



House of Representatives
Commonwealth of Pennsylvania


M E M O R A N D U M

DATE: July 8, 2009

TO: All House Members

FROM: Robert Godshall, Republican Chairman
Committee on Consumer Affairs

SUBJECT: House Bill 80 – Response to Secretary Hanger’s Memo



The Secretary of the Department of Environmental Protection (DEP) recently forwarded a memo attempting to rebut some of the information that I have shared with you pertaining to the costs associated with House Bill 80. As you may recall, this legislation amends the Alternative Energy Portfolio Standards Act (AEPS) to dramatically increase the amount of renewable energy that electric distribution companies must supply to their customers.

I have argued that the legislation’s new requirements would increase costs to electric customers by an estimated **\$8 to \$9 billion**. I further included information from PPL, PECO, Allegheny Power and FirstEnergy confirming these estimates. At a time when we are severely concerned about the generation rate caps expiring, it makes no sense that we would even be considering adding \$8 to \$9 billion onto our constituent ratepayers.

Secretary Hanger raises several concerns with what he terms are “serious errors and misleading information” about the costs and benefits of House Bill 80. At the outset, we should recognize that it is the *Secretary of Environmental Protection* that is offering these comments – not the Pennsylvania Public Utility Commission, the Office of Consumer Advocate, the Office of Small Business Advocate or PJM Interconnection.

Additionally, I am not alone in raising serious concerns about the cost of House Bill 80. Pennsylvania's entire business community – the same people and industries that create jobs and make the Commonwealth's economy work – agree with the analysis I put forward and are very concerned about the increased costs associated with this legislation.

I encourage you to contact any one of the following organizations to see if they agree with Secretary Hanger's conclusions regarding increased costs to consumers: the Pennsylvania Chamber of Business and Industry, the PA Coal Association, the Industrial Energy Consumers of PA, the PA Chemical Industry Council, the Electric Power Generation Association, the Energy Association of PA, the Associated Petroleum Industries of PA, the PA Oil and Gas Association, the PA Manufacturers Association or the National Federal of Independent Business. Also the AFL-CIO, the IBEW and UMW have expressed concerns over the impact of the House Bill 80 on energy costs and jobs.

In response to Secretary Hanger's memo, I would like to offer a few additional points.

- 1. Electric company figures are “biased and inflated.”** Electric distribution companies, as regulated utilities, are not necessarily affected by House Bill 80 and have nothing to gain by the bill's defeat or enactment. They procure power for their default service customers and whatever they pay for that electricity they pass directly through to their customers. The fact that PPL, PECO, Allegheny Power and First Energy are analyzing House Bill 80 and providing information demonstrates their commitment to keeping costs low for customers, in accordance with Act 129 of 2008's requirement that they procure electricity at the “least cost to customers over time.” The utilities employ highly capable staff that assisted in developing these calculations – the same people that also regularly work with the Public Utility Commission in ratemaking cases.
- 2. Electric costs will not increase with new alternative energy mandates.** The costs associated with House Bill 80 are undeniable. If you have any questions concerning how this will impact ratepayers, I strongly urge you to contact officials in California. In my last memo, I forwarded to you an article that appeared in the *Wall Street Journal* concerning the California experience. Alternative energy mandates result in higher electricity costs. Whether utilities are purchasing Renewable Energy Credits (RECs) or buying alternative energy directly, customers will pay more.
- 3. Alternative energy additions will result in more supply, thus lower costs.** Electricity prices are a result of supply and demand, so if more supply is added, that is a good thing. I agree. However, you cannot ignore the fact that solar is only available 13% of the time and wind power is only available 35% of the time. In order to ensure that these intermittent power sources are useful, backup generation is absolutely necessary. Attached is a story about a situation that occurred in Texas where, according to the Electric Reliability Council of Texas (ERCOT), “...the grid's frequency dropped suddenly when wind production fell from more than 1,700 megawatts, before the event, to 300 MW when the emergency was declared.” Additionally, I again refer to you to the *Wall Street Journal* article that clearly disagrees with the presumptions made by

Secretary Hanger, who implies that a 10 MW solar field will actually be supplying 10 MWs of power 24 hours per day, 7 days per week.

4. **Analysis of solar costs fails to recognize the rapidly declining price of solar.** The price of solar is irrelevant given that the vast majority of solar that is produced never actually touches the public electricity grid. Most solar producers make their own energy and use it in their own facilities, then sell the Renewable Energy Credits (RECs). It is the RECs that drive the cost of compliance, and given that each REC equals 1 MWh of electricity production, it is inevitable that the price of RECs will dramatically increase given that Pennsylvania currently only has 3.8 MWs of solar production and House Bill 80 calls for 5,000 MWs. New Jersey serves as a good example, where RECs can cost up to \$700. These costs are directly born by ratepayers.
5. **The analysis in HB 80 is a transparent effort by companies that own generation power plants today to block future generation in order to insure that their power plants can charge maximum prices when rate caps expire.** This is patently false and would violate antitrust laws. Regulated electric utilities are legally separate entities from unregulated generation suppliers. Further, the PJM market, as regulated by the Federal Energy Regulatory Commission (FERC), sets the prices for wholesale electricity, not electric generation suppliers. Finally, under Act 129 of 2008, electric distribution companies are – by statute – required to get the “least cost” electricity for their customers.
6. **HB 80 will benefit customers by saving at least three to four dollars for every dollar invested.** Although Secretary Hanger disagrees with the utilities analysis of the costs associated House Bill 80, he makes this statement without any proof or documentation. He says that House Bill 80 would save consumers at total of approximately \$28 billion between 2009 and 2024. On what basis can this came possibly be substantiated? For this to be correct, California officials - who have actual experience in implementing AEPS and who are leaders in this type of policymaking - must be completely wrong about the **\$114 billion** cost to California electric customers for that state’s aggressive AEPS mandates. I will, however, agree that taxpayers are subsidizing this industry.
7. **No assessment of rate payer benefits and savings.** There are intrinsic benefits to renewable energy, however there are also costs. To date, the debate has only focused on the value of these energy sources. My goal was to provide the members with information about the costs.
8. **Transmission considerations.** There are other issues which I did not raise, but deserve mention. First, in order to proliferate the alternative energy that is mandated by House Bill 80, significant upgrades must be made to Pennsylvania’s electric transmission corridors. Given that many members have struggled with the siting of transmission lines in their districts, they need to be prepared for more of these issues to emerge. Renewable energy farms need space and the availability of transmission lines to carry the electricity that they produce to the grid – if, in fact, they actually sell their electricity in the market. **Transmission costs will go up, which are also born by electric ratepayers.**

9. **Environmental footprint.** While Secretary Hanger espouses the virtues of alternative energy in reducing “substantially” soot, mercury, smog and carbon pollution, he fails to inform you that there is an environmental footprint for renewable energy sources. Windmills must be located in areas where they can be maximized, often conflicting with the goals of protecting natural habits and preserving the integrity of our other natural resources. In order to produce just **10 MWs** of electricity from solar, **10 acres** of solar panels would be required. FirstEnergy reports that, based on a 4.5 acre per MW project having a fixed tilt, south-facing configuration, up to **6,000** acres of additional land would need to be covered with solar panels just to meet the solar requirements for that electric territory alone.

10. **Mandates.** The fact remains the taxpayers subsidize the growth of alternative energy and then must purchase that electricity at higher costs due to the mandates set forth by the AEPS law. If it were true, as Secretary Hanger alleges, that alternative energy were more economical than other sources, then why are taxpayers subsidizing these markets and why does the General Assembly mandate that customers purchase electricity from these sources?

Secretary Hanger’s efforts to minimize and obfuscate the very real issues of cost and reliability that House Bill 80 raises are unfortunately disingenuous. The debate must include an analysis of these issues that will affect all Pennsylvanians. When the General Assembly mandates that these power sources must be purchased, it is de facto setting electricity prices and impacting the marketplace. Unfortunately, government intervention into the energy markets has proven to be poor public policy, as is evidenced in the attached article that also appeared in the *Wall Street Journal* entitled, “So Much for ‘Energy Independence.’”

If you think your constituents are concerned with the expiration of the electric generation rate caps, I offer to you that that issue will pale in comparison to the costs associated with House Bill 80. This is precisely why so many individuals, organizations and businesses are opposing this bill.

I believe that we should allow the standards for alternative energy that we enacted in 2004 and just amended in 2007 to be fully implemented before we dismiss these very real concerns and advance policies which may hurt consumers and inhibit electric reliability.

Please know that I steadfastly stand by my previous communications to you and strongly recommend that you contact your electric utility to discuss this matter.

cc: Pennsylvania Public Utility Commissioners
Office of Consumer Advocate
Office of Small Business Advocate
PJM Interconnection

Loss of wind causes Texas power grid emergency

Wed Feb 27, 2008 8:11pm EST

HOUSTON (Reuters) - A drop in wind generation late on Tuesday, coupled with colder weather, triggered an electric emergency that caused the Texas grid operator to cut service to some large customers, the grid agency said on Wednesday.

Electric Reliability Council of Texas (ERCOT) said a decline in wind energy production in west Texas occurred at the same time evening electric demand was building as colder temperatures moved into the state.

The grid operator went directly to the second stage of an emergency plan at 6:41 PM CST (0041 GMT), ERCOT said in a statement.

System operators curtailed power to interruptible customers to shave 1,100 megawatts of demand within 10 minutes, ERCOT said. Interruptible customers are generally large industrial customers who are paid to reduce power use when emergencies occur.

No other customers lost power during the emergency, ERCOT said. Interruptible customers were restored in about 90 minutes and the emergency was over in three hours.

ERCOT said the grid's frequency dropped suddenly when wind production fell from more than 1,700 megawatts, before the event, to 300 MW when the emergency was declared.

In addition, ERCOT said multiple power suppliers fell below the amount of power they were scheduled to produce on Tuesday. That, coupled with the loss of wind generated in West Texas, created problems moving power to the west from North Texas.

ERCOT declares a stage 1 emergency when power reserves fall below 2,300 MW. A stage 2 emergency is called when reserves fall below 1,750 MW.

At the time of the emergency, ERCOT demand increased from 31,200 MW to a peak of 35,612 MW, about half the total generating capacity in the region, according to the agency's Web site.

Texas produces the most wind power of any state and the number of wind farms is expected to increase dramatically as new transmission lines are built to transfer power from the western half of the state to more populated areas in the north.

Earlier on Tuesday, grid problems led to a blackout in Florida that cut power to about 1 million electric customers across that state for as much as four hours.

So Much for 'Energy Independence'

By **ROBERT BRYCE**

Whenever you read about ethanol, remember these numbers: 98 and 190.

They offer an essential insight into U.S. energy politics and the debate over cap-and-trade legislation that recently passed the House. Here is what the numbers mean: The U.S. gets about 98 times as much energy from natural gas and oil as it does from ethanol and biofuels. And measured on a per-unit-of-energy basis, Congress lavishes ethanol and biofuels with subsidies that are 190 times as large as those given to oil and gas.

Those numbers come from an April 2008 report by the Energy Information Administration: "Federal Financial Interventions and Subsidies in Energy Markets 2007." Table ES6 lists domestic energy sources that get subsidies. In 2007, the U.S. consumed nearly 55.8 quadrillion British Thermal Units (BTUs), or about 9.6 billion barrels of oil equivalent, in natural gas and oil. That's about 98 times as much energy as the U.S. consumed in ethanol and biofuels, which totaled 98 million barrels of oil equivalent.

Meanwhile, ethanol and biofuels are getting subsidies of \$5.72 per million BTU. That's 190 times as much as natural gas and petroleum liquids, which get subsidies of \$0.03 per million BTU.

The report also shows that the ethanol and biofuels industry are more heavily subsidized -- in total dollar terms -- than the oil and gas industry. In 2007, the ethanol and biofuels industries got \$3.25 billion in subsidies. The oil and gas industry got \$1.92 billion.

Despite these subsidies, the ethanol lobby is queuing up for more favors. And they are doing so at the very same time that the Obama administration and Congress are pushing to eliminate the relatively modest subsidies for domestic oil and gas producers. Democrats want to cut drilling subsidies while simultaneously trumpeting their desire for "energy independence."

The cap-and-trade bill passed by the House aims to "create energy jobs" and "achieve energy independence." Meanwhile, Democrats are calling to eliminate drilling subsidies that have encouraged advances in technology that have opened up vast new U.S. energy sources. These advances have made it profitable to extract natural gas from the Barnett Shale deposit in Texas and the Marcellus in Pennsylvania -- deposits once thought too expensive to tap.

President Barack Obama's 2010 budget calls for the elimination of two tax breaks: the expensing of "intangible drilling costs" (such as wages, fuel and pipe), which allows energy companies to deduct the bulk of their expenses for drilling new wells; and the allowance for percentage depletion, which allows well owners to deduct a portion of the value of the production from their wells. Those breaks provide the bulk of the \$1.92 billion in oil and gas subsidies.

In May, Mr. Obama called the tax breaks for the oil and gas industry "unjustifiable loopholes" that do "little to incentivize production or reduce energy prices."

That's flat not true. The deduction for intangible drilling costs encourages energy companies to plow huge amounts of capital into more drilling. And that drilling has resulted in unprecedented increases in natural gas production and potential.

An April Department of Energy report estimated that the newly available shale resources total 649 trillion cubic feet of gas. That's the energy equivalent of 118.3 billion barrels of oil, or slightly more than the proven oil reserves of Iraq.

Eliminating the tax breaks for drilling will make natural gas more expensive. Tudor, Pickering, Holt & Co., a Houston-based investment-banking firm, estimates that eliminating the intangible drilling cost provision could increase U.S. natural gas prices by 50 cents per thousand cubic feet. Why? Because without the tax break, fewer wells will be drilled and less gas will be produced. The U.S. consumes about 23 trillion cubic feet of gas per year. Simple arithmetic shows that eliminating the drilling subsidies that cost taxpayers less than \$2 billion per year could result in an increased cost to consumers of \$11.5 billion per year in the form of higher natural gas prices.

Amid all this, Growth Energy, an ethanol industry front-group, is pushing the Environmental Protection Agency to adopt a proposal that would increase the amount of ethanol blended into gasoline from the current maximum of 10% to as much as 15%.

That increase would be a gift to corn ethanol producers who have never been able to make a go of it despite decades of federal subsidies and mandates. Growth Energy is also pushing the change even though only about seven million of the 250 million motor vehicles now on U.S. roads are designed to run on fuel containing more than 10% ethanol.

There is plenty of evidence to suggest that gasoline with 10% ethanol is already doing real harm. In January, Toyota announced that it was recalling 214,570 Lexus vehicles. The reason: The company found that "ethanol fuels with a low moisture content will corrode the internal surface of the fuel rails." (The rails carry fuel to the engine injectors.) Furthermore, there have been numerous media reports that ethanol-blended gasoline is fouling engines in lawn mowers, weed whackers and boats.

Lawyers in Florida have already sued a group of oil companies for damage allegedly done to boat fuel tanks and engines from ethanol fuel. They are claiming that consumers should be warned about the risk of using the fuel in their boats.

There is also corn ethanol's effect on food prices. Over the past two years at least a dozen studies have linked subsidies that have increased the production of corn ethanol with higher food prices.

Mr. Obama has been pro-ethanol and anti-oil for years. But he and his allies on Capitol Hill should understand that removing drilling incentives will mean less drilling, which will mean less domestic production and more imports of both oil and natural gas.

That's hardly a recipe for "energy independence."

Mr. Bryce is the managing editor of Energy Tribune. His latest book is "Gusher of Lies: The Dangerous Delusions of 'Energy Independence'" (PublicAffairs, 2008).