 REPRESENTATIVE STEVENSON: Thank you. Thank

1 you for your testimony.

2 Thank you, Mr. Chairman.

3 CHAIRMAN GEORGE: The gentleman,
4 Mr. Miller.

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

7 Just a quick question. The States that have
8 re-regulated, are they net importers or exporters of
9 electricity? Do you know that?

10 MR. CIARLONE: I think it is a mix.

11 REPRESENTATIVE MILLER: Okay.

12 MR. CIARLONE: But I really wouldn't want to
13 say specifically.

14 REPRESENTATIVE MILLER: Okay. I will get
15 staff to research that.

16 My concern is that if we put the regulations
17 on, States probably will become importers and import
18 more electricity from out of State because the
19 utilities are not building capacity expansion and
20 they are looking for capacity elsewhere. But that is
21 something we need to do an analysis on.

22 MR. CIARLONE: Yes; there are a very large
23 number of moving parts underneath that, and---

24 REPRESENTATIVE MILLER: Understood. Thank
25 you.

1 CHAIRMAN GEORGE: I thank the gentleman.

2 Representative Vitali?

3 Let me say this; I do not want to be
4 redundant. Very quickly -- and it might be so -- you
5 know, what has been your experience; what do you
6 think has changed under this deregulation in regard
7 to us and other States?

8 MR. CIARLONE: Well, when we deregulated --
9 and Pennsylvania was not alone; a lot of us did --
10 there were a whole host of factors that we just did
11 not foresee and could not have foreseen.

12 I mean, among them would be the
13 globalization of the commodities, the energy
14 commodities; the California market crisis; the Enron
15 scandal; the blackout of '03.

16 But I think the two that really drive home
17 what we did not expect the most is the structural
18 reality that I talked about earlier in the sense that
19 it really is a monopoly enterprise to build, plan and
20 build a large generating station.

21 And the other thing is that the Federal
22 policies are just not working for us. The Senator
23 pointed up some numbers, and they are, I believe,
24 directly attributable to the pricing scheme and the
25 wholesale market put up by the Fed.

1 And to my sensibility, one of the most
2 outrageous parts of the Federal pricing mechanism is
3 something called Locational Marginal Pricing, or LMP.
4 And it was initially an idea that was going to give
5 the generating companies some extra money to make
6 investments in more infrastructure, more plant. We
7 are still waiting to see that infrastructure, more
8 plant.

9 But the way it works is -- well, to tell you
10 how it works, it is best to tell you how it used to
11 work. In the olden days, in a classically regulated
12 utility, if there was a unit of 10 units of power
13 that you needed to fill, you would fill those from
14 the bottom of the price queue up.

15 So the first unit would be hydro, the next
16 two units would be nuclear, the next five units would
17 be coal, and then the ninth unit would be relatively
18 efficient gas, and then the tenth unit would be, you
19 know, the inefficient stuff -- gas and oil at the
20 top. And every one of the units would get the price
21 that they bid, and that was how you got efficiency,
22 because no one got more than they bid and everybody
23 was disciplined to bid what they could make.

24 Now, under LMP, every unit gets the price of
25 the last unit in. So the nuclear, the hydro, the

1 coal, they all get the same price that the least
2 efficient gas gets.

3 CHAIRMAN GEORGE: Wait a minute.

4 So what you are saying is that if the first
5 four companies come in at 6 cents a kilowatt and the
6 last company comes in at 8, they all get 8?

7 MR. CIARLONE: Yes, sir.

8 CHAIRMAN GEORGE: Is that what the PJM does?

9 MR. CIARLONE: Yes, sir.

10 CHAIRMAN GEORGE: We will carry that on at
11 the next hearing; you can believe that.

12 MR. CIARLONE: Mr. Chairman, I have seen---

13 CHAIRMAN GEORGE: And so those options are
14 not public record. Is that right?

15 MR. CIARLONE: They are public, Mr.
16 Chairman, but they are highly complex. They are
17 public, but they are very, very complex, and they
18 kind of hide in plain sight because of that.

19 But just to finish the point, Mr. Chairman,
20 I have seen studies where that transfer of wealth --
21 and that is really what it amounts to -- is on the
22 order of \$4.5 billion a year for a handful of the PJM
23 companies. So I say it is outrageous.

24 And the other thing is, I live in
25 Pittsburgh, and I do not really see that much

1 competition in my electricity rates. It is like if I
2 was buying gasoline, you know, the one guy on the
3 corner has it at \$3.90, the other guy has it at
4 \$3.89. Well, there's a price competition for a
5 penny, but that is not really a meaningful benefit to
6 me.

7 When I see crude oil prices the way they
8 are, I kind of understand where gasoline is, but when
9 I see the LMP and the way the wholesale market
10 pricing just becomes a wealth transfer, I have
11 difficulty understanding how that is and not as it is
12 required to be -- just and reasonable.

13 CHAIRMAN GEORGE: So real quickly, and I
14 apologize to the committee in that I am breaking my
15 own rule.

16 MR. CIARLONE: I think you are allowed to,
17 Mr. Chairman.

18 CHAIRMAN GEORGE: As far as what we are
19 talking about legitimately with PPL owning or
20 subsidizing into a corporation in Delaware, they fall
21 under the Delaware loophole, don't they? So they
22 don't pay the CNI tax that local companies pay in
23 Pennsylvania. Is that true?

24 MR. CIARLONE: Mr. Chairman, my field of
25 expertise is energy, but I will yield to yours.

1 CHAIRMAN GEORGE: Thank you. Thank you very
2 much.

3 MR. CIARLONE: Thank you, Mr. Chairman.

4 MR. ENGLDOW: Thank you, sir.

5 CHAIRMAN GEORGE: Thank you for your time.

6 The next gentleman we will call is the
7 gentleman, Mr. Poje. He is the Senior Vice President
8 of Development for Sithe Global.

9 You may proceed, sir.

10 MR. POJE: Chairman George, Chairman
11 Hutchinson, and members of the committee, my name is
12 Steve Poje. I am the Senior Vice President of
13 Development for Sithe Global Power, and I appreciate
14 the opportunity to appear before you today regarding
15 your efforts to implement proactive policies that
16 will protect Pennsylvania and its ratepayers from
17 continued electric price volatility.

18 Sithe Global is a New York-based development
19 firm that is currently involved in the development
20 and operation of a multitude of projects, both
21 domestically and internationally, that total over
22 8,000 megawatts of installed capacity.

23 Two of these units are in Pennsylvania and
24 total approximately 600 megawatts. We actively
25 pursue greenfield projects and handle all aspects of

1 their development, site procurement, permitting,
2 design, financing, construction, and ultimately
3 operation.

4 We utilize our own equity as part of the
5 capital funding on each project, and my resume and
6 some detailed, descriptive information on Sithe is
7 attached for your convenience to my testimony.

8 We are currently going through construction,
9 the early phases of construction on the River Hill
10 project in Clearfield County, and we are currently in
11 the financing process.

12 The single largest variable, other than fuel
13 costs, affecting the price at which an independent
14 power producer can provide electricity to the
15 Pennsylvania market is the financing costs or
16 interest rate for the construction loans, and the
17 largest single effect in turn on the interest rate is
18 the security of the project in the eyes of the
19 lenders.

20 New facilities are brought in to service as
21 pure merchant facilities. That is, selling their
22 output on a wholesale basis to the PJM interconnect
23 system for ultimate resale to the State's utilities
24 results in uncertainties in the eyes of the lenders
25 and increased finance costs for the projects. The

1 net effect is higher costs for the electricity to the
2 consumers.

3 The most cost-effective electricity possible
4 is achieved by utilizing long-term power purchase
5 agreements between independent power producers and
6 franchised utilities as the security behind the debt
7 for a project to leverage the best financial rates,
8 which in turn could be passed on to the customers for
9 the life of the project and the agreement.

10 For the utilities to be able to enter into
11 long-term power purchase agreements, however, they
12 need to have PUC approval and protection from ruling
13 reversals if in fact they have entered into such
14 agreements in the consumers' best interests.

15 Power plant costs have escalated at an
16 alarming rate in the last decade, specifically in the
17 last 3 to 5 years.

18 The accepted cost for a gas-fired combined
19 cycle plant in 2003, for example, was in the range of
20 \$500 to \$650 per installed kilowatt of capacity, and
21 the solid fuel facility was in the range of a
22 thousand to \$1,400 for a kilowatt of installed
23 capacity.

24 Current pricing has gone up to between
25 \$1,100 and \$1,400 per kilowatt for a gas-fired unit,

1 and between \$2,900 to \$3,500 per kilowatt for a solid
2 fuel facility.

3 There have been no new generating facilities
4 brought into service in Pennsylvania by regulated
5 utilities since deregulation. All new facilities
6 have been developed and constructed either by
7 independent power producers or the unregulated
8 entities within the utilities.

9 With the exception of the sewer-generating
10 unit that came in service in 2004, all new capacity
11 has been gas fired, which puts gas currently at
12 between \$10 and \$14 per million BTUs and further onto
13 the margin at the expense of Pennsylvania consumers.

14 By comparison, the amount of gas used for
15 the generation of electricity has gone up sixfold in
16 the last 15 years.

17 In 1992, the amount of gas used for electric
18 generation was roughly equivalent to what was used to
19 heat about 250,000 homes. In 2007, that number was
20 up to 1.4 million. And at the margin in costs
21 between coal and gas, that begins to explain a little
22 bit about why utility costs have gone up.

23 Without a change in regulation that allows
24 for long-term power purchase agreements to limit
25 finance costs and with the current costs of

1 construction, any additional capacity to be added to
2 Pennsylvania will be gas fired regardless of who the
3 developer is, and again, at the expense of the
4 Pennsylvania consumer.

5 Pennsylvania has the unique advantage of
6 being able to develop electric power facilities
7 utilizing existing waste coal materials that remain
8 from 150 years of mining history in the State. This
9 waste material effectively has no value in
10 traditional steam coal markets. However, technology
11 in the form of circulating fluidized bed boilers
12 makes the utilization of this material economically
13 and environmentally beneficial.

14 Cleaning up these waste piles prevents acid
15 runoff into the Commonwealth's streams and rivers,
16 and alkalinity in the ash from these facilities can
17 be utilized to neutralize and cap old waste piles and
18 to reclaim abandoned mine lands.

19 Since market demand for this waste
20 material is low, the cost is generally not subject
21 to the same types of economic escalation and
22 spikes as we are seeing in traditional utility fuel
23 markets.

24 Additionally, these projects fit directly
25 into Governor Rendell's initiative to move the

1 Commonwealth toward independence from foreign energy
2 sources.

3 As I said earlier, without the ability to
4 obtain a long-term power purchase agreement,
5 independent power companies will continue to have no
6 choice but to construct merchant gas-fired combined
7 cycle facilities. These gas-fired facilities are
8 quicker to construct and require less initial capital
9 investment.

10 However, this type of facility cannot
11 provide low-cost electricity to Pennsylvania
12 consumers, as it requires a financing premium as a
13 merchant facility using more expensive fuel subject
14 to significant price swings.

15 At the same time, there will be no incentive
16 to utilize the millions of tons of waste coal that
17 remain on and under the Pennsylvania landscape. This
18 waste coal will continue to cause the release of
19 polluted water into the streams and tributaries of
20 the Commonwealth.

21 Waste coal facilities, while costing more
22 and taking longer to build, have the added benefit of
23 lower and more stable fuel pricing using fuel
24 indigenous to Pennsylvania and the establishment and
25 maintenance of a significant number of Pennsylvania

1 jobs at the facilities as well as in the fuel supply
2 and trucking industries.

3 Aside from the supply of lower cost, more
4 stably priced electricity to Pennsylvania consumers,
5 the environmental benefits of waste coal-derived
6 electricity need to be considered.

7 Currently, Pennsylvania spends millions of
8 taxpayer dollars every year in programs aimed at
9 containing and remediating pollution left to us by
10 prior generations.

11 Projects that reclaim this material and
12 return benign, highly-alkaline ash material, which
13 stabilizes old mine sites and diminishes water
14 pollution, cannot be ignored. It must be viewed for
15 the overall benefits provided to the environment and
16 the economy.

17 The State should provide the necessary
18 inducements to facilitate these projects so that
19 these benefits to the environment and the people of
20 Pennsylvania are not lost.

21 As detailed in Secretary Kathleen McGinty's
22 testimony before the House Majority Policy Committee
23 on March 1, PJM's Reliability Pricing Model, or RPM
24 program, designed to encourage new generation for the
25 region, has not functioned as everyone had hoped.

1 The program is flawed in that it provides
2 payments to current owners of generation without
3 requiring them to invest any money in new generation
4 capacity.

5 It appears that the net cost of the program
6 to Pennsylvania ratepayers will be over \$1 billion in
7 the next 4 years, and there is no guarantee that any
8 new generation will be built as a result of the RPM
9 program.

10 Without PUC support for the long-term PPAs
11 for waste-fuel facilities, ratepayers in Pennsylvania
12 are faced with some very difficult options. They
13 will either see more gas-fired simple or combined
14 cycle units constructed with no protection against
15 escalating oil and gas prices, pay higher costs to
16 operate existing inefficient, expensive,
17 old-technology facilities, or be required to build
18 new transmission lines to bring electricity in from
19 surrounding areas, and the jobs that supply that
20 electricity will be out of State.

21 There are a number of areas that we believe
22 the Commonwealth can and has assisted electric
23 generating projects, such as continuing to assist
24 developers of solid fuel waste projects with
25 expediting the necessary permits and approvals

1 and providing tax-exempt bond financing
2 allocation.

3 If I could request assistance in one
4 additional significant area, it would be for members
5 of the General Assembly and the Rendell
6 Administration to pass appropriate legislation
7 requiring franchised utilities to enter into
8 long-term power purchase agreements with in-State
9 waste-coal-fired generating facilities.

10 The legislation should also require the PUC
11 to provide passthrough protection for franchised
12 utilities entering into such agreements. This will
13 provide the most significant value, benefit, and
14 protection to the ratepayers in the Commonwealth.

15 Chairman George, Chairman Hutchinson, and
16 members of the committee, I want to thank you again
17 for your time and consideration in allowing me to
18 address you today. I will be happy to provide you
19 with any other information or serve as a resource for
20 you should you find it helpful, and I will be glad to
21 answer any questions.

22 CHAIRMAN GEORGE: The committee thanks the
23 gentleman for taking his time.

24 I turn now to the gentleman, Mr. Vitali.

25 To the gentleman, Mr. Miller.

1 To the gentleman, Mr. Stevenson.

2 To the gentleman, Mr. Hutchinson.

3 To the lady, Senator Boscola.

4 To the gentleman, Mr. Ross.

5 REPRESENTATIVE ROSS: Yes, please.

6 CHAIRMAN GEORGE: Go ahead.

7 REPRESENTATIVE ROSS: Thank you,

8 Mr. Chairman.

9 And thank you, sir. I appreciate your
10 testimony, and I take your point about trying to give
11 you some kind of guarantee in a long-term price
12 contract, although I might prefer it to be done
13 through another intermediary rather than directly
14 with the utility. But the key is to make sure that
15 the cash is there for you to make you make the right
16 decision.

17 And I also compliment you on working on a
18 waste-coal project, because that is a huge
19 environmental problem that we have seen here with
20 this committee.

21 I do have two questions for you, because I
22 think being an investor in a generating facility, you
23 are pretty important here today, because what we are
24 talking about is trying to get more people to invest
25 in generating capacity in Pennsylvania so that we

1 have sufficient power, so that we don't get into a
2 shortage with brownouts, and so that more competition
3 will hopefully keep prices down. And I would just
4 ask two brief, or a brief two-part question.

5 First of all, thinking of yourself as an
6 investor, would an extension of the existing rate
7 caps discourage you or encourage you to invest in
8 your project?

9 MR. POJE: Only to the effect that it
10 affects the ability for us to market our power, I
11 guess. I'm not sure that I can answer your question.
12 I'm not the financial analyst for the company.

13 REPRESENTATIVE ROSS: All right. Well, I'm
14 just thinking that if you are going to get paid at
15 the same price for an extended period of time, it
16 might discourage you a little bit. But maybe it
17 doesn't; I don't know.

18 And then the other question: If we were to
19 re-regulate in Pennsylvania so that the utilities own
20 the generation facilities and went out and got new
21 generating facilities, I'm not sure how you would
22 operate under that circumstance. Would you then
23 probably have to give up on your project or turn it
24 over to the utility in that situation?

25 MR. POJE: A project like the ones I'm

1 working on, it could potentially be acquired by the
2 utilities.

3 REPRESENTATIVE ROSS: So you would have to
4 give up, sell out, at whatever price you could get.

5 Thank you.

6 CHAIRMAN GEORGE: I thank the gentleman.

7 Mr. Moyer?

8 The gentleman, Mr. Carroll.

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

11 As a member who represents a district that
12 has millions of tons of waste coal laying on the
13 ground right now, could you, in layman's terms,
14 explain exactly what you believe is necessary in
15 order to expedite the use of the waste coal that we
16 have all over this State?

17 MR. POJE: Sure. And as I said in my
18 testimony, really, in all the analyses that we have
19 done, it comes back to the financing costs.

20 If you look at putting a project together as
21 a pure merchant facility, your financing package is
22 most likely going to be something in the vicinity of
23 40 percent equity and 60 percent debt.

24 And I'm not a financial guy, so please don't
25 hold me to numbers, but equity is probably looking

1 for something in the range of 12 to 14 percent, debt
2 is probably someplace around 6 percent. You can
3 figure out the numbers as to what the finance cost
4 for that project is.

5 If the project has a power purchase
6 agreement for the length of the financing, the equity
7 drops to probably 10 to 15 percent and everything
8 else is then debt, and that takes a tremendous amount
9 of money out of the project which can now flow to the
10 power cost, making the power more competitive, making
11 it available to the utilities.

12 I don't know if I answered your question
13 correctly.

14 REPRESENTATIVE CARROLL: You did enough, and
15 I appreciate the answer, because it really is
16 important from my perspective as somebody, again, who
17 represents an area with millions of tons of waste
18 coal laying on the ground to try and find a way to
19 utilize that resource in an environmentally efficient
20 way.

21 CHAIRMAN GEORGE: Has the gentleman
22 concluded?

23 REPRESENTATIVE CARROLL: Yes, sir.

24 CHAIRMAN GEORGE: Just two quick follow-ups,
25 if you will.

1 Without long-term contracts, do you think
2 new power plants will be built in Pennsylvania?

3 MR. POJE: Without long-term contracts?

4 CHAIRMAN GEORGE: Without, yes.

5 MR. POJE: We have been trying to get
6 financed for over a year now, and thus far, we have
7 had some real difficulties. All of the construction
8 we have done to this point is on pure equity.

9 Will our company continue to finish that
10 project on pure equity? We couldn't afford to run
11 it, to be totally honest. Can we put the deal
12 together? It is going to be a lot harder without a
13 contract. Can it be done? Yes.

14 CHAIRMAN GEORGE: If no new plants are
15 built, do you believe there will be any meaningful
16 competition in Pennsylvania? The gentleman asked a
17 very proper question when he asked, what do you think
18 we should do?

19 MR. POJE: I think a lot of it goes back to
20 the Reliability Pricing Model and what its intent was
21 and the fact that it has failed. That model was put
22 in place to entice new generation in to replace some
23 of the extremely old, inefficient, unenvironmentally
24 friendly plants that are around that are way past
25 their design end point.

1 Until new plants come in and they go away, I
2 do not think you will ever get to where there is
3 competition.

4 CHAIRMAN GEORGE: I asked PPL the question
5 about them buying the hydroelectric in Montana.
6 There also was a coal fire purchased in the State of
7 Illinois, and that is Pennsylvania dollars through
8 deregulation that came through on stranded costs.

9 Now, you represent a company that bought a
10 power plant from GPU, and the price that was paid was
11 another \$600 million above what they had claimed was
12 their stranded costs. So the fact is, with the
13 utilities screaming about how they will not make it,
14 and there has been \$14 billion that has been taken --
15 I do not know whether they have put anything back --
16 and they are willing to invest all those dollars out
17 of State, why won't they invest them in Pennsylvania
18 where we gave them that nest egg and that Christmas
19 bonus? I ask you.

20 MR. POJE: I don't have the answer to that.

21 CHAIRMAN GEORGE: Should we continue to look
22 for the answer?

23 MR. POJE: Yes, sir. I absolutely think you
24 should look for the answer.

25 CHAIRMAN GEORGE: And I like your idea about

1 waste coal. This gentleman and I, most of us come
2 from the coal area where it lays on the ground, and
3 something like 13,000 miles of our streams are
4 polluted, and another resource that we are going to
5 be short of one of these days is water.

6 So I say let us burn that stuff and get it
7 off the ground, and then with those people talking
8 about alternate energy, they will have room for corn.
9 You know, people are running around talking about we
10 don't have any corn. We import 60 percent of our
11 corn anyway. So we can make valued land once again
12 usable, can we not?

13 MR. POJE: Yes, sir; absolutely.

14 CHAIRMAN GEORGE: Thank you for your
15 testimony.

16 The next individual we call is the
17 gentleman, Mr. Ed Ryan. Mr. Ryan is a member of the
18 AARP, and he is on the Pennsylvania Executive
19 Counsel.

20 You may proceed, sir.

21 MR. RYAN: Thank you, Mr. Chairman.

22 Senator Boscola, distinguished
23 Representatives, thank you for bringing this review
24 to the Lehigh Valley. We appreciate it.

25 I appreciate the opportunity to appear today

1 before this House Committee on Environmental
2 Resources and Energy.

3 My name is Ed Ryan. I'm a volunteer serving
4 on the AARP's Executive Counsel in Pennsylvania. I'm
5 also a longtime resident of Allentown.

6 Like AARP's other 1.9 million members in
7 Pennsylvania, I'm very concerned about potential
8 increases in electrical rates. One-half of all AARP
9 members are no longer employed and live on relatively
10 fixed incomes.

11 Just in the last 6 months, we have seen our
12 purchasing power decrease dramatically. The sudden
13 increase in the price of gasoline makes many of us
14 think twice about visiting our friends or children
15 and grandchildren. Increases in food staples like
16 bread and milk and bananas are now beginning to have
17 an impact on the wallet, not to mention the constant
18 rise in the price of medicines, Medicare premiums,
19 professional services, and property taxes. Home
20 heating oil budget contracts for next season are
21 increasing 50 percent over last winter.

22 My fellow seniors and I realize that we do
23 have a lot of good services in place for older
24 Pennsylvanians, and we are very pleased with the work
25 that you have done on our behalf.

1 State government has created PACE and
2 PACENET, the Property Tax and Rent Rebate Program,
3 senior transportation services, and other innovative
4 programs using the lottery funds. But even with
5 these programs, the price shocks of recent months are
6 taking a toll, especially on those older
7 Pennsylvanians who rely on a small pension, which is
8 not adjusted each year for increases in the cost of
9 living, and Social Security, which provides a
10 relatively modest cost-of-living increase.

11 But what does all this have to do with
12 electric deregulation? First and foremost, the idea
13 of experiencing dramatic increases in electric rates
14 when the rate caps come off is somewhat frightening,
15 because many older Pennsylvanians simply will not be
16 able to pay this increase.

17 I have spoken with Pennsylvania seniors who
18 are really struggling right now and who have cut back
19 on their expenses just to make ends meet. My fear is
20 that increasing their electric bill by 50 percent or
21 more could be the critical difference between them
22 being able to maintain their independence and live in
23 their own home or having to try and sell it --
24 although, good luck with that in this housing market
25 -- and move to an apartment or a long-term facility.

1 The opportunity that I see when looking at
2 the rapid increases in consumer prices that relate to
3 electric deregulation is that our electricity costs
4 are one of the few areas where there is still a
5 chance to have an impact. Nothing we can do in
6 Pennsylvania can magically reduce or decrease the
7 price of a barrel of oil, but we can take steps to at
8 least mitigate the potential increase in electric
9 bills.

10 AARP has laid out some of our ideas in
11 previous testimony to this committee, and I won't
12 take your time to repeat all of them here.

13 However, you may recall that AARP recommends
14 policies that include exploring long-term energy
15 costs to limit the middleman and the risk involved,
16 to procure a diversified mix of resources, to
17 consider a State power authority to sell output at
18 rates based on cost of service, and additional
19 assistance to low-income Pennsylvanians who devote a
20 larger portion of their spending on energy than other
21 people do.

22 I do not believe that inaction is an option
23 to avoid an imminent crisis for a significant portion
24 of our population. If the General Assembly does not
25 step up and address this potential problem beginning

1 in 2010, we are going to have many of our neighbors
2 and relatives who simply will not be able to pay
3 their bills and will begin to make choices in what
4 necessary items, like food and medicine and
5 utilities, that they can and cannot pay for.

6 This isn't a fantasy vision of the future,
7 because we have seen it take place in other States.
8 AARP sponsored town hall meetings in Texas and
9 Maryland after severe increases in electric bills
10 that occurred as the result of deregulation.

11 Speaker after speaker at these town hall
12 meetings stood up to explain how devastating the
13 sudden rise in the cost of electricity had been to
14 them.

15 Our Maryland AARP office tells the story of
16 a 90-year-old woman who brought all her information
17 to a meeting and lined it up on a table. She
18 carefully told the audience how much she receives
19 from Social Security and her small pension. Then she
20 itemized her expenses before electric deregulation
21 went into effect in Maryland and afterwards. The
22 72-percent increase in her electric bill was the
23 difference between paying all her bills on time and
24 in full and having to creatively juggle her
25 expenditures.

1 We are in a different situation in
2 Pennsylvania right now. We do not have to hear the
3 stories about the impact of increases in electric
4 bills on people's lives -- as yet. Instead, AARP is
5 beginning to go out and talk with our members about
6 the need for action before the rate caps end.

7 We know it is more difficult to get
8 someone's attention before something happens, but
9 we also do not want our members to wake up in 2010
10 and ask us, why didn't you do something to stop
11 this? I suspect the members of this committee
12 do not want your constituents asking you the same
13 question.

14 I urge you and the rest of the General
15 Assembly to approach the question of how to deal with
16 the upcoming expiration of caps on electricity rates
17 with a proposal that takes both a short-term and a
18 long-term approach to this problem.

19 Pennsylvanians, particularly older
20 Pennsylvanians, must not suffer the consequences of a
21 sudden rate shock, but we must also adopt policies,
22 many of which have been suggested to this committee
23 in the course of your hearings, which can correct the
24 problems of electric deregulation and establish a
25 stable and fair and consumer-friendly electric system

1 in Pennsylvania.

2 Thank you all for the opportunity to be
3 here, and I would be glad to answer any questions.

4 CHAIRMAN GEORGE: We thank the gentleman for
5 coming before the committee.

6 The Chair recognizes the gentleman,
7 Representative Moyer.

8 REPRESENTATIVE MOYER: Thank you,
9 Mr. Chairman.

10 I'm here this afternoon because I recently
11 was notified by the PUC that my electric supplier --
12 I got a great company -- but my electric supplier is
13 asking for an 11-percent increase for their gas rate.
14 That is going to affect over 40,000 residents, many
15 of which are seniors in my district, and 5,000
16 businesses.

17 And that is one of the reasons that I'm here
18 today, because a lot of people, a lot of my
19 constituents, do not know that these rate caps are
20 coming off, and when I tell them about it,
21 particularly our seniors, they are shocked.

22 So I applaud the good work you do, and quite
23 frankly, right now, my position is going to be,
24 unless I can be convinced otherwise, that I think we
25 need to extend rate caps in Pennsylvania.

1 MR. RYAN: Thank you.

2 CHAIRMAN GEORGE: Has the gentleman
3 concluded?

4 REPRESENTATIVE MOYER: Yes, sir.

5 CHAIRMAN GEORGE: The gentleman, Mr. Ross.

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

8 And I share your concern and actually have
9 been concerned about this, became truly aware of it
10 and thinking about it hard back at the end of 2004
11 when we did the Alternative Energy Portfolio Standard
12 legislation, because I could see that with a 12-year
13 price cap on generation, that pressure has been
14 building. You pointed out the price of oil, but many
15 other prices have been going up, gas not being the
16 least of them.

17 And I take your point about long-term
18 contracts, although we ought to be careful about
19 that, because California bid into a long-term
20 contract and caught it just at the peak of the
21 market. So long-term contracts by themselves,
22 obviously, are not the answer.

23 You suggest State power authorities, and the
24 challenge that I would think you would find in that
25 situation is they will be buying power on the open

1 market just like the utilities currently are, so they
2 are going to be facing the same issues in terms of
3 new capacity being expensive compared to depreciated
4 plants that are currently in service today.

5 I agree with you and some of the former
6 speakers, I think, about the Reliability Pricing
7 Model failing at PJM. It is meant to provide an
8 incentive to create new power in the future, and
9 yet I was told by PJM that it only looks forward to
10 3 years, and 3 years is not long enough to plan for
11 and get the necessary financing together and provide
12 reliability to build a new plant. So it is feeding
13 some costs into the system, but it is not doing what
14 it is supposed to do.

15 Location Marginal Pricing is also meant to
16 relieve congestion in the grid, but it does not
17 provide sufficient incentives to do that either.

18 So there are some things that need to be
19 tuned up in the system to get new capacity onto the
20 system, but at the end of the day, these new plants
21 that we might be putting in service are 5 to 7 years
22 out, minimum, and they are not going to be ready in
23 time for the price cap coming off, which is what you
24 are worried about and what I'm worried about.

25 There is one thing that is available to us,

1 and that is to actively and aggressively, at a much
2 higher rate than we currently are, institute
3 conservation and demand-side management. They are
4 quicker. They can be instituted much faster. The
5 Chairman has the bill over in the Senate which would
6 do that, and it is something that could be fed into
7 the system that would provide relief to your members
8 and to the other ratepayers that we have heard
9 testify today, and it would provide relief and take
10 some strain out of the system now.

11 We cannot repeal everything else that is
12 going on in the world. Prices are going up on all
13 these commodities. We have held the price steady
14 here for a long time on the generation piece. It
15 will eventually come off.

16 I must respectfully disagree with my
17 colleague. By extending caps, you are just delaying
18 the evil moment. The prices are continuing to go up.
19 There is going to be a bigger gap. There will be
20 greater pressure later than, you know, sooner.

21 But we can take some strain out of the
22 system. I think we ought to. I am hoping that we
23 will pass that bill. I am hoping the Senate will
24 pass it back to us, and hopefully, ideally, maybe
25 send it directly on to the Governor, for that matter,

1 so that we can actually begin to do something to help
2 the ratepayers before the caps come off.

3 Thank you, Mr. Chairman.

4 CHAIRMAN GEORGE: I thank the gentleman.

5 Senator Boscola.

6 SENATOR BOSCOLA: Ed, thank you for your
7 testimony.

8 I can assure you that doing nothing is not
9 an option for a lot of us. But I need your help,
10 though, because we do need to get this message out to
11 the consumer out there. I am convinced that if
12 enough people get to know about this, they will make
13 and hold State Representatives and Senators
14 accountable for this when the rate caps do come
15 off.

16 And lastly, you know, I heard a lot about
17 conservation. We are not going to be able to
18 conserve our way out of this problem. This is huge,
19 and -- no, we won't. Sorry I disagree with you. You
20 can just conserve all you want, but your prices are
21 still going to go up 67 percent.

22 I mean, I'm trying to get to a fair and
23 reasonable rate. What is fair and reasonable for you
24 to pay? Well, what they are doing right now and how
25 they are manipulating the market and this whole

1 pricing scheme is a fiasco, and we got to correct it.
2 And if we don't, we should all be held accountable.

3 I do not mind if I go out there and fight
4 for you, you know, but all those other lawmakers out
5 there that aren't, that say, oh, just let it go; let
6 the market -- and they know it is failing. Hold them
7 accountable. Get them out of office.

8 MR. RYAN: Thank you.

9 CHAIRMAN GEORGE: I assume the lady has
10 concluded.

11 SENATOR BOSCOLA: Yes.

12 The gentleman, Mr. Hutchinson?

13 The gentleman, Mr. Stevenson?

14 The gentleman, Mr. Miller?

15 If you will, just one moment. I thank you
16 for coming before this committee.

17 Really and truly, this committee represents
18 the general public more than maybe it seems. There
19 are some maybe that have a different view on how to
20 go about it, but I'm just hopeful that the concern
21 you have and all those you represent, that to a large
22 degree those concerns will be answered, and I thank
23 you for taking the time to testimony.

24 MR. RYAN: I thank you all.

25 CHAIRMAN GEORGE: Now, there were two

1 gentlemen that came in here and wanted to know if we
2 recognized the general public, and I assume that you
3 understand what I said when I meant that if we
4 didn't, we wouldn't be here. People have traveled
5 from east to west and north to south.

6 So are there any questions that you would
7 want to ask any of the witnesses? Then come forth.

8 One moment. If you want to stand down, Mr.
9 Ryan.

10 MR. RYAN: Thank you.

11 CHAIRMAN GEORGE: Thank you.

12 Do you want to come forth, sir? I'm great
13 for breaking my own rules.

14 Do you want to state your name for the
15 committee, please.

16 MR. FIORITO: My name is Ben Fiorito. I'm
17 from Upper Hanover Township in Montgomery County, and
18 I am a customer of PPL.

19 CHAIRMAN GEORGE: All right, sir.

20 MR. FIORITO: The testimony that I was going
21 to give would be redundant given all that we have
22 heard. However, only one question that I have, and I
23 honestly believe it is a correction to the testimony
24 given by the gentleman from PPL.

25 On numerous occasions during his

1 presentation, he stated that prices have been
2 constant for 10 to 13 years for the customers, and he
3 also--- Let me just deal with that. That is
4 inaccurate.

5 I had a price increase, and I do not think
6 that they gave it just to me. In 2005, we got an
7 8.3 price increase. In 2006, we had a 5.3 price
8 increase. In 2007, we had a 3.8, and in 2008, we had
9 a 4.6.

10 In 4 years, we had a 22-percent price
11 increase. I believe his statement was a little
12 inaccurate.

13 Now, 22 percent in the last 4 years, so it
14 is not that the utilities -- this issue of caps, it
15 is not being correctly explained to the public or
16 when people are speaking about it. They are not
17 capped that they do not get any increases. Is that
18 not true? Thank you.

19 Take the 22 percent, and if the go-ahead
20 goes for the 35-percent price increase, that would be
21 a total of 57 percent.

22 And what I heard for the first time today by
23 being at this meeting, that Senator Boscola and a few
24 others feel that the increase could be 60-some
25 percent? I guess it will not be long before my

1 electric bill and all of us consumers will be
2 increased by 100 percent.

3 That is all I have that I wanted to make.
4 Thank you, Mr. Chairman.

5 CHAIRMAN GEORGE: Sir, let me say this, that
6 your concern does not fall on deaf ears.

7 PPL, we know, has raised their distribution
8 rate, and I appreciate your effort to correct the
9 record. And we will, as you know, there is a public
10 stenographer, and what you have said has been
11 recorded, so what you said will be read in the
12 report.

13 Thank you for coming forward.

14 MR. FIORITO: Thank you, Mr. Chairman.

15 CHAIRMAN GEORGE: And I want to thank all of
16 these members who have, many times in their own area
17 while we have been out of session, have other things
18 to attend to.

19 I want to thank those who presented. I want
20 to thank those who have participated, those who have
21 been in the audience.

22 This is the start of what I believe the
23 General Assembly, especially the Legislature and the
24 House, ought to be continuing to look into, and I
25 promise you we will do that.

1 If there is no other business before this
2 committee, this committee stands adjourned.

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4 (The hearing concluded at 3:09 p.m.)

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

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Debra B. Miller, Reporter

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