

Statement of Carl Wood  
Utility Workers Union of America, AFL-CIO  
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Good morning, Chairman Reed and distinguished members and guests. My name is Carl Wood. I am National Director for Regulatory Affairs for the Utility Workers Union of America (UWUA). My union represents thousands of electrical utility workers around the country, including in Pennsylvania.

I served as a member of the California Public Utilities Commission from June 1999 through December 2004, encompassing the period of the California Energy Crisis and the beginning of the state's efforts to recover from it. During that time I also served as Chair of the Consumer Affairs Committee of the National Association of Regulatory Utility Commissioners.

During the late 1990's, many of the largest states, including California and Pennsylvania, moved to change the ways in which electricity production, transmission and service were regulated. While this was often referred to by the shorthand of "deregulation," in fact it represented a *federalization* of oversight over key segments of the industry, especially generation and transmission. States ceded the authority to approve the construction (and closure) of most or all generation facilities to the Federal Energy Regulatory Commission (FERC) and so-called independent system operators (ISO's) like PJM that act under FERC authority.

But along with this cession of state authority went the loss of any venue to consider the economic impacts on consumers, large and small, on workers or on communities of decisions regarding power plant construction, operation and de-commissioning. The ISO's are responsible for maintaining system reliability, not minimizing costs to consumers. In fact, nobody, state or federal, is watching that store.

When the deregulation project was proposed in California in 1994, the state's utilities possessed very substantial excesses (reserve margins) of generation capacity, and it appeared that the creation of a competitive market could only benefit consumers. Two key factors were overlooked. First, rapid changes in economic conditions can (and did) quickly dry up that excess capacity. Second, in a tight market, virtually every market participant possesses some degree of market power, the ability to dramatically drive up wholesale energy prices, if they are willing to withhold a portion of their capacity and production from the market. And the State of California found itself helpless to protect its citizens, utilities and businesses in the face of FERC's reluctance to intervene. The results became notorious worldwide.

Other deregulated states have also experienced rate shocks associated with their deregulation projects. Several years ago, Maryland utility customers and their political representatives were startled to learn that they faced a sudden rate increase of over 70% as their state emerged from its transition period and a single generating company had positioned itself to dominate the wholesale market, all with FERC and PJM acquiescence. Neighboring Mid-Atlantic states went through similar rate shocks.

Pennsylvania is now experiencing a situation which is ominously reminiscent of pre-crisis California. Lowered economic activity due to the prolonged recession has softened demand in the short term. Meanwhile, a flood of cheap natural gas made available by new hydraulic fracturing ("fracking") technology has brought down the price of gas-fired generation to undercut the price of much legacy coal generation. In this environment, First Energy, the dominant electricity producer in the region, has acted to tighten up supplies by closing some coal-fired power plants, citing the costs of mandated pollution-control measures. But the situation in Northeast Ohio, where First Energy's closure of some of its coal generation capacity gave a big boost to prices obtained by its remaining active units, provides an insight into the real motivation behind the early plant closures in Pennsylvania.

It is unlikely that the present supply-and-demand environment for electricity will continue indefinitely. As we learned to our regret in California, an end to economic sluggishness can occur unpredictably and can rather quickly eliminate reserve margins that only

recently seemed adequate, even excessive. And as experienced state utility regulators know too well, the one thing that is certain about predicting future gas supplies and prices is that you will almost always be wrong.

The traditional regulatory structure that prevailed nationwide for more than six decades, and which still exists in much of the country, is based on a utility obligation to serve customers of a geographically described distribution grid, with planning and investment to assure the long-term adequacy of electrical supply. This utility obligation to serve captures the crucial aspect of *mutuality of obligation* between the supplier and end-use consumer. The obligation to serve includes an obligation to plan and an obligation to invest to assure the long-term adequacy of supply to meet the demand of customers.

This long-term perspective is consistent with the capital intensive nature of the infrastructure and the long-lived character of the facilities. The wholesale competition concept is in its essence short-term. It assumes a degree of instability in the seller-buyer relationship that in practice becomes a deterrent to new investment, and acts as a rationale for *sustaining high wholesale prices based on shortage*. Utility self-supply facilitates pricing the service at cost. Pricing utility generation at cost, including reasonable capital costs and profits, is particularly important. State action to restore the obligation to serve with its long-term, investment-oriented perspective is a sound alternative that moderates prices for all customers, stabilizes employment of a skilled workforce in the sector and assures reliable supplies and service.

Reducing exposure to wholesale markets through strategies of direct investment in supply by distribution utilities, subject to direct state-level rate regulation is a cornerstone of this alternative. Equally important is controlling demand through effective investment in energy conservation and efficiency. Investing on the demand side – deploying ratepayers' cash to enable them to reduce their consumption and increase efficiency – is in the interest of both direct beneficiaries of conservation programs (whose bills go down) and non-participants, who avoid escalating costs on the margin. The UWUA does not regard demand-side investment as a threat to our jobs, but rather as a vital step toward the stability of our industry and the well-being of consumers and our communities.

Developing long-term plans that guide investment on both the supply and demand sides of the equation is a necessary pre-requisite to effective investment strategy that permits long term moderation and control of retail rates and bills. The objective of a planning process should be to develop a sophisticated approach to managing a portfolio of supply and demand-control resources. Such an approach will provide the flexibility to enable Pennsylvanians to sustain and grow their economy in the face of significant uncertainty and turmoil in the world energy business. It is a more responsible approach to public policy than simply relying on whatever this demonstrably volatile and manipulation-prone wholesale energy market may offer.

In conclusion, I would like to relate a personal story. Fifteen years ago, I appeared in Washington, D.C. as a witness before the House Commerce Committee as part of a panel on utility deregulation. The other members of the panel, including a conservative professor of economics and a liberal former congressman, smiled with amusement as I predicted (this is 1997) that deregulation might lead to “skyrocketing prices and brownouts.” What did I know? My only “degree” was a diploma from U.S. Steel’s apprenticeship program in Gary, Indiana; my “graduate training” was twenty years as an electrician in steel mills and power plants. But like Cassandra of Greek mythology, I lived to see my prediction come true when, as a California Public Utilities Commissioner, I had the dubious privilege of presiding over those skyrocketing prices and brownouts that roiled the state in 2000-2001. I sincerely hope that my experiences will be useful in informing and guiding the actions of state leaders in Pennsylvania to help insure good outcomes for your state’s consumers, workers and businesses.