

**BEFORE THE PENNSYLVANIA SENATE
CONSUMER PROTECTION AND PROFESSIONAL
LICENSURE COMMITTEE**

**Testimony of
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**Regarding
Electric Rates and Related Issues**

**April 13, 2010
Hearing Room 1
North Office Building
Harrisburg, PA**

Good morning. Thank you, Chairman Tomlinson, Chairwoman Boscola, and Members of the Committee, for inviting my colleagues and myself to share our views on some very pressing issues facing the Commonwealth. I wish to make it clear that the views expressed in my testimony are my own and are not those of the Commission as a whole.

The PUC continues to focus on the energy landscape in Pennsylvania and the future of electric rates in light of the forthcoming expiration of the remaining rate caps. In order to fully consider and evaluate these impacts, I would first like to begin with a brief assessment of the electricity markets in Pennsylvania.

The Electric Generation Customer Choice and Competition Act of 1996, which was passed in response to the relatively high electric rates Pennsylvanians faced, has resulted in a myriad of benefits for consumers. These benefits include a savings of at least \$7 billion, increased efficiency and reliability of generation sources, and the attraction of over 8,500 megawatts of new generation and over \$12 billion in capital investment in our state.

During this same time period, however, the costs of coal and natural gas – which generally set the price of power – have increased by 56 percent and 200 percent, respectively. Without rate caps, consumers would have been subject to these significant fluctuations in commodity prices or, alternatively, these costs would have been reflected in base rate cases filed by electric distribution companies (EDCs), which would have resulted in frequent rate increases for consumers.

Whether or not electric competition in Pennsylvania can be considered a “success” has been a popular topic of discussion and media attention. In my view, prices are only one indicator of the health of a competitive market; the number of options available to consumers is an equally important determinant. Alternative electric generation suppliers in Pennsylvania are bringing a variety of products and services to customers, providing both short-term and long-term fixed- and variable-rate contracts. This is readily apparent in the PPL service territory, where approximately 28 percent of customers representing 48 percent of the load have chosen an alternative electric generation supplier. On the residential side, 27 percent of customers have chosen one of the nine available suppliers, while approximately 36 percent of commercial and 53 percent of industrial customers have chosen from amongst 47 available suppliers.

The PPL example serves as a model for the potential of electric competition. Looking ahead to the rate cap expirations set to occur on Jan. 1, 2011, we may not see similarly high shopping numbers and supplier options due to the seven-year low in natural gas prices, as these options will only exist if competitors are provided with adequate margins. In my view, these territories should not be characterized as less successful under these circumstances, as the true purpose of electric competition is to provide consumers with the lowest feasible prices for power, whether through their incumbent electric distribution company or an alternative generation supplier. Thus, while these territories may be characterized by fewer choices for consumers, the choices available will include the lowest available prices.

When it comes to retail issues, I strongly believe that the PUC has been diligent, proactive, and effective in overseeing Pennsylvania's electricity market and should therefore be left to manage this transition without the imposition of additional measures, requirements, and tools currently under consideration.

Two such proposals call for the creation of a state energy authority and a city energy authority, respectively. I remain 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 – this is something that was intentionally addressed in the Electric Competition Act. In addition, I fear intervention in energy markets is not a prudent course of action for the city of Philadelphia or 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 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.

Furthermore, while the impetus behind these measures is to mitigate electric rate increases for consumers, doing so through cross-subsidization is not only unfair, but it has also been deemed illegal by the Commonwealth Court. Although some businesses will probably experience higher energy costs when rate caps expire due to the high usage patterns that characterize commercial and industrial users, Pennsylvania's residential customers will be subject to rate increases as well. Therefore, I firmly believe it is impractical, unwise, and directly in conflict with the Electric Competition Act to artificially set lower prices for large industrial users that will resultantly be subsidized by other rate classes.

One must look no further than to the state of Illinois, where the Illinois Power Agency has been in place since 2007. Originally created as a way to protect consumers from price-gouging by electric utilities, the agency seems to have reversed the state's previous stance on long-term contracts for wind energy; the IPA is now contracting with the state's wind-power companies for 20-year contracts, which were before deemed too expensive. As other states such as Connecticut consider similar proposals, businesses and energy industry groups are studying the Illinois example and opposing it as fiscally irresponsible and as an unnecessary bureaucratic interference.

Another proposal currently under consideration is the application of the Department of General Services (DGS) for membership in PJM. This is a very bold request on behalf of DGS, considering the possible ramifications it could have on taxpayers. Similar to the notion of an energy authority, as discussed previously, I strongly disagree that the involvement of the Commonwealth in energy procurement would result in lower prices for customers.

Pennsylvania has already taken steps 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 including the Alternative Energy Portfolio Standards (AEPS) Act of 2004 and Act 129 of 2008, close collaboration with PJM to ensure that energy efficiency is part of the equation toward lower energy bills, and a continued focus on consumer education, most recently through the PUC's new Web site, www.papowerswitch.com. We must allow for the transition to a fully competitive marketplace to take place before making the conclusive determination that current strategies are not working and therefore must be significantly altered. And, even then, we must fully consider the consequences and ramifications of adopting the proposals previously discussed so as to ensure that any such measures are in the best interests of Pennsylvania consumers and businesses.

Thank you for hearing my views on these important topics, and I welcome the opportunity to answer your questions.