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PPL Energy Supply testimony before the Pennsylvania Senate Environmental Resources and Energy Committee

Remarks of Dennis J. Murphy, Vice President and Chief Operating Officer-Eastern Fossil and Hydro

Good morning Chairman Yaw, Chairman Yudichak and members of the committee. My name is Dennis Murphy. I am the Chief Operating Officer and Vice President of PPL Generation's Eastern Fossil and Hydro division.

In my current role, I oversee the safe, responsible operation of PPL's fossil and hydro generation fleet in Pennsylvania. That fleet includes more than 3,400 megawatts of coal-fired generation capacity, more than 3,300 megawatts of natural-gas and oil-fired generation, and nearly 300 megawatts of hydropower.

I am here today not just on behalf of these fossil and hydro plants, but on behalf of PPL Energy Supply, whose Pennsylvania competitive generation assets include the PPL Susquehanna nuclear power plant near Berwick, Pa.

I appreciate the opportunity to address the committee regarding the U.S Environmental Protection Agency's Clean Power Plan.

And I applaud the committee for its efforts to understand the potential consequences the proposed rule could have for the environment, and for the reliability and cost of electricity service to Pennsylvania consumers and companies. Reliable and affordable electric service is clearly essential to the quality of life we enjoy.

PPL has long held a pragmatic view of environmental regulation, and we have not opposed reasonable regulation that:

- Establishes achievable targets based on proven, available technology and sound science.
- Maintains the reliability of electricity supply.
- Maintains a diversity of fuel sources to generate electricity.

- Acknowledges that regulation increases the cost of electricity and mitigates the effects of higher electricity prices.

With those principles in mind, we provided input to the EPA even before the regulation was proposed. We expressed our hope that the proposed regulation would provide states flexibility to set achievable standards consistent with their available natural resources, geography, existing fuel mix and steps the states have already taken to improve energy efficiency.

The proposed rule, signed by the EPA on June 2, attempts to address industry input, as Jake Smeltz, president of the Electric Power Generation Association, has indicated in his testimony. It offers options for compliance and allows states to develop plans to implement compliance under federal guidance.

Our primary concern with the proposed regulation is the very aggressive reduction required of Pennsylvania. We believe the state's flexibility is more limited than perceived. Allow me to explain.

In arriving at a reduction requirement for Pennsylvania, the EPA has assumed a number of compliance options, or so-called "building blocks" that it believes are reasonably achievable and give the state flexibility. Among these building blocks, the EPA, for example, envisions opportunities to reduce carbon dioxide emissions by making fossil-fuel power plants more efficient and reducing consumer electricity use through greater energy efficiency.

EPA also further tightened Pennsylvania's standard based on the assumption that natural gas plants would be dispatched substantially more than coal plants and that there would be a very significant increase in renewable energy in Pennsylvania.

As Mr. Smeltz highlighted in his previous testimony, the aggressiveness of the EPA's reduction target for Pennsylvania essentially requires that all of the building blocks be used.

Therein exists the challenge we face.

For example, PPL has little capability to economically improve the efficiency of its fossil plants. The reason: Over the past decade or so, PPL has already implemented realistically achievable efficiency improvements at its coal-fired power plants. We did so based on signals sent by the competitive market. We made those investment decisions at a time when both energy and capacity prices were much higher than they are today.

The current pricing environment would not justify any material investments in our coal-fired generation facilities. We believe this creates a significant risk in maintaining a diverse fuel mix within the state and the region.

The EPA's proposed rule does not recognize efficiency improvements made prior to 2012. The end result: The perceived opportunity that exists in this area is in fact very limited for companies like PPL.

Consider a second key building block I mentioned, one the EPA has assumed as another opportunity to achieve significant carbon reductions. That's energy conservation.

Pennsylvania, through its Act 129 legislation, has been very active in setting targets for electric distribution companies to assist their customers in reducing electricity use.

However, in a competitive market like Pennsylvania, generation companies, by law, are separate from these electric distribution companies to which the conservation requirements apply. As a result, energy conservation programs are not implemented by generating companies and cannot be counted by generators in demonstrating compliance.

Generation facilities in Pennsylvania face a similar limitation in terms of being able to take advantage of the proposed regulation's renewable energy "building block." Pennsylvania's existing Alternative Energy Portfolio Standards apply to electric distribution companies, rather than generation companies.

The Pennsylvania Department of Environmental Protection has indicated its intent to consider, as a means for achieving the state's target, only measures that are legally available to generators.

Further, PPL's Pennsylvania plants are in a multi-state market controlled by an independent system operator (PJM Interconnection). Generators cannot set arbitrary dispatch levels for their plants. In a competitive market, economics dictate when units are dispatched.

The bottom line: We feel the target is very aggressive if applied to existing generators only, and – for many of the reasons we've discussed – flexibility to achieve that target is very limited.

As a result, the proposed regulation presents yet another significant hurdle for coal-fired power plants to overcome, particularly in competitive markets like we have here in Pennsylvania.

A transition is already underway in power generation across the country due to other regulatory programs and low power and capacity prices. Coal-fired units are being retired, determining that the costs of installing new controls required to comply with new regulations do not produce compelling enough economic benefits. Our coal-fired power plants are running much less frequently today and at much lower levels of profitability than they were six or seven years ago. At the same time, generation from existing natural gas plants has increased, and more new natural gas-fired power plants are being developed.

The Clean Power Plan may spur on this transition too quickly, particularly in areas like Pennsylvania with very aggressive targets and limited compliance flexibility.

If this transition occurs too quickly, it could have a significant impact on generation reserve margins and outpace the capability of pipeline infrastructure to deliver the gas needed during extreme weather, much as we saw this past January. Pipeline capacity is important as natural gas cannot easily be stored onsite, like coal can.

In short, policies that drive the electricity sector to become overly dependent on any single fuel source for power generation are risky, particularly given the historical volatility of natural gas prices and availability, as well as the lower levels of maintenance capital being put into coal-fired power plants driven by market economics.

PPL has long believed that diversity of fuel sources used to generate electricity is the most effective way to provide long-term, affordable and reliable electricity supply. Such diversity of fuel sources should be preserved, especially as the natural gas and renewable energy infrastructure necessary to serve as a reliable fuel source is still being developed.

If anything, last winter's weather reminded us of how important fuel diversity is. Coal-fired power plants provide critical voltage support and power generation in Pennsylvania, especially during weather extremes like last winter's polar vortex.

There are literally tens of thousands of megawatts of coal-fired generation retiring in PJM due to the inability to meet other EPA emission standards. Reserve margins are in decline and we believe there is significant value in maintaining a diverse fuel mix. To maintain reliability throughout our state and to protect Pennsylvania's affordable energy, it will be critical for Pennsylvania to help shape EPA's regulation to better account for Pennsylvania's circumstances, to recognize the significant investments companies made prior to 2012 to improve unit efficiency, and to ultimately develop a state implementation plan that helps to preserve Pennsylvania's fuel diversity.

Therefore, in addition to our input to the EPA, we've met with the Pennsylvania Department of Environmental Protection. We believe the agency is trying to work with all interested parties to arrive at the best approach for Pennsylvania.

In closing, PPL companies are environmentally responsible and will continue our long history of full compliance with environmental regulations. We appreciate the complexity of the tasks involved with this issue.

Thank you, again, for the opportunity to address the committee.