

**BEFORE THE PENNSYLVANIA HOUSE OF
REPRESENTATIVES
ENVIRONMENTAL RESOURCES AND ENERGY COMMITTEE**

**Testimony of
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**Regarding
House Bill 2791**

**May 27, 2009
Room 60, East Wing
Main Capitol
Harrisburg, PA**

Thank you, Chairman George, Chairman Hutchinson, and Members of the Committee, for allowing me to present written comments on this important topic. As you consider the merits of creating a Pennsylvania Power Authority (PPA), I respectfully ask that you take the time to understand the delicate balance between consumer protections and the costs of adopting this proposal.

House Bill 2791, or the Pennsylvania Power Authority Act, seeks to create a governmental power authority tasked with developing electricity procurement plans, conducting competitive procurement processes, developing electric generation and cogeneration facilities, diversifying electricity supply portfolios, and supplying electricity at cost to municipal electric systems, governmental aggregators, and rural electric cooperatives. The genesis of this bill stems from concerns about rising energy prices and the transition to statewide retail competition and seeks to ensure adequate, reliable, and affordable electric service for Pennsylvania consumers. I do not disagree with these fundamental concerns and objectives; however, I do not believe the best way to accomplish them is through the creation of a Pennsylvania Power Authority. Instead, I believe we must fully commit to the strategies already in place in Pennsylvania and allow for the full realization of their intentions and benefits.

One might ask: What is the real driver behind the creation of a Pennsylvania Power Authority? Some may argue that the current market design in PJM is inadequate. Others might argue that they support competitive markets but simply do not like the current price of electricity. Still some others may not believe in the effectiveness of competitive markets at all. Yet in my view, asking residential customers to shoulder the burden of this monumental policy request and expecting the authority to have the ability to immunize them from the ups and downs of the wholesale power markets is not feasible.

I am far from convinced that consumers would not be negatively impacted by the creation of a governmental power authority, and I fear intervention in energy markets is not a prudent course of action for the Commonwealth to take at this time, particularly considering Pennsylvania's historic budget deficit and staggering unemployment rates. Furthermore, I believe the creation of a governmental power authority to manage Pennsylvania's energy sector is not practical due to the need for technical and financial expertise of its managers, the lack of proper cost-control incentives, and the overall intricate nature of such a structure.

Since 1996, Pennsylvania has garnered over 8,400 mw of new generation from non-incumbent generators. These private investors – not ratepayers – have helped advance over \$12 billion in capital investment into generation fleets across the Commonwealth, the risks of which were borne by these investors rather than by Pennsylvania consumers. However, under a power authority the risk of failing to perform falls upon taxpayers rather than shareholders, who are often better able to take on and manage investment risks.

Please allow me to conclude with a few “food-for-thought” items on this measure:

- In today's world, do you feel that the Commonwealth of Pennsylvania has the sophistication to run a power trading floor operation, along with the personnel to support it, that will compete with merchant power suppliers? Most experts will tell you that power authorities are ill-equipped to handle the risks and costs inherent in the competitive marketplace.
- Since deregulation in 1996, Pennsylvania ratepayers have not had to pay for poor economic decisions made by generators in the marketplace; instead, these risks have been borne by stakeholders. So why are we putting forth a legislative proposal that puts capital risks back into rate base? In my view, ratepayers could be adversely impacted,

as they will be forced to bear the risk of plant development and construction, operating cost overruns, performance shortfalls, and technology gaps.

- Finally, it is unclear how HB 2791 will encourage long-term investment in existing generation assets as the General Assembly seeks to leverage the Commonwealth's general fund (which is already constrained) and bring added risks to consumers. To cite an example of a state that faced a similar situation, I think California got it right when it terminated its power authority after determining that it provided minimal value in meeting the state's energy objectives.

In closing, power authorities and private companies face similar challenges, including portfolio management approaches, regulatory policies, risk management strategies, and environmental challenges. Yet it is clear that the power authority approach has the potential to increase energy prices, stifle investments, and compromise system reliability. Pennsylvania has taken steps in recent years to protect consumers from rising energy prices, diversify its energy resources, and encourage a competitive marketplace through the passage of significant pieces of legislation such as the Alternative Energy Portfolio Standards (AEPS) Act of 2004 and Act 129 of 2008 and also by working closely with PJM to ensure that reliability and energy efficiency are part of the equation toward lower energy bills following the expiration of the remaining rate caps. We must allow for the transition to a fully competitive marketplace to take place and for the benchmarks set forth in AEPS and Act 129 to be reached before making the conclusive determination that current strategies are not working and therefore must be significantly altered.

Thank you again for hearing my views on this important topic, and I welcome the opportunity to meet with you to further discuss this issue.