



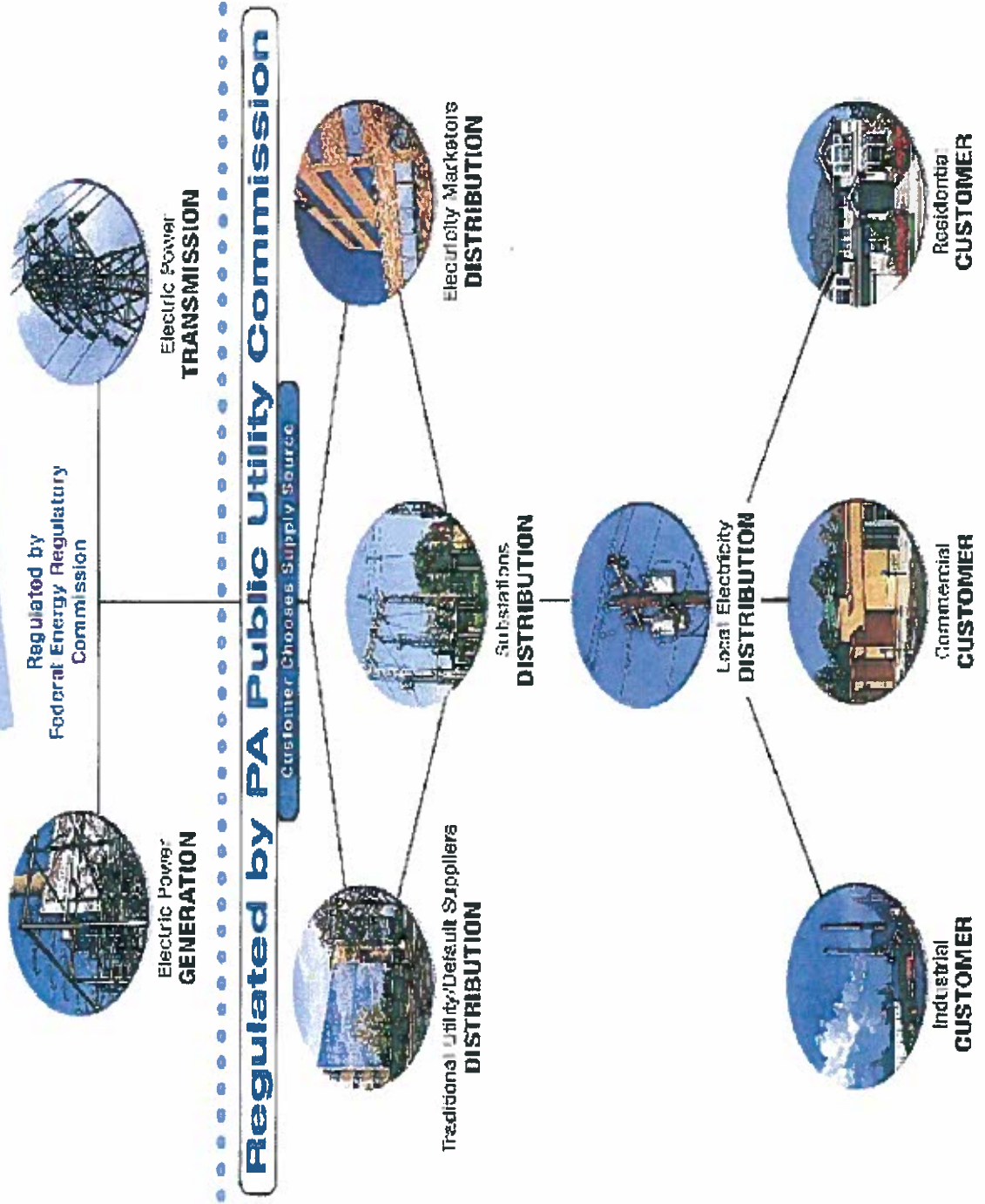
**Before the
Consumer Affairs Committee
Pennsylvania House of Representatives**

**Public Informational Hearing
February 10, 2011**

**Remarks of
Douglas L. Biden
President
Electric Power Generation Association**

- Chairman Godshall, Chairman Preston, members of the Committee, good morning and thank you for the opportunity to be here.
- EPGA is a trade association of electric generating companies with headquarters in Harrisburg.
- Our generating members include, AES Beaver Valley, Allegheny Energy Supply, Dynegy, Inc., Edison Mission Group, Exelon Generation, FirstEnergy Corp., GenOn Energy, PPL Generation, Sunbury Generation, Tenaska, Inc., and UGI Development Co.
- Our members own and operate power plants – about 147,000 MW of generating capacity in the U.S – approximately half in Pennsylvania and surrounding states.
- We employ nearly 20,000 Pennsylvanians.

Pennsylvania's Deregulated Delivery System for Electricity

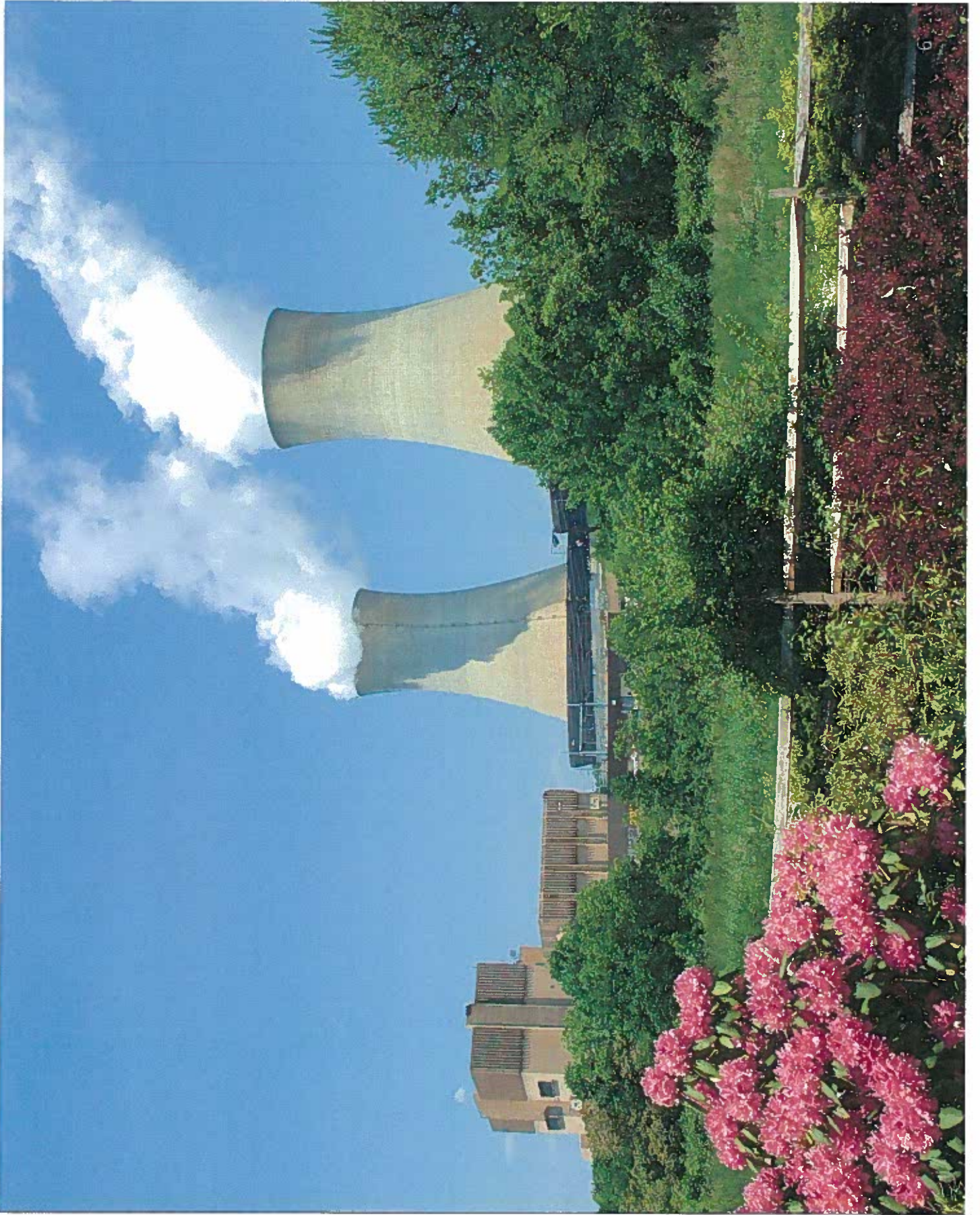


PA and PJM Supply Mix for 2009–2010

	<u>PA 2009</u>		<u>PJM 2010 (thru Nov.)</u>	
	<u>Capacity</u>	<u>Generation</u>	<u>Capacity</u>	<u>Generation</u>
Coal	41.0%	48.1%	40.8%	49.3%
Nuclear	20.7%	35.2%	18.4%	34.6%
Natural Gas	21.1%	13.3%	29.1%	11.4%
Oil	10.0%	0.4%	6.1%	0.5%
Hydro, Wind & Other	7.2%	3.0%	5.6%	4.2%

- Stats very similar for PA and PJM.
- These are results of a least-cost dispatch market.
- In PJM 1,310+ power plants with capacity > 167,000 MW compete for running time on basis of costs.
- PA is #2 in electricity generation in the US, #1 in export.







Changing Regional Supply Mix

- At end of 3/2010 – 76,785 MW in PJM active or under construction queues.
- Breakdown:
 - Wind 55%
 - Natural Gas 26%
 - Nuclear or other steam 16%
 - Hydro, solar, other 3%
- Wind fastest growing generation source due to state RPS mandates and other state & federal incentives.
- 9 of 13 PJM states + DC have RPS. Will require 200 billion KWH by 2025. For reference, total PA generation = 222 billion KWH.
- PA had largest 5-year increase in natural gas deliveries to power plants among all states at 167%.
- Growing dependence on gas once considered threat to electric reliability – now the game-changing energy resource of the decade.

Environmental Challenges For Power Plants

- Air
 - Clean Air Transport Rule (CATR)
 - Revised Ozone Standard
 - Revised PM 2.5 (particulates) Standard
 - Mercury MACT Rule (all HAPS)
 - Regional Haze
 - High Electric Demand Days (HEDD)
 - EPA Green House Gas Regulation
- Water:
 - State Wastewater Regulations (TDS)
 - Federal Effluent Guidelines
 - Federal/State 316(b) Implementation
- Solid Waste:
 - Federal Regulations of Coal Combustion Residuals (CCR)

Generation Retirements

- Studies of 4 recent EPA rulemakings (CATR, MACT, CCR and 316(b)) estimate retirements ranging from 25,000 to 100,000 MW and required capital expenditures ranging up to \$100 billion.
- PJM estimated 12,000 to 19,000 MW of coal-fired generation at risk of retirement.
- EPGA is not raising a “reliability red flag.” However, policymakers must realize replacement of older coal plants with newer cleaner generation will put upward pressure on electricity prices.

Success of Electric Restructuring

- There were 3 main goals of electric restructuring:
 1. Shift financial risks of construction, operation and ownership of generation from captive ratepayers to investors, who are positioned to manage those risks;
 2. Provide market incentives for generation owners to build and operate plants more efficiently; and
 3. Promote competition and innovation in retail markets.
- Shift of financial risks has clearly occurred. Ratepayers no longer bear financial burden of excess capacity, construction cost overruns, and forced outages that plagued utilities in monopoly era. More than 10,000 MW of capacity have been added in PA in past decade and consumers have not paid a penny for construction delays or bad investments.

Success of Electric Restructuring (cont.)

- Tremendous improvements in operating efficiency have been realized and documented. Increases in output at baseload nuclear and coal plants, increases in plant availability rates, reductions in forced outage rates, etc., have all benefitted customers.
- Regarding the third goal, now that generation rate caps have expired in all utility service areas, retail competition is beginning to flourish.
- The markets are still evolving. If allowed to work without interference, markets will bring forth the right combination of generation supply and conservation resources (demand response) going forward at competitive cost to consumers.

Closing

- Although PJM energy prices declined in 4 out of the last 10 years, markets cannot always yield lower prices.
- Prices can and do rise. When wholesale electricity prices rise it is usually due to higher fuel costs (the dominant generation cost driver) or higher demand signaling that more supply is needed.
- This is not a symptom of “broken markets.” It is a symptom of functioning markets.
- EPGA and its member companies are at your service. If Committee members or your staff have questions about the generation industry or the wholesale electricity market, please don’t hesitate to call on us. Thank you.