

## Electric Generation Expert: Contradictory Public Policy Takes Large Share of Blame for High Energy Costs

Government policy contradictions led the electric generating industry to an unhealthy dependence on natural gas, the president of the association representing Pennsylvania's electric generators told members of the House Environmental Resources and Energy Committee this week. The rapidly rising costs of natural gas have in turn forced many utilities to seek rate increases in recent months.

Douglas L. Biden, President of the Electric Power Generation Association (EPGA), explained to committee members at a December 6 hearing that more stringent emission control requirements to meet stricter air quality standards led to an increasing, and now costly, reliance on natural gas. Biden also noted that the piecemeal approach to regulating power plant emissions, focusing on sulfur dioxide (SO<sub>2</sub>), nitrogen oxide (NO<sub>x</sub>), and particulate matter individually, rather than holistically, may have contributed to investor preference for gas over coal.

“In addition, states, acting individually or as part of regional entities (e.g., the Ozone Transport Commission) oftentimes adopt emission requirements that are more stringent than federal standards, creating additional uncertainty and investor preference for gas,” Biden said.

He warned of similar consequences if Pennsylvania continues to pursue mercury emission standards more stringent than those on the federal level.

“[Such a policy]... would contribute to more retirements of coal fired generating capacity and greater use of scarce natural gas by the power sector at the worst possible time,” Biden said.

EPGA and some of its members have been participating in the Department of Environmental Protection (DEP) mercury stakeholder meetings. Biden said that to date his members have heard no compelling evidence presented as to why the Commonwealth should adopt its own mercury rule, particularly given the steep reductions required of Pennsylvania under the federal rule.

“The Pennsylvania DEP has said that we need a Pennsylvania rule to protect Pennsylvania coal related jobs. Yet the Pennsylvania Coal Association, the United Mine Workers, the International Brotherhood of Electrical Workers, and EPGA (as well as other industry groups) remain opposed to a Pennsylvania rule because we believe the state rule will only compound and make worse the competitive disadvantages for Pennsylvania inherent in the federal rule,” Biden said.

Nearly all new power plants built in the United States (and in PJM Interconnection and Pennsylvania) in the last 10 to 15 years have used natural gas as their primary fuel. In recent years and in the near to intermediate future, wholesale power prices will be driven

more by natural gas prices than by availability of electric generation. Average PJM spot market prices rose by more than 35 percent in 2003, 11 percent in 2004, and more than 32 percent for the first 10 months of 2005, mostly due to the rising cost of natural gas.

“We are hopeful,” Biden said, “that as policymakers understand the relationship between generator’ decisions, and the overall health of the economy, that they will come to appreciate the need for a more balanced approach to regulating power plant emissions going forward. Right now, we don’t see that understanding, and it is creating tremendous economic hardship, not just for homeowners, but also for industrial consumers of electricity and natural gas.”

## Mining Jobs Lost Under State Specific Mercury Rules, Stakeholder Group Told

The coal industry in Pennsylvania would suffer a major setback in production and jobs if the state adopts mercury emission regulations more stringent than federal standards, a representative of the United Mine Workers (UMW) told a mercury stakeholders meeting recently in Harrisburg.

“Pennsylvania coal has the highest mercury content of any coal in the country,” said Eugene Trisko, an environmental attorney representing the UMW. “A number of utilities will be looking at large scale displacement of Pennsylvania coal if this rule goes into effect.”

The UMW, the coal industry, and the generating industry also note that a state specific rule brings nothing in terms of added protection for Pennsylvania residents.

“We have heard no compelling evidence presented as to why the Commonwealth should adopt its own mercury rule, particularly given the steep reductions required of Pennsylvania under the federal rule,” said Douglas L. Biden, President of the Electric Power Generation Association, who is participating in the stakeholder process.

The stakeholders meeting on Wednesday, November 30 was the fourth in a series of meetings the Department of Environmental Protection is holding before crafting state-wide regulations. The Department faces a November, 2006 deadline for finalizing the regulatory language.

The federal rules, known as CAMR, require a phase one reduction of 64 percent in mercury emissions by 2010, and an 86 percent reduction by 2018.

The UMW recommends that DEP adopt phase one of CAMR, and then reconvene a stakeholders group in three years to assess the impact and gauge the cost and effectiveness of control technologies needed to remove the mercury, technologies that are developing rapidly.

Moving ahead with a state specific standard could be disastrous for the coal and electric generating industry, negative economic effects that would be felt by all Pennsylvanians. A recent Penn State study predicted the economic benefits of Pennsylvania coal production and generation in 2010. The average of four impact estimates: 177,000 jobs; \$23 billion a year in economic output, and \$7 billion a year in household income.

A Pennsylvania-specific rule could also force the closing of a number of smaller coal-based generation plants.

## Pennsylvania Senators React to Disinformation on Car Emission Standards

From: Senator Roger Madigan, Chairman, Senate Transportation Committee; Senator Mary Jo White, Chairman, Senate Environmental Resources & Energy Committee  
Re: PennFuture “Action Alert”

A recent “Action Alert” from the organization PennFuture urges Senators not to support our legislation adopting the federal Clean Vehicle Emission standards and prohibiting the Department of Environmental Protection (DEP) from letting California (CA) set standards on our behalf.

The following points may be of interest when responding to constituents on this subject:

-- The Ridge Administration’s DEP did not endorse CA’s car program in 1998. Rather, DEP opted into the federal National Low Emission Vehicle (NLEV) program, which was, at the time, a voluntary emission standard stricter than federal Tier I standards.

-- The CA standard was adopted as a legal backstop, necessary to encourage automakers not to withdraw from NLEV while stricter federal standards (Tier II) were finalized.

Statements from DEP in 1998:

\* “This regulation...is the final step PA needs to take to participate in NLEV”

\* Adopting the CA standards “is a contingency. This language is part of verbatim language that EPA is asking us to adopt”.

\* “DEP agrees...that NLEV would have a greater air quality benefit (than Tier I) and be much more equitable for PA than a state-by-state” approach.

-- Under the Clean Air Act, states must either utilize the federal standards or adopt those promulgated by CA (now Cal-LEV II). Pennsylvania is currently governed by the federal Tier II vehicle emission standards, as are approximately 40 other states.

-- The Environmental Quality Board (EQB) did not unanimously endorse the CA rule last month. EQB voted simply to solicit public comment. Several members raised serious concerns about letting CA set our standards.

-- Vehicles designed to meet CA standards cost more to manufacture; moreover, they rely upon significantly more expensive boutique fuels to meet CA emission standards. Several years ago the General Assembly wisely prohibited the use of California fuel, which can cost at least 50¢ more per gallon than the fuel currently used in Pennsylvania. CA standards are designed to address CA air quality deficiencies, not ours. The greater Los Angeles area was recently named the “smog capital” of the nation by EPA.

-- In 2004, EPA expressed concern that benefits of adopting CA emissions standards were being overstated, and “may entice States to adopt the Cal-LEV II program with the hope of achieving emission reductions that actually may not be realized.” EPA estimates there is between a 1%-2% emission reduction difference between Cal-LEV II and federal Tier II.

Please feel free to contact either of our offices if you have any questions (Sen. Madigan 787-3280; Sen. White 787-9684).

## Regulatory Review Agency Questions Need for Electric Default Service Regulations

In questioning the need for regulations addressing default service in the electric industry, the Pennsylvania Independent Regulatory Review Commission (IRRC) noted that capped transition rates will continue for most major utilities until 2010.

“Drafting regulations today that match tomorrow’s markets is an imprecise and difficult task,” IRRC stated in a memo to the Public Utility Commission, which voted recently to seek public comments on the proposed default regulations.

The Commission voted 4-1 to ask interested parties to address the comments from IRRC; changes in federal law as a result of the Energy Policy Act of 2005; and cost-recovery issues related to the state's Alternative Energy Portfolio Standards Act.

Commissioner Terrance J. Fitzpatrick issued the one dissenting vote.

The proposed Default Service Regulations establish criteria for generation service provided to customers who do not receive or choose not to obtain the service from an alternate supplier.