

**BEFORE THE PENNSYLVANIA HOUSE OF  
REPRESENTATIVES  
REPUBLICAN POLICY COMMITTEE**

**Testimony of  
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**Regarding  
House Bill 1909**

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Room 418  
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Good morning. Let me start off this morning by thanking Chairman Saylor and Members of the Committee for allowing me to speak on this important topic. As you consider the merits of creating the Commonwealth Energy Procurement and Development Agency, commonly referred to as a "power authority," I respectfully ask that you take the time to understand the delicate balance between consumer protections and the costs of adopting this proposal. Left unexamined and unchecked, this proposal could have a profound impact on residential and small business ratepayers alike.

Let me explain why. House Bill 1909, or the Commonwealth Energy Procurement and Development Agency 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 residential and commercial & industrial customers. The genesis of this bill stems from concerns about rising energy prices and the transition to statewide retail competition. The bill also seeks to provide large industrial customers special economic development rates via the newly-created agency's bonding authority; in doing so, however, it must not be overlooked that the full faith and credit of the issuance of debt is covered by the backing of the Commonwealth of Pennsylvania. Let me repeat that: the bonds that would be issued by the energy agency would be based off the full faith and credit of the Commonwealth. So, one small misstep and a default on the bonds would mean taxpayers would be left footing the bill.

One might ask: What is the real driver behind the creation of an energy agency? 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 agency to have the ability to immunize them from the ups and downs of the wholesale

power market is not feasible.

I am far from convinced that consumers would not be negatively impacted by the creation of a governmental energy agency, as they will be forced to assume 100 percent of the financial risk with regard to its costs. In addition, 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 an energy agency 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 \$12 billion in capital investment and created over 8,500 megawatts of new generation from non-incumbent generators. Part of that new generation has come from renewable sources like wind, solar, and hydro. In fact, year-to-date, Pennsylvania has created over 850 megawatts of new wind generation alone. Under deregulation, private investors – not ratepayers – have helped advance these investments into generation fleets across the Commonwealth, the risks of which were borne by these investors rather than by Pennsylvania consumers. However, under an energy agency, the risk of performance shortfalls and cost overruns shifts from shareholders, who are often better able to take on and manage investment risks, and instead falls upon taxpayers.

Please allow me to discuss three important “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 complex risks and costs inherent in the energy trading business.
- Since deregulation in 1996, Pennsylvania ratepayers have been paying 12% less for

power when adjusted for inflation. In addition, they have not had to pay for poor economic decisions made by generators in the marketplace; instead, these risks have been borne by shareholders. 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 1909 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. A prime example of this is the state of Illinois, whose Power Agency has recently been prodded by politicians to begin negotiating 20-year contracts with wind-power suppliers. Despite the Agency's original goal of obtaining the best price for electricity for consumers, this wind power will actually be procured at above-market rates, meaning increased costs. Needless to say, 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.

The fact of the matter is, Pennsylvania has already taken steps in recent years to protect consumers from rising energy prices, diversify its energy resources, and encourage a competitive marketplace; these steps include 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 close collaboration 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.

Before concluding, I would like to take this opportunity to dispel some misinformation that was discussed in last week's hearing about energy markets in Texas. Under Governor Rick Perry's leadership, Texas has created over 9,000 megawatts of wind generation on the ERCOT grid, making it the number one wind production state in the country. In addition, since 2004, over 2 million of the state's residential consumers and 70 percent of its commercial and industrial base have selected an alternative generation supplier. I would also be remiss if I failed to mention that Texas has the most robust business climate in the entire country despite the economic downturn – in 2008, the state created half of all the jobs that were created in the U.S. as a whole. Finally, electric prices for the state's residential customers are 20 percent lower than they were in 2001. Clearly, when it comes to the prospects for a competitive marketplace, the numbers in Texas tell the story, and Pennsylvania should continue to work toward these results by relying upon the measures already in place.

In the same vein, I would also like to refute some misinformation that was presented last week about PJM. The PJM markets have played a key role in encouraging new generation – particularly new renewable sources – here in Pennsylvania. Since 2000, PJM has connected over 10,000 megawatts of new generating capacity in Pennsylvania from sources such as natural gas, hydro, bio-mass, coal, methane, and diesel, along with 7,000 megawatts of wind resources. Additionally, PJM's latest forward capacity auction secured commitments from over 1,800 megawatts of demand response in Pennsylvania; these resources will play a critical role in helping us meet our Act 129 requirements. Having a well-structured, competitive electricity market is absolutely critical to meeting the Commonwealth's future power needs, and it is evident from these facts and figures that we are well on our way.

The day will come when energy demand will snap back and new base-load generation will need to be built. I submit to you the best way to meet these goals is through robust private sector investment in the market rather than the creation of a power authority.

In closing, energy agencies and private companies face similar challenges, including portfolio management approaches, environmental regulatory policies, and complex risk management issues. There is no guarantee that energy agencies have the ability to get cheaper pricing, and it is clear that this approach has the potential to increase energy prices, stifle investments, and compromise system reliability. If we were to find ourselves in a tight situation, an energy agency may, in actuality, be the *least likely* entity to produce the results desired by this legislation.

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