

1

2

COUNCIL OF THE CITY OF PHILADELPHIA

3

COMMITTEE ON TRANSPORTATION AND

4

PUBLIC UTILITIES

5

- - -

6

Room 400, City Hall
Philadelphia, Pennsylvania
Wednesday, May 5, 2010
1:20 p.m.

7

8

- - -

9

10

PRESENT:

11

COUNCILMAN CURTIS JONES, JR., CHAIR

12

COUNCILWOMAN JANNIE BLACKWELL

13

COUNCILMAN WILLIAM GREENLEE

14

COUNCILMAN JACK KELLY

15

COUNCILMAN BRIAN J. O'NEILL

16

COUNCILMAN DARRELL CLARKE

17

18

BILL 100163 - An ordinance authorizing the
City of Philadelphia to organize an authority
to be known as The Philadelphia Energy
Authority, pursuant to the terms of the
"Municipalities Authorities Act," of 2001,
June 19, P.L. 287, No. 22, as amended, under
certain terms and conditions.

19

20

- - -

21

22

23

24

25

1

2

COUNCILMAN JONES: Good

3

afternoon. Seeing a quorum present, we

4

are going to call the Committee on

5

Transportation and Public Utilities to

6

order. This is a public hearing to hear

7

Bill No. 100163.

8

Here's our prime sponsor.

9

To my left I have Councilman

10

O'Neill, for the record. I also have

11

Councilman Greenlee. I have Councilman

12

Kelly, and I have the prime sponsor of

13

the bill, Councilman Clarke.

14

Will the Clerk officially read

15

the bill into the record.

16

THE CLERK: Bill No. 100163, an

17

ordinance authorizing the City of

18

Philadelphia to organize an authority to

19

be known as The Philadelphia Energy

20

Authority, pursuant to the terms of the

21

"Municipalities Authorities Act," of

22

2001, June 19, Public Law 287, No. 22, as

23

amended, under certain terms and

24

conditions.

25

COUNCILMAN JONES: In opening

1 5/5/10 - TRANSPORTATION - BILL 100163

2 these hearings, I'd like to say that when
3 the prime sponsor, Councilman Clarke,
4 brought this idea to myself and the
5 Committee, my personal reflections were,
6 how timely.

7 As we review our budget and the
8 economic picture for our City, as we
9 start to look for ways to have savings,
10 what better way, but what better way to
11 tighten our belts in the area of public
12 utilities.

13 We make a huge expenditure.
14 Some departments report it as high as \$45
15 million a year. If we start there and
16 begin to make steps in the right
17 direction, we can control our costs,
18 predict our costs and move ourselves into
19 a more financial solvent situation.

20 I'm happy to hear the testimony
21 and gather information on these ideas
22 that are being proposed by this bill, and
23 I'd like to offer the prime sponsor,
24 Councilman Clarke, an opportunity to
25 speak to it.

1 5/5/10 - TRANSPORTATION - BILL 100163

2 COUNCILMAN CLARKE: Thank you
3 so much, Mr. Chairman, and thanks to
4 members of the Committee.

5 First, I'd like to thank all of
6 the people who we've had the opportunity
7 to have dialogue during the course of --
8 from the inception of the introduction of
9 the ordinance up and to this day. I want
10 to say that all of that conversation has
11 been fruitful. It has given me
12 personally a much broader insight into
13 this whole issue. I can honestly say
14 that I clearly was not an expert, nor am
15 I now, on this issue, but I'm much more
16 knowledgeable about this whole issue and
17 the potential of this particular
18 opportunity, as I like to call it.

19 I'd like to thank the
20 Administration, because I must say when
21 we initiated the path towards creating an
22 Authority, there was certain levels of
23 concern that we weren't necessarily
24 preparing ourselves as a city to position
25 ourselves to take advantage of any

1 5/5/10 - TRANSPORTATION - BILL 100163

2 opportunities for our citizens and for
3 the City of Philadelphia as it relates to
4 the cap coming off, the deregulation.

5 One of the things that I found
6 in my conversations with the
7 Administration is that they have in fact
8 been engaged in a very dramatic and
9 aggressive way in ensuring that
10 Philadelphia is placed properly,
11 particularly the City Administration and
12 all of the publicly owned facilities, is
13 positioned to take advantage and make
14 sure that there are no pitfalls
15 associated with our ability to be
16 involved and engaged in this issue.

17 But I also found out that there
18 were a number of things that were
19 happening that this Council was not
20 involved in that concerned me to a
21 degree. So when we reached out to the
22 Administration, letting them understand
23 that we as Council as a part of the
24 government need to be engaged and
25 involved in a meaningful way, fortunately

1 5/5/10 - TRANSPORTATION - BILL 100163

2 the response was a positive one.

3 It is our hope that as we move
4 forward in the creation of not only this
5 authority but as it relates to policy in
6 this emerging industry, that we do it in
7 a cooperative spirit, and to date, that
8 response has been very positive.

9 And I would also like to thank
10 members of the various industries that
11 have come in and have voiced their
12 concern. Understandably, this is
13 something that they've been engaged in
14 for a long time and have an upstart.
15 City Council proposing an Energy
16 Authority is, understandably, of some
17 concern. I think that the amendments
18 that will be offered at this particular
19 hearing should address most, if not all,
20 of those concerns. I can say personally
21 this Councilperson, the last thing that I
22 want to be is responsible for a nuclear
23 facility or any other type of energy
24 plant. We're having a difficult enough
25 time putting together our Fiscal '11

1 5/5/10 - TRANSPORTATION - BILL 100163
2 budget. So it's clear that people who do
3 this for a living should continue to be
4 the ones that do this for a living, but I
5 do think that it's important for the
6 Council, the Administration to be capably
7 placed in a position that will allow us
8 to take advantage of all opportunities
9 and also look at all of the various
10 creative opportunities that exist within
11 the industry of creating power sources
12 throughout not only the City but in the
13 nation. So it is my hope that this
14 Committee will allow us to move forward
15 on this.

16 The other thing, there will
17 also be an amendment that will
18 basically -- the creation of the
19 Authority will place Councilmembers in a
20 process that will simply amend the
21 Authorities Act to include City Council,
22 with the Administration as the
23 incorporators of the Authority. So the
24 particular appointments to that Authority
25 will be done jointly, one by nomination

1 5/5/10 - TRANSPORTATION - BILL 100163
2 by the Administration in concurrence by
3 the Council. So we will have full
4 involvement in terms of setting up that
5 Authority on that basis.

6 So with that, Mr. Chairman, I'd
7 just like to thank you all. Thank you so
8 much for allowing me the time to make
9 these opening statements, and I think
10 that we will be in a place hopefully in
11 the next couple of years of moving this
12 city and being first instead of simply
13 looking at what other cities have done as
14 it relates to creating these
15 opportunities in this emerging industry.
16 So I just want to thank you so much.

17 COUNCILMAN JONES: Again, thank
18 you for bringing this important issue
19 forward.

20 Would any of the Committee
21 members like to comment?

22 Councilman Kelly.

23 COUNCILMAN KELLY: Yes. Thank
24 you, Mr. Chairman.

25 I would just like to ask the

1 5/5/10 - TRANSPORTATION - BILL 100163

2 sponsor if creating this Authority, is it
3 going to require the hiring of a director
4 as well as a staff, and, if so, how are
5 these people going to be getting paid?

6 COUNCILMAN CLARKE: Thank you
7 for asking that question. In the
8 amendment in the bill, first of all, the
9 members of the Authority will be
10 non-compensated, as are a number of the
11 various committees. So we can basically,
12 given our budget constraints, not be
13 concerned about that.

14 You will hear in some of the
15 testimony from the Administration about
16 the point -- who will be running the
17 point as it relates to establishing
18 policy for the City. That will
19 essentially be members of the
20 Administration and potentially members of
21 Council. So we don't -- the last thing
22 that we need to do is create a
23 significant additional cost associated
24 with this.

25 If there is a minimal cost

1 5/5/10 - TRANSPORTATION - BILL 100163
2 associated with the operations, I think
3 that the ability to save money simply by
4 virtue of aggregating opportunities for
5 power supply will more far surpass that,
6 but we don't anticipate any substantial
7 cost associated with the operation of the
8 Authority.

9 COUNCILMAN KELLY: Thank you,
10 Councilman.

11 COUNCILMAN CLARKE: You're
12 welcome.

13 COUNCILMAN JONES: Thank you,
14 Councilman Kelly.

15 Any other comments?

16 COUNCILMAN O'NEILL: Just that
17 that was a very good question.

18 COUNCILMAN JONES: Would the
19 Clerk bring forth and read who the first
20 witness will be.

21 THE CLERK: J. Barry Davis and
22 Lance Haver.

23 (Witnesses approached witness
24 table.)

25 COUNCILMAN JONES: Good

1 5/5/10 - TRANSPORTATION - BILL 100163

2 afternoon, gentlemen.

3 MR. HAVER: Good afternoon.

4 MR. DAVIS: Good afternoon.

5 COUNCILMAN JONES: Who is going
6 first? Would you please state your name
7 for the record and pull the mike close to
8 you.

9 MR. DAVIS: My name is J. Barry
10 Davis. I am a Chief Deputy City
11 Solicitor in the City's Law Department.
12 I'm here today on behalf of Deputy Mayor
13 Rina Cutler. She could not be here today
14 and I'm going to read testimony that she
15 has reviewed.

16 Good afternoon, Chairman Jones
17 and members of the Committee. I am Barry
18 Davis, Chief Deputy City Solicitor for
19 Regulatory Affairs in the City's Law
20 Department. I am testifying today on
21 behalf of Deputy Mayor for Transportation
22 and Utilities, Rina Cutler, who is unable
23 to be here today.

24 The end of the PECO rate caps
25 in 2011 will have impacts on electricity

1 5/5/10 - TRANSPORTATION - BILL 100163
2 costs for residential customers,
3 commercial enterprises and public
4 agencies. We do not yet know what the
5 full impact will be, but for most
6 customers, it will mean a rate increase.
7 Full deregulation of the energy markets
8 in our region will provide both
9 challenges and opportunities for the
10 City. A Municipal Energy Authority could
11 be an effective complement to the
12 initiatives of the City's Energy Office
13 in meeting those challenges and taking
14 advantage of opportunities. Therefore,
15 the Administration supports the creation
16 of a Municipal Energy Authority with
17 amendments to this bill to more clearly
18 articulate the intended responsibilities
19 of the Authority.

20 The current State law limits
21 the capacity of Pennsylvania municipal
22 authorities to engage in certain aspects
23 of energy development, services and
24 supply. Authorities may not compete with
25 private enterprises except for those

1 5/5/10 - TRANSPORTATION - BILL 100163
2 activities that are specifically
3 authorized by the Municipal Authorities
4 Act. The proposed amendments clarify the
5 activities that are authorized by Bill
6 100163, but do not limit the ability of
7 the City to add additional projects or
8 responsibilities to the Authority should
9 they be authorized by State law and
10 deemed appropriate by City Council and
11 the Mayor. In order to state the
12 intentions of the City in forming the
13 Authority, it is proposed that additional
14 "whereas" clauses be added to provide
15 more background, identify opportunities
16 and acknowledge that municipal
17 authorities have limits under the State
18 law.

19 The authorized opportunities
20 for the Municipal Energy Authority
21 include development or facilitation of
22 energy-generation projects, the
23 development or facilitation of
24 energy-efficiency projects and the
25 purchase or facilitation of energy supply

1 5/5/10 - TRANSPORTATION - BILL 100163
2 and energy services on behalf of the City
3 of Philadelphia, other government
4 agencies, institutions and businesses. A
5 major advantage of the municipal
6 authorities is the ability to enter into
7 long-term contracts to pursue these
8 opportunities. Long-term contracts are
9 usually necessary for the purchase of
10 electricity from alternative energy
11 projects like wind or solar and for
12 Energy Service Company agreements to
13 upgrade City buildings with
14 energy-efficiency features. A Municipal
15 Energy Authority with Board members
16 having experience in the energy field
17 would provide the City with an agency
18 partner that adds value to the review and
19 implementation of projects.

20 The amendments also propose the
21 following structure for appointments:
22 one member appointed by City Council and
23 four members nominated by the Mayor and
24 subject to confirmation by City Council.

25 Deputy Mayor Cutler promised

1 5/5/10 - TRANSPORTATION - BILL 100163

2 City Council during recent budget
3 testimony to have a draft business plan
4 for the electricity procurement by the
5 City ready at the end of May. She asked
6 that I provide you with a brief preview
7 of that today.

8 The Mayor's Office of
9 Transportation and Utilities has been
10 working with City departments to develop
11 a comprehensive electricity procurement
12 strategy. The City has recently entered
13 into an agreement with a competitively
14 selected consultant to provide
15 electricity procurement advice and
16 services. Following the best practices
17 established by other large
18 municipalities, public institutions and
19 private firms, the City intends to
20 develop a strategy for purchases of
21 electricity for 2011 and beyond that will
22 limit risk and take advantage of the best
23 market pricing.

24 This summer, the City is
25 conducting a pilot program to reduce

1 5/5/10 - TRANSPORTATION - BILL 100163
2 energy use during the peak summer
3 periods. If successful, this program
4 will not only result in energy savings,
5 it will pay the City a premium for those
6 energy reductions. Peak reductions will
7 also be an important part of the City's
8 energy strategy, and this pilot program
9 will help inform the City's future energy
10 purchases. Overall reduction of City
11 energy use is also a key part of the
12 strategy, and the City is developing a
13 program of both requirements and
14 incentives for City departments to reduce
15 the energy consumption at the buildings
16 that they occupy.

17 Additionally, the Mayor's
18 Office of Sustainability and the City's
19 Commerce Department are developing a
20 Request for Information for an Energy
21 Broker to offer energy supply procurement
22 and contract management services to small
23 and medium businesses in the City of
24 Philadelphia. It is the City's intention
25 to identify one broker for the City's

1 5/5/10 - TRANSPORTATION - BILL 100163
2 active support and to reevaluate that
3 relationship on an annual basis. This
4 RFI, or Request for Information, is
5 modeled after a very successful program
6 for small businesses in the City of
7 Boston.

8 Thank you for the opportunity
9 to testify today in support of Bill
10 100163, and I would be happy to answer
11 any questions you may have.

12 I would also like to add at
13 this time that I'm very thankful to the
14 Chairman and also to Councilman Clarke
15 for the extensive conversations,
16 discussions that we've had with regard to
17 the formation of a Municipal Energy
18 Authority. They've been very, very
19 fruitful discussions.

20 COUNCILMAN JONES: Well, I
21 definitely agree. And it is important
22 that Councilman Clarke insisted on our
23 involvement. It's not like we're buying
24 pens or pencils. We're talking about a
25 major purchase, and the more eyes, the

1 5/5/10 - TRANSPORTATION - BILL 100163

2 more involvement, the more transparency,
3 the better, and I think it's a fruitful
4 engagement that we're beginning to do.

5 Would we like to do questions
6 or can we wait for the whole panel?

7 COUNCILMAN O'NEILL: Do the
8 whole panel.

9 COUNCILMAN JONES: Mr. Haver.

10 MR. HAVER: Good afternoon,
11 Mr. Chairman, members of City Council.
12 My name is Lance Haver. Thank you for
13 this opportunity to testify. I'm the
14 Director of the Mayor's Office of
15 Consumer Affairs. I'll be giving you my
16 analysis of what the proposed Energy
17 Authority would do, its potential
18 benefits to the City, which would manage
19 the Authority through the Energy Office,
20 as well as to local businesses and the
21 environment.

22 In general, an Energy
23 Authority, working with the Energy
24 Office, would have the ability to do six
25 things. It would allow the City to

1 5/5/10 - TRANSPORTATION - BILL 100163

2 aggregate its power purchase when it
3 makes sense. It would help small
4 businesses, non-profits, including houses
5 of worships, access the emerging markets
6 for electricity. It would allow the City
7 to harness renewable and innovative
8 energy sources. It would allow for
9 conservation and other energy savings to
10 be financed over a period longer than
11 four years, which is all that is allowed
12 under the City Charter.

13 Perhaps just as important as
14 what the Authority would do is what it
15 would not do. It would not replace PECO.
16 PECO will continue to deliver
17 electricity, bill and be the supplier of
18 last resort to our region. The Authority
19 would not build or operate a single power
20 plant. It would not replace a single
21 business, but instead make it easier for
22 businesses to find ways to work with the
23 City.

24 To understand the challenges
25 and opportunities we face in this new

1 5/5/10 - TRANSPORTATION - BILL 100163

2 energy environment, it helps to have some
3 background.

4 Prior to 1996, our electric
5 rates were set by the Public Utility
6 Commission, and our bills combined the
7 cost of generating the electricity,
8 transmitting it to our area and
9 distributing it to our home. Electricity
10 was a rate of return industry where a
11 utility justified what it had spent and
12 then was guaranteed a rate of return on
13 its investment. In the 1990s, the
14 country began an experiment in
15 deregulation and Pennsylvania joined with
16 17 other states to deregulate the
17 electric industry. At the time, the
18 State Legislature believed that
19 deregulating the generation of
20 electricity would drive down the cost of
21 a kilowatt hour. The transmission and
22 distribution of power remained a
23 regulated rate of return industry.

24 To protect municipal
25 governments, small businesses and

1 5/5/10 - TRANSPORTATION - BILL 100163
2 consumers from rate shocks, there were
3 rate caps put on the price of each
4 kilowatt. On December 31st of 2010,
5 three things will happen in respect to
6 electricity in our region. First, the
7 price caps will come off and we'll buy
8 power at the market price, which is
9 likely to be much higher than what it
10 costs now.

11 Second, PECO compensation and
12 the transition charges will end, thus
13 lessening the effect of the rise in
14 generation costs.

15 And, third, we will enter a new
16 energy era where not only will kilowatts
17 be sold, but so will capacity and other
18 services.

19 That is the background for the
20 hearing today. In the months to come,
21 consumer businesses, municipal
22 government, non-profits and houses of
23 worships will be faced with decisions
24 they have never had to make before.

25 Hopefully I have provided a

1 5/5/10 - TRANSPORTATION - BILL 100163

2 crash course in what we will be facing
3 when the rate caps come off. I'll now
4 explain how I believe an Authority would
5 help address some of these issues.

6 An Authority would be a
7 powerful tool for the City's Energy
8 Office, which is a central point for the
9 Administration's thinking about planning
10 energy usage and purchases. Using an
11 Energy Authority as a tool, the City's
12 Energy Office would be able to create a
13 large buying pool that levels municipal
14 demands, making it less necessary to
15 purchase reserve capacity. This would
16 allow us to lower our costs, save
17 taxpayers' dollars and make it easier for
18 suppliers to bid on our business.

19 An Authority would be able to
20 enter into public-private partnerships
21 that have been developed by the Energy
22 Office to harness the renewable energy
23 resources, develop low-cost co-generation
24 for economic development and help provide
25 a vehicle for renewable energy projects.

1 5/5/10 - TRANSPORTATION - BILL 100163

2 An Authority, unlike the City
3 itself, would be able to enter into
4 agreements for energy efficiency or
5 renewable energy projects that exceed
6 four years. Since there may be savings
7 that could be achieved over a longer
8 period, having the option to enter into
9 longer agreements creates more
10 possibilities.

11 Managing the energy use and
12 thinking about how to generate renewable
13 resources will become a greater and
14 greater challenge for the cities in the
15 future. If we rise to the occasion, we
16 can use our collective buying power, our
17 inherent advantages and our existing
18 infrastructure to create a brighter and
19 cleaner future.

20 Thank you very much. I'd be
21 happy to answer any questions.

22 COUNCILMAN JONES: Thank you,
23 Mr. Haver.

24 I have a few questions for both
25 of you. How many accounts, electric

1 5/5/10 - TRANSPORTATION - BILL 100163

2 accounts, does the City of Philadelphia
3 actually have?

4 MR. DAVIS: The City currently
5 has about 1,200 electric accounts.

6 COUNCILMAN JONES: What is our
7 approximate usage of electricity and what
8 does that cost us annually?

9 MR. DAVIS: The electricity
10 usage I don't have an exact figure on.
11 There are distinct kinds of energy
12 purchases that we make, some of which
13 are -- where the actual kilowatt hours
14 are the bulk of the cost and others like
15 street lighting where the fees that we
16 pay for the connection to the PECO grid
17 are actually the most expensive
18 component.

19 For example, the City pays --
20 well, let's say the total energy bill for
21 the City, including the General Fund, the
22 Water Fund and the Aviation Fund, is
23 about \$65 million a year. Of that, about
24 \$20 million is for City facilities and
25 about \$15 million is for street, traffic

1 5/5/10 - TRANSPORTATION - BILL 100163
2 and alley lighting. The remainder of
3 that is the usage by the Water Fund and
4 the Aviation Fund.

5 COUNCILMAN JONES: Electric
6 alone is approximately, under the various
7 accounts, \$65 million, which exceeds our
8 entire CDBG allocation from the federal
9 government, for the record.

10 In your estimation -- and one
11 of the things I'll say that for PECO, I'm
12 fascinated to find out what deregulation
13 actually means, and I think it might be
14 helpful for members of the Committee who
15 may not know -- they're senior members,
16 so they probably do, but for the public
17 out there, what does deregulation
18 actually mean?

19 MR. DAVIS: Well, I think Lance
20 explained it pretty well. For customers
21 really what it means is that you're going
22 to have two components of your bill. One
23 is all the things that PECO does for you,
24 which is to get the power to your
25 property. The remainder of that is going

1 5/5/10 - TRANSPORTATION - BILL 100163

2 to be the energy generation or the energy
3 supply cost.

4 If you look at your bill right
5 now today, you'll see that it's divided
6 into components that are very similar to
7 what we'll see in the future. There is a
8 component for energy generation. There's
9 a component for local transmission and
10 distribution. There's also something
11 that Lance referenced, which is a cost
12 associated with the transition from a
13 regulated utility to a deregulated
14 utility.

15 I think the best way to think
16 about this is that approximately for most
17 customers about a third of their energy
18 bill would likely be coming from the PECO
19 services. This is really for residential
20 customers, because for commercial
21 customers it's really too hard to sort of
22 figure that out. But for residential
23 customers, probably about a third to PECO
24 and about two-thirds to the generation,
25 the supply of the electricity.

1 5/5/10 - TRANSPORTATION - BILL 100163

2 The way that this will affect
3 customers in the year 2011 is that PECO,
4 through the direction of the State
5 Legislature and the Public Utility
6 Commission, is going to continue to
7 provide power -- that's the generation --
8 to any customer who wants it as what we
9 call the provider of last resort. That
10 means that if you elect as a customer not
11 to go out and look for someone else to
12 provide that generated power, you can
13 still get it from PECO. And PECO is
14 purchasing that electricity in a very
15 regulated way. There are rules for the
16 procurement of that electricity, and so
17 it's happening in a very transparent way.
18 But that's the impact for 2011 on
19 residential customers, and as I said, for
20 commercial customers, it would be a lot
21 different depending on how much energy
22 they actually use.

23 COUNCILMAN JONES: Lance, would
24 you like to respond.

25 MR. HAVER: Well, there are a

1 5/5/10 - TRANSPORTATION - BILL 100163

2 few things. One, there are very real
3 possibilities in the future that we don't
4 have now. There will be a number of new
5 companies entering the marketplace.

6 I think the other thing we can
7 be sure of is, there's going to be a
8 tremendous amount of confusion, as people
9 really for the first time in their lives
10 will be asked to pick a different
11 generation company. I don't think most
12 of us really think about electricity in
13 terms of generation separate from
14 transmission and separate from
15 distribution.

16 COUNCILMAN JONES: I think
17 that's an important point, however,
18 because many people in the public think
19 PECO generates electricity. They broker
20 and provide the distribution for
21 electricity, and there's a clear
22 distinction between the two.

23 MR. HAVER: In other areas of
24 the State where the rate caps have come
25 off, the consumers, the residential

1 5/5/10 - TRANSPORTATION - BILL 100163

2 consumers, have seen relatively large
3 rate increases. In the PP&L area, which
4 is adjacent to ours, the rates went up by
5 30 percent. Even people who shop saw a
6 20 percent increase.

7 Now, it might sound strange
8 coming from me, but PECO has actually
9 done a much better job of buying power,
10 and the rate increase at this point in
11 our territory will probably be closer to
12 20 percent - 10 percent rate increase on
13 the transmission and distribution and a
14 10 percent rate increase on the
15 generation.

16 The reason I say "probably" is
17 because nobody can really tell you what
18 the cost of power is going to be in a
19 free market. If for some reason the oil
20 spill in the Gulf pushes up the price of
21 the generation of electricity -- and oil
22 prices and natural gas prices right now
23 are not coupled, but historically they
24 have been. If for some reason that
25 creates an energy shortage for oil and

1 5/5/10 - TRANSPORTATION - BILL 100163

2 major buyers switch to natural gas, the
3 price of electricity when PECO goes out
4 to bid, through no fault of its own, PECO
5 ends up paying substantially more than
6 what they paid in the last round.

7 So it's really a very risky
8 area, and what we would like to do, I'm
9 sure, for our residents is find power at
10 the lowest cost price. We'd like to help
11 our businesses and we'd like to help the
12 City's budget. And that's really what
13 the Authority as a tool for government
14 can be.

15 Public policy should be driven
16 by democratically elected institutions by
17 government. Authorities are tools of
18 government that can take advantage of
19 things so that we can have the type of
20 environment that brings entrepreneurs to
21 the table, allows them to help us plan
22 for the future and really does everything
23 we can to keep costs down.

24 COUNCILMAN JONES: Are there
25 any questions from members of the

1 5/5/10 - TRANSPORTATION - BILL 100163

2 Committee?

3 Councilman O'Neill.

4 COUNCILMAN O'NEILL: Thank you,
5 Mr. Chairman.

6 Mr. Davis, you mention the --
7 I'm not sure I got the term right, but
8 it's the energy purchasing consultant?

9 MR. DAVIS: Yes.

10 COUNCILMAN O'NEILL: When was
11 that contract entered into, just roughly?

12 MR. DAVIS: The contract for
13 those services was signed in April.
14 There was a Request for Proposals that
15 was -- I think it was December that was
16 posted. There were a large number of
17 firms that responded to that. And I just
18 want to be clear, the consultant is
19 advising the City on a strategy for how
20 to go forward and buy in a deregulated
21 marketplace.

22 COUNCILMAN O'NEILL: Who is it
23 that we chose?

24 MR. DAVIS: The company is
25 called EnerNOC.

1 5/5/10 - TRANSPORTATION - BILL 100163

2 COUNCILMAN O'NEILL: Are they
3 local?

4 MR. DAVIS: They are a national
5 company. They don't have a local office.
6 They are -- the unit that we're working
7 with is based in the Baltimore area.

8 COUNCILMAN O'NEILL: But they
9 have experience with other large --

10 MR. DAVIS: The reason that
11 they were selected primarily is that they
12 instituted in a very innovative way of
13 working in the deregulated marketplace
14 with a consortium of governments in
15 Maryland, in the Baltimore area, so
16 county governments and city governments
17 working together. There was an existing
18 cooperative buying group there, and when
19 deregulation occurred, they looked to try
20 to maximize their ability to keep costs
21 down there.

22 What EnerNOC did was to devise
23 a way of allowing municipalities to
24 purchase in the wholesale marketplace and
25 avoid paying a lot of the premiums

1 5/5/10 - TRANSPORTATION - BILL 100163
2 associated with how you might buy from
3 other suppliers.

4 COUNCILMAN O'NEILL: Is there
5 any chance that we would going forward,
6 at least in this region possibly with
7 this Authority, be trying to find
8 partners in other counties or
9 jurisdictions? You mentioned in Maryland
10 that they had that strategy.

11 MR. DAVIS: Yeah. I mean, I
12 think that that's a real possibility that
13 there may be some advantages. Certainly
14 that was the case in the Baltimore area.
15 I think that the City of Philadelphia --
16 my impression right now is that we would
17 really want to get our own house in order
18 and figure out how we can best do this
19 and then offer that opportunity to other
20 governments and other agencies after we
21 have a better handle on how this works.
22 I think we would not want to -- I think
23 we'd want to have some experience
24 ourselves with this.

25 COUNCILMAN O'NEILL: So that

1 5/5/10 - TRANSPORTATION - BILL 100163

2 might be further down the road?

3 MR. DAVIS: I think so, yeah.

4 COUNCILMAN O'NEILL: Thank you.

5 COUNCILMAN JONES: Councilman
6 Kelly.

7 COUNCILMAN KELLY: Thank you,
8 Mr. Chairman.

9 I just hope that Mr. McBride of
10 PECO gets over the shock of your
11 complimentary comments that you made
12 about PECO, Lance.

13 MR. HAVER: Councilman, I did
14 warn him before I came in that I was
15 going to say something nice about PECO.

16 COUNCILMAN KELLY: Thank you,
17 Mr. Chairman.

18 COUNCILMAN O'NEILL: So he was
19 tranquilized.

20 MR. HAVER: I warned him.

21 COUNCILMAN JONES: Councilman
22 Clarke, you have some questions?

23 COUNCILMAN CLARKE: Thank you,
24 Mr. Chair. I actually just wanted to
25 piggyback on the question by Councilman

1 5/5/10 - TRANSPORTATION - BILL 100163
2 O'Neill with respect to the adjacent
3 counties and then Barry's response to
4 that.

5 In a recent conference call
6 with members of the PUC, one of the
7 members actually suggested that we
8 seriously investigate the possibilities,
9 because the ability to aggregate power at
10 that level would enhance our ability to
11 get much cheaper supply of energy and all
12 of the other opportunities associated
13 with it. So that was actually
14 recommended by members of the PUC.

15 COUNCILMAN O'NEILL: Thank you.

16 COUNCILMAN CLARKE: You're
17 welcome.

18 COUNCILMAN JONES: Thank you.

19 Are there any other questions
20 for this panel?

21 (No response.)

22 COUNCILMAN JONES: If not,
23 we'll recognize the second panel.

24 Thank you, gentlemen, for your
25 testimony.

1 5/5/10 - TRANSPORTATION - BILL 100163

2 MR. HAVER: Thank you,
3 Councilman.

4 MR. DAVIS: Thank you,
5 Chairman.

6 THE CLERK: Christopher Booth,
7 Bob Kearns and Rob Stuart.

8 (Witnesses approached witness
9 table.)

10 COUNCILMAN JONES: Thank you.

11 If we have written testimony that is
12 being handed in, we can paraphrase some
13 of it for brevity, but sticking to the
14 important points.

15 State your name for the record
16 and please begin your testimony.

17 MR. BOOTH: My name is
18 Christopher Booth of Taylor Consulting.

19 COUNCILMAN JONES: You can go
20 ahead.

21 MR. BOOTH: Thank you.
22 Mr. Chairman, members of the Committee,
23 again, my name is Christopher Booth. I'm
24 Vice-President of the Midatlantic
25 territory for Taylor Consulting and

1 5/5/10 - TRANSPORTATION - BILL 100163

2 Contracting. Taylor is a national energy
3 procurement and utility management
4 company. We are certified by the
5 Commonwealth of Pennsylvania as a
6 woman-owned business and are based in
7 Northeast Pennsylvania with a satellite
8 office in Boston and a Philadelphia
9 office scheduled to open later this
10 summer.

11 The core of our services is
12 threefold. We provide a state-of-the-art
13 utility management software system for
14 use by small to large businesses and
15 non-profits, a reverse energy auction
16 platform for the purchase of electricity
17 and natural gas, and deep market
18 experience in energy procurement,
19 management and aggregation.

20 I'll skip ahead and talk about
21 our program in Boston.

22 In late 2009, Taylor was
23 selected as the consultant to Mayor
24 Menino to launch the city's Boston Buying
25 Power program. The Boston Buying Power

1 5/5/10 - TRANSPORTATION - BILL 100163

2 program is an innovative initiative
3 designed to assist small and medium-sized
4 businesses as well as non-profit
5 organizations in the procurement of
6 electricity and natural gas through a
7 citywide energy buying group.

8 Unlike in Philadelphia, Boston
9 had been operating in a mature
10 deregulated market for some time, meaning
11 businesses and non-profits were free to
12 select their energy supplier.

13 Notwithstanding this choice, the Boston
14 businesses were confused and overwhelmed
15 by the numerous suppliers and
16 solicitations harking for their business,
17 which essentially caused them to throw up
18 their hands and give up. The result was
19 that businesses and non-profits were
20 paying too much for energy, which was
21 hurting their operations and mission. As
22 one customer described it, deregulation
23 started to mean unregulation, and the
24 businesses would toss the mailers into
25 the trash and refuse the calls from the

1 5/5/10 - TRANSPORTATION - BILL 100163

2 telemarketers.

3 Accordingly, Boston decided to
4 create a program that provided the small
5 and medium-sized businesses and
6 non-profits with the same energy
7 procurement tools and consultation
8 services typically only available to
9 large institutions, and, most
10 importantly, the city had to create a
11 credible, effective program that its
12 businesses and non-profits could trust.
13 As the Mayor said, Boston Buying Power
14 was specifically designed to give its
15 hard-working business sector peace of
16 mind that comes from long-term price
17 certainty and budget security, including
18 access to the city's energy-efficiency
19 programs. This is how Boston Buying
20 Power was born and why it continues to
21 grow.

22 In a year's time, over 2,300
23 commercial, industrial and non-profit
24 companies joined the program. For 2010,
25 the program generated total savings for

1 5/5/10 - TRANSPORTATION - BILL 100163

2 all of these businesses of nearly \$1.5
3 million, and savings have ranged from 15
4 percent to nearly 30 percent. Just two
5 weeks ago, Taylor administered the
6 purchase of its 2010-2011 contracts,
7 which are projected to save customers
8 another \$1.41 million. This Friday we
9 are going to the wholesale markets again
10 for another aggregation for 2011, which
11 will generate further savings for yet
12 another buying pool.

13 Taylor is able to generate
14 these savings while maintaining its
15 commitment to purchasing renewable energy
16 sources. In fact, ten percent of the
17 aggregate purchases in 2010 were from
18 renewable sources. For 2011, we are
19 increasing that percentage to 20 percent.
20 All of our customers receive a
21 certificate stating that they have bought
22 green energy, and this program has gone a
23 long way into supporting the city's
24 overall sustainability goals.

25 Additionally, all of the

1 5/5/10 - TRANSPORTATION - BILL 100163
2 customers that enroll in the pool receive
3 access to a utility module, which tracks
4 energy budgets, expenses, savings and
5 cost projections for the customers'
6 utility accounts. In a deregulated
7 market, as Mr. Haver stated, customers
8 must truly stay on top of their energy
9 contracts and modify their behavior
10 around energy.

11 The impact of those savings
12 cannot be overemphasized. As one
13 homeless shelter in Boston stated, they
14 operate on an extremely tight budget and
15 are obsessive about saving money. Any
16 money saved goes directly to its mission
17 in serving the homeless. After several
18 months in the program, the organization
19 was able to save \$7,500 off its energy
20 bill. The Executive Director stated that
21 these savings meant that four additional
22 homeless people could be enrolled in the
23 job training program, receive counseling
24 and housing assistance and moved out of
25 their homeless situation. To them,

1 5/5/10 - TRANSPORTATION - BILL 100163

2 saving money literally meant saving
3 lives. Naturally, this organization was
4 eternally grateful to the city for
5 generating the savings.

6 Philadelphia is actually in a
7 better position to implement its own
8 Philly Buying Power program than in
9 Boston. Before the rate caps are lifted
10 at the end of the year, Philadelphia has
11 the opportunity to nip the incoming
12 confusion from suppliers and brokers in
13 the bud. Where many Boston businesses
14 and non-profits were already stuck in bad
15 deals, Philadelphia has the opportunity
16 to create confidence in the marketplace
17 before the confusion sets in. Moreover,
18 the City's councilmanic districts, which
19 include the respective business
20 improvement districts, offer a built-in
21 mechanism for marketing the program and
22 maximizing participation in the program.

23 Even more profound is that
24 Philadelphia can assist small and
25 medium-sized businesses and non-profits

1 5/5/10 - TRANSPORTATION - BILL 100163
2 with their energy costs without putting
3 any stress on its budget. As in Boston,
4 the Philly Buying Power has the potential
5 to essentially be a City-endorsed program
6 that does not necessarily require a staff
7 to administer or budget appropriation.
8 Rather, Taylor will handle the
9 administration of the program with direct
10 reporting to the City for data points,
11 results and customer satisfaction. The
12 City may, through the Administration and
13 each of the Councilmembers, market the
14 program in their respective areas very
15 effectively and create savings for their
16 resident businesses and non-profits.

17 In these tough economic times,
18 any break will help the small businesses
19 or the non-profit community. Taylor has
20 a proven track record of success. We
21 know what works. We designed the
22 program, and stand ready, willing and
23 eager to assist the City of Philadelphia
24 in addressing this impending and critical
25 issue.

1 5/5/10 - TRANSPORTATION - BILL 100163

2 Thank you for your
3 consideration and allowing me to provide
4 this statement to this distinguished
5 body.

6 COUNCILMAN JONES: Thank you,
7 Mr. Booth. We're going to hold questions
8 until the entire panel speaks.

9 Who would like to go next?
10 State your name for the record.

11 MR. STUART: Mr. Chairman, my
12 name is Rob Stuart.

13 COUNCILMAN JONES: I would like
14 to remind everybody the entire written
15 testimony will be a part of the record.
16 You can paraphrase. Feel free.

17 MR. STUART: Certainly. I'll
18 do my best, though my written testimony
19 is fairly succinct.

20 I'm pleased to be here in
21 support of this legislation. As
22 President of Evolve Strategies, Evolve
23 Strategies promotes sustainable policies,
24 initiatives and businesses through
25 advocacy and new media production here in

1 5/5/10 - TRANSPORTATION - BILL 100163

2 the City. I've personally been working
3 on an energy policy since the 1980s, and
4 I've followed with interest the
5 confluence of events and advances in
6 technology that brings us to what I
7 believe is a historic time and
8 opportunity to provide clean and
9 affordable energy throughout our city.

10 Providing reliable, safe and
11 non-polluting renewable power for our
12 city makes economic sense. In the wake
13 of the tragic deepwater horizon well
14 explosion, it is clear that we cannot
15 drill ourselves to energy security either
16 in foreign countries or domestic waters.
17 No. The only way to gain true energy
18 security is for our city to use energy
19 more efficiently while generating and
20 storing renewable power through solar,
21 wind and geothermal technologies.

22 While the whole environmental
23 impact of the deepwater disaster won't be
24 known for decades, the good news is that
25 the sun shines on Philadelphia most every

1 5/5/10 - TRANSPORTATION - BILL 100163

2 day and the wind blows up and down our
3 rivers all the time. This natural energy
4 can be tapped with new technologies such
5 as vertical windmills and horizontally
6 mounted thin film solar modules to
7 ultimately provide all the power the City
8 needs.

9 Renewable power is episodic.

10 More sun shines in the three summer
11 months than in the rest of the year
12 combined, but new technologies allow this
13 excess energy to be stored as hydrogen
14 and tapped through fuel cells when we
15 need power in the winter.

16 Councilman Jones, I think you
17 may remember that we visited such a
18 hydrogen home more than two years ago or
19 just about two years ago that
20 demonstrates that this technology exists
21 now. I believe with the establishment of
22 the Authority, we can promote hydrogen
23 homes and blocks where we demonstrate
24 that true energy independence is possible
25 right here in Philadelphia.

1 5/5/10 - TRANSPORTATION - BILL 100163

2 I think the Authority would be
3 helpful for some of the other projects
4 that we're involved in, particularly
5 supporting local businesses, like Al
6 Brown's Komplete Welding at 19th and
7 Girard to construct renewable energy
8 component parts, such as mounting systems
9 for solar systems.

10 Investing in the construction
11 of urban micro grids such as we envision
12 to power the Schuylkill River
13 Waterscreens, a combination of vertical
14 wind turbines and solar sound barriers
15 that we hope will generate 750 kilowatts
16 per year. This renewable energy
17 demonstration project would provide more
18 than enough power to supply the loads of
19 water pumps and projection systems, and
20 we hope that will be a new gateway and
21 nighttime attraction in west Center City.

22 Replacement of inefficient and
23 potentially hazardous streetlights, as we
24 discussed already a bit, with new LED
25 lights manufactured in the City. As

1 5/5/10 - TRANSPORTATION - BILL 100163

2 Councilman Kenney's recent resolution
3 that was passed by the Council
4 unanimously pointed out, replacing
5 existing streetlights could save the City
6 more than \$5 million in energy costs and
7 millions more in replacements, because
8 LEDs use half the power and last twice as
9 long. The best is that we can
10 manufacture these new environmentally
11 safer lights right here in Philadelphia,
12 creating new jobs and tax revenue.

13 We also could be supporting the
14 development of new community-based CDCs
15 that work with blocks of neighbors who
16 are willing to support the installation
17 of renewable energy systems if they do
18 not have to invest the upfront costs
19 right away and instead pay for the system
20 like a mortgage.

21 The time for the City to act is
22 now. Over the last two years, the
23 federal and State government have created
24 excellent incentive programs to make
25 installation of renewable energy very

1 5/5/10 - TRANSPORTATION - BILL 100163
2 attractive, but a key ingredient has been
3 missing, a true commitment by the City to
4 help push this transition to an energy
5 independence forward. It's time to
6 rethink how Philadelphia gets and uses
7 its energy, and with an Authority in
8 place, we believe that Philadelphia could
9 develop the types of partnerships that
10 could utilize City properties and land to
11 install more micro grids and urban solar
12 farms. We could take action to move all
13 City buildings from a reliance on an
14 inefficient steam line while investing in
15 new geothermal and other efficient gas
16 technology systems, and we can explore
17 the use of green hydrogen as both an
18 emergency storage strategy and additive
19 for PGW to sell. As Germany has
20 demonstrated for more than 20 years,
21 hydrogen mixed with natural gas called
22 Hythane could make our gas more efficient
23 while reducing our carbon footprint
24 significantly. We could also be powering
25 our street and service vehicles with our

1 5/5/10 - TRANSPORTATION - BILL 100163

2 own renewable power.

3 In conclusion, I want to thank
4 Councilman Clarke and all the other
5 members who have sponsored this
6 legislation. It truly is exciting to
7 think about the possibilities and the
8 rewards of having a Municipal Energy
9 Authority in place and how it would bring
10 the City forward to meet our energy
11 security in the future. I look forward
12 to working with you as this legislation
13 moves forward and be happy to answer any
14 questions.

15 COUNCILMAN JONES: Thank you,
16 Mr. Stuart.

17 Mr. Kearns.

18 MR. KEARNS: Thank you.

19 COUNCILMAN JONES: Good
20 afternoon.

21 MR. KEARNS: Good afternoon.

22 My name is Bob Kearns. I'm the President
23 of Municipal Energy Managers. We're a
24 company that specializes in energy
25 management for municipalities and have a

1 5/5/10 - TRANSPORTATION - BILL 100163
2 niche market of street lighting. We
3 represent more clients' streetlights than
4 actually PECO has or the City of
5 Philadelphia. We have a great deal of
6 experience in the PUC and tariffs, and
7 I'd like to bring that experience and
8 some of that knowledge to you as you come
9 back.

10 A number of different topics
11 that you addressed earlier, and you've
12 read my testimony, but we'll go off
13 script here for a minute. You have about
14 \$15 million that impacts your street
15 lighting and traffic signals, and from
16 that, I'm sure that you've had endless
17 amounts of consideration within energy
18 savings saving products, much products,
19 to reaffirm what Rob had talked about
20 with LED opportunities. That is just
21 energy savings.

22 The key component to what it is
23 that should be looked at from an
24 Authority standpoint is identifying a
25 transparency to show the clients, meaning

1 5/5/10 - TRANSPORTATION - BILL 100163

2 your constituents, the City, what's been
3 done and how you're looking at it. You
4 have configuration opportunities. It's
5 how you structure your costs. You've
6 heard it addressed more than once within
7 the panels and you'll hear it later, is
8 that your connection costs are the costs
9 that's driving the major component cost
10 to your street lighting. There's
11 configuration opportunities that you have
12 available, and those are things that you
13 should look at.

14 There's two main tools.
15 Looking at what you have as cost
16 avoidance is just as important as you can
17 address energy savings. And with that,
18 the major tool that you should be looking
19 at right now is how to make the
20 information that's coming available
21 transparent and usable by those that are
22 coming on.

23 Our firm, based on what it is
24 that we had to do over the number of
25 years and representing better than 95

1 5/5/10 - TRANSPORTATION - BILL 100163
2 percent of all of the street lighting
3 clients in PP&L that's already gone
4 through this, can tell you horror stories
5 of the configurations to how the polar
6 default rates have assembled and the
7 actual rate increases on streetlights
8 that were owned of greater than 100
9 percent of the rate that they were
10 paying, not 30 percent.

11 With those components at hand,
12 it's very important to actually have the
13 information so that you have each of the
14 accounts spread, that you can have a
15 web-based platform that can utilize GIS
16 where you cannot only be able to
17 determine, as the Solicitor had here, how
18 many accounts, where they are, what the
19 rates that they're on, what the rates
20 they're paying and the contracts that
21 they're under. It's very easy at this
22 point in time as an Authority to assemble
23 the data in a format that's transparent
24 to those that will be using it.
25 Opportunities that exist within layers of

1 5/5/10 - TRANSPORTATION - BILL 100163
2 a haze or some sort of not knowledge is
3 not going to be beneficial to this
4 Authority. By having the information
5 readily available, there are many
6 commercial accounts that will come to you
7 with opportunities. Not knowing or not
8 even understanding some of the things
9 that are in front of you I think are
10 issues that would go away.

11 So with that, I really want to
12 affirm two things. You should look to
13 experiences of those that are around you
14 that have gone through it for cost
15 avoidance as much as you have in energy
16 savings. And we are involved in your
17 solar program and the micro grid
18 demonstration that's right here in
19 Philadelphia. We are involved in
20 configurations within PECO that have
21 saved significant dollars. And the
22 management tools that we have available
23 with GIS and with creating the
24 transparency are things that we have
25 readily available. As you look at this,

1 5/5/10 - TRANSPORTATION - BILL 100163

2 I strongly support your ability to
3 identify a municipal authority such as
4 you have identified and that this
5 renewable initiative is certainly a
6 worthwhile goal.

7 I thank you for your time.

8 COUNCILMAN JONES: Thank you
9 for your testimony. A couple of things
10 come to mind, and I'll try to move us
11 along so we can get all of the testimony
12 in.

13 There are municipalities that
14 in -- we're not the only city going
15 through a cash crunch and economic hard
16 times. Other cities have opted and one
17 just stuck in my mind, and I won't name
18 them. They were considering cutting
19 lights off in sections of town to avoid
20 the cost of the electric, and I just
21 couldn't fathom a city of the first class
22 like Philadelphia ever even considering
23 that option. So this discussion, this
24 process is timely.

25 Now, I heard one quote as

1 5/5/10 - TRANSPORTATION - BILL 100163

2 possibly ten percent increases. I heard
3 another quote as possibly 30 percent, and
4 you just blew me away with some examples
5 of 130 percent. Why such a variation in
6 estimates? Anyone can respond.

7 MR. KEARNS: I'll take a shot
8 at it first.

9 From the actual experience of
10 PP&L when they bid their rate classes,
11 small and industrial clients got pooled
12 with their street lighting clients. So
13 all area lighting and street lighting in
14 the polar default rates were grouped as a
15 rate class. So as the utility goes out
16 and they bid these polar default rates,
17 some of which have been completed by now,
18 they get a sense for the majority of the
19 clients went up. What isn't properly
20 mapped because for some reason I don't
21 know if the numbers are transparent to
22 the rate classes that have been awarded,
23 you need to take a look at specifically
24 the rate classes that you have. So I'd
25 be very interested as you have PECO step

1 5/5/10 - TRANSPORTATION - BILL 100163

2 up here later to see what information
3 they'd be willing to provide to the City
4 to anticipate what kind of rates would go
5 up.

6 You have no controls. In other
7 words, at this point with the balance as
8 big as \$15 million, you're not looking to
9 tell the good story of what happens to
10 small industrial and commercial clients
11 as much as you're trying to find out what
12 the impact directly is to the
13 Philadelphia Authority. There's a very
14 good chance that there's cannibalized
15 effects based on the rates.

16 If most of your rate that's
17 structured on street lighting is based on
18 a connection fee, then your energy costs
19 are at an unrealistic level now. So each
20 time that someone comes to you and says
21 your energy rate will go up, it's because
22 the energy rates are so attractive to the
23 way that they build them to this point.
24 So from this point forward, if energy is
25 deregulated after '11 as it is in PP&L,

1 5/5/10 - TRANSPORTATION - BILL 100163
2 you're paying the same for the energy as
3 I would. So it wouldn't matter who owns
4 the light. So the connection fee that's
5 driving the cost is still there and now
6 the benefit of having that super low rate
7 in energy is gone. You're going to be
8 buying a marketable rate that's been
9 pooled as a polar default rate unless you
10 move to try to get a grasp of where that
11 power is, how it's assembled and when
12 it's used.

13 Your consumption based on where
14 you are is heavier in like January --
15 November, December, January, February
16 you're hitting peak hours just because
17 the lights are coming on, but in the
18 summer when you're hitting peak at 5:00
19 p.m., you have no lights on. So your
20 ability to move or migrate off that polar
21 default rate will be very important. But
22 if you are going to base your savings on
23 something that's a default rate, it's
24 important to understand where those rates
25 look like now based on the polar

1 5/5/10 - TRANSPORTATION - BILL 100163

2 defaults.

3 COUNCILMAN JONES: Would anyone

4 else --

5 MR. KEARNS: PP&L specifically

6 paid a half cent a kilowatt hour before

7 deregulation. Their polar default rate

8 went to 10.4 percent as a rate.

9 COUNCILMAN JONES: Is this

10 similar, if I could use the analogy, of

11 risk assessment for auto insurance,

12 depending on what class you're rated at?

13 MR. KEARNS: Yes, which is -- I

14 think some of the things that will happen

15 is, you get caught in a dead spiral. One

16 of the 800-pound gorillas that's in the

17 room is, you have a steam system. I

18 mean, if you're talking about energy,

19 stop just talking about electricity. You

20 have a steam system that is by far one of

21 your huge stresses to cost. We can throw

22 the other numbers around. If you lose 70

23 percent of the efficiency of creating the

24 heat before it ever got to your valve,

25 the mathematics don't take long when the

1 5/5/10 - TRANSPORTATION - BILL 100163

2 energy costs are actually on an open
3 market.

4 So I'd stress that your ability
5 as an Authority to find out or to weigh
6 in on leverage and legislation is a key
7 component to that.

8 I hope I answered your
9 question.

10 COUNCILMAN JONES: Would
11 anybody else like to respond? We're
12 going to bring up our last panel shortly.

13 MR. BOOTH: I'll just comment
14 briefly.

15 You have to look at where
16 everybody was starting off, too. We're
17 looking at residential rate classes.
18 We're looking at small commercial and
19 industrial, medium-sized commercial and
20 industrial and large commercial and
21 industrial, and each had a certain rate
22 class. And the PPL territory where we're
23 already in a deregulated market where the
24 rate caps have already come off, they
25 were already operating at a pretty low

1 5/5/10 - TRANSPORTATION - BILL 100163

2 rate up there. So the increase will be
3 greater in the PPL territory and the PECO
4 territory, because for the last ten
5 years, our rates have been just a little
6 bit higher than the rates in PPL.

7 In addition, PECO is actually
8 in the market right now. They have four
9 scheduled auctions for purchasing power
10 for 2011. They've already purchased --
11 gone to auction twice. They have one
12 more this spring and then another one in
13 the fall. And so only 50 percent of
14 their purchase has already been made. So
15 we don't know what their price will be
16 for their price of last resort until
17 November of 2009 (sic), but because the
18 market conditions are pretty favorable
19 right now, they're not -- you're going to
20 hear all types of wide ranges in the
21 percentages of how much those rates are
22 going to go up.

23 COUNCILMAN JONES: Any other
24 questions for the panel?

25 (No response.)

1 5/5/10 - TRANSPORTATION - BILL 100163

2 COUNCILMAN JONES: Thank you
3 for your testimony.

4 Will the Clerk read the next
5 panel.

6 THE CLERK: Richard Hudson.

7 (Witness approached witness
8 table.)

9 MR. HUDSON: Good afternoon,
10 Mr. Chairman, Councilmembers. My name is
11 Ritchie Hudson. I'm the Pennsylvania
12 State Chairman of the Retail Energy
13 Supply Association. First, I'd just like
14 to thank you for the opportunity to
15 testify today.

16 By way of introduction, the
17 Retail Energy Supply Association, or RESA
18 for short, is a trade group of
19 competitive retail electricity suppliers.
20 There's 13 member companies made up of
21 large national and international energy
22 companies, some household names like
23 Hess, the familiar oil company; my
24 company, ConEdison Solutions, which is an
25 affiliate of ConEdison Company of New

1 5/5/10 - TRANSPORTATION - BILL 100163

2 York, the local utility in the New York
3 metro area; companies like GDF Suez,
4 which is an international energy company
5 that has over 200 million customers
6 worldwide. And we are the new energy
7 suppliers that are interested in entering
8 the market here in the Philadelphia area
9 to compete for customers' business.

10 I will go off script a bit
11 because I know you have a number of folks
12 testifying today. My message today is
13 actually quite simple. It's that the
14 competitive market as it develops will
15 help the City achieve all of its energy
16 policy objectives. With the transition
17 to competition at the end of this year as
18 rate caps expire, there's a tremendous
19 amount of opportunity for the City of
20 Philadelphia, and you've heard about some
21 of those opportunities already in terms
22 of aggregation opportunities,
23 opportunities to access renewable energy
24 investment and other sustainable energy
25 products and services.

1 5/5/10 - TRANSPORTATION - BILL 100163

2 I'd like to start by talking a
3 little bit about what we do as
4 competitive retail electricity suppliers.

5 We are an alternative to the
6 local utility. We compete against PECO
7 and we compete against one another to
8 earn customers' business. We offer a
9 variety of innovative products and
10 services, and you might be thinking what
11 type of product or service are you
12 talking about. It's all electricity.
13 You flip on the light switch and the
14 light comes on. But there's a number of
15 different ways that electricity can be
16 priced. For example, there are
17 fixed-price energy contracts that are
18 good for customers that want budget
19 certainty that need a predictable stable
20 cost per kilowatt hour. There are
21 variable-price products where the cost of
22 energy actually floats with a transparent
23 market index. And there are customizable
24 combinations of these types of products
25 where you can lock in a certain amount of

1 5/5/10 - TRANSPORTATION - BILL 100163

2 your energy needs with a fixed price and
3 float the rest on the market. And what
4 we do is, we come in and we evaluate a
5 customer's electricity usage pattern and
6 help them figure out the best product or
7 service for them.

8 We also offer innovative
9 sustainable energy products such as the
10 availability to purchase a certain
11 percentage of your electricity through
12 green or renewable resources like wind or
13 solar. As an example of this, my
14 company, ConEdison Solutions, we have
15 over 10,000 wind energy customers across
16 the country and we're also involved in a
17 number of energy-efficiency products
18 where we come in and work with non-profit
19 entities like Penn State University, like
20 the United States Postal Service,
21 hopefully entities like the City of
22 Philadelphia, and help them find
23 opportunities to save energy through
24 physical retrofits, lighting retrofits,
25 the use of co-generation and a variety of

1 5/5/10 - TRANSPORTATION - BILL 100163

2 other measures.

3 So these are just a number of
4 some of the innovative products and
5 services you can expect to see come to
6 the Philadelphia area as rate caps expire
7 and as competition develops.

8 I'd like to talk a little about
9 the issue of rate caps, because it has
10 been touched on already today. First of
11 all, just to get some of the facts
12 straight, PECO has a structured
13 competitive procurement plan that was
14 approved by the Public Utility Commission
15 where there's a schedule of the energy
16 purchases that they're going to make for
17 their 2011 supply, and they've already
18 bought about 50 percent of the supply
19 needs for 2011 for their residential
20 market already. And the cost of those
21 energy procurements is known, and I'm
22 sure representatives from PECO would be
23 more than willing to share that
24 information with Council.

25 Based on that 50 percent of

1 5/5/10 - TRANSPORTATION - BILL 100163
2 supply that they've already purchased,
3 they're projecting a rate increase of
4 four percent on a total-bill basis. So
5 energy rates are going up because they've
6 purchased generation at today's market
7 prices, and that would drive about a four
8 percent increase, assuming the rest of
9 the 50 percent energy supply that they
10 purchase is in line with what they've
11 already bought.

12 There have been some numbers
13 thrown around like ten percent or 30
14 percent as what was experienced in the
15 PPL area, and the actual known
16 information that we have for PECO is the
17 rate increase is going to be around four
18 percent, which is really quite amazing
19 when you think about the fact that rates
20 have been capped for more than a decade
21 and in the Philadelphia area at a time
22 when all energy costs have escalated
23 dramatically due to increased global
24 demand for energy, turmoil in the Middle
25 East and many other factors.

1 5/5/10 - TRANSPORTATION - BILL 100163

2 And just to put the issue in
3 perspective a bit, the price of any good
4 or service should be expected to increase
5 over time due to normal inflationary
6 pressure. For example, the cost of
7 potatoes has risen over 40 percent over
8 the same timeframe. So if you have an
9 artificial price cap in place, if you
10 lift that price cap, prices will go up,
11 and it's important to keep in mind that
12 these rate increases are driven by that
13 policy decision to impose rate caps more
14 than a decade ago, not because of the
15 transition to competition.

16 But what the transition to
17 competition will do is, it will provide
18 the City of Philadelphia and its
19 residents and businesses the opportunity
20 to get the best deal they possibly can in
21 the competitive market after rate caps
22 expire, and that's what our companies are
23 here to do and bring to the table.

24 Now, moving to the issue at
25 hand today, on the topic of the Energy

1 5/5/10 - TRANSPORTATION - BILL 100163

2 Authority, we have engaged in discussions
3 with various stakeholders, the Mayor's
4 Office, various Councilmembers' offices,
5 and when this ordinance was first
6 introduced, we did have some concerns
7 about it. It was written fairly broadly,
8 and our concern, quite frankly, was that
9 this Energy Authority would seek to
10 supplant the new competitive market
11 that's about to develop. Now, in our
12 discussions and in the testimony that
13 we've heard today, we understand that
14 that's not the intent.

15 COUNCILMAN JONES: That will be
16 addressed through amendments shortly.

17 MR. HUDSON: Yes. Absolutely.
18 And we've seen some of the amendments
19 offered by the Mayor's Office and we
20 think those are definitely a step in the
21 right direction, and we look forward to
22 working with the Mayor's Office and other
23 stakeholders to get the language on those
24 amendments crystal clear.

25 The reason for the concern --

1 5/5/10 - TRANSPORTATION - BILL 100163

2 and I don't want to dwell on the
3 negative, but I do think it is important
4 to point out why we had some concerns
5 initially -- is if you were to create an
6 Energy Authority that would seek to build
7 generation plants or become a wholesale
8 market participant, it would require
9 millions of dollars of capital to engage
10 in these very complicated wholesale
11 energy markets, and clearly that's not
12 something that the City of Philadelphia
13 would want to take on. So we're very --

14 COUNCILMAN JONES: We wouldn't
15 do it any worse than Enron, I wouldn't
16 think. But go ahead.

17 MR. HUDSON: Yes. So I do
18 think it's important to point out the
19 complexities involved in the wholesale
20 competitive market space. And we are
21 very pleased to see that amendments have
22 been offered that would seek to clarify
23 the intent of the legislation, and that
24 ultimately is our objective as well.

25 So just in summation, we think

1 5/5/10 - TRANSPORTATION - BILL 100163
2 the competitive market will help you
3 achieve all of the objectives that you'd
4 like to achieve, aggregating City
5 facilities together to get the best
6 possible deal, possibly creating some
7 type of preferred supplier program for
8 the residential or small business market,
9 and also looking at potential energy
10 development and opportunities.

11 Thank you for the opportunity
12 to testify today.

13 COUNCILMAN JONES: And thank
14 you for your comments.

15 Are there any questions -- oh,
16 I want to recognize Councilwoman
17 Blackwell has joined the Committee.

18 COUNCILWOMAN BLACKWELL: Thank
19 you.

20 COUNCILMAN JONES: Councilman
21 Clarke.

22 COUNCILMAN CLARKE: Thank you,
23 Mr. Chairman.

24 Good afternoon. Nice to see
25 you again.

1 5/5/10 - TRANSPORTATION - BILL 100163

2 MR. HUDSON: Nice to see you.

3 COUNCILMAN CLARKE: Thank you
4 for coming in. I just wanted to respond
5 to a couple of your comments. With
6 respect to, one, the City of Philadelphia
7 getting in the energy business in terms
8 of purchasing facilities and plants, as
9 the Chairman has said, we will address
10 that in amendments, but I do want to say
11 with respect to your characterization of
12 referencing the fact that it would not be
13 a good idea on our behalf, I must say
14 that we have some very talented people
15 working under the direction of Deputy
16 Mayor Rina Cutler that would clearly make
17 decisions that are prudent decisions that
18 are based on the benefit of the citizens
19 of the City of Philadelphia.

20 So I appreciate your concern
21 for us not being able to adequately
22 understand the industry, but I feel quite
23 confident that we wouldn't enter into any
24 type of a program that would be
25 detrimental to our city.

1 5/5/10 - TRANSPORTATION - BILL 100163

2 MR. HUDSON: I hope you didn't
3 misinterpret my comments. I have the
4 utmost confidence in those individuals
5 and the Mayor's Office, and the City of
6 Philadelphia and you, Councilman
7 Clarke --

8 COUNCILMAN CLARKE: You may
9 want to throw City Council in that mix in
10 terms of confidence.

11 MR. HUDSON: Yes. And the City
12 Council, and you're absolutely to be
13 commended for dealing with this issue in
14 a very proactive manner, and we're very
15 thankful of that.

16 COUNCILMAN CLARKE: And the
17 other thing, I agree with you that this
18 is an opportunity to take advantage of a
19 competitive market, and we just want to
20 position ourselves either utilizing the
21 powers within the government structure or
22 within the Authority structure to take
23 every advantage possible of the
24 competitive environment. So that's just
25 essentially what -- but, again, I just

1 5/5/10 - TRANSPORTATION - BILL 100163
2 want to thank you for your testimony and
3 thank you for your earlier conversations
4 in our office.

5 MR. HUDSON: Yes. And thank
6 you for the opportunity to be here.

7 COUNCILMAN CLARKE: Thank you,
8 Mr. Chairman.

9 COUNCILMAN JONES: Are there
10 any other questions for this witness?

11 (No response.)

12 COUNCILMAN JONES: Hearing
13 none, thank you for your testimony.

14 This will conclude our public
15 hearing on Bill No. 100163. We will now
16 move into our public meeting.

17 I understand there are
18 amendments on this bill.

19 COUNCILMAN GREENLEE: Yes, sir.

20 COUNCILMAN JONES: Would you,
21 please.

22 COUNCILMAN GREENLEE:
23 Mr. Chairman, I move the adoption of the
24 amendments to Bill 100163, which have all
25 been distributed to members of the

1 5/5/10 - TRANSPORTATION - BILL 100163

2 Committee.

3 (Duly seconded.)

4 COUNCILMAN JONES: Any

5 opposition?

6 (No response.)

7 COUNCILMAN JONES: Hearing

8 none, the amendment is adopted.

9 Can I make a motion -- can I
10 hear a motion on Bill No. 100163, as
11 amended.

12 COUNCILMAN GREENLEE:

13 Mr. Chairman, I move that Bill No.
14 100163, as amended, be reported out of
15 this Committee with a favorable
16 recommendation and, further, that the
17 rules of Council be suspended to allow
18 for first reading at our next session of
19 Council.

20 (Duly seconded.)

21 COUNCILMAN JONES: Any

22 objections?

23 (No response.)

24 COUNCILMAN JONES: The bill
25 is -- can I get some ayes.

1 5/5/10 - TRANSPORTATION - BILL 100163

2 (Aye.)

3 COUNCILMAN JONES: Bill No.

4 100163, as amended, has been moved and
5 properly seconded.

6 All in favor will say aye.

7 (Aye.)

8 COUNCILMAN JONES: All opposed?

9 (No response.)

10 COUNCILMAN JONES: Bill No.

11 100163, as amended, will be reported out
12 of this Committee with a favorable
13 recommendation and a further
14 recommendation that the rules of Council
15 be suspended to allow the first reading
16 at our next scheduled Council meeting.

17 This concludes our meeting of
18 the Committee of Transportation and
19 Public Utilities. Thank you for your
20 attendance.

21 Is there a comment from our
22 prime sponsor?

23 COUNCILMAN CLARKE: Thank you,
24 members of the Committee.

25 COUNCILMAN JONES: Thank you.

1 5/5/10 - TRANSPORTATION - BILL 100163
2 (Committee on Transportation
3 and Public Utilities concluded at 2:30
4 p.m.)

5 - - -

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1

2

CERTIFICATE

3

I HEREBY CERTIFY that the

4

proceedings, evidence and objections are

5

contained fully and accurately in the

6

stenographic notes taken by me upon the

7

foregoing matter on May 5, 2010, and that this

8

is a true and correct transcript of same.

9

10

11

12

13

14

15

MICHELE L. MURPHY

16

RPR-Notary Public

17

18

19

(The foregoing certification of this

20

transcript does not apply to any reproduction

21

of the same by any means, unless under the

22

direct control and/or supervision of the

23

certifying reporter.)

24

25

