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DATE: August 10, 2010

TO: The Honorable Members
Pennsylvania House of Representatives
Consumer Affairs Committee

FROM: Douglas L. Biden, President 
Electric Power Generation Association

SUBJECT: Senate Bill 168

Thank you for the invitation to testify before the Consumer Affairs Committee concerning Senate Bill 168. The Electric Power Generation Association (EPGA) has an interest in legislation that is intended to provide municipal governments additional authority to provide electric service to their residents, and appreciates the opportunity to provide its comments on the bill.

Let me begin by saying that the goal of providing customers with the best possible electric price is laudable. Indeed, this is precisely why EPGA strongly advocates for competitive electric markets and competitively procured electricity.

With that in mind, there are several components of Senate Bill 168 that EPGA would like to address.

The first component relates to a municipal government's ability to purchase electricity through a non-profit membership corporation, cooperative or other authorized bulk power purchasing pool. This concept, often referred to as "aggregation," provides a unique opportunity for local governments to combine their individual electric needs with those of other municipalities to obtain greater bargaining power for their customers. Aggregation can be an effective tool in allowing municipal electric systems to negotiate competitive and stable prices for their membership.

EPGA generally supports the concept of aggregation and notes that individual municipalities, working alone and with other municipalities, are already using the competitive markets to achieve savings.

Recently, ten entities¹ including the City of Pittsburgh, saved a combined \$1.03 million over three years on electricity costs by pooling their use and seeking bids from competitive suppliers. The aggregation component of Senate Bill 168 is an extension of this idea. EPGA believes that municipalities which distribute electricity can, much like the City of Pittsburgh, seek competitive offers from electric suppliers and retailers.

An additional component of Senate Bill 168 would allow municipal governments, through non-profit membership corporations, to contract for the development, operation, and transmission of electric generation facilities on a long-term basis. EPGA encourages the committee to strongly consider the potential pitfalls of this particular section of the bill.

Essentially, a government entity would be authorized to: enter into long-term power purchase agreements to facilitate the financing of new electric generation, enter into power purchase agreements with existing power plants, acquire ownership interest in existing or new power facilities and distribute the power supply at cost among the participating entities. This is more likely to raise costs for the entities' customers, not lower them.

The risks associated with the exorbitant costs of generation construction, operation and maintenance, and environmental compliance are best borne by private investors and not captive customers. As you may recall, shifting those risks was a primary reason the Commonwealth restructured the electric industry in 1997. The Commonwealth rejected rate-payer subsidized generation in favor of competition knowing it would shift risks to investors, increase efficiencies, and put downward pressure on prices, which it has. Today, Pennsylvania electric prices are well below the national average and are far below the 1997 rates on an inflation adjusted basis.

The same concepts apply to this legislation. Creating a government agency, municipal cooperative or non-profit membership corporation to engage in the business of electric generation will not lower the cost of electricity, since no power producer can avoid the dominant cost drivers of generating electricity – fuel, environmental compliance, and construction costs. In fact, the only guaranteed result of government owned and operated power plants will be that taxpayers and customers will bear the risks for running electric generation units, including investment decisions by elected officials or their appointees.

Under this proposal, the costs of construction, maintenance, outages, and regulatory compliance will fall squarely on local taxpayers. Indeed, the danger of having a political bureaucracy in the middle of building, owning and operating generation plants is well illustrated by the financial problems that some

¹ In addition to the city of Pittsburgh, the Pittsburgh Parking Authority, Water and Sewer Authority, alongside East McKeesport, Edgewood, Edgeworth, Millvale, Wilkinsburg, Wilmerding and the Steel Valley Council of Governments used the power of competition to purchase electricity for several years at an extraordinarily competitive price. "Energy auction cuts \$1 million off electric bills," *Pittsburgh Tribune-Review*, May 27, 2010.

local governments currently face as a result of historical forays into the energy and utility business. Today, Harrisburg City teeters on the verge of bankruptcy as a result of its investments in an electric generation project that was supposed to make the city money by converting trash to a form of cheap energy. Philadelphia has repeatedly faced financial difficulties operating the Philadelphia Gas Works, often seeking the support of the Commonwealth to bail-out this perennially troubled municipal utility.

History has shown us that government cannot generate electricity at a lower cost than can be produced in a competitive market where each and every electric generator must compete for market share based on a least-cost dispatch system.

Finally, Senate Bill 168 would allow for municipalities to enter into contracts with a municipal electric cooperative or other authorized consortium without having to advertise, bid or price quote. While provisions are included that would allow a borough council to advertise, bid or price quote, "...if the council determines that the advertising, bidding or price quotations are in the public interest," the explicit exemption raises concerns, particularly in contrast to the competitive procurement requirements that exist for electric distribution companies (*see* 66 Pa.C.S. 2807(e)(3.1) et seq.)

In fact, the legislation should specifically require municipalities to competitively bid all contracts for electricity to assure consumers are getting the most competitively priced product, which is the underlying intent of this legislation.

In closing, municipal governments that provide electric service to their residents can be beneficiaries of the wholesale competitive markets, and with tools such as aggregation, they can increase their ability to leverage more competitive opportunities. However, allowing local governments to build, own and operate electric generation facilities would imprudently shift the risks of electric generation to captive taxpayers.

On behalf of the Electric Power Generation Association, whose members own and operate approximately 139,000 megawatts of electric generation capacity in the United States, and employ over 19,000 Pennsylvanians, I want to thank you for your time and consideration of our views.