

Introduction and Summary of Presentation

Good morning Chairman Gannon and distinguished members of the Committee. My name is Paul Simon and I am an International Representative of the IBEW working in the Third District Office, located just west of Pittsburgh. In Pennsylvania, the IBEW represents approximately 11,000 gas and electric utility employees. I personally service members working for the utilities of Duquesne Light, FirstEnergy and Equitable Gas Companies, as well as Reliant Resources. Formerly, I was the full-time Business Manager for 10 years for 1,000 IBEW electric and gas employees at Conectiv (formerly Delmarva Power). My trade is as a Substation Electrician and I have worked for and/or represented the utility industry for 30 years

While this Committee reviews energy costs, the IBEW believes that you cannot and should not look at cost alone. We ask you to also seriously investigate the area of reliability in relationship to staffing and maintenance. We have seen energy providers substantially cut staffing levels for the past 10 years, contributing to the reduced system reliability that we have today. The IBEW has long held that excessive cutbacks in personnel and the lack of investment in maintenance and infrastructure would have long-term negative consequences for consumers.

Presentation

I do not believe you can evaluate energy and energy prices in the Commonwealth in a vacuum. One has to consider the recent history of other areas who have already experienced deregulated market prices as well as where we are going in the future. For instance, gas industry prices have been deregulated for quite some time. The price spikes that we encountered in the 2000 to 2001 time frame which caused House Resolution No. 100 to be introduced in the first place was a simple case of supply and demand. Because costs had been low for an extended period of time, the incentive to explore for new gas was not there. As a result, gas reserves dropped and when it was needed the most during the winter, demand outstripped supply and without any rate caps, the costs escalated accordingly.

As we look at electric generation here in the Commonwealth, no similar comparison can be made since all customers are still under rate caps. However, lessons can be learned elsewhere. For instance, San Diego, California was the first place in the country where the utility paid off its transition costs and customers began paying unregulated electric generation charges. We all know the results were skyrocketing electric bills that more than doubled, even though wholesale market prices were capped in the \$250 per megawatt hour (MWh) range. In response, the California

Legislature imposed 6.5 cents per kilowatt-hour (KWh) price cap for small business and residential customers, retroactive to June 1, 2000. The major utility in the area, San Diego Gas and Electric (SDG&E) watched as it was virtually powerless to stem the cost increases, since it was mandated to sell a large percentage of their power plants and therefore, at the mercy of the open market. The other two investor owned California utilities with rate caps still in effect, Pacific Gas and Electric (PG&E) and Southern California Edison (SCE), have faced bankruptcy despite legislative attempts to remedy the situation. In short, the Utilities were reeling and California consumers were in turmoil because deregulation has failed to live up to its promises. While much has been reported about the inadequacies built into the California deregulation process, I ask that you review what happened to the states surrounding California during that time, who prior to those developments also exported not imported their power. Let's not forget that New York City was the second location in the country where the utility paid off its transition costs. As a result, Consolidated Edison customers there experienced 40% rate increases. In both California and New York, industry experts are saying these increased costs will likely continue.

The obvious question is "can that happen here?" Unfortunately, the answer is yes. I ask you, where is electric competition in western Pennsylvania? In the eastern part of the state, power marketers, such as utility.com, have gone out of business and their customers have reverted to the local utility as the provider of last resort (POLR). While preparing for a deregulated electric market place, it's interesting economic theory to say that people who use electricity during peak periods should pay more. However, what do you do about people who have no choice? For example, when is the third-shift worker supposed to do their laundry, cooking, etc. How are the elderly or home bound supposed to keep cool during the peak periods? One of the supposed goals of deregulation is to have customers pay market prices. That may be coming for Duquesne customers in 2004, but it is a potential disaster waiting to happen. As explained above, every place where consumers have paid market prices for electricity, prices spiked during certain periods, most notably in the summer where New York City prices went up 40% and California prices tripled. The attached chart gives an example of the potential price variation for Allegheny Power customers for July 2002. If you look at history, on the East Coast on Monday, May 8, 2000, unusually hot weather caused New England electric prices to jump into the \$6,000 per MWh range, and New York saw a high price of \$3,970 per MWh. Here locally, the PJM Interconnection

saw a high price of \$485 per MWh. As a result, PJM asked its 22 million consumers in the mid-Atlantic region to cut back energy to “prevent the imposition of interrupted service” during a period when the temperatures were not that extreme for that long. On July 6, 1999, PJM reached an all time high for electricity demand and prices reached \$920 per MWh, causing them to deploy their active load management program to reduce electricity demand during the mid-day hours. In Pennsylvania Senate and House hearings in 2000, I heard that what happened in California can not occur in Pennsylvania since we export, not import power, and have tens of thousands of MWh’s of new electric generation scheduled for construction. It now is evident that those initial estimates of future generation construction were unrealistically high since much of what was reported was merely projected. That which will be built is years away from completion. However, with the turn in the financial condition of the electric generating companies, I question what the long-term generation capacity will actually look like when the rate caps come off. Regardless, are we to believe that all of the electricity built and generated in Pennsylvania is only for Pennsylvania? Electricity is now a commodity, being sold to the highest bidder in or out of the state. It bears mentioning that the blackouts experienced in California were not actually power outages. The “emergencies” declared in California required utilities to suspend service to customers who pay lower, interruptible rates so that those who are paying for uninterruptible service do not lose power. Has that happened here? Yes, almost every summer. Remember the summer of 1999 when PJM had to implement rolling blackouts and voltage reductions? In comparison, these have *never* happened in California before last year.

So we should not allow our recent mild weather to lull us into a false sense of security. Pennsylvania can experience rate shock like that experienced in San Diego. A news article last summer was appropriately entitled “New York is just a Heat Wave Away from San Diego.” Eventually, the same can be said for Philadelphia, Harrisburg, Pittsburgh and the rest of Pennsylvania. If you need confirmation, I ask you to read the independent report put out on September 7, 2000 by Fitch Investor Services entitled “Procuring Power in California: A Potential Stranded Cost”. In their synopsis they state “The issues discussed here are not unique to California. Indeed if prices rise significantly in the **Northeastern** or Midwestern United States, distributors within those regions are similarly at risk.”

Why else are we seeing high prices, blackouts, surges, voltage reductions and numerous weather-related outages? There is one root cause. Due to the uncertainty of deregulation, Utilities have been slashing costs and their work force in an effort to reduce expenses. Unfortunately, as reported by the U. S. Department of Energy's Power Outage Study Team (POST), and as reported in the Legislative Budget and Finance Committee report of June 2002, it has been at the expense of reliability. The IBEW believes that rate caps and unexpected costs, such as fuel increases, will cause Utilities to keep reducing their work force, unless you stop them.

According to statistics compiled by the Department of Energy (DOE) and the Federal Energy Regulatory Committee (FERC), major investor-owned utilities nationally reduced their work forces by an average of 27%, or by approximately 130,000 jobs, from 1990 to 1998. That same data shows that Pennsylvania Utilities have cut their workforce by 26%, or 8,241 positions. In addition, Pennsylvania Utilities have further reduced their workforce by many hundreds of additional positions since 1998. The IBEW is here today, not looking for new members, but to try to explain the effects these job cuts are having on the "reliability" of the electric system.

For example, in 2001, Pennsylvania represented utilities only had approximately 1,830 Utility Linemen left to construct, maintain and repair our aging transmission and distribution systems. Line work is a dangerous and physically demanding job and a large percentage of these Linemen are age 50 and above. In addition, due to work force reductions, Linemen are being required to work an ever-increasing amount of overtime under the most adverse conditions. While it takes at least 5 years to minimally train a journeyman, up until the past few months Utilities had virtually eliminated their apprentice programs. For example, in 2001, Pennsylvania Power and Light (PPL) employed 448 Utility Linemen. At that time, 289 (or 65%) of their total Linemen were age 50 and above, with 196 (or 44%) age 55 and above and eligible for retirement. These are our most qualified and experienced people. In comparison, how many Apprentices do they employ to learn from these Linemen before they are gone? Back in September of 2000, that number was zero, not one single Apprentice. Since then, PPL hired 55 apprentices. While that seems to be a sizable number, interestingly it almost exactly matched the total number of 50 Linemen who were age 60 and above. However, currently PPL is undergoing a work force reduction with @ 230 bargaining unit employees affected which can impact those numbers. Unbelievably, our numbers showed in 2000 that there were only 17 Linemen Apprentices being

employed by **all** of the represented Pennsylvania Utilities combined. While Pennsylvania Utilities are hiring or planning to hire, our numbers showed that there were only approximately 100 Linemen Apprentices employed by the end of this 2001. Remember, due to the intensive training required, even if they started employing Apprentices tomorrow, they would not be minimally ready until early in the year 2007. In the future, we simply cannot figure out how the Utility Companies are planning to do the work. If they are counting on hiring qualified Linemen, there is a national shortage and there simply aren't enough to go around. I hope these numbers concern you as much as they do me. Where will we be 5 years from now when our current Linemen are no longer able or available to climb that pole at 2:00 A.M. in the morning during a blizzard or thunderstorm? What happens to the 1996 Pennsylvania Deregulation Legislation benchmarks?

From inside the companies, we also see how cost saving is affecting "reliability" in our generating stations. All generation is now non-regulated since like the independent power producers, Utilities have established deregulated subsidiaries for their generation companies. As such, I fail to see who has the responsibility to oversee this crucial commodity. Again staffed with a dwindling and aging work force, we have watched mandatory overtime increase while maintenance schedules are reduced and attempts are made to extend the life of equipment that should be replaced or retired. As with our transmission and distribution systems, we have seen routine inspections go from yearly to as much as 5-year cycles, or because of "predictive or just in time" maintenance have no definite time cycles at all.

Deregulation, and the decisions utilities and power plant owners tried to make in this new market, has been a financial disaster for many utilities and power developers. The dramatic declines in stock prices illustrate the problem. Remember that this isn't just a Wall Street problem. Thousands of Pennsylvanians own stock in their local utilities as a way to invest in their communities and to provide what they thought would be a steady, relatively safe source of income, often retirement income. Western Pennsylvania's major electric employers are Allegheny, Duquesne, and Reliant. Here's a comparison of their stock prices to what they were a year ago:

	<u>8/31/01</u>	<u>8/28/02</u>	<u>% change</u>
ReliantResources (RRI)	\$19.68	\$5.41	-73%
AlleghenyEnergy (AYE)	\$44.08	\$21.92	-50%
DQE (DQE)	\$21.20	\$14.98	-29%

Also, consider what has happened recently. On July 8, 2002 Allegheny announced that it was reducing its workforce by 10%, more than 600 jobs eliminated. We think those job cuts will be felt primarily at its Greensburg offices and just across the Pennsylvania border in Maryland. Many of the cuts will be in energy trading and power plant development. On July 31, 2002, Reliant Resources bonds were downgraded to junk status by Moody's, with a threat of even further down grades to come. Reliant is cutting back plans to expand in Pennsylvania and in other states. Reliant has their power plants for sale and already has reduced its energy trading personnel by more than 35%. On August 1, 2002, DQE announced its results for the second quarter of this year and announced a loss of \$97 million due to the loss in the value of its water and energy technology business. At the same time, DQE canceled its plans to build a new power plant in Western Pennsylvania and is in the process of selling its water business and restructuring its remaining operations. We do not know yet how many jobs this will cost or what other impacts DQE's cutbacks will have on the economy of Western Pennsylvania.

The IBEW has seen first-hand what happens when Utility companies are allowed to make "reliability" decisions on their own. Industry experts agree that voluntary compliance simply does not work and two recent studies done in Pennsylvania hold this to be true. Numerous shortfalls were pointed out in the June 12, 2002 report from the Pennsylvania Legislative Budget and Finance Committee (Assessing the Reliability of Pennsylvania's Electric Transmission and Distribution Systems). Those findings were concurred with by the Pennsylvania Public Utility Commissions own internal audit that was reported in July of 2002. Many of these items were issues we had brought before the legislature in the past and we commend the PUC for their initial response to correct the problems. However, we strongly support in Pennsylvania the establishment of mandatory detailed reliability and performance standards such as Massachusetts, Wisconsin, Illinois and others states have or are currently implementing.

This Committee has a very difficult task ahead of it. California found out the hard way not only what could happen to prices in a deregulated market but also that people desperately rely on electricity. The failure of the electric grid system to properly function can result in blackouts and the complete loss of life sustaining electric power for substantial amounts of time. Therefore, we respectfully request that you look carefully at what Utilities have done in the last 10 years and

focus on the effects that reduced staffing levels and maintenance has had and will have on reliability in the Pennsylvania electric system.

Conclusion

There are serious problems facing the utility industry and the IBEW would ask this Committee to look at six areas:

1. Minimum staffing levels in critical utility jobs in Generation, Transmission and Distribution.
2. Qualification standards and required approved apprenticeship programs for major utility jobs, such as lineman, power plant operators, etc.
3. The establishment of reliability and performance standards, as well as serious enforcement of the distribution system reliability benchmarks that the PUC has already adopted.
4. Prohibit the use of real-time or hourly pricing for small consumers.
5. Conduct a comprehensive study of the costs and benefits of electric deregulation.
6. Consider assistance to workers displaced by electric deregulation, and to the communities in which they live.

In closing, I want to take this opportunity to praise the Committee for looking into this difficult issue and thank you for this opportunity to appear before you.

Hourly Price of Electricity - Allegheny Power - July 2002

(Source: PJM Monthly Real-Time Price Data, file: 200207-rt.csv on www.pjm.com)

