

Senate Sends Strict California Car Standard Packing

With a comfortable margin, the Pennsylvania Senate asserted its legislative authority this week and voted to delay the implementation by the Department of Environmental Protection (DEP) of a strict California car emission rule that would almost certainly drive up the cost of cars and gasoline. The sponsors of the legislative initiative, Senators Mary Jo White, R-Venango and Roger Madigan, R-Bradford, have said on a number of occasions that their efforts were not just about blocking the implementation of the standards, but also about asserting the authority of the General Assembly over issues that would have a powerful impact on the public.

In short, the amended bill, SB 1025, will delay the implementation of the standards until at least 2010. It would also require DEP to work with groups representing motorists, vehicle manufacturers, health experts and others to study the impact of the California standards prior to imposing them on Pennsylvania motorists.

Madigan said that in the meantime Pennsylvania would continue following the federal emission standards established in 2000.

“I’m concerned that the administration’s plan would force Pennsylvania motorists to purchase more expensive vehicles and may ultimately lead to less vehicle choice,” said Madigan. “This amendment provides a mechanism for Pennsylvanians to investigate the purported benefits of the California Emissions program before it is imposed on our citizens.”

Madigan and White, and key House members insist that Pennsylvania can meet air quality standards designated by the federal Clean Air Act using the federal Tier II standards. The California rule, they maintain, brings little extra benefit over the federal standards.

The House is expected to likewise act on legislation delaying the California rule. There, the Republican and Democratic chairs of the House Transportation Committee, Rick Geist, R-Blair, and Keith McCall, D-Carbon, have introduced legislation similar to SB 1025.

Last week, the House Environmental Resources and Energy Committee held a public hearing to address the impact HB 2141 would have on Pennsylvania’s ability to meet the requirements of the Clean Air Act.

Testifiers at the hearing included Kathleen McGinty, Secretary of the Pennsylvania Department of Environmental Protection; Allen Biehler, Secretary of the Pennsylvania Department of Transportation; Judy Katz, Air Protection Division Director of the U.S. Environmental Protection Agency; Joel Schwartz, Visiting Fellow with the American Enterprise Institute; Greg Dana, Vice President for Environmental Affairs of the Alliance of Automobile Makers; and Kevin Stewart, Director of Environmental Health for the American Lung Association of the Mid-Atlantic.

One of the main issues brought up during the hearing was whether automobile manufacturers would raise the price of vehicles when forced to manufacture cars to meet new air quality guidelines. Possible increased cost to consumers is something the committee will take under consideration. Another concern of committee members was the control Pennsylvania would be giving up to another state if California's standards, and therefore all future changes to the standards, were adopted.

The testifiers had various recommendations for the committee that Chairman Bill Adolph, R-Delaware said will be further reviewed and studied before any decisions are made.

“Many people seemed to think that what we are dealing with here is a no-brainer and that we should simply adopt one or the other and be done with it,” said Adolph. “What they have to realize is that the committee is working to find the best possible set of regulations for Pennsylvania as a whole. We need to consider the long-term ramifications if we are to adopt one set of regulations over the other. Our environmental health as a state is a serious issue and we need to make sure we have all the facts before making a decision that will have a long term impact on the citizens of Pennsylvania.”

Transmission Line Proposal Result of Changing Economics and State Specific Regulatory Approaches, Industry Experts Say

The announcement that the nation's largest generator of electricity, American Electric Power (AEP), out of Columbus, Ohio intends to build transmission lines through the gut of Pennsylvania and east to New Jersey makes economic and regulatory sense, and should come as no surprise, industry experts say. In fact, the lines are long overdue.

“For years, we have lacked the lines to supply electricity where it's needed most, and transmission investment has not kept pace with electricity demand or the rapid rise in interstate wholesale power transactions” said Douglas L. Biden, President of the Electricity Power Generation Association. “Given that we have the demand in the East and we have cheaper power west of us, it makes compelling economic sense.”

Biden also said that the increasing tendency of Eastern states to adopt environmental regulatory schemes stricter than federal standards hurts the prospects of new plant construction, or even maintaining old ones, in those states.

“Investors are not going to put up the money for additional pollution controls called for on plants in Eastern states with state specific regulations, when you can get cheaper power elsewhere,” Biden said.

Biden added that Pennsylvania’s intent to adopt state-specific mercury rules will further hurt the prospects of new plant development, and will increase the likelihood of the retirement of plants in the Commonwealth.

Said Biden: “It’s ironic that in today’s competitive wholesale power markets, states that seek to impose more stringent emission standards on plants within their borders merely have the effect of shifting emissions (and jobs) to other states. In the case of Pennsylvania, those states are upwind. So the net environmental effect is negligible to non-existent.”

The building of transmission lines typically meet with more local public opposition than a proposed power plant. In this instance, local environmental and other activists may not be able to do much about it. Under the far-ranging federal Energy Policy Act (EPACT) approved last year, the Federal Energy Regulatory Commission (FERC) can override state and local officials if the project is deemed to benefit the overall good.

Industry experts say that the Pennsylvania Public Utility Commission may have authority over only the sections of the new lines that actually connect with existing transmission lines, but that may be the extent of its authority. And if Pennsylvania can not resolve issues related to transmission projects deemed in the public interest within a certain time, FERC can exercise its authority under EPACT to have the lines built.

AEP stated in a release that the anticipated in-service date will be 2014, on an assumption that it will take three years to site and acquire rights-of-way, and another five years to build the lines.

CERA Official: Power Shortages Within Next Five Years

The electric power industry's wrestling with its biggest single-year fuel cost increases in history is creating a strong chance that U.S. power markets will not be able to successfully address resource adequacy, resulting in power shortages in some areas of the country within the next five years, the Managing Director of Cambridge Energy Research Associates' (CERA) Global Power Group, Lawrence J. Makovich, told a briefing at the firm's CERAWeek 2006 recently.

Fuel costs, which account for about one-third of total power production expenses, have increased from \$68 billion in 2004 to \$90 billion in the past year, Makovich noted.

The U.S. power business is at the point where plans for new supply need to be addressed.

Assuming all power plants currently under construction and half of those under development are eventually completed, less than half the new capacity needed over the next ten years will come online, Makovich said.

"We saw a turning point this past summer when the average U.S. reserve margin dropped to 23% from 32% a year earlier. Because peak demand growth will likely outpace supply growth over the next few years, several regions will use up their excess capacity over the next few years," he said. CERA anticipates Virginia and the Carolinas will need new capacity in 2007 beyond that now under construction or in development, as well as the Middle Atlantic area and California in 2008, and New York in 2009.

"There is no silver bullet strategy that can hand managements the right answers for their companies on new plant construction, technologies, fuel mix, resource adequacy and other key issues," Makovich said. "Rather, the next five years will show that successful strategies are a function of developing a good understanding of the business landscape so that leaders can see the risks and opportunities, and position their companies to take best advantage."

Rate shocks and political backlash, fuel price volatility, supply/demand pressures and other conditions are increasing the appreciation for large, integrated, fuel-diverse, regional companies that work in both regulated and deregulated environments – an approach CERA has called the hybrid business mode.

"Hybrid companies, many of which have evolved their positioning through sound strategic analysis of their business landscape and opportunities, are the most diversified in fuels, and they own the bulk of competitive coal and nuclear power plants. Not surprisingly, hybrid companies as a group have outperformed other groups in near-term total shareholder return," Makovich said.

PUC to Hold Natural Gas Stakeholders Meeting

The Public Utility Commission will convene the first meeting of natural gas competition stakeholders in March to explore avenues to increase competition in the state's retail natural gas supply market.

The meeting will be held March 30, 2006, in Hearing Room 1 in the Commonwealth Keystone Building, 400 North St., Harrisburg. The morning session will begin at 9 a.m. In the afternoon, various subgroups will meet to begin their work.

On Oct. 6, 2005, the Commission submitted its report to the General Assembly on competition in Pennsylvania's retail natural gas supply market. According to the report, "effective competition" does not exist in the retail natural gas supply market statewide at this time.

The 1999 Natural Gas Choice and Competition Law allowed customers to purchase gas from independent suppliers, while still having their gas physically delivered by PUC-regulated distribution companies. The law directed the PUC to investigate the level of competition five years after the law went into effect and to report its findings to the General Assembly.

As required by the law, the Commission called for the stakeholders meeting to consider opportunities, including legislative, to increase competition in the market. In its report, the Commission also identified 20 issues for study and recommendation by the stakeholders, who would then propose changes that need to be made to the structure and operation of Pennsylvania's retail natural gas market to encourage increased participation by suppliers and customers.

The proposed subgroups include:

- * Inter-company activity subgroup,
- * Customer interface subgroup,
- * Cost of service group subgroup and
- * Other miscellaneous issues.