

**Testimony of Ray Landis,  
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Before the Pennsylvania General Assembly  
House Committee on Environmental Resources and Energy  
In Support of HB 1909  
The Commonwealth Energy Procurement and Development Act**

**January 20, 2010**

Good afternoon Chairman George and Members of the Committee. AARP welcomes the opportunity to address the Environmental Resources and Energy Committee in support of HB 1909, The Commonwealth Energy Procurement and Development Act. AARP supports HB 1909 because it provides mechanisms to mitigate electric price volatility and limit future rate hikes – a crucial factor now that electricity rate caps are beginning to expire.

AARP, as a national organization with offices in every state, has seen the failure of electricity deregulation across the country. There is no doubt deregulation has failed to produce the price cuts and retail competition its supporters had predicted. We have testified before this Committee numerous times in support of electricity market reforms that would have prevented the recent rate increases for PPL customers. Thanks to lower than expected fuel prices, the rate increases that have taken effect this year are not as extreme as were predicted. Yet increases of 30% for the 85 per cent of retail PPL customers who have not changed electric suppliers remain a huge hit on family budgets and local businesses, especially given the cold weather we've experienced over the past month. We have no doubt that many consumers and business owners will be in for a rude awakening later this month or early next month when they open their bills that reflect the increase.

We should also not expect that retail competition will bring down prices for consumers. In Texas, a state often touted as a deregulation success, consumers pay more for electricity than those in neighboring states with similar fuel mixes. Our neighbors in Maryland have faced price increases of up to 70 percent and the issue of re-regulation is very much alive at the state capitol. Pennsylvania has allowed 40% of its electric customers to suffer rate increases without taking any action to mitigate this situation. But if the provisions of HB 1909 are passed into law we have an opportunity to take a step forward before the remaining 60% of electric customers go through rate increases beginning on January 1, 2011.

The central provision of HB 1909 creates a new power authority, with the responsibility to procure power for default service customers following least cost portfolio planning principles. A power authority addresses one of the most significant factors behind high prices in deregulated electric markets—that is, the dysfunctional wholesale market. Power on the wholesale level is bought and sold in a single price wholesale electricity auction managed by the PJM Interconnection, a Regional Transmission Organization (RTO). The Federal Energy Regulatory Commission (FERC) in Washington, D.C. has authority to oversee this market. However FERC has taken a hands-off approach to RTOs that, according to numerous studies, allows market operators to create complex rules that result in windfall profits for generators and excessive prices for consumers. For example, a study conducted by the American Public Power Association found that generators in the PJM earned more than \$12 billion in excess earnings over a 7 year period.

Although the wholesale market is under federal jurisdiction, the creation of a power authority is an action that the state can take to influence market prices. The positive impact of a power authority has already been shown in Illinois. A few years ago, consumers in Illinois began to receive double-digit increases in their electric bills, and an investigation by the Attorney General found evidence of market abuses in wholesale electricity market. The result was the passage of legislation that established the Illinois Power Agency, and a \$1 billion refund for ratepayers over the next five years. Today, even the president of the Illinois Competitive Energy Association declares the power authority a success in bringing down prices to consumers:

But an often underappreciated fact is that residential consumers are benefiting from competition through the wholesale market. That is, the Illinois Power Authority buys bulk power, on behalf of utilities like ComEd and Ameren, and passes the cost on to consumers at the lowest possible cost obtained from pitting competitive wholesale suppliers against one another. So in a very real sense, even without the same retail options enjoyed by commercial consumers, residential consumers are getting a market-driven, competitive price for power. (State Journal-Register, Springfield, IL, Dec. 4, 2009)

As created by HB 1909, a Pennsylvania power authority would have the goal to develop procurement plans to ensure adequate, reliable and affordable electric service at the lowest cost over time for default service customers. The authority would buy power under a least cost portfolio planning approach; it would enter into long term contracts, which would help stabilize rates and result in new generation; or, it could acquire or construct new power plants and sell the output on a cost of service basis. Unlike the PJM, the power authority would be overseen by a board broadly representative of the state's electricity ratepayers. With a clear mission, transparent process and representative board, AARP is confident the power authority will act in the best interest of the state's consumers.

HB 1909 contains two other key provisions that will serve consumers in our state. First, it creates a Commonwealth Energy Advocate to represent the interests of our state's consumers before federal agencies, including FERC, as well as in the governance process at the PJM. Many crucial policies which directly impact rates in Pennsylvania are made before these bodies. AARP supports having a strong consumer voice representing our interests on matters that pertain to electricity prices paid by consumers.

Second, HB 1909 would provide a rebate from owners of generation in Pennsylvania that were formerly owned by the public. As a result of the deregulation law, most of the state's power plants were sold off—many at bargain basement prices. As shown by the APPA report mentioned above, the purchasers now earn excessive profits through the dysfunctional wholesale market. The rebate, which recognizes that the deregulation law has netted windfalls for generators, would be used to fund the power authority. A part of the rebate will be also refunded to consumers to offset their increased electricity bills.

AARP has advocated for creation of a state power authority since 2007. Although the price caps are now expired for some customers, it is still not too late to take this important step. Today the Pennsylvania General Assembly has an opportunity to pass legislation to create a

power authority with the obligation to act in the best interest of the state's ratepayers, providing a long term check on electricity price volatility and future rate increases. At this difficult economic time, it is critical that we work to lessen the impact of electric rate hikes.

Thank you again for the opportunity to testify, and I would be pleased to attempt to answer any questions you may have.