

ENVIRONMENTAL RESOURCES and ENERGY COMMITTEE
PUBLIC HEARING

Tuesday, September 9, 2008
City Council Chambers, City Hall
Philadelphia, Pennsylvania

COMMITTEE MEMBERS PRESENT:

REPRESENTATIVE CAMILLE GEORGE, Chairman
REPRESENTATIVE SCOTT E. HUTCHINSON,
Chairman
REPRESENTATIVE RON MILLER
REPRESENTATIVE MICHAEL P. McGEEHAN
REPRESENTATIVE TIM SEIP
REPRESENTATIVE KATE HARPER
REPRESENTATIVE DAYLIN LEACH
REPRESENTATIVE JAY R. MOYER
REPRESENTATIVE CAROLE A. RUBLEY
REPRESENTATIVE JAMES WANSACZ
REPRESENTATIVE EUGENE DePASQUALE

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TESTIFIERS:

EDWARD G. RENDELL, Governor,
Commonwealth of Pennsylvania

MICHAEL A. NUTTER, Mayor,
City of Philadelphia

ANDREW OTT, PJM

MARK CRISSON, American Public Power
Association

LIZ ROBINSON, Energy Coordinating Agency

CURTIS JONES, JR., Councilman,
City of Philadelphia

1 REPRESENTATIVE GEORGE: I would
2 like to open this hearing in City Hall, in the fine
3 City of Philadelphia. Before I go into the
4 business, I would like the opportunity and pleasure
5 to introduce our legislators. On my far left, the
6 fine lady from Montgomery, Representative Kate
7 Harper.

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

10 REPRESENTATIVE GEORGE: Then
11 coming to her right, the gentleman from
12 Philadelphia, Representative McGeehan. And next to
13 him, the gentleman from York, Mr. Miller. And next
14 to him, the gentleman from Montgomery, Mr. Leach.

15 And to my right, my co-chairman,
16 Representative Hutchinson from Venango. And the
17 gentleman, Mr. Seip who represents Schuylkill. And
18 the gentleman, Mr. Moyer from Montgomery. And just
19 attending at this moment, and I acknowledge him,
20 the gentleman, Mr. Ross, from Chester.

21 Without any further ado, this
22 Committee is now on its fifth hearing regarding the
23 soon to be rate cap expiration on electric utility
24 bills. There is no doubt that the citizens of

1 Pennsylvania will be hit hard when the current rate
2 caps expire. Last week, alone, the Philadelphia
3 Inquirer reported that the average cost of
4 electricity in the Philadelphia region tends to be
5 higher than that of the United States, as a whole.
6 Since 1998 the cost of electricity for kilowatt
7 hours in this region has climbed 28 percent from 17
8 to 17.1 percent, and this is with the rate cap
9 still on. It has risen 17.1 percent.

10 What will happen to the residents
11 of the Philadelphia region once these rate caps
12 expire? Let us remember that the idea of
13 regulation was first conceived in Pennsylvania in
14 1913 and later again in 1937 protecting the
15 residents of the Commonwealth from unfair costs for
16 things that were not commodities on the open
17 market, railroads, bridges, fairways, and yes, even
18 utilities were regulated. While regulation
19 provided some relief and protection for the
20 consumer, it equally permitted profits for
21 entities, such as the utilities with some
22 limitation that the earnings must not be excessive.

23 In 1996, when others in the
24 legislature voted to deregulate electricity with

1 the hope that competition would flourish, I was not
2 convinced, as 27 others, that Pennsylvania
3 residents would benefit. Now that we're faced with
4 rising costs in all areas of our daily lives, the
5 impending rate jump feels like the time to pull out
6 I told you so. But the fact remains, regardless of
7 who was right and who was wrong, that the fact
8 remains that regardless of who, a crisis is coming,
9 and I, for one, would like to see a final solution
10 put into place that stalls this problem once and
11 for all.

12 I turn to my colleague and
13 co-chair, Representative Hutchinson, for a few
14 remarks.

15 REPRESENTATIVE HUTCHINSON: Thank
16 you, Chairman George. I thank you for holding this
17 important series of hearings as we look forward to
18 a really quandary that Pennsylvania is facing, and
19 that is to make sure that we have enough energy
20 generated to power the increasing needs that we
21 need, both for consumers, as well as for job
22 creators in Pennsylvania. And there are many
23 methodologies of how we get to that point of a new
24 generation, but this series of hearings has given

1 us a chance to consider some folk's ideas of how to
2 get there, and I appreciate this opportunity and
3 look forward to a thorough hearing today. Thank
4 you.

5 REPRESENTATIVE GEORGE: We have a
6 full agenda this afternoon. It is imperative that
7 those presenting their testimony keep their
8 presentation within the allotted time. Your
9 complete testimony should be submitted for the
10 record. Because of the nature of the electric
11 volatility hearings and the expertise of those
12 testifying, questions and answers have tended to
13 drag on. We would all be better served if the
14 questions and answers are direct and to the point.

15 It is a rare occasion, indeed,
16 when we have the Governor of our Commonwealth
17 appearing in front of the legislative committee.
18 His appearance here today, his testimony, in
19 itself, is the importance of the place and his
20 place is on this issue. And testifying first today
21 will be His Excellency, Edward G. Rendell, governor
22 of this Commonwealth of Pennsylvania. Next
23 presenting will be the Honorable Michael A. Nutter,
24 mayor of this great City of Philadelphia. And then

1 with the permission of those that will be
2 testifying, Councilman Curtis Jones has a pressing
3 meeting, so we're moving him into third place. And
4 then we'll have the gentleman, Mr. Ott, PJM senior
5 vice-president of marketing. And then there will
6 be Mark Crisson, CEO of the American Public Power
7 Association. And then we will have the lady, Liz
8 Robinson, Energy Coordinating Agency.

9 So without further ado, I will
10 turn to His Excellency, Governor Edward G. Rendell,
11 who will give the first testimony. Welcome,
12 Governor.

13 GOVERNOR RENDELL: Good morning,
14 Mr. Chairman. Let me begin, Chairman George, by
15 complimenting you for a career long dedication to
16 the environment and providing adequate energy
17 resources for the Commonwealth at the lowest cost
18 possible to consumers and businesses, alike. I
19 want to particularly commend your work on the 1913
20 Bill, as it was well crafted.

21 As you noted in your opening
22 remarks, Mr. Chairman, I don't testify before
23 legislative committees too frequently. In fact, in
24 my five and two-thirds years as governor, this is

1 only my third time appearing before a legislative
2 committee. I asked for permission to come here
3 today, and again, I thank you and Chairman
4 Hutchinson for granting that permission because as
5 all of you know, energy and the environment have
6 been one of the guiding criteria for this
7 administration. We worked hard to make
8 Pennsylvania a state that is a leader in renewable
9 energy resources, and this legislature has been an
10 important component of that.

11 I think back to 2004 when, thanks
12 to the work of a bipartisan group, and
13 Representative Ross was here, we adopted advanced
14 energy portfolio standards. We were the 22nd state
15 in the union to do so, but in many ways, the
16 advanced energy portfolio standard bill that we
17 adopted was the most aggressive, particularly in
18 solar requirements, and it was a great bill. It
19 has had its desired affect and has generated a new
20 green energy, green jobs in Pennsylvania. We have
21 almost 4,000 green energy jobs that were created as
22 a direct result of us creating the market by
23 adopting advanced energy portfolio standards.

24 This legislature again acted well

1 and acted wisely this past early July when it
2 adopted essentially advanced energy portfolio
3 standards for fuel when we adopted the Penn
4 Securities Fuel Initiative, an important initiative
5 that will spur the burgeoning of biofuels energy in
6 Pennsylvania. Chairman George knows a bit much
7 about that industry because we broke ground just a
8 couple months ago, Chairman George and myself, on a
9 plant to be built by bioenergy from Massachusetts
10 in Clearfield County. There are actually two
11 plants, coal-based ethanol plant and another, a
12 cellulose ethanol plant, probably the largest
13 cellulose ethanol plant to be built in the U.S.
14 currently. All total, it's a 270 million dollar
15 investment, 27 million of which came from the
16 Commonwealth. That 270 million dollar investment
17 is more than ten times greater than any private
18 sector investor in the industry. It shows the
19 tremendous impact that this industry can have in
20 jobs, in capital investment, in broadening our tax
21 base throughout Pennsylvania. And at the same
22 time, this legislature in 2006 passed the Energy
23 Independence Fund, and I will talk about the Energy
24 Independence Fund a little bit in my testimony.

1 But I want to say the media is
2 fond of beating up on our legislature and saying
3 nothing of any substantive value from Harrisburg.
4 This legislature, in the five and two-thirds years
5 that I have been governor, has passed probably a
6 more important set of bills, energy independence,
7 energy use, and conservation efficiency than any
8 legislature in the United States of America. So I
9 commend all of the members of the legislature,
10 particularly our two chairmen of this Committee.

11 As Chairman George said today,
12 I'm here to let everyone in Pennsylvania know what
13 the Chairman just alluded to, a crisis is coming.
14 Just as we have seen price spikes in gasoline and
15 winter heating fuels like natural gas and heating
16 oil, a price spike of equal or greater magnitude is
17 coming for electricity. There's not much any of us
18 can do in the short run about the price of
19 gasoline, but the price utility companies charge
20 for electricity is currently set by the State.
21 These controls are about to expire. But we have
22 the power to keep prices in check, if we choose to
23 do so, but only if we choose to.

24 For the past ten years,

1 Pennsylvanians have benefitted from reasonably
2 priced electricity due to legislatively-mandated
3 rate caps. These caps are about to expire and now
4 every Pennsylvania family and every Pennsylvania
5 business will need to ask whether it can afford to
6 keep the lights on.

7 If rate caps expire, prices do go
8 up by 30, 50 or maybe even 60 percent or more in
9 some cases. Altogether this could add up to more
10 than four billion dollars a year additional costs
11 out of Pennsylvanians' pockets. For households
12 spending \$1,200 per year for electricity, this
13 could mean an increase of 400 or \$500 a year,
14 depending on where that household is.

15 Like many other Pennsylvanians,
16 I'm aware that even as our consumers are hurting,
17 our utility companies are doing quite well. Last
18 year Exelon, PECO's parent company and the provider
19 here in southeast Pennsylvania, earned a profit of
20 1.6 billion dollars. PP & L and earned 1.3
21 billion, a new record for them. And in a recent
22 presentation to investors, PP & L projected a
23 dramatic 50 percent increase in earnings in 2010.
24 And as you know, the rate caps come off for PP & L

1 in December of 2009. So just with one year of the
2 rate caps being lifted, PP & L told their investors
3 their earnings would increase by 50 percent.

4 When rate caps come off and
5 prices go up, the utilities earn even more without
6 getting any additional cost, as the rate caps come
7 up. They're not spending anymore money. There's
8 no cost factor. It's all just additional earnings
9 and additional problems, which is why PP & L can
10 make the claim their earnings will go up by 50
11 percent. Now, I'm all for the private sector doing
12 its job for its shareholders, but I find it hard to
13 see how we can ask Pennsylvania families to pay
14 more during these very tough economic times when
15 utility profits are already so large, and according
16 to their own projections, will grow even larger
17 when the rate caps expire.

18 But I come here today not just to
19 sound the alarm but to offer some concrete
20 solutions. But let me be absolutely, crystal
21 clear, if solutions along the lines I will describe
22 in a moment are not approved, the pressure to
23 simply extend the current rate caps will be
24 overwhelming, and none of us here today will be

1 able to resist that pressure, nor should we.
2 Consumers must be protected one way or another.
3 That is our job and we must do it.

4 Imagine for a second if I came
5 before you and told you that I was proposing a
6 state tax increase of four billion dollars. How
7 would you, as legislators, react to that? How
8 would the public react to that? But this isn't a
9 tax increase, but it's going to cost
10 Pennsylvanians, families and businesses, an extra
11 four billion dollars a year just the same. That
12 won't come from government action but it will come
13 from government inaction. We get this four billion
14 dollar figure by a summation given to us by an
15 excellent consumer advocate for the Public Utility
16 Commission. Mr. Pakovsky (phonetic) has indicated
17 that when rate caps expire, the cost to
18 Pennsylvania consumers, families, households will
19 go up by 1.5 billion dollars. That's pretty bad.
20 But even more frightening is Mr. Pakovsky's
21 estimate when rate caps expire, costs to
22 Pennsylvania businesses will go up 2.5 billion
23 dollars.

24 It's been nearly two years since

1 I first unveiled my plan to shield families and
2 businesses from the pain that will result because
3 of the shortcomings of Pennsylvania's electricity
4 industry. The longer this legislation is stalled,
5 the more difficult it is going to be to implement
6 measures, which will enable Pennsylvania residents
7 to manage this problem.

8 Working together we made some
9 progress on energy issues this year. Because of
10 your leadership, Mr. Chairman, this past July 1st I
11 signed -- this past July I signed energy
12 legislation that will advance 665 million dollars
13 of renewable energy, energy conservation and job
14 creation in the energy sector. About a third of
15 this money is targeted towards helping consumers
16 conserve electricity and manage higher energy
17 costs. The other two thirds will spur the
18 development of alternative energy resources and
19 create at least 10,000 good-paying jobs in these
20 industries.

21 Notwithstanding this good news,
22 unless we move quickly to address the shortcomings
23 of our energy policy, we risk families losing their
24 homes and businesses leaving this State because

1 they can't pay their electricity bills. If
2 Pennsylvania companies have to shell out billions
3 of dollars more each year just to keep the lights
4 on and the machines running, and families have to
5 spend hundreds more in their utility bills, we run
6 a real risk that they will turn the lights out in
7 Pennsylvania and move to states that still control
8 their electricity price.

9 Let me again compliment the
10 legislature. Thanks to the economic stimulus
11 program that you worked on -- that I proposed and
12 you worked on and approved back in 2003 and 2004,
13 Pennsylvania's economy is doing much better than
14 economies of our sister industrial states. We were
15 the only large state in the union this past June to
16 end the fiscal year with a surplus. Other big
17 states from California to Florida, from New York to
18 Ohio, from Illinois to Michigan, other big states
19 have multiple billion dollar deficits. New York,
20 four and half, New Jersey, 3.7. California was 30
21 billion dollars in deficit. They had record
22 deficits, but because of the economic growth that's
23 occurred in Pennsylvania, we not only didn't have a
24 deficit, we had a surplus.

1 As you know, in 2006 IBM Global
2 Services released a report that we were the number
3 one state in the union in new business startups and
4 business expansions. Just this past April a
5 magazine called Facilities Location -- Business
6 Facilities Location announced that Pennsylvania was
7 number one in the biotechnology industry and the
8 most robust biotechnology industry of any state in
9 the union even more than states like California and
10 Massachusetts, who have been traditional leaders.

11 And the good news is while the
12 country has lost almost three quarters of a million
13 jobs in the first seven months of the year,
14 Pennsylvania has gained jobs during this period.
15 We risk all of that progress if we don't control
16 electricity costs to business.

17 I want to cite to you -- I don't
18 think any of the members here today represents the
19 Lehigh Valley, but I want to cite to you a
20 communication I received from a company called PSI
21 Silica. It's one of these new green energy
22 companies. They produce the silicon that is used
23 to, in turn, produce solar panels. They have grown
24 a booming industry all over the United States and

1 all over the world, for that matter. PSI Silicon
2 has about 250 jobs in a location in the Lehigh
3 Valley. They wanted to expand that and add 100
4 jobs, plus they wanted to open a brand new location
5 in the old Fairless Hills Steams Works, which is a
6 KOZ in Bucks County, in upper Bucks County. The
7 potential there was for another 300 jobs and 300
8 million dollar capital investment.

9 But I got a letter from the CEO
10 about six months ago and he said: Alabama has come
11 after us with tremendous offers. Your Governor's
12 Action Team has met those offers in many ways, but
13 Alabama has offered us a low electricity price that
14 is stable, that they assert is stable and will be
15 there for ten years. We have no idea what
16 electricity prices are going to be in Pennsylvania
17 when the rate caps come off. We have heard talk
18 they can increase by 40, 50, 60 percent. We very
19 much want to stay in Pennsylvania. We value our
20 work force, but how can we stay when we don't know
21 what electricity prices are going to be in the next
22 decade? For their industry, the production of
23 silicon, the electricity is crucial. It's the
24 biggest bottom line indicator.

1 Because the Governor's Action
2 Team has been so good and because I got involved,
3 we were able to fashion an offer to them that kept
4 the Lehigh Valley facility in place and the
5 expansion has been taking place there. And we are
6 working with them to try to create and keep their
7 new enterprise in the Bucks County facility. We
8 may still lose that to Alabama because of
9 electricity costs. And that's not a unique story.
10 My guess is that each and every one of you have
11 heard similar stories from businesses located in
12 your district. So we have to deal with this and
13 deal with it in a concrete and quick manner.

14 There are ways we can take strong
15 and immediate corrective action on energy policy.
16 First, we should embrace conservation wherever
17 possible. That's just common sense. Given the
18 growing worldwide demand for energy, and you should
19 see the increases and the demand for energy and
20 electricity in China and in India, given that
21 increasing worldwide demand, there is no way, no
22 matter how much renewable alternative energy
23 resources we get up and running, even if we meet
24 the schedule, no matter what we do there, no matter

1 how many cold-fired plants or nuclear plants are
2 built, we will never be able to meet demand by
3 2025, if demand continues to grow at the rate it's
4 been growing.

5 And that means the entire world,
6 United States of America, and the Commonwealth of
7 Pennsylvania must cut demand. And the first and
8 most effective way to cut demand is conservation.
9 Conservation shrinks the energy bill of the person
10 or business that conserves, but it also total
11 reduces total demand on the wholesale market, which
12 keeps price spikes to a minimum. In tight markets
13 where supply barely covers demand, small reductions
14 in demand can lead to steep dropoffs in price.

15 Let's take an example. Let's
16 look at the oil markets. Today a barrel of oil is
17 trading for about \$110, down from a record high of
18 \$147 per barrel in July. This happened, in great
19 part, because Americans cut the amount we drive by
20 three or four percent over the summer. Even that
21 small three or four percent helped trigger a price
22 reduction of nearly 20 percent in the price of oil.
23 There were other factors at work, of course, but
24 the principal is clear.

1 The second policy is to cut peak
2 demand, especially during the 100 highest demand
3 hours of the year. I want to focus on this because
4 it's really an incredible story. The hundred
5 highest demand hours of the year actually account
6 for one percent of all the hours of the year, but
7 they account for nearly 20 percent of what we pay a
8 year for electricity. According to the Department
9 of Environmental Protection, if we could reduce
10 demand by just five percent during those hundred
11 most expensive hours of the year, we could save
12 consumers 233 million dollars a year in electricity
13 costs just by cutting demand five percent in 100
14 hour period.

15 Your legislation, Mr. Chairman,
16 House Bill 2200, will help us meet these goals.
17 The bill will require utility companies to offer
18 conservation programs to help consumers lower
19 demand by 2.5 percent. This will translate to a
20 savings of up to 20 percent off the average
21 electricity bill, about \$250 per year for an
22 average user.

23 The legislation would also
24 require utilities to install smart meters in every

1 home over the next ten years and offer different
2 pricing options for consumers that would help lower
3 peak demand by four percent. All told, House Bill
4 2200 could save consumers 1.3 billion dollars per
5 year by 2013.

6 Now, I'd like to take a second
7 say a word about smart meters because there is
8 considerable misinformation, and I would even
9 categorize it as disinformation (sic) about how
10 these meters work. To use a smart meter does not
11 require computer literacy or a college degree.
12 Smart readers can save consumers money by allowing
13 them to choose billing plans where the meter
14 constantly adapts the home energy use to the times
15 of the day when the energy is the cheapest. The
16 meter is smart so you don't have to be.

17 Smart meters also save utility
18 companies money because they cut down on the need
19 for service calls and maintenance. In fact, PP & L
20 has already installed smart meters for many of its
21 customers, but the meters aren't programmed so the
22 customers can benefit from the savings. And under
23 your bill, Mr. Chairman, smart meters would start
24 working for consumers and start saving them money

1 right away. Smart meters are truly the wave of the
2 future, and we have a chance to lead the nation in
3 conserving energy and saving money by installing
4 them all across the state.

5 Another piece of legislation,
6 House Bill 2201, sponsored by Representative
7 McCall, will require utilities to buy power for
8 their customers in a balanced and competitive
9 manner so that consumers benefit from service at
10 the lowest reasonable rate available. These two
11 bills, combined with measures that will prevent
12 unpredictable and unaffordable price spikes, will
13 give Pennsylvania consumers and our businesses real
14 benefits.

15 Look, we want to rein it in.
16 What is going to happen when rate caps come off?
17 But as we rein them in, if we can pass 2200, and
18 2200 will save the average user \$250 a year, well,
19 that might cut in half, or at least a third the
20 rate increase, itself. So these are things that
21 are very, very important. I know most our
22 attention is focused on what happens when the rate
23 caps come off, but you can ameliorate a lot of the
24 effects of the rate caps coming off by passing

1 quickly and saying no to the Senate for passing now
2 before we break for the year, before we go out of
3 business, 2200 and 2201.

4 We are running out of time to
5 enact these policies before the first of the
6 remaining rate caps, PP & L, expires and the
7 families its serves see at least a 35 percent
8 increase in their monthly bills. These programs,
9 more conservation, peak demand reduction and price
10 spike protections, need time to get up and
11 running. The longer we wait, the less our
12 consumers will benefit.

13 Given the hefty profits of our
14 utilities and the rising cost of energy, we must
15 act now to protect our citizens from the crushing
16 blows consumers in other states have faced when
17 their rate caps expired. We cannot let this chance
18 pass us by. I strongly believe there must be a
19 phased-in approach to any major rate increases so
20 that consumers do not have to deal with the huge
21 jump in prices in any one given year. And given
22 the level of utility company profits, it makes
23 sense that these companies should bear the greatest
24 share of the cost.

1 I look forward to working with
2 this Committee, other members of the legislature,
3 and our utilities on a fair, phased-in approach to
4 rate increases. Such work must reach fruition
5 before the end of this legislation. If no such
6 accord is reached, I will have no choice but to
7 sign a bill that is drafted in such a manner to
8 withstand legal challenges and extends the current
9 rate caps. I want to be clear about that. That is
10 not my preferred option, but if we don't take
11 alternative action, I will have no choice, and I
12 believe you will have no choice but to vote for a
13 bill that extends the rate caps in a way that can
14 withstand legal challenges. Extending the rate
15 caps at this time for a year, two, three or four
16 would not be, in my estimation, the best result for
17 the Commonwealth, but it may be the only
18 alternative if the clock runs out.

19 And I want to say a word about
20 the clock running out. I understand that we all
21 have elections to face, and I guess I don't, but in
22 some ways, I guess I do, but I understand all of
23 you have elections to face. And I don't minimize
24 the need for a campaign. In a volatile electorate,

1 anything can happen to anyone at any time, but I
2 also understand the need for us to enact this
3 energy policy. I understand the need for us to
4 enact healthcare reform that helps extend coverage
5 to more Pennsylvanians who are desperate. Those
6 are things that can't wait. Those are things that
7 the public doesn't want to hear we can't do because
8 it's an election year.

9 So I urge you, Mr. Chairman,
10 Chairman George, Chairman Hutchinson, to talk to
11 your leadership and also talk to your colleagues in
12 the senate and find extra days in the evening. We
13 can find extra days to meet. This work is too
14 important for us to throw up our hands and say the
15 clock ran out. If the clock runs out,
16 Pennsylvanians are in trouble. You care about it,
17 the people of the state, as I do, and I think we
18 can't let the clock run out. We have to do our
19 job, the job we were elected to.

20 Again, I want to compliment the
21 legislature, and particularly this Committee, and
22 Representative Ross, and Representative Vitali, and
23 Representative DePasquale have joined us for their
24 work in getting our energy policy to where it has

1 gotten today. We couldn't have done it without
2 this Committee's bipartisan approach, without the
3 leadership of both chairmen. We have done a great
4 deal for the people of the Commonwealth in the
5 field of energy and environmental protection, but
6 we have a chance to do it again. And this time,
7 the only thing that will stop us is government
8 inaction. I believe you must act, and I'm calling
9 on you, as people who I have gotten to know well
10 and know that you are good, decent, honorable
11 people who care very much about what happens to
12 your constituents and people of this great state.
13 I'm calling on you to act expeditiously and act
14 efficiently.

15 Thank you, Mr. Chairman.

16 REPRESENTATIVE GEORGE: I thank
17 His Excellency for his testimony.

18 I assume you will stay for
19 questions?

20 GOVERNOR RENDELL: Sure.

21 REPRESENTATIVE GEORGE: I'll
22 allow one question per member, but first I'd like
23 to introduce Representative Yudichak, and to his
24 right, the gentleman from York County,

1 Representative DePasquale, and on my far right, my
2 friend, Representative Vitali, from Delaware.
3 Representative Rubley, from Chester. I apologize.

4 We'll start at the right for
5 those who choose.

6 Mr. Ross?

7 REPRESENTATIVE ROSS: Thank you,
8 Mr. Chairman. I apologize for being a couple
9 minutes late myself. The security here at City
10 Hall is excellent and is very thorough.

11 Governor, thank you for coming
12 today and taking time to highlight this issue,
13 which I think is -- I agree with you fully, is so
14 terribly important for us to address promptly. I
15 also appreciate your comments very much on the
16 subject of conservation and asset management. I
17 think you've eloquently stated the benefits of
18 that.

19 I did want to probe with you the
20 much less preferred alternative that you mentioned,
21 which has to do with extension of rate caps. And I
22 appreciate, also, that you really do not want to
23 see that as being the way that we try to address
24 this. And maybe we can just talk briefly, if you

1 would, about some of the concerns about the
2 potential legal challenge in the first place
3 because, of course, the rate caps were created
4 under a legal settlement that was voluntarily
5 agreed to by the power companies. So perhaps in a
6 similar suit we may have some real challenges
7 attempting to enforce a price control on these
8 companies.

9 And secondly, from a maybe more
10 economic point of view, if you can comment on the
11 concerns of having a price structure that is out of
12 sync with the marketplace. Right now we have a
13 little bit of a discrepancy between what the
14 marketplace is saying the cost of energy is, and
15 the downside of extending that, essentially letting
16 that distance continue to increase so that we have
17 to face it eventually later and potentially have
18 negative impacts on generation creation that we
19 need for the future.

20 GOVERNOR RENDELL: Well, I think
21 this is all -- both of your questions are good ones
22 and it's all wrapped into a balancing task. We
23 don't want to treat our utilities unfairly. If we
24 do, we could face a time when there's a real

1 potential downside and sufficient energy may not be
2 produced in Pennsylvania. And not having energy,
3 sufficient energy, is probably the worst outcome
4 than having a high priced one. So we want to keep
5 it balanced.

6 Can we legally extend the rate
7 caps? I think we can. No slight to any of the
8 bills that have been put before us on rate caps,
9 the Chairmen's bills, Senator Wascola's bill. We
10 don't believe there's enough underpinning in those
11 bills to withstand the possibility that if
12 utilities can go into court and say this is it. We
13 think we need to build a better record. There has
14 to be things put that in that bill, but given the
15 level of profits, and I think PP & L did us a big
16 favor by what it said to its investors. Think
17 about it, a 50 percent increase in earnings without
18 any kind of commitment to increase in costs, that
19 is stunning. And given that as a background,
20 extending rate caps probably wouldn't give credit.
21 So I think we can do that. It's not a good idea,
22 as I said. It's not my preferred alternative, but
23 it is a reality that we're going to have to face.

24 Someone, somewhere is going to

1 put a bill -- if we don't do something about it
2 between now and when you recess, somebody's going
3 to put a bill on the floor for rate cap extension.
4 And although I have come to respect and admire many
5 of you in the legislature, my mind is completely
6 boggled when I hear, as I did from a wonderful
7 senator, that no one, Republican or Democrat, wants
8 to vote to place a tax on cigars and smokeless
9 tobacco products, even though we're the only state
10 in the union that doesn't have a tax, and even
11 though it would generate 50 million dollars a year
12 for healthcare. When I hear something like that,
13 I'm of the belief that if that rate cap bill comes
14 to a vote, we're voting for it. And if you vote
15 for it and send it to me, and it has the requisite
16 legal protection that I think is necessary to
17 withstand a challenge, I'm signing it. I'm signing
18 it.

19 And really, what this depends on
20 is good legislative work and total bipartisan
21 approach to this, number one, and it requires the
22 utilities to observe one of my most favorite
23 victims from literature, was pigs get fat and hogs
24 get slaughtered. If the utilities live by that

1 proviso and if we do our work correctly, we should
2 be able to fashion a bill in the next five or six
3 weeks that accomplishes all of this. And we also
4 should pass 2200 and 2201 swiftly, swiftly.

5 REPRESENTATIVE ROSS: Thank you
6 for clarifying that, and please tell the Chairman
7 it was a two-part single question so I don't get in
8 trouble.

9 GOVERNOR RENDELL: That was one
10 comprehensive question.

11 REPRESENTATIVE GEORGE: I assume
12 the gentleman is finished?

13 REPRESENTATIVE ROSS: I'm
14 finish. Thank you, Mr. Chairman.

15 REPRESENTATIVE GEORGE: The
16 gentleman, Mr. Moyer?

17 REPRESENTATIVE MOYER: Thank you,
18 Mr. Chairman. I, too, would like to go on the
19 record as saying that I agree with the Governor on
20 his testimony and I thank you for your testimony.

21 I attended some other policy
22 meetings and our last meeting in Allentown where I
23 expressed concern about the impact that the rate
24 caps, when they go off, will have on my

1 constituents on my district, as well as the State
2 of Pennsylvania. So I want to go on record saying
3 although agree with the phase-in program and the
4 mitigation program, if there's not a piece of
5 legislation outside of extending the rate caps, I
6 will vote to extend the rate caps. I agree with
7 the Governor. I don't think it's the way to go,
8 but absent of anything else, I have told my friends
9 in the utility industry, I will, as a member of the
10 General Assembly, protect my constituents and the
11 people of Pennsylvania by voting for rate cap
12 extensions.

13 GOVERNOR RENDELL: I can just say
14 quickly, number one, I respect that because you, as
15 I, under it's not the preferred alternative, but I
16 think it ought to be absolutely clear to our
17 friends in the utility industry that that's the
18 alternative they are facing. And they may sit back
19 and say: Well, we can win in court. I'm sure they
20 alluded to that to many of you, but I'm not so
21 sure. It depends what court we wind up in, and it
22 depends -- how would you like to be a judge voting
23 for a 60 percent rate increase for some people in
24 Pennsylvania if you had to stand for attention or

1 re-election? And that shouldn't be the way it is,
2 but it is a fact of life. But we need to work in a
3 bipartisan fashion to avoid that eventuality.

4 REPRESENTATIVE GEORGE:
5 Gentleman, Mr. Seip?

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

8 Governor, I want to thank you for
9 your remarks. I appreciate you being here today to
10 testify before the Committee. I certainly have a
11 tremendous investment in trying to further our
12 energy and dependent strategy. My wife, the new
13 lieutenant colonial, having just returned from Iraq
14 with the 28th Division last July of '07 has
15 convinced me that we certainly need to move in this
16 direction.

17 I want to try and focus on your
18 testimony about the hundred highest hours of demand
19 during the year.

20 Is that a consistent hundred
21 hours, or does it have a moving target?

22 GOVERNOR RENDELL: It's a moving
23 target. If you get the hundred highest days of the
24 year, that's almost what the hundred highest demand

1 hours are. Last year it may have included a lot of
2 hot August days. This year not a lot of hot August
3 days but a whole lot of July and June and May days.
4 So it is a moving target, but it's almost always --
5 if you put on a chart the hundred hottest hours of
6 the year, they would be the hundred largest demand
7 hours a year.

8 REPRESENTATIVE SEIP: Thank you.
9 Thank you, Mr. Chairman. I look forward to trying
10 to address our energy needs. Thank you, again.

11 REPRESENTATIVE GEORGE: Mr.
12 Hutchinson?

13 REPRESENTATIVE HUTCHINSON: Thank
14 you. I just wanted to make -- to have you clarify
15 for us, please, what your requirements are. If we
16 -- the PUC has approved and is approving rate
17 phase-in plans filed by electric utilities, if, on
18 top of that, the legislature passes bills along the
19 lines of 2200 and 2201, in that case, you would not
20 support the extension of rate caps?

21 If those three things, one of
22 which is already happening and the other two are
23 out there, the two bills and the
24 rate -- the phase-in plans, which are being done in

1 a regulatory manner, as opposed to legislatively,
2 if those three things happened, you will not sign a
3 rate cap extension; is that true?

4 GOVERNOR RENDELL: Right. But
5 let me clarify. I don't think we can rely on the
6 PUC to do the phase-ins. Those phase-ins have to
7 be legislatively controlled and legislatively
8 demanded. Although now I have appointed three of
9 the five members of PUC, I thought their decision
10 on PP & L was premature. I will let you know it.
11 That has to be done by legislative mandate. We
12 can't leave that up to the individual PUC.

13 What we're doing here, I think,
14 is something that will have an affect, at least for
15 the next half decade and maybe beyond, and that
16 ought to be done legislatively. So I'd like to see
17 2200 passed, 2201 passed, and us do a phase-in
18 piece of legislation that preempts what has been
19 done by the PUC, applies to all utilities, not just
20 to PP & L, and does it in a way where the consumer
21 doesn't bear the burden of the phase-in.

22 You know, the question is who
23 pays the carrying charge -- let's say PUC
24 determines that X utility is entitled to raise

1 rates 40 percent and they want to do eight percent
2 a year for five years, well, the utilities want the
3 consumer to have to pay extra for the cost of
4 carrying charge of those dollars, as opposed to if
5 they got paid up front. I don't believe that's
6 fair. I believe that the profits are to be made,
7 given the way Pennsylvanians are being squeezed on
8 food prices, on gasoline prices, on home heating
9 oil prices, we ought to let the utilities bear the
10 greater part, if not all, of those caring costs.
11 That's one of the rubs in our negotiation with the
12 utility companies is who pays the carrying costs.
13 I think they need to have discounts and incentives
14 for people paying everything up front. They can
15 certainly discount it and put incentives in that.
16 That would be good, but when a family just can't do
17 it, can't pay that extra 500 or \$600 because
18 they're paying an extra 500 or \$600 on gasoline,
19 they're paying an extra \$1,000 on heating their
20 home, and they're paying an extra \$1,000 for food,
21 we can't penalize consumers, not when PP & L is
22 going to increase earnings by 50 percent without
23 spending one nickel cost. I think we would not be
24 doing our job for the people in Pennsylvania.

1 So I want to see those three
2 things done, Mr. Chairman, and I want to see them
3 done legislatively.

4 REPRESENTATIVE HUTCHINSON: Thank
5 you.

6 REPRESENTATIVE GEORGE: The lady,
7 Representative Harper?

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

10 Thank you, Governor. As you
11 know, we did pass -- the House passed House Bill
12 2200, and I voted for that, and we do appreciate
13 your support of that, as well. I'm a little less
14 sure that we should pass 2201, which effects the
15 way utilities buy their power. And I guess I'm a
16 little less sure as to how that would work to help
17 blunt the effect of the rate caps coming off.

18 Do you think you could expand a
19 little on that?

20 GOVERNOR RENDELL: Sure. Right
21 now, as you know, most of the utilities purchase
22 power on the smart market, and whatever day they
23 purchase, they pay that price. What we're saying
24 is: You're going to be legislatively required to,

1 first, have a balanced portfolio. There are times
2 when you can purchase on the spot market, but in
3 most cases, you need to go search for the lowest
4 reasonable rate available. There are low
5 reasonable rates available.

6 In fact, when a utility purchases
7 on a spot market, literally one week before or two
8 weeks later there's equivalent energy available at
9 a lower price. So we're saying: Build a portfolio
10 of purchases and that portfolio purchase should
11 include a whole array of different type of
12 purchases, some on the spot market, some long-term,
13 some from different sources, some from renewable
14 energy, et cetera so that we have a balanced and
15 competitive and lowest reasonable rate available
16 approach. It's been done in other states and done
17 with success in other states.

18 And, obviously, if you force --
19 PUC has to be the one to enforce this. If we
20 enforce the utility to buy the lowest rate
21 available, then, of course, it's going to be a
22 lower price passed on to the consumer if they buy
23 exclusively on the spot market. Spot market is a
24 terrible way to purchase. Just think if you had to

1 purchase stocks on the spot market or sell stocks
2 on a spot market.

3 I remember when the debate over
4 privatization over Social Security was going on in
5 2000 when the market was through the roof and
6 everybody said: Of course we can get ten times the
7 return we're getting now. Well, I haven't heard
8 too many people talk about how good we have been
9 doing buying stocks. So somebody would invest in
10 private investments, instead of Social Security,
11 would we cash in those stocks now. Nobody is
12 talking about it much because the spot market is so
13 volatile and often producing just the highest
14 price.

15 Secondly, one of the things, if
16 you talk to -- I don't know if any of you have
17 talked to the Pennsylvania -- I'm not getting this
18 right. Somebody help me, the Pennsylvania
19 Industries Association.

20 REPRESENTATIVE ROSS: IECPA.

21 GOVERNOR RENDELL: What does it
22 stand for?

23 REPRESENTATIVE ROSS: Industrial
24 Electric Consumer.

1 GOVERNOR RENDELL: Industrial
2 Electric Industrial Consumers, that's the heavy
3 industries that consume electricity. A lawyer by
4 the name of Kleminger, they will tell you that they
5 need long-term contract. And we have done a tiny
6 bit of long-term contracting for two southwestern
7 Pennsylvania companies. In 2201 we're asking you
8 to take a look at the potential of long-term
9 contracting.

10 Let me go back to the Chairman's
11 point. When the PUC had a decision on long-term
12 contracting and the Duquesne light case, they said
13 that our current law does not allow and dereg law
14 did not allow for long-term contracting. So if you
15 want to get business the option to enter into
16 long-term contracting where they get stability,
17 where they can plan their business plan based on a
18 stable rate for the next half decade, if we want to
19 give them that option, it has to be done in 2201.

20 So I agree with you,
21 Representative Harper, 2201 is less clear and needs
22 a little bit more work, if any, 2200 does, but when
23 we stand ready, again, in a bipartisan session to
24 help us on that. It's interesting. The biggest

1 supporters of 2201 are the IECISs, and you should,
2 if you haven't talked to Mr. Kleminger, I had him
3 in over the summer, and it was a real eye opener.

4 REPRESENTATIVE HARPER: Thank
5 you, Mr. Chairman. We have somebody here from PJM,
6 who exceptionally operates as a stock market for
7 electric prices.

8 GOVERNOR RENDELL: I don't know,
9 Mr. Chairman, if you heard from Mr. Kleminger.

10 Have you heard from him?

11 REPRESENTATIVE HARPER: Thank you
12 very much.

13 REPRESENTATIVE GEORGE: I thank
14 the lady.

15 Representative Leach?

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

18 Governor, it sounds like whatever
19 else we do, we're going to need to take legislative
20 action, in your view, on the phase-in of the rate
21 cap being listed.

22 Given the staggered nature of
23 that and the logistics of that, is there a
24 timetable you have by which we must act in order to

1 do that effectively?

2 GOVERNOR RENDELL: I talked to
3 some of the House leadership, Representative
4 McCall, and the senate, and I have urged them to
5 give me a meeting with the utility representatives,
6 and the administration would attend if they wanted
7 us there; would not attend if they didn't want us
8 there. But we have to have that meeting. We have
9 got to hone these issues. And I think the
10 utilities had have to hear from the legislature
11 that they, too, want -- given the profit level,
12 they, too, want the utilities to bear the cost of
13 the phase-in, not individual consumers.

14 Our families, like every American
15 family, are getting killed. When they sit
16 around -- the kitchen table has become politically
17 the most important piece of furniture in the
18 house. When they sit around the kitchen table and
19 look at the bills, they're getting killed. So you
20 want them to carry the cost of the carrying cost,
21 or you want someone who is going to increase their
22 earnings 50 percent without spending a nickel on
23 cost. And I think it's pretty clear, and I think
24 the utilities have to hear from all of you, not

1 just the House, but Chairman Hutchinson.

2 I hope you will talk to the
3 Republicans in the Senate, as well, because again,
4 we need the Senate and House to act as one. And so
5 I hope we can convene as quickly as possible. If
6 that agreement was acceptable to the
7 administration, and my guess is it would be, we
8 could do this in two, three weeks easily, easily.
9 So I hope you will all talk to leadership about
10 it. I know the two Chairmen will, and let's see if
11 we can get moving.

12 REPRESENTATIVE GEORGE: I thank
13 the gentleman.

14 The gentleman from York, Mr.
15 Miller.

16 REPRESENTATIVE MILLER: Governor,
17 I just want to be clear on something. From what
18 you've said, it sounds like if we just extend the
19 cap, you believe the courts might find that is an
20 unfair take, but also, might the courts not find it
21 an unfair take if we phase-in the increases and
22 require the utilities to cover that, we don't allow
23 them to recover the carrying costs?

24 GOVERNOR RENDELL: Again, you're

1 right, certainly. When I was a lawyer, people were
2 coming to me and telling me their tale, and they
3 would say: Can I sue. And I would always say:
4 Sure. You can sue. The question is can you win.

5 Could we get sued over those
6 circumstances? Probably. But with a reasonable
7 phase-in, even if the utilities carried the cost
8 but be allowed to offer discount incentives, I
9 don't think any court in the land would come close
10 to consider that to be an unreasonable taking. So
11 I think that's less of a worry.

12 I even think there's a way to
13 fashion a straight rate cap extension bill to get
14 by the test. But we have to do more and work
15 harder. And we are working with a few people in
16 the legislature, and I apologize I don't know
17 exactly whom, to fashion such a bill, if we need
18 it. And again, let me emphasize. I don't want to
19 be there. I don't think it's a good result for us
20 to subject our utilities to another two, three,
21 four years of rate caps. They have to have the
22 right to grow. They have to have the right to
23 increase earnings to a reasonable level because
24 that will allow them to do more and be more

1 competitive. So it's got to be balanced.

2 But no, I don't think a phase-in
3 approach would be considered taking to court. I
4 think we're pretty safe on that. Again, you never
5 know, but that would be my -- I used to be a pretty
6 good lawyer, but that was seven, eight years ago.
7 That was seven, eight years ago.

8 REPRESENTATIVE MILLER: Thank
9 you.

10 GOVERNOR RENDELL: I used to be a
11 pretty good driver, but that was seven, eight years
12 ago.

13 REPRESENTATIVE GEORGE:
14 Representative McGeehan?

15 REPRESENTATIVE MCGEEHAN: I have
16 no questions.

17 REPRESENTATIVE GEORGE:
18 Representative DePasquale?

19 REPRESENTATIVE DePASQUALE: Thank
20 you, Mr. Chairman. I'm fine.

21 REPRESENTATIVE GEORGE: The
22 gentleman from Scranton, Mr. Wansacz?

23 REPRESENTATIVE WANSACZ: I just
24 have one question. I agree with you, it's a big

1 concern, the price caps. I don't think the general
2 public is paying that much attention to it until
3 they get hit. Small businesses say they have a
4 \$2,000 electric bill, they get hit for 40 percent,
5 and that goes up. They're going to have to raise
6 the price of their goods. People will feel it in
7 many different ways, and people don't pay
8 attention, so we have to do something to really
9 phase-in the price of the increase.

10 What I'm asking on the smart
11 meters, I'm a big proponent of it. Smart meters
12 help, but is there a cost to bring the smart meters
13 in a house? For example, you're going to have to
14 hire an electrician or hire somebody to do this.
15 From what I've been hearing it's going to cost
16 between 100 and \$200 to do that.

17 What concerns me are some of
18 these families going to be able to do that to take
19 advantage of it?

20 GOVERNOR RENDELL: It's a good
21 question. And as I said, PP & L allows the
22 consumer to use them. We believe that -- we think
23 we have got an ironclad case here, that the
24 utilities get a savings from smart meters being

1 installed, far in excess of the 100, \$150
2 installation costs. So we asked the PUC: Of
3 course it's going to cost them to install, but
4 before you pass that on to the consumer, understand
5 that they are getting the savings from the smart
6 meters, too, and particularly, the savings because
7 it spreads out demand, and they don't have to deal
8 with the peak low requirements as much as if you
9 don't have smart meters.

10 So we think whatever the cost of
11 the installation is, there's a sufficient offset in
12 the savings that the utility companies would
13 generate. There would be no additional cost passed
14 on to families. That would be the PUC's decision,,
15 but let me remind you, I did appoint the PUC
16 commissioners.

17 REPRESENTATIVE GEORGE: The lady,
18 Ms. Rubley?

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

21 And thank you, Governor for your
22 word today. It's more of a comment. I'm really
23 pleased that you are touching on conservation. I
24 think since the '70s, when we had the scare and

1 people did a lot to cut back, we have since gotten
2 fat and happy and we're just using to excess,
3 including building homes and so on and so forth.

4 So I have been told that although
5 it's not a silver bullet, but it's one part of the
6 equation of solving this problem. The state can be
7 doing more to educate people, because the rates are
8 going to up one way or the other. They're going to
9 see additional increases if they have natural gas
10 and home heating oil. If we can do more to get our
11 state agency to the word out to the people and help
12 them to start to conserve to save on their costs, I
13 think that goes a long way to helping with this
14 problem.

15 GOVERNOR RENDELL: You couldn't
16 be more right. Obviously, we can do certain
17 things, like 2200 mandates that the utilities do
18 conservation at the rate of 2.5 percent reduction
19 in demand. They're responsible for achieving that
20 and that's good. But we also have to get across to
21 individuals and the best way we do that is to keep
22 the informational thought. I'm sure you all
23 remember right after Katrina, in early September,
24 gas took off to three dollars a gallon. You'd love

1 to see three dollars a gallon now. And people were
2 absolutely frantic. People would come up to me in
3 the streets and say: Governor, you've got to do
4 something. You've got to suspend the state gas tax
5 for the next four months because we can't pay these
6 prices. And said I would talk to everyone and I'd
7 say: Look, suspending the state gas tax would save
8 the average driver about \$48 over the next four
9 months. It would cost us 50 to 60 million dollars
10 that we need to use to repair the bridges and roads
11 and highways. But I can save you more than \$48
12 right now. And they'd look at me and I'd saying:
13 Go into your gas station and get your tire pressure
14 checked. If your tire pressure is right, you can
15 achieve 10 percent reduction in mileage, if you had
16 your tire pressure checked. When's the last time
17 you had your oil filter checked? If your oil
18 filter is not running properly and you fix that, it
19 saves you another 10 percent on mileage. And next
20 time you're going somewhere in Harrisburg to
21 Pittsburgh, drive -- and I understand my
22 credibility on this is low -- but driving 62, as
23 opposed to 75 and you will save another 10 percent
24 and you will get there 13, 16, 17 minutes later.

1 So I do think there's an element
2 of individual responsibility in this whole battle
3 to have adequate energy, but we, as a government,
4 have to -- you're exactly right. We have to inform
5 individuals what they can do regardless of what
6 happens in all these three pieces of legislation.
7 We're happy to work with the legislature and think
8 about ways that we could convey to our consumers
9 hints or suggestions how they can produce their own
10 demand. It's absolutely correct. We have seen it
11 work in other areas. You would be surprised how
12 many people are putting in energy efficient light
13 bulbs. The same people used to laugh at that three
14 or four years ago.

15 So yes, we have to ask our
16 citizens to do more, but we have to help them find
17 out how to do more. And smart meters is exactly
18 the way. I mean, smart meters makes an abundant
19 amount of sense.

20 Do your dishes at 10:00. Don't
21 do them from 6:30 to 7:30, which is the peak time
22 that everybody's using the dishwasher. It makes
23 common sense, but people don't know that. With
24 smart meters, they will. Remember, you don't have

1 to be smart, the meter is smart, and that's why
2 these are so valuable.

3 Again, Mr. Chairman, I thank you.
4 I know you don't have any questions for me.

5 REPRESENTATIVE GEORGE: I do have
6 a question. I'd be remiss if I went home and told
7 my wife I didn't ask it.

8 GOVERNOR RENDELL: You question
9 me seven times a day.

10 REPRESENTATIVE GEORGE: Finally,
11 if I may be somewhat pointed.

12 GOVERNOR RENDELL: Sure.

13 REPRESENTATIVE GEORGE: We
14 continue, at least this side of the Committee,
15 hearing things from Ohio, Illinois, Montana, where
16 PP & L bought a hydroelectric plant, Illinois,
17 where they also bought a coal-fired plant and
18 didn't spend all of those 14 billion dollars that
19 they were able to gather deregulation, and down in
20 Maryland where they're all excited, and they ought
21 to be, that the governor signed that bill; that is,
22 Governor Ridge, now, you talk to many governors in
23 your job in the National Conference of Governors.

24 Aren't those governors concerned,

1 as we ought to be, sir?

2 GOVERNOR RENDELL: I think in
3 various levels and degrees, yeah, there's overall
4 concern, some more than others, and heavy
5 industries have the biggest concern. I mean,
6 forget this business about Pennsylvania having lost
7 all its manufacturing. We still employ almost a
8 million people in manufacturing. They're the best
9 jobs we have for noncollege graduates. They
10 produce the most significant capital investments.
11 U.S. Steel is refurbishing their coke plant, 1.1
12 billion dollar capital investment. Steel and coal
13 are off the charts because of the demand for
14 heating. Pennsylvania manufacturing is doing well.
15 We are ahead of the curve in manufacturing in green
16 energy, people like PSI Silicon, like I talked to
17 you about. So manufacturing is crucial.

18 And what's the single biggest
19 cost driving for most manufacturing? Electricity
20 costs. There is absolutely no ifs, ands or buts
21 about it. So depending on the makeup of the state,
22 there's a varying level of concern. But we have
23 that concern. I'm pleased to say that what you all
24 do in the Penn Fuel Security Commission is you made

1 sure that those standards that we impose, those
2 standards have to be met from alternative fuels,
3 biofuels produced in Pennsylvania, in Pennsylvania,
4 which means we know that those dollars that we're
5 spending will get a return for us because the fuels
6 have to come from production facilities located
7 here.

8 REPRESENTATIVE GEORGE: You know,
9 Governor, some of the states have already reversed
10 and now have applied and gone back to the utility
11 concept.

12 Should we, as a legislative body,
13 consider wiping out the so-called bill and
14 restoring putting the authority back to the PUC or
15 some form?

16 GOVERNOR RENDELL: I think that's
17 a subject that would be worthy of a long extended
18 look and a very involved and extensive debate. We
19 don't have time to do that before we have to act on
20 this. So even if you have the strongest proponent
21 of reimposing regulation, again, we don't have
22 time. We don't have time. We have to pass the
23 three bills that I have suggested now, and then we
24 can look at the whole regulation decision in 2009,

1 and not an election year. It would be a good idea
2 to revisit whether we should have a regulated
3 industry.

4 Our general approach is to
5 deregulate. I know that's not necessarily
6 consistent with what people think of Democrats, but
7 I generally think deregulation is a good idea. But
8 there are some instances where it clearly hasn't
9 worked.

10 How many of you remember when the
11 airline industry was regulated?

12 Does anybody remember how many
13 American full-service carriers we had? It was 13.

14 Do you remember what the prices
15 were? Infinitesimal compared to where they are
16 now.

17 Do you remember how many jobs
18 were in the American airline industry when we had a
19 regulated industry? An incredible number. So I'm
20 not saying automatically that deregulation is
21 always the answer, and it's something we should
22 look at, but again, not now. We don't have time.

23 And again, let me reiterate. The
24 only way this crisis will occur is government

1 inaction, and we can't afford anything slowing us
2 down, even the regulation or reregulation
3 discussion. We can't let that slow us down from
4 what we have to do.

5 REPRESENTATIVE GEORGE: This is
6 not a question, but will it be in our time?

7 GOVERNOR RENDELL: It can be. I
8 would pass these bills. Let's get them into
9 effect. Let's meet with the utilities, legislative
10 leaders meet with the utilities, iron these bills
11 out and develop a joint committee in both Houses to
12 look at deregulation. I'm not saying that would be
13 a lost effort. Clearly, regulation, and there are
14 excuses for this, but has deregulation produced
15 competition?

16 Anybody here can name a
17 competitor to PECO or Exelon in the southeast? I'm
18 not just talking about legislators. I will give
19 two tickets to the next 76ers championship game to
20 anybody that can tell me a competitor to Exelon in
21 this area.

22 REPRESENTATIVE GEORGE: Governor,
23 you have our gratitude for appearing before this
24 Committee.

1 GOVERNOR RENDELL: Thank you all
2 very much, very much.

3 REPRESENTATIVE GEORGE: The next
4 witness we are honored to have is the mayor of this
5 fine city, the Honorable Michael A. Nutter. Thank
6 you for accepting our invitation, Mayor. You all
7 have the gentleman's testimony.

8 You may proceed, Mayor.

9 MAYOR NUTTER: Thank you, Mr.
10 Chairman, Chairman George, and Minority Chairman
11 Hutchinson, all the members of the House
12 Environmental Resources and Energy Committee. My
13 name is Michael A. Nutter. I'm the Mayor of the
14 City of Philadelphia, and let me first say thank
15 you for having this hearing here in Philadelphia.
16 Welcome to the City of Philadelphia, and also
17 welcome to the latest effort by the City of
18 Philadelphia in partnership with PECO to bring you
19 the brightest and most energy efficient city
20 council chambers anywhere in the United States of
21 America. All these light bulbs have been replaced
22 recently with CFLs, lowering our energy costs and
23 making the room that much more attractive and
24 brighter, and also, hopefully, send more

1 legislation up to City Council, these lights will
2 help to eliminate the conversation taking place
3 here at City Council. And I welcome you to
4 Philadelphia. It's a high honor to have this
5 committing conduct this work right here in our City
6 Hall.

7 Secondly, I want to thank you for
8 the opportunity to appear before you today to
9 discuss one of the most pressing issues facing the
10 Commonwealth of Pennsylvania, confronting a future
11 of rising energy prices. That challenge is
12 characterized by both uncertainty and complexity.
13 Many interests are at stake and it is imperative
14 that we strike a reasonable balance between our
15 needs and consumers for reliable, affordable
16 electric power and the market and regulatory
17 conditions needed by producers to supply that
18 power.

19 As a former legislator myself, I
20 don't envy your legislative challenge in sorting
21 out the effects of the future of electricity prices
22 of deregulation versus fuel costs of local market
23 pricing versus reliability pricing mechanism and of
24 availing market price standards versus

1 cost-of-service pricing.

2 As a mayor, I'm not only on the
3 sidelines, so much as I'm on the receiving end of
4 this debate. I, therefore, hope to be able to
5 partner with you, General Assembly, Governor
6 Rendell, and as we all tackle this critical issue
7 facing the Commonwealth. I will focus my comments
8 from the perspective of the City, its residents,
9 workers and our employers.

10 The City of Philadelphia is work
11 hard to be a more strategic, manager and producer
12 of energy. This effort is driven by the changes we
13 all know so well. Rising energy prices across the
14 board in all conventional sources; daunting
15 technological and other challenges in alternative
16 sources; and an uncertain future of federal and
17 international arrangements to constrain carbon
18 emissions that mitigate climate change.

19 But our challenges in
20 Philadelphia are compounded by a population acutely
21 vulnerable to raising costs and uncertainty. Poor
22 families, households of modest means, elderly and
23 disabled on fixed incomes, businesses and
24 institutions saddled with obsolete facilities have

1 little to no margin for absorbing, in this
2 particular case, a potential 25 to 40 percent or
3 even larger increase in their electric bills. And
4 frankly, city, as a government, can relate to that
5 vulnerability.

6 There are two changes in the
7 testimony that you have in front of you, and so as
8 I read this, you will note those changes. Last
9 year, the City of Philadelphia paid over 47 million
10 dollars for our usage of 660,000 megawatt hours of
11 electricity. Losing our current negotiated
12 discounts, plus a greater increase of 25 percent,
13 would increase that bill by 15 million dollars.
14 This is an amount larger than the increases made in
15 the fiscal 2009 budget for emergency medical
16 services, health centers, housing programs and
17 youth violence reduction fund.

18 In a period of flat revenues like
19 the current one, the City would be forced to trade
20 away those investments simply to keep the lights
21 on. So thank you, Mr. Chairman, and members of
22 Committee, for focusing attention on this subject
23 of expiring electricity rate caps and for inviting
24 ideas on how to deal with it.

1 A decade of capped rates has
2 isolated Pennsylvania electricity consumers from a
3 volatile period of energy prices, but also from the
4 incentives needed to conservative our energy usage.
5 Meanwhile, during this same period of relatively
6 low rates, over 12 billion dollars of stranded
7 costs have been recovered the Commonwealth's
8 utilities in preparation of competition in the
9 deregulated market for electricity.

10 It is clearly a matter of much
11 debate whether that experiment has been or will be
12 worth it. And if one important goal has to been to
13 create the conditions of a new generation capacity,
14 it is also pretty clear the mechanisms designed to
15 attract new investment in generation, such as
16 Pennsylvania, New Jersey, Maryland
17 interconnection's highest cost pricing have done
18 very little so far.

19 In Philadelphia, we're trying to
20 plan and adjust for a carbon-constrained future in
21 which many of our assets, like dense, walkable
22 neighborhoods served by a regional public transit
23 system are increasing in value. It is a future
24 with many opportunities for us. And, I have named

1 a new sustainability director, the first ever for
2 the City of Philadelphia, to guide our strategies,
3 programs and policies.

4 But we can leverage those
5 opportunities only if we have the time to plan and
6 build to capacity to adjust. We know that
7 government, at all levels, local, state and federal
8 cannot legislate away the future of expensive
9 energy. That's why we believe that an extension of
10 the electricity rate caps is not a solution to our
11 challenge. Instead, we support the variety of
12 mechanisms available to mitigate the impact of the
13 inevitable increase in electricity rates in
14 Pennsylvania.

15 We would welcome the so-called
16 ramp-up option in our service territory by which
17 customers could prepay with interest their electric
18 bills before 2011 in order to smooth a one year
19 spike over several years. We would also welcome a
20 phase-in option by which several years of rate
21 increases are capped and the difference between the
22 cap rate and the market rate is paid off over
23 several future years. Finally, we seek in the
24 strongest terms expanded support of low and middle

1 income customers for whom energy prices will always
2 be an affordability issue.

3 These mechanisms create a
4 transition period during which we can make
5 adjustments needed to actually prosper in a
6 carbon-constrained future. And the most important
7 factor here is a significant increase in energy
8 conservation in our stock of existing buildings.
9 The cheapest additional unit of energy comes from
10 conservation, not regeneration. In a city like
11 Philadelphia, conservation is relatively easy and
12 needs to be encouraged through consumer education.
13 But no solution, of course, is self-implementing.
14 This is why House Bill 2200, sponsored by
15 Representative George, is so important and one of
16 our top legislative priorities for the fall
17 session.

18 By generating new resources for
19 conservation programs HB 2200 can allow us to
20 follow the solid programmatic examples of many
21 other states in reaping the savings that comes from
22 conservation. For example, California currently
23 spends about 500 million dollars per year on demand
24 side management and gets about six billion dollars

1 per year in savings. That return on conservation
2 derives largely from the enormous costs of
3 generating electricity during periods of peak
4 demand. The most important goal is getting high
5 priced, peak-load-only generators, such as natural
6 gas fired plants, off the grid by reducing demand.
7 Fifteen percent of the generators in the
8 Pennsylvania, New Jersey, Maryland system are used
9 only one percent of the time to meet peak demand at
10 great expense.

11 This is why the smart meter
12 element of the HB 2200 is so important. Smart
13 meters turn customers into active partners in
14 conservation by providing information that allows
15 them to shift their use to lower cost times of
16 electricity generation. A system of time-of-day
17 pricing presented through smart meters and a
18 provision for returning surplus power to the grid
19 through net meters are terrific ways to educate and
20 engage customers.

21 And somebody has to install all
22 those smart meters. HB 2200 and conservation more
23 generally presents an enormous opportunity for
24 green work force development in the City of

1 Philadelphia, and of course, throughout the
2 Commonwealth of Pennsylvania. So we need and want
3 a reliable productive energy market in which
4 innovative producers can be profitable and invest
5 with confidence to build the infrastructure and
6 capacity needed. We also need the time and
7 resources to make sure that Philadelphians and many
8 others can make the adjustments needed to prosper
9 in that same future. Rate cap mitigation and HB
10 2200 work together to provide with that needed time
11 and resources.

12 Thank you so much for the
13 opportunity to testify on this important issue. I
14 am happy to answer any questions that I might be
15 able to answer. Thank you.

16 REPRESENTATIVE GEORGE: We thank
17 His Honor for appearing before this Committee. I
18 will go to the left.

19 Representative Rubley?

20 REPRESENTATIVE RUBLEY: No
21 questions.

22 REPRESENTATIVE WANSACZ: No.

23 REPRESENTATIVE GEORGE:
24 Representative DePasquale?

1 Representative McGeehan?

2 Representative Hutchinson?

3 Representative Moyer?

4 Representative Ross?

5 REPRESENTATIVE ROSS: I just want
6 to say, Mayor Nutter that I agree with you fully on
7 your testimony and I wish you every good luck in
8 your efforts.

9 MAYOR NUTTER: Thank you so much.

10 REPRESENTATIVE GEORGE:

11 Representative Vitali?

12 May I say, sir -- I didn't miss
13 anyone? I thank you for your testimony. I think
14 the majority of the Committee agrees something must
15 be done. I think you've elaborated on it and I
16 will charge them all to do something. Thank you
17 very much.

18 MAYOR NUTTER: Mr. Chairman and
19 members of the Committee, thank you so much for
20 this high honor, and I look forward to working with
21 you and the Committee. Thank you.

22 REPRESENTATIVE GEORGE: The next
23 gentleman is Councilman Curtis Jones.

24 COUNCILMAN JONES: Good

1 afternoon. My name is Curtis Jones, Jr. and I am a
2 member of City Council representing the 4th Council
3 District, which is approximately 153,000 people. I
4 am the also chairman of this Council's
5 Transportation and Public Utilities Committee. I
6 am a member of the Philadelphia Gas Commission. I
7 first want to welcome you all for allowing me to --
8 and thank you for allowing me to put on record my
9 views and I applaud your efforts to proactively
10 deal with the issue of electric price volatility
11 and the prevention of soaring rate hikes before and
12 not after the fact.

13 In 2011 rate caps on utilities
14 could be lifted, and if this happens, the monthly
15 bills are likely to rise, putting an increased
16 strain on the middle and working class
17 Pennsylvanians, in general, but also Philadelphians
18 in particular. I believe that both the City of
19 Philadelphia and the Commonwealth of Pennsylvania
20 must focus on two critical areas simultaneously,
21 energy conservation and increased efficiencies as
22 two ways to combat the price escalation.
23 Additionally, there must be a massive education and
24 outreach effort to help consumers.

1 Numerous states have passed
2 legislation that has mandated efficiency standards,
3 and now Pennsylvania has the same opportunity.
4 House Bill 2200 is a comprehensive piece of
5 legislation mandating 2.5 percent reduction in the
6 use of electricity overall in the next five years.
7 The bill charges all consumer and commercial
8 enterprises and state facilities to become more
9 energy efficient, thereby reducing the overall
10 burden of our state's power needs. But more
11 essential to me is the fact that the bill
12 establishes a network of organizations to provide
13 consumer education that would empower citizens to
14 better conserve energy. The state will also
15 provide a series of incentives to encourage people
16 to upgrade their old appliances to newer models
17 that are more energy efficient.

18 Another key feature of House Bill
19 2200 is the plan to install smart meters in every
20 Pennsylvania home and business over the next ten
21 years. It will give consumers increased knowledge
22 of their personal consumption patterns and costs
23 and thus allowing them to exercise discretion,
24 meanwhile managing their energy use during off-peak

1 hours. House Bill 2200 will allow consumers to
2 select billing plans that best suits their needs.
3 This is important, and I want to take an aside as
4 in my travels throughout my district in West
5 Philadelphia I met a lady sitting in a shopping
6 mall. This was about a year ago and it was a
7 little colder than it is today. And she said to
8 me, or I asked her after a little bit of
9 conversation, as an elected official and
10 politician, strike up a conversation and I had to
11 ask her why she was sitting in the cold.
12 Sheepishly she responded that it was warmer outside
13 than it was in her house because she was forced to
14 cut off her heating. This is a problem now, but
15 with deregulation, I think it's going to be an
16 epidemic for the 24 percent of poor people in the
17 City of Philadelphia.

18 Now together, these efforts of
19 both conservation and some restraint help us to
20 have a holistic approach of addressing our region's
21 needs to reduce both the carbon and the need to
22 conserve resources, all of which provide the much
23 needed financial relief to constituents,
24 particularly, again, the 24 percent population

1 which currently are surviving below the poverty
2 level.

3 With the demand of electricity
4 growing at an estimated 1.5 percent a year, an
5 increasing amount of consumers don't have the means
6 to pay their bills. Even if the caps stay in
7 place, Philadelphians are feeling the squeeze of
8 higher energy prices. In 2008, electrical power
9 service terminations increased by 16 percent to
10 29,987 shutoffs, up from 25,784 the year before.
11 Eliminating the cap rates on utility bills will
12 inevitably cause utility bills to skyrocket
13 further, and that makes House Bill 2200 more
14 critical. The bill also seeks to encourage the
15 growth of the green economy by providing incentives
16 for the creation of environmentally-friendly jobs
17 and businesses. This is particularly working in my
18 district, as well.

19 As I said earlier, energy
20 efficiency is only half of the equation. We need
21 to focus on energy conservation, as well.
22 Conservation will not only help individual
23 consumers, but would have a collective impact of
24 saving Pennsylvanians, as the Governor said, close

1 to 1.3 billion in the next decade. This is
2 important also to Penn Future's report called
3 Building Pennsylvania's Energy Future.

4 But conservation has at least one
5 other benefit. It costs less to invest in
6 conservation than it does to build new energy power
7 plants. The cost to build new power plants are
8 more than twice the cost of conservation. Building
9 new power plants has an estimated cost of eight to
10 ten cents per kilowatt hour. In comparison,
11 conservation costs, which are about three cents per
12 kilowatt hour. These costs differentials do not
13 even take into account the environmental benefits,
14 such as less air pollution and other benefits.

15 Finally, I need to raise one more
16 important question for your consideration. This
17 concerns why we are lifting the cap in the first
18 place. According to figures put out by Exelon,
19 which is a parent company of PECO, which under the
20 current cap rates anticipate earnings of \$4.15 to
21 \$4.30 a share this year somewhere, and for those
22 earnings to continue into 2009. With the complete
23 lifting of the rate cap in 2011, they anticipate a
24 40 percent increase in their profits. I would

1 suggest you consider a more modest approach and
2 perhaps phase-in the rate increases specifically
3 percentages key to the rate of inflation and maybe
4 even conditioning upon rate increases on the level
5 of conservation and energy efficiency which are
6 able to be realized through education, public
7 awareness efforts, and the use of smart meters, and
8 the increased investment of renewable energy
9 sources. In that way, we all win, consumers,
10 shareholders and the environment.

11 At the beginning of my term in
12 January, I warned about a problem that this nation
13 faced, which was the sub-prime lending crisis.
14 Hearings urging the need to take measures as a
15 Council and as a city to halt sheriff sales and
16 create an innovative foreclosure program through
17 the boards. This crisis of home foreclosures will
18 pale in comparison to the number of people who
19 could be negatively impacted by the lifting of the
20 electric rate caps. These people are our senior
21 citizens on fixed income, the working poor and the
22 middle class. They could be faced with dark homes
23 and even colder shelters if we do not act now.
24 Therefore, I urge you to do all you can to pass

1 House Bill 2200. I want to also say, it's not
2 included in my testimony, is that small businesses
3 in the City of Philadelphia also stand to lose
4 everything, everything we eat, consume, that we buy
5 is impacted by the increased costs of energy. We
6 are on a tight market. Tastykake is moving out of
7 my district to parts of South Philadelphia, and
8 there's a small pharmacy that only employs 15
9 people. Because of the tight margin of their
10 profit are looking at the cost of energy as a
11 factor as to why they will close.

12 So everything we do, both large
13 and small, is impacted by businesses, this
14 potential piece of legislation. And therefore, we
15 support the passage of House Bill 2200. Thank you
16 very much.

17 REPRESENTATIVE GEORGE: I thank
18 the gentleman for your testimony.

19 The gentleman, Mr. Vitali?

20 The gentleman, Mr. Ross?

21 The gentleman, Mr. Moyer?

22 The gentleman, Mr. Seip?

23 REPRESENTATIVE SEIP: Thank you,
24 Mr. Chairman.

1 Thank you for your testimony,
2 Councilman Jones. In my legislative district
3 there's a school district that has done a study and
4 they engaged in a program to try to reduce their
5 energy usage. They have be able to successfully,
6 over the last year, save about \$750,000 in electric
7 costs usage. And I know we don't always have the
8 market cornered on good ideas in Harrisburg, so I'm
9 just wondering if there's anything that the city is
10 doing locally to try and reduce those energy costs
11 that we could pick up on.

12 COUNCILMAN JONES: Absolutely.
13 Interestingly enough, the Mayor mentioned the light
14 bulbs, and there are 583 of them. I spend a lot of
15 time in these chambers, so I know exactly how many
16 there are. We are looking at public buildings
17 first, and there are a lot of (inaudible) that are
18 approaching us on energy audits and they can save
19 us this amount of dollars. We are carefully,
20 judiciously going through them to decide which ones
21 are better so we can begin to look at home, city
22 properties, public properties, that everything from
23 a health center to a police department to our
24 beautiful City Hall. So we are taking those things

1 into account.

2 But also, we're looking at larger
3 pictures. Every one of the lights that will pass
4 in the City of Philadelphia on your way out of
5 town, we hope and encourage that you stay a while,
6 but when you leave -- we pay electric. So we're
7 looking at ways of how to pay purchases with you,
8 and better efficiencies provided through your
9 legislation. So we're looking long-term. I can
10 tell you clearly we struggled, and I do mean
11 struggled, around the city budget this year,
12 pinching pennies in areas, and most of that did
13 not, and I will repeat that, did not affect a rate
14 hike over a 500 plan to deal with 2011. So this
15 could have devastating effects on us. So yes,
16 we're about conservation here in the City of
17 Philadelphia, but we'd like you to be about
18 prevention up in Harrisburg so we don't get caught
19 with a bad budget outcome.

20 REPRESENTATIVE SEIP: Thank you,
21 again, Councilman Jones.

22 REPRESENTATIVE GEORGE: The
23 gentleman Hutchinson?

24 The lady, Ms. Harper?

1 The lady, Ms. Rubley?

2 REPRESENTATIVE RUBLEY: No
3 questions.

4 REPRESENTATIVE GEORGE: The
5 gentleman, Mr. Wansacz?

6 REPRESENTATIVE WANSACZ: No
7 questions.

8 REPRESENTATIVE GEORGE: The
9 gentleman, Mr. DePasquale?

10 REPRESENTATIVE DePASQUALE: No,
11 thank you, Mr. Chairman.

12 REPRESENTATIVE HARPER: Mr.
13 Chairman, you're too fast for me, as usual.

14 Councilman, thank you for coming
15 before us. I'm reading your testimony and
16 listening to you and wondering if the real issue is
17 on the very micro level of individual consumers of
18 electricity.

19 I was just wondering how you felt
20 about the idea of some power companies to phase-in
21 the increase by having people pay extra now,
22 whether you like that or dislike that, or what your
23 feeling is on that.

24 COUNCILMAN JONES: If I had to

1 choose between the two, obviously, I would choose
2 the ability to save now and pay later. And I think
3 -- but I would caution you to say that I don't
4 think the citizens have the ability to pay now or
5 to pay later. We are finding, as you saw in my
6 testimony, record numbers of shutoffs. And I don't
7 want to get into the picture that we have a
8 contentious relationship with PECO. Now we
9 actually have a good relationship with PECO. But
10 sometimes, when we start to talk about the high
11 cost of energy, I have people, particularly seniors
12 who I'm looking out for and poor people that I
13 represent that are choosing between whether they
14 heat, whether they pay their electric bill, whether
15 they deal with their pharmaceutical needs or
16 whether they pay their mortgage.

17 So you're saying pick your
18 poison, I don't mean you, Representative.

19 REPRESENTATIVE HARPER: Would
20 anything else help?

21 COUNCILMAN JONES: I think we all
22 have to look at all options, but I think less is
23 more in this case, less of a rate hike. We need,
24 and hopefully this economy turns around so they can

1 get an increase in the wages.

2 REPRESENTATIVE HARPER: Thank
3 you, Councilman. Thank you, Mr. Chairman.

4 REPRESENTATIVE GEORGE: I thank
5 the lady.

6 Thank you for your testimony.

7 COUNCILMAN JONES: Thank you, Mr.
8 Chairman.

9 REPRESENTATIVE GEORGE: The next
10 presenter will be the gentleman, Mr. Andrew Ott,
11 PJM, senior vice-president of marketing. You may
12 proceed.

13 MR. OTT: Thank you. Good
14 afternoon, Chairman George and Chairman Hutchinson,
15 and everyone on the Committee. Thank you for the
16 opportunity to participate in this hearing related
17 to potential increase on retail electric rates in
18 Pennsylvania. My name is Andrew Ott. I'm the
19 vice-president of marketing. My goal here today is
20 to convey a sense about how PJM employs its
21 competitive wholesale market to accomplish its core
22 mission, which is to maintain for Pennsylvania
23 customers and for customers in all the regions we
24 serve. I will explain how rising wholesale

1 electricity prices are driven by primarily rising
2 fuel costs and problems with dysfunctional market.
3 PJM's wholesale market is competitive, and the
4 prices established in the market are fair and
5 reasonable. Additionally, I offer my opinion what
6 can be done in Pennsylvania to help.

7 PJM is a regional transmission
8 organization called an RTO. There are seven
9 throughout the country serving approximately
10 two-thirds of America. PJM is responsible for
11 keeping the lights on for 51 million Americans in
12 51 states and the District of Columbia, including
13 Pennsylvania residents. All the transactions
14 involving PJM are wholesale transactions and not
15 part of the retail market.

16 PJM does not own transmission,
17 but generation facilities. We do not generate
18 electricity. We do not buy energy for retail. In
19 fact, we do not profit from the markets we operate.
20 We are an independent system operator who is
21 essentially responsible for coordinating the
22 operation and generation of transmission to ensure
23 that all participants have equal access to
24 competitive markets and to the regional grid

1 operation.

2 The regional scope of the PJM
3 wholesale market providers benefits consumers
4 because it provides access to a larger number of
5 less expensive resources and the regional market
6 because of its large scale is more competitive. As
7 an independent operator, PJM is free from undue
8 influence by any sector. We have a market monitor
9 to ensure that the market is performing
10 competitively and is free from market power.

11 Chairman George, at the last
12 hearing in this Committee you characterized
13 electricity as a necessity. PJM could not agree
14 more with this statement. PJM looks at electricity
15 through the lens of reliability, always ensuring to
16 the best of our ability power is available in the
17 quantify and quality demanded by customers and
18 generated by the most economical mix of resources.

19 To keep the lights, on PJM must
20 perform the real-time balancing of the electrical
21 grid every minute of every day. PJM matches
22 electricity demand with the least cost group and
23 the demand resources while working in the
24 constraint of transmission system to ensure the

1 energy is delivered reliably. The PJM pricing
2 system ensures that PJM is able to operate in the
3 reliability standards. LNP is tightening the way
4 this generation is done on a real-time basis to
5 ensure the transmission system can handle all
6 requested deliveries and delivery schedule to
7 maximize economic transfers of engineering so all
8 customers are reached.

9 The LNP system makes essentially
10 all market participants partners of the RTO through
11 price signals. PJM's spot market, which is an open
12 auction single period price auction, establishes
13 the local price, not only fundamental role in
14 short-term reliability of the system, meaning
15 maintaining the issue, but it also fosters
16 innovation for facilities innovation like demand
17 response, renewable resources, energy efficiency
18 and advanced technology solutions. The wholesale
19 market provides a direct opportunity for those
20 types of solutions to compete directly with
21 traditional generation.

22 It's also important that every
23 RTO in the country either is currently operating an
24 LNP system or is moving to one. In fact, in

1 California, where they had some significant issues
2 with supply and price problems back in 2000/2001 is
3 moving towards an LNP system after trying other
4 failed approach like some markets that were
5 mandated that did the same.

6 It remains our testimony that LNP
7 causes unjustly high wholesale electricity prices
8 because it make payments to generators, such as
9 base-load coal plants. You have heard how it is
10 being paid far above what it did because
11 potentially provided part of electricity
12 generation. This is seemingly a logical concern
13 where you would wonder if that kind of pricing
14 system is fair.

15 Essentially, PJM's market pricing
16 mechanism, such as pay as bid where have you an
17 alternative where you pay what is bid, they have
18 some problems and they have been tried and failed
19 because plants need to recover their fixed costs.
20 The bids we're talking about here are just the
21 short run costs based on fuel. There's a lot of
22 other costs these plants have to face so through a
23 pay to bid system or changing its bid to try to
24 guess what the market price would be so that it

1 would effectively recover the fixed cost. Again,
2 this type of system has been tried before. It
3 results in a set of bids that change wildly or
4 fluctuate, which could harm reliability. It could
5 have changing bid stack. This is beyond what to
6 expect today because the generator you ran
7 yesterday would have a (inaudible) that could
8 create a problem.

9 There are other alternatives; if
10 you can arm the demand customers with the ability
11 to respond to price during high price times, which
12 I can repeat. You've heard that referred to today
13 is a conservation and demand response. Those are
14 actually a better approach than some critical
15 alternative wholesale design with our improvement.

16 The Committee is also, and I, as
17 a Pennsylvania resident, am also concerned. If you
18 look at my testimony in figure one actually
19 explains the impact of fuels on rising electricity
20 prices. The figure shows that if you look at the
21 price of energy over time, you see it decreases
22 substantially. Last year it was 6.38 cents per
23 kilowatt and \$63 a megawatt. You can see by the
24 figure 70 percent of that is the price of

1 coal-fired generation, 24 percent by gas, five
2 percent by oil. You can see gas is a less
3 efficient resource. The other thing you see here,
4 though, is if we actually adjust what the energy
5 price would have been had we held fuel constant at
6 levels back that we had in 1999, 1998, 1999, the
7 price would be today lower than it was when we
8 started. And that essentially shows that the main
9 driver on these price increases is actually
10 increased fuel costs, as opposed to some problem
11 with the market design.

12 Figure two actually shows you
13 another trend, which shows the price index, meaning
14 the locational price in the solid line, as compared
15 to the price of fuels, how they increased over
16 time. If you actually look at the orange line,
17 which is the price of coal, you can see that trend
18 most closely matches what you see in the trend of
19 PJM wholesale electricity price, which, again,
20 shows you largely the PJM pricing increases are
21 tracking the increases of coal.

22 Now I turn to some of the issues
23 that perhaps could be addressed in dealing with
24 some of the issues related to higher rates. There

1 definitely have to be initiated, as was mentioned
2 by Governor Rendell, and I actually agree, that
3 House Bill 2200, smart meters can, in fact, be
4 expensive. But let's understand that just a few
5 customers, who are larger customers, who have the
6 ability to respond through getting smart meters can
7 bring benefits for all customers. So essentially,
8 if you actually control price increase going to the
9 highest hour with a relatively few customers, you
10 can actually control and have a big effect on
11 price, relatively low handling of fuel wouldn't
12 incur that cost. So again, the customers who
13 couldn't afford -- because the customers who could
14 do the response.

15 You have other options, which are
16 obviously conservation and fostering that type of
17 approach. PJM's wholesale market actually does
18 create an incentive for conservation through the
19 wholesale price line. Other options are balanced
20 supply, as long as they're for fuel, as mentioned
21 by the Governor, would absolutely be another
22 approach that would tend to mitigate any single
23 year price increase, providing you have a multi
24 year approach, then you wouldn't see any one year

1 but you'd see a large increase. Therefore,
2 conservation is your primary tool. Your secondary
3 tools are looking at alternative on balanced
4 approaches.

5 Now I want to turn to one last
6 item on the PJM market design. You have heard
7 concern raised about recent implementation called
8 the reliability pricing model where there's been
9 concern raised and this is causing a lot of price
10 increases in PJM. Essentially, you look back in
11 time, the annual price of the capacity product,
12 which is essentially reliability based product,
13 back in 2001 the annual price was \$100 roughly per
14 megawatt per day.

15 In the most recent option we just
16 ran the price was \$111 per megawatt per day. Those
17 entities that are concerned with the pricing model
18 would have you believe that the \$111 is a brand new
19 charge that no one's ever seen before, while we had
20 low capacity prices a few years ago, or
21 artificially low. If you compare that very low
22 price period when we had excess generation, then
23 yes, you would look and see that's a high price.
24 If you go back a couple years and go back the last

1 20 years, the pricing actually about more like \$100
2 per megawatt.

3 The other thing is the pricing
4 model has brought -- we've seen increase in almost
5 ten megawatts in new generation, more than 2,000
6 new demand response, and essentially, it's
7 conservation. We have also seen 5.1 million
8 dollars in investment by plants to make sure they
9 maintained their ability to operate reliably.

10 Mr. Chairman and distinguished
11 members, in closing, I respectfully request that as
12 you formulate a retail policy here in Pennsylvania
13 to keep in mind the reliability imperative on which
14 PJM operates and wholesale markets are aligned, and
15 I would be happy to answer any questions you may
16 have. Thank you, Mr. Chairman.

17 REPRESENTATIVE GEORGE: I will
18 turn to the left.

19 Mr. DePasquale?

20 REPRESENTATIVE DePASQUALE: Thank
21 you, Mr. Chairman.

22 Regarding the RTO, I just want to
23 walk through this a little bit.

24 What does it take for a utility

1 to join the RTO? Because I know Kentucky and a
2 couple states have left the RTO. I just want to
3 explore what it takes for a utility to join the RTO
4 and what would happen -- considering Kentucky is a
5 regulated state, I want to understand how that
6 would work for Pennsylvania.

7 MR. OTT: The transmission on the
8 utility essentially turns over through a series of
9 agreements, turns over operation of its assets and
10 coordination of its transmission assets to the
11 RTO. Essentially the concept is the RTO is an
12 independent body and can operate in a
13 nondiscriminatory manner. So they sign a series of
14 agreements and get that approved through the
15 federal regulator. If though want to withdraw,
16 they could also go through a series of filings with
17 the regulator and with go through withdrawal. What
18 you find with transmission, the companies they're
19 vested, meaning they have a transition assets, they
20 may serve some load. So a vested company would
21 find it difficult to operate in an independent grid
22 operator.

23 REPRESENTATIVE DePASQUALE: This
24 is hypothetical, so if you can't understand, I

1 understand. I'm under the impression that at least
2 one utility has considered that in Pennsylvania,
3 and I want to know what impact that would be
4 because we are a state legislature session, though
5 it is in my legislative district, this area, what
6 impact it would be for that utility?

7 Would there be any potential
8 impact, as far as rates or grid issues beyond that
9 one particular service area?

10 MR. OTT: Essentially, the -- as
11 long as the entity would do the same level of
12 reliability and coordination as PJM does on their
13 behalf today, and that's obviously a big caveat,
14 then there would be no regional impact, as long as
15 every transition was done smoothly.

16 In the case of the utility that
17 wants to leave, they are moving towards another
18 RTO, which is myso (phonetic). Effectively they
19 look into how to get lower capacity price, which if
20 you have seen recently, myso, their price has
21 tripled over the last few months. So PJM's price
22 for next year is about a hundred dollars and myso
23 is approaching 90. So you have seen PJM went first
24 because we're the -- we had seen the problem first,

1 but I think you're going to see these same issues.

2 REPRESENTATIVE GEORGE: The
3 gentleman, Mr. Wansacz?

4 The lady, Ms. Rubley?

5 REPRESENTATIVE RUBLEY: Thank
6 you, Mr. Chair, and thank you very much for your
7 testimony today. You reside in my legislative
8 district. I happen to live at your facility. You
9 talk about multi-year retail options and you
10 encourage the Committee to look at the space of it,
11 such as New Jersey has done.

12 Could you give a little bit of
13 background on when New Jersey did this and what
14 kind of savings and what other states might be
15 doing this?

16 MR. OTT: Right. Essentially
17 what New Jersey does, just briefly, is they have a
18 three year cycle where they put about a third of
19 what they need every year so you have it done in
20 contracts. We only did a one shot year. When
21 Katrina hit and prices went really high, the impact
22 was seven percent increase. New Jersey saw
23 increases that were much more modest for the same
24 year. So essentially, what you saw was almost an

1 implicit edge, if you will, protection built in for
2 consumers. So having a multi-year approach like
3 that would tend to smooth out any changes by some
4 condition.

5 New Jersey, I believe, I'm not an
6 expert in New Jersey, but I believe they implement
7 this about five or six years ago.

8 MS. RUBLEY: Any other states
9 along the coast here, mid-Atlantic northeast?

10 MR. OTT: They did a multi-year
11 option. I'm not familiar with that. They did it
12 that way. I know others are looking to do that,
13 Illinois and some other states are looking to do
14 multi-year option.

15 REPRESENTATIVE RUBLEY: Thank
16 you. Thank you, Mr. Chairman.

17 REPRESENTATIVE GEORGE: The lady,
18 Ms. Harper?

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

21 You were here for the Governor's
22 testimony; were you not?

23 MR. OTT: Yes, I was.

24 REPRESENTATIVE HARPER: So I

1 questions about 2201, House Bill 2201. And I guess
2 the specific question is: How do you feel about
3 enabling manufacturing companies or other large
4 users of electricity to have multi-year contracts,
5 number one, and number two, what else would that
6 bill to do an operation like PJM?

7 MR. OTT: As long as the approach
8 is voluntary, meaning each entity can make a
9 decision for itself, five year and three year and
10 spot market contracts, it would be a healthy thing.
11 I believe it would help arm these entities with the
12 ability to have multiple approaches. The mistake
13 they made in California was they mandated a spot
14 participation.

15 REPRESENTATIVE HARPER: Actually,
16 I think the current version was mandated.

17 MR. OTT: If it's mandatory, you
18 must do certain percentage. If it's voluntary, and
19 allows the opportunity to do it, I think it's a
20 good thing. I think as far as the operation really
21 wouldn't change. There are many today -- I want to
22 make sure we have this out in the open. The actual
23 spot market price of PJM, only about six percent of
24 the demand actually sees that price. All other

1 demand is hedge grouped forward by other
2 contracted. So whether the it's done today and
3 that's expected that we would have hedging like
4 that, as Governor Rendell had referred to, nobody
5 in their right mind would go into a spot market.
6 It would be an imprudent.

7 REPRESENTATIVE HARPER: It would
8 not be a very smart business decision.

9 MR. OTT: One of the concerns
10 with the company we're referring to before that
11 actually bought all their capacity on spot and they
12 were hedged.

13 REPRESENTATIVE HARPER: I
14 wouldn't think that would be a particularly prudent
15 way to do it.

16 MR. OTT: That's not prudent.

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

19 REPRESENTATIVE GEORGE: Mr.
20 Hutchinson?

21 REPRESENTATIVE HUTCHINSON: Thank
22 you.

23 Obviously, reliability is also
24 something that we, as lawmakers, are very concerned

1 about. And as we move forward, we don't want to
2 make mistakes that will hurt our reliability. And
3 I wanted to touch on the current situation that
4 happened several years ago back in 2003 when there
5 was that very large power blackout that affected --
6 I think it affected something like 50 million
7 folks, customers throughout the United States and
8 my understanding is that although somewhat of an
9 effect on the PJM area, it was really minimal.

10 If you could tell us why that was
11 minimized, why the impact on PJM was minimized and
12 what kind of things you did or can do and will
13 continue to do to minimize the spread of a blackout
14 of that magnitude throughout your region.

15 MR. OTT: Thank you. The
16 blackout actually affected a small piece of the
17 PJM, but essentially, what started in Ohio wrapped
18 around Lake Erie in New York came back and hit PJM
19 on the other corner in Newark, New Jersey and sort
20 of bounced off, if you will. So yes, we were
21 spared, with the exception of a few counties near
22 Erie and some other places.

23 And again, the bottom line is
24 PJM, the organization, does regional coordinated

1 planning. So effectively the infrastructure was
2 put in place in the PJM footprint as a strong
3 transmission. So primarily, it was a lot of up
4 front coordination that I think primarily made the
5 PJM system stronger so that it would withstand
6 these things. PJM is approaching that operating.
7 We actually scheduled equipment on a regional basis
8 for future conditions of tomorrow during the early
9 hours between ten a.m. and one p.m. The blackout
10 occurred at four p.m. PJM was seeing problems on
11 the western corner and we had to beef up that
12 area. So I think that also contributed. So it's
13 really the regional scope of the operation that
14 helped the burden and saved us, although some of
15 the equipment operated automatically. PJM
16 operators were just as surprised as everybody else
17 at the instant at time.

18 REPRESENTATIVE GEORGE: The
19 gentleman, Mr. Seip?

20 REPRESENTATIVE SEIP: Thank you
21 for your testimony, Mr. Ott. As you were
22 testifying, you referred us to page four and talked
23 about some of the cost drivers in your electric
24 production. You said that natural gas gives you --

1 I think you highlighted that for us and said it's
2 about a 24 percent cost driver. The information
3 that I'm given says that natural gas accounts for
4 about six percent of the generation for PJM. So if
5 you could help me understand that correlation a
6 little better, I'd appreciate that.

7 MR. OTT: The total energy output
8 of gas by generation, total energy output is
9 roughly six percent of the total volume throughout
10 the year. Essentially, the gas on the margin,
11 meaning we need to lower the gas price about 24
12 percent of the time. And the key then is the
13 wholesale market structure says: Okay. If I have
14 to go into the gas, then all of the generation gets
15 paid the gas price at that time. The key, of
16 course, that's not 100 percent of the time, that's
17 24 percent of the time.

18 Now, the point there is during
19 that time, yes, coal plants are making more than
20 they offer, but again, they're offering based on
21 the short-term cost. It's not considering fixed
22 cost, what it takes to keep the coal plant running.
23 Let's be clear, the coal plant is not free to
24 operate. You have to do a major overhaul on a coal

1 plant about every five to eight years. Somewhere
2 that cost has got to be recovered.

3 REPRESENTATIVE SEIP: It's almost
4 like a theme of the day. Just as in politics, I
5 guess, power generation, timing is everything.
6 Thank you, Mr. Ott.

7 Thank you, Mr. Chairman.

8 REPRESENTATIVE GEORGE: The
9 gentleman, Mr. Moyer?

10 The gentleman, Mr. Ross?

11 REPRESENTATIVE ROSS: Thank you,
12 Mr. Chairman. And thank you, Mr. Ott, too. I know
13 that the locational marginal pricing and
14 reliability pricing models used for many different
15 reasons. But one of the things that I've been a
16 bit concerned about that fortunately with
17 conservation management we can implement those
18 things fairly quickly and get a result back fairly
19 quickly. But for additional generating capacity,
20 the planning winds up being many times five, ten
21 years out in advance by the time the plant can be
22 originally planned get the regulatory approvals
23 necessary, get it built and get it operational and
24 get it on-line.

1 And in talking with your
2 colleagues in another occasion I was concerned
3 about whether the pricing models that we currently
4 have are sending signals far enough into the future
5 in the marketplace, or whether they're a bit too
6 short term. I seem to typically be hearing three
7 years on the outside edge.

8 Do you think that we need to do
9 something else to perhaps provide some more
10 reliable confidence to people that are proposing to
11 invest in something that won't be actually
12 generating any revenue for them for ten years in
13 the wave of price signal that could be added to
14 this mix here?

15 MR. OTT: Thank you. We actually
16 have a forum on long-term contract, and you talk
17 about the variation, and again, the pricing model
18 sets the price for three years. It was never
19 really intended to replace longer, but it sets a
20 price index that if the market level confidence,
21 that index will be a fair price over time and
22 people can do contract around them.

23 I will give you a data point.
24 Prior to the RPM being brought in a year ago I had

1 a long-term contract firm where I brought in
2 generation investors, investment banks from New
3 York. And the story was needed a ten year contract
4 minimum to put in a base load of money. I had
5 another one of them after RPM went in in the spring
6 of last year and the story was under this
7 structure, as long as I have part of the plant
8 covered under a five year contract, I'm good, as
9 far as getting investment interest.

10 REPRESENTATIVE ROSS: We'll have
11 to talk later. I don't want to take anymore time
12 on it.

13 Thank you, Mr. Chair.

14 MR. OTT: Thank you.

15 REPRESENTATIVE GEORGE: I have
16 got a couple of questions, which I believe most
17 necessary. For example, if someone tried to
18 manipulate the price of power in Pennsylvania
19 through the PJM, would that be considered a crime?

20 MR. OTT: I believe the market
21 power -- I don't know about a crime. I believe it
22 would violate the Federal Power Act and the Federal
23 Regulatory Commission would take action, yes.

24 REPRESENTATIVE GEORGE: For

1 example, if the congress tells you to get rid of
2 the RPM and your were under the power, are you
3 obligated to do that?

4 MR. OTT: If commerce --

5 REPRESENTATIVE GEORGE: Yes.

6 MR. OTT: If the FERC said yes, I
7 am sure that --

8 REPRESENTATIVE GEORGE: You are
9 more familiar, for example, will there be
10 hypothetical, or has it happened, I believe it
11 has. You have four or five entities and the price
12 of a kilowatt varies from five to nine cents and
13 the last one comes in at 18, don't they all get 18?

14 MR. OTT: If the 18 is accepted.

15 REPRESENTATIVE GEORGE: Don't
16 they all get 18?

17 MR. OTT: If it's accepted.

18 REPRESENTATIVE GEORGE: How is
19 that saving money for rate payers?

20 Now, when this first started to
21 happen, didn't, just a year ago, you people had 250
22 million dollars of a surplus, now it's over two
23 billion because of that factor?

24 MR. OTT: No.

1 REPRESENTATIVE GEORGE: You do
2 not have over two billion in that reserve?

3 MR. OTT: No.

4 REPRESENTATIVE GEORGE: Where did
5 it go?

6 MR. OTT: PJM is a not for
7 profit. We don't have two billion dollars.

8 REPRESENTATIVE GEORGE: But you
9 admit that you do allow that to happen and that
10 happened to come under the FERC, isn't that right,
11 where you're mandated to accept that price gouge?

12 MR. OTT: PJM administers our
13 tariff.

14 REPRESENTATIVE GEORGE: Exactly.

15 Now, comment on this, if you
16 will. Please comment on the success of the LPN
17 pricing and providing incentive for construction
18 and generation that you talked about and
19 transmission and where are they most needed.

20 MR. OTT: Essentially, in the
21 first part of operation of PJM, from 1998 through
22 2000 we had a substantial bill of generation within
23 the market, largely by the exportation of
24 competitive return. So we did see that in the

1 early part of the market. In the '03/'07 now we're
2 seeing it come back again. Like I said, we had
3 9,000 megawatts of new resource come in and on
4 these last auction.

5 REPRESENTATIVE GEORGE: What is
6 the purpose of keeping something low if, in fact,
7 the last bidder is considerably higher, all the low
8 ones get that very great exception too?

9 MR. OTT: The point is the offer
10 -- the offer will be competitive, meaning they
11 will come in and try to compete with each other.
12 So the high cost person, the result is a high cost
13 bid that is accepted is the actually lowest bid.

14 REPRESENTATIVE GEORGE: But it is
15 costing more money; is it not?

16 MR. OTT: Costing more money than
17 what?

18 REPRESENTATIVE GEORGE: To the
19 rate payers.

20 MR. OTT: I don't think so.

21 REPRESENTATIVE GEORGE: Under the
22 PUC, they couldn't do that. They were allowed to
23 charge so much, and that's all they got. You know,
24 I go back from the time fuel adjusts and things

1 like that. In 1937 when it was instituted about
2 the PUC, and that, gentleman, I have a quote of his
3 and he blames it on the legislature, and I do, too,
4 and we have allowed these things to happen. Now, I
5 hate for a legislature to be sitting at his desk
6 when that rate cap comes off and that spiral comes
7 in because the phones were ringing off of the desk.
8 This is as bad as what has happened with oil. But
9 it's more important than oil because we have
10 constituents that need that power for health saving
11 apparatuses and machinery.

12 Can't you provide something in
13 that you know what we can do to make it fair for
14 all where the utilities are making a legitimate
15 profit but everyone is entitled and can afford to
16 buy that very important commodity, which is
17 electricity? I wish you folks would think about
18 that. I'm receptive to hearing your answer. Thank
19 you for taking the time to come before this
20 Committee.

21 MR. OTT: Thank you, Mr.
22 Chairman.

23 REPRESENTATIVE GEORGE: The next
24 testimony will be Mark Crisson, CEO American Public

1 Power Association.

2 MR. CRISSON: Good afternoon, Mr.
3 Chairman, members of the Committee. My name is
4 Mark Crisson and I'm president and CEO of the
5 American Public Power Association and I appreciate
6 the opportunity to testify before you this
7 afternoon.

8 APPA is a national service
9 organization representing the interests of more
10 than 2,000 not for profit, publicly-owned utilities
11 throughout the United States that collectively
12 serve more than 45 million customers. These Public
13 Power systems provide over 15 percent of all the
14 kilowatt hour sales in this country and provide
15 services to every state, except Hawaii. Here in
16 Pennsylvania there are 35 systems that serve 83,000
17 customers, including the burbs of Girard,
18 Chambersburg and Quakertown. Nationally, our
19 members own approximately 10 percent of the overall
20 electric generating capacity, but we purchase over
21 70 percent of all power we need to serve our
22 consumers.

23 Public Power's primary goal is to
24 provide customers reliable electric power at the

1 lowest reasonable cost consistent with good
2 environmental stewardship. Rising prices and other
3 problems and markets administered by RTOs have made
4 these skills difficult for many of our members. In
5 the case of Public Power, we are not protected by
6 rate caps, so in the last decade costs have gone up
7 for a variety of reasons, including the way the
8 market's designed, our members have felt the full
9 brunt of increased wholesale prices.

10 While I invite you to take the
11 opportunity to read my entire statement, there are
12 three points I want to emphasize. One, prices for
13 wholesale power in regions operated by RTOs are
14 rising much faster than prices in the other regions
15 of the country, and this attributed to fuel or
16 other costs. I will elaborate on that a little
17 more in a moment.

18 Two, the market design use in
19 these wholesale markets is not producing the level
20 of investment to infrastructure, particularly
21 generation necessary to maintain future
22 reliability, which, of course, is a concern for all
23 of us. Wholesale markets are under the
24 jurisdiction of the federal government, so while

1 there are some steps to protect consumers, as
2 you've been talking about this afternoon, and
3 various bills you're considering, Congress needs to
4 make sure the Federal Energy Regulatory Commission
5 is upholding the requirement in federal law that
6 rates in wholesale markets are just and reasonable.

7 My organization's concerns with
8 the wholesale market managed by these RTOs. There
9 are currently six regulated RTOs and the largest
10 one, in which Pennsylvania is located, is the PJM
11 Interconnection. These RTOs manage short-term spot
12 markets for electricity, ancillary services and for
13 capacity. There are several characteristics of the
14 RTO markets that are especially problematic and a
15 cost to consumers.

16 I encourage you to take a look at
17 this in my testimony, as time prevents me from
18 elaborating, but they include, one, use of the
19 single clearing price, the auction for power, which
20 is the subject of the Chairman's question a moment
21 ago, bid-based offers in this auction process, as
22 opposed to cost-based offers, locational marginal
23 pricing approach, participation by hedge funds and
24 other financial players and capacity markets. In

1 the case of PJM, this would be the RPM model.

2 Just to elaborate on one of these
3 features, the single clearing price, this is a
4 situation that the RTO takes all the offers for a
5 particular upcoming time interval in ascending
6 price order, stopping at the last offer needed to
7 meet the power demand at that time. All sellers in
8 that time interval, regardless of their actual
9 price offers are paid this last and highest offer.
10 As a result, lower costs resources are often paid
11 prices far in excess of the offers to sell power.

12 So if gas is a margin on seven or
13 eight cents, all the resources necessary to meet
14 power in that month of which will be a fraction of
15 that receive that same price. So in other words,
16 some of the increased costs paid by consumers are
17 artificial and produce market design. They're not
18 market fundamentals.

19 Consequently, prices in these RTO
20 regions and continue to rise at a faster pace than
21 elsewhere. In the states located in RTOs and
22 without price caps, prices are 56 percent greater
23 than in the remainder of the country. This is the
24 retail level, 56 percent. In action of dollar

1 terms, the increase is significantly greater, as
2 well. Between 1997 and 2007, the last ten years,
3 there has been a 3.1 cent per kilowatt hours
4 increase in the deregulated states, compared to 1.8
5 cent per kilowatt hour in regulated states. Even
6 where fuel costs are accounted for, this gap
7 continues to widen. In some, these markets are not
8 working the way they were intended to work.

9 Another adverse outcome is the
10 virtual disappearance of long-term bilateral
11 wholesale contracts for electricity. To put it
12 another way, I believe this is what bill 2201 is
13 getting at. I have not read the text of that. But
14 basically the idea here is willing buyers and
15 willing sellers would enter into long-term power
16 arrangements or bilateral power contracts. This is
17 basically the norm throughout the rest of the
18 country that do not have RTOs. And having a more
19 balanced approach where you have some short-term
20 purchases and some long-term purchases would result
21 in a more balanced portfolio and probably at least
22 cost portfolio for the consumer. So we'd like to
23 see more of that happen.

24 However, generation owners have

1 found the energy and capacity markets in the RTO
2 regions to be so lucrative that they are looking to
3 enter into stable long-term bilateral contracts.
4 As I mentioned at the outside, these costs do not
5 translate into improvements in reliability, and in
6 many regions of the country, shortfalls and supply
7 are looming. In fact, these RTO pricing schemes
8 arguably provide financial disincentives to make
9 investments in infrastructure.

10 This shouldn't be a surprise.
11 Generators make higher returns when supplies are
12 scarce, so why would they substantially increase
13 supplies and decrease those returns, particularly
14 when it's pointed out by a question a moment ago
15 that these investments require long lead time and
16 planning before you actually realize any return on
17 that investment.

18 In theory, such constrained
19 supplies and high prices would lead to the entry of
20 new competitors, thus moderating prices and
21 improving reliability. But in electricity markets,
22 there are many barriers to entry by new owners of
23 generation, great difficult any finding suitable
24 sites, high capital costs, long lead times and the

1 uncertainty surrounding all that.

2 Thus, the theoretical market is
3 likely to provide necessary investment. As
4 Maryland Governor Martin O'Malley recently stated,
5 we cannot stand idly by and wait for market forces
6 or the electricity good fairy to solve this problem
7 for us. While consumers are clearly (inaudible),
8 the owners of unregulated generation continue to
9 reap high profits. I won't go into the examples by
10 the Governor and others, and I refer to my
11 testimony for the details.

12 It's not surprising that these
13 companies and others continue to defend these RTO
14 markets as competitive and they characterize the
15 critics as opponents of competition. But there's
16 nothing in these markets that resembles
17 competition. Instead, they are complex,
18 bureaucratic centrally administered markets without
19 adequate regulation and very little data
20 transparency.

21 In March, 2006, at the urging of
22 our members both inside and outside the RTO
23 regions, PPA launched its first study and then
24 addressed problems in these markets. During the

1 assessment phase we commissioned a variety of
2 studies and analyses of these markets. The results
3 of these studies are posted on our web site, which
4 I refer you to. They basically confirm our
5 perception that these markets are broken and not
6 producing rates that are just and reasonable. Our
7 findings are summarized in our February, 2008
8 report Consumers in Peril, which we brought for the
9 Committee and the interested members of the
10 audience in the corner of the room.

11 Many others share concerns. In
12 December of last year a diverse group of 41
13 consumer adequacy, business and public power
14 organizations, including the AARP, the Consumer
15 Federation of America, and the industrial consumer
16 groups, such as the Industrial Energy Consumers of
17 Pennsylvania, signed a joint motion asking FERC to
18 investigate whether restructured wholesale
19 electricity markets were producing unjust and
20 unreasonable wholesale power price. FERC
21 ironically denied that request this past March.

22 In light of FERC's lack of
23 responsiveness, APPA has also joined with others to
24 initiate the national grass roots efforts, the

1 Campaign for Fair Electric Rates. The campaign has
2 urged members of Congress to put pressure on FERC
3 through, for example, oversight hearings or
4 legislation to pressure FERC to fulfill this
5 obligation to ensure fair and reasonable rates for
6 consumers. This campaign has approximately 30
7 supporting organizations and established a web site
8 at www.fairelectricrates.net, which allows
9 residential consumers and industrial customers to
10 send letters directly to members of Congress and
11 also contains fact sheets and other resources to
12 communicate the problems and complexities of these
13 wholesale markets. Wholesale market problems are
14 the responsibility of the federal government.
15 There are a number of actions the states have taken
16 or contemplate that could help consumers. My
17 written statement includes a number of examples and
18 I refer you to that for details.

19 While beneficial, all of these
20 state level changes still do not negate the need
21 for fundamental reforms to the wholesale markets.
22 The Pennsylvania Public Utility Commissioner
23 Christy stated in February: The starting premise
24 for discussion must be the recognition of

1 competitive wholesale power market does not exist.
2 If it is assumed otherwise, any retail framework
3 built on the unsound foundation of the wholesale
4 market will crumble. It's important to keep in
5 mind the problems of wholesale power markets are
6 not self corrected. Market supporters often
7 contend we are simply in a transition period, and
8 if we wait long enough, everything will work out.
9 But the trend line is clear. Things are going from
10 bad to worse. Developing needed reforms will take
11 willingness by a wide range of parties, including
12 the federal government to admit these problems
13 exist and to work together to solve them. APPA and
14 its members stand ready to assist in that effort
15 any way we can.

16 Thank you for the opportunity to
17 testify, Mr. Chairman, and I look forward to
18 answering any questions you may have.

19 REPRESENTATIVE GEORGE: The
20 gentleman will stay for questions?

21 MR. CRISSON: Be glad to.

22 REPRESENTATIVE GEORGE: The
23 gentleman, Mr. Ross?

24 REPRESENTATIVE ROSS: If I'm

1 understanding who you're representing, you're
2 representing municipal power companies, power
3 generators; is that correct?

4 MR. CRISSON: Yes, sir.

5 REPRESENTATIVE ROSS: Is it
6 possible that municipally-operated power plants may
7 not be the cheapest power and most efficient power
8 source available?

9 MR. CRISSON: Well, I don't think
10 as a general rule you can make that conclusion, Mr.
11 Ross. Some of the least expensive generation in
12 the country is owned by local power, hydroelectric,
13 for example. Some of the most efficient base load
14 plants are owned or company owned by Public Power.
15 So I don't think that's a fair assessment or
16 accurate.

17 REPRESENTATIVE ROSS: Well, it's
18 worth thinking about a little bit, and I would
19 comment, also, on assessing deregulation in
20 Pennsylvania that I know I had this comment with
21 Commissioner Christy, as well. And it is
22 interesting to me that he's already grading
23 deregulation before we have really fully
24 deregulated. So I think it's better to wait until

1 after the football game is at least into the fourth
2 quarter and we have caps off and a full review of
3 where we're going, rather than trying do it in mid
4 stream.

5 Thank you, Mr. Chairman. I'm
6 done.

7 MR. CRISSON: If I may respond to
8 that, Mr. Chairman? All I would answer is that I
9 understand your point, but I would argue that
10 Pennsylvania has the advantage in that unlike the
11 12 or so other states where the rate caps have come
12 off you have the opportunity to learn from the
13 difficult experience of others in other states and
14 to apply those lessons in your deliberation and
15 legislation.

16 REPRESENTATIVE GEORGE: Mr.
17 Hutchinson?

18 Ms. Rubley? Finally, let me say
19 to you, if I may, your presentation was quite on
20 target. But I have just a question.

21 You have heard from other states
22 and you have the information, I'm sure, that some
23 of them are rebounding, and in your testimony you
24 advise that we have more acknowledgment and time to

1 be able to correct this matter. Now, the rates
2 have consistently gone up, even with the rate cap
3 under some companies; has it not?

4 MR. CRISSON: That's correct.

5 REPRESENTATIVE GEORGE: Some of
6 them have raised the rates two or three times?

7 MR. CRISSON: That's correct.

8 REPRESENTATIVE GEORGE: Is that
9 accurate?

10 MR. CRISSON: Yes, sir.

11 REPRESENTATIVE GEORGE: Now, as
12 far as being able to do something to help with
13 competition, and the reason that I thought under
14 the system we labeled with the competition is
15 based -- better served when there is factual
16 competition when more people are settling or
17 bringing forth, and that just isn't happening, is
18 it?

19 MR. CRISSON: Not in my opinion,
20 no, sir.

21 REPRESENTATIVE GEORGE: With the
22 fact that there are 14 million dollars in stranded
23 costs have gone to the utilities, aren't there some
24 states that made the utilities pay some of that

1 back, such as Illinois?

2 MR. CRISSON: Correct. There
3 have been some legislation passed in states, such
4 as Illinois, where in order to continue with the
5 current market structure, utilities agreed to
6 rebate significant sums to the retail consumers.

7 REPRESENTATIVE GEORGE: And
8 basically, the involvement with the federal
9 government, that they should approach this matter
10 also in regards to the pricing?

11 MR. CRISSON: That has been our
12 contention all along is there are a number of
13 things the states can and probably should do along
14 the lines you're discussing, but without some
15 fundamental changes at the federal level, because
16 these are decisions needed to be made in Washington
17 to improve them, I encourage you to work with your
18 regional delegation here in Pennsylvania to
19 encourage them to talk with the federal regulator
20 to make the changes that we recommend.

21 REPRESENTATIVE GEORGE: I thank
22 you for your testimony, for your patience. Thank
23 you very much.

24 REPRESENTATIVE GEORGE: I have

1 called before the Committee Ms. Robinson, Energy
2 Coordinating Agency. Welcome.

3 MS. ROBINSON: Good afternoon,
4 Chairman George, Hutchinson, other members of the
5 Committee, and ladies and gentlemen. Thank you so
6 much for the opportunity to testify on this
7 critical subject before your Committee, and thank
8 you very much for your patience in holding out here
9 until the bitter end for the last speaker. I will
10 keep my remarks brief.

11 I can think of no subject more
12 important to Pennsylvanians today than energy
13 crisis and what to do about them. ECA is a
14 nonprofit corporation and our work is to keep
15 energy affordable to people through conservation
16 and education and bill payment systems. This year
17 we'll provide more than 75,000 energy services to
18 more than 35,000 households.

19 High and rising energy prices are
20 eroding income and financial stability all across
21 the Commonwealth. Energy affordability is not just
22 a low income problem anymore. It's a middle class
23 problem. In fact, it's everyone's problem. The
24 era of cheap energy is over and the age of

1 expensive energy has arrived. It's very important
2 to understand the energy crisis we see today are
3 not a temporary reaction to some short-term
4 reduction in supply, as we experienced in the '70s.

5 Energy prices will continue to
6 rise as long as our economy is fossil fuel based.
7 These fuels are finite and the entire world is now
8 competing for them. We're already witnessing early
9 signs of the unfolding crisis. As previous
10 speakers remarked, we are seeing rapidly rising
11 terminations in most parts of the state. This
12 spring PGW reported terminations were up 91
13 percent. PECO reported a 55 percent increase.

14 One of the most troubling trends
15 is the delinquency in termination are no longer
16 confined to the low income customer group, working
17 poor, elderly and Social Security and other
18 households accounted for 53 percent of gas
19 terminations in Philadelphia and 41 percent of
20 electric terminations last year. In Pennsylvania,
21 all bill payment systems in conservation programs
22 are targeted to people below 150 percent below the
23 poverty level. The group just above that cutoff,
24 comprised primarily of working class families and

1 elderly on Social Security, in fact, received no
2 assistance of any kind. They are literally taking
3 these price increases right between the eyes.

4 Unless we can rapidly reduce our
5 consumption and transition to a sustainable energy
6 economy, Americans will see a real income steadily
7 and rapidly erode. Pennsylvania's economic future
8 is in peril and we need bold new solutions.

9 Energy conservation and
10 efficiency are often overlooked in discussions
11 about alternative and clean energy. Somehow it's
12 just not as sexy as wind or solar. However, what
13 energy conservation lacks in sex appeal it more
14 than makes up for in sheer abundance and low
15 price. In fact, conservation is the cleanest,
16 cheapest and most abundant clean energy resource in
17 America. Conservation costs two or three cents per
18 kilowatt hour, compared to five cents for coal and
19 more than 15 cents for nuclear. It also can be
20 deployed in a very short time range. Juneau,
21 Alaska cut its electricity consumption by more than
22 30 percent in one month in the spring. It faced
23 dramatic price increases.

24 Before the rate caps come off by

1 the end of 2010, it is essential that we have
2 effective energy conservation programs operating
3 state-wide on a sufficient scale to avoid
4 significant economic injury to people in business
5 across the Commonwealth.

6 House Bill 2200, which I commend
7 this Committee for authoring and ushering through
8 the House, deserves immediate passage by both
9 chambers. Nothing the General Assembly can do
10 between now and the end of this session is as
11 important as passing this legislation.

12 Pennsylvanians desperately need to reduce our
13 energy bills. Significant sustained investment in
14 energy conservation is stability of Pennsylvania
15 and the Commonwealth, itself.

16 Robust energy conservation
17 programs that are underway in almost all
18 surrounding states, New Jersey, New York, Delaware,
19 Maryland, even Ohio have all passed legislation,
20 and frankly, are way ahead of us. They all have
21 very significant programs and ambitious
22 conservation targets. New Jersey is aiming to
23 reduce carbon dioxide emissions by 80 percent by
24 2015, New York, 20 percent by 2020, Maryland, 15

1 percent by 2015. These are ambitious goals, but
2 frankly, if Juneau, Alaska reduced its electricity
3 consumption by 30 percent in just one month,
4 they're not out of reach. By comparison, our goal
5 embodied in 2200 of a modest 2.5 percent reduction
6 of current levels is extremely modest.

7 The investment in conservation
8 and efficiency will pay for itself in economic
9 return at least four fold. New Jersey currently
10 invests \$10 a year per person in energy
11 conservation. New York invests almost \$12,
12 Connecticut, 20, Vermont, 25 and Pennsylvania
13 invests 31 cents. At this rate, ladies and
14 gentlemen, we are being left in the dust.

15 It's important to understand how
16 much consumers gain by saving energy. Efficiency
17 provides all of the following benefits: Increased
18 comfort, elimination of health and safety problems,
19 elimination of moisture and mildew, energy
20 affordability. These days, between skyrocketing
21 prices, mounting mortgage foreclosures, rising
22 unemployment and declining real incomes, taxpayers
23 are under increasing financial pressure. By
24 significantly reducing energy consumption costs, we

1 can increase financial stability for
2 Pennsylvanians. If every household were to reduce
3 its energy consumption just 10 percent, that would
4 increase disposable income of Pennsylvanians by
5 almost two billion dollars a year.

6 Environmental benefits. Given
7 the pace of climate change, it is critical that we
8 convert as quickly as possible from a dirty energy
9 economy to a clean energy economy.

10 Job creation and economic
11 development. In addition to being the cleanest and
12 cheapest energy source, energy conservation is also
13 the most labor intensive. These green collar
14 jobs: Auditors, insulators, air sealers, heating
15 and air conditioning mechanics, educators,
16 carpenters are all great technical jobs with a
17 bright future. They're also local jobs that cannot
18 be outsourced. If a robust program of energy
19 efficiency would be implemented in Pennsylvania,
20 approximately 10,000 new jobs would be created by
21 2020. Investing in energy efficiency and
22 conservation is the best economic development and
23 job creation strategy our state and local
24 government can pursue.

1 So while we are behind our
2 neighboring states, I have every confidence that we
3 can catch up. Pennsylvania already has more than
4 60 energy conservation companies and nonprofit
5 corporations state wide, almost all of which are
6 members of Keystone Energy Efficiency Alliance.
7 These companies are located in Pennsylvania but
8 many of them earn in their living in other states
9 because there are no programs to speak of here.

10 Passage of House Bill 2200 this
11 session is critical. We urgently need to transform
12 our housing market to one which provides a higher
13 level of energy efficiency and affordability for
14 all Pennsylvanians. Market transformation in both
15 new construction and existing homes will be best
16 accomplished by starting programs that demonstrate
17 the success in many other states. The national
18 Energy Star programs are the building blocks to
19 energy efficiency in every state that has started
20 down this road. PHFA now requires that all of its
21 affordable housing tax credit projects meet or
22 exceed Energy Star home standards. We need to
23 provide this same level of quality and
24 affordability for all new home buyers.

1 In fact, there are two pilot
2 programs in the Commonwealth now that lay the
3 groundwork for large scale, state-wide efforts.
4 The West Penn Power Sustainable Development Fund
5 and ECA are both conducting pilot programs in
6 Energy Star homes for new construction and home
7 performance with Energy Star for existing homes.
8 These two regional pilots will provide invaluable
9 lessons to integrate into program designs which can
10 be rolled out state-wide.

11 Training and certification are
12 needed. Quality engineering conservation program
13 delivery will require that we invest in
14 Pennsylvania's work force. Energy education is
15 desperately needed. I think that Representative
16 Rubley just spoke to this. Unfortunately, decades
17 of cheap energy have lulled most Americans into
18 complacency. We are very ill prepared for the
19 crisis we now face.

20 Sadly, Americans know very little
21 about energy. Comprehensive energy education is
22 absolutely critical if we are to avoid serious
23 economic harm. Evaluation is critical to high
24 quality programs. To build consumer confidence and

1 to ensure that public and regulated dollars are
2 being invested wisely, Pennsylvania's new energy
3 conservation programs need to be evaluated on an
4 ongoing basis by independent third party
5 elevators. Without this feedback, it's virtually
6 impossible to improve the programs. It will also
7 be impossible to build up the confidence and public
8 trust.

9 In closing, let me just reiterate
10 the benefits you can expect to see in energy
11 conservation and education. First, financial
12 stability among Pennsylvanians of all incomes will
13 be strengthened. Thousands of new local jobs will
14 be created across the state and shutoffs will
15 decline. The environment will be cleaner and
16 healthier. Pennsylvania's economic competitiveness
17 and the world economy will be strengthened. Our
18 security will be strengthened.

19 Thank you. I'm pleased to answer
20 any questions.

21 REPRESENTATIVE GEORGE: I thank
22 the lady for the testimony.

23 Representative Rubley?

24 REPRESENTATIVE RUBLEY: Just one

1 quick comment. I do want to thank you for
2 wonderful work that you are doing and your efforts
3 to try to promote education and conservation and
4 what you're doing to keep people in their homes and
5 keeping them warm for the utilities they need. So
6 keep doing what you're doing.

7 MS. ROBINSON: Thanks.

8 REPRESENTATIVE GEORGE:

9 Representative Hutchinson?

10 Representative Ross?

11 REPRESENTATIVE ROSS: No, thank
12 you, Mr. Chairman.

13 REPRESENTATIVE GEORGE: I want to
14 thank the lady for her presentation. I want to
15 thank all those who presented. I'd like to thank
16 those who are interested in this and were here to
17 watch the proceeding. There will be others. It is
18 the purpose of this Chairman to get as much
19 information and as much thought from both sides of
20 this question as we can.

21 I want to thank the Mayor and
22 Council for allowing us to use this facility, and
23 we are most appreciative of the cooperation and
24 spirit. No further information or discussion, this

1 meeting is now adjourned.

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9 (Whereupon, the hearing was adjourned.)

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1 C E R T I F I C A T E

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3 STATE OF PENNSYLVANIA

4 COUNTY OF BUCKS

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6 I, SUSAN L. SINGLAR, a Court
7 Reporter and Notary Public in and for the State of
8 Pennsylvania, do hereby certify that the foregoing
9 transcript of the Environmental Resources and
10 Energy Committee Hearing, taken on Tuesday,
11 September 9, 2008 is true and accurate to the best
12 of my knowledge, skill and ability.

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SUSAN L. SINGLAR

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