BEFORE THE
UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON ENERGY POLICY, HEALTH CARE AND ENTITLEMENTS

Testimony of

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Regarding

The Effects of Rising Energy Costs
On American Families and Employers

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Chairman Lankford, Ranking Member Speier,
and Members of the Subcommittee on Energy Policy, Health Care and Entitlements

Thank you for inviting me to testify today about the impacts of rising energy costs on American families and employers.

My name is Paula Carmody. I am the People's Counsel of the State of Maryland. I head an independent state agency called the Office of People's Counsel (OPC). By law, OPC represents the interests of all residential customers of regulated utility companies in Maryland, including gas, electricity, telecommunications and private water companies. We represent these customers primarily in proceedings before the Maryland Public Service Commission, but we also participate in FERC proceedings and PJM matters and appear in appellate courts.

I am here today in my capacity as President of the National Association of State Utility Consumer Advocates (NASUCA). NASUCA is a national organization of agencies and organizations that are designated by state law to represent consumer interests of their respective states before utility regulatory agencies. NASUCA also has associate and affiliate members that represent utility consumer interests, although they are not the state designated agencies. NASUCA was formed in 1978 to enhance the impact of our member agencies on public policy at the state and federal levels, and to otherwise assist our members in the representation of utility consumer interests. All of our state members represent residential consumers, while some also represent small business, commercial, industrial, and agricultural consumers. NASUCA has 44 member offices, representing consumers in 40 states and the District of Columbia. While the specific mandates or missions of NASUCA members may differ in detail, our members all share a commitment to advocating on behalf of consumers who rely on utility services for their basic needs. For all consumers, electric service is a basic necessity of modern life, and gas service is a necessity for those who rely on it for heating homes and water. Therefore, at the most basic

level, we advocate for policies and programs that provide safe, reliable and affordable energy service for consumers. But as is always the case, the "devil is in the details," as member agencies individually, and together as NASUCA, work to formulate policies and positions to support consumer interests in the face of changing circumstances.

I have been asked to address the impact of rising energy prices on American families. In the regulated arena in which NASUCA members participate, energy refers to electricity and natural gas. However, it is important to remember that in many states, unregulated oil, propane and other fuels are just as important when it comes to heating homes, and the total affordability of a family's energy bills.

We have seen changes in energy prices, and therefore, energy bills, over time and particularly the past few years. The sharp drop in natural gas wholesale and retail prices due to shale production was not expected five years ago, but it has provided welcome relief to families relying on natural gas to heat their homes and water. There is every expectation that those natural gas prices will remain stable, rising only slightly over the next few years. This provides positive news for gas consumers, even as issues related to environmental impacts of hydraulic fracking and LNG exportation are further explored.

Nationally, we have seen an increase in the average retail price of electricity over the past decade, from about 7.5 cents to 10 cents per kilowatt hours for residential customers.[1] However, the national average prices do not reflect the regional and state variations in electricity prices that are reflected in electricity bills paid by consumers. These variations are or may be impacted by a number of factors, including:

- The electric companies are either in a restructured state or are vertically integrated utilities

[1] Source: U.S. Energy Information Administration.

- RTO/ISO market rules
- The type of generation resources
- State public policy requirements: energy efficiency programs, renewable portfolio standards, environmental considerations, and more recently, job considerations
- Federal public policy requirements or goals (including EPA regulations).

One significant factor has been the decrease in wholesale natural gas prices also has had an impact on electricity prices in many states, as natural gas-fired resources have become more competitively priced in comparison to other resources. The other factor affecting prices in organized wholesale electricity markets has been the overall reduction in energy demand, a result of the economic decline and the impact of demand side management (energy efficiency and demand response) programs. In Maryland, for example, the recent decrease in wholesale electricity prices has been reflected in an accompanying decrease in annual electricity bills for residential customers.[2] However, in other states, concerns have focused on potential increases in electricity rates due to nuclear power plant construction or retrofits or retirements of coal plants to comply with EPA regulations, particularly in states with heavy reliance on coal generating facilities. It appears now that retrofit or retirement decisions are being affected not only by compliance timelines for the EPA regulations, but by economic decisions driven by the natural gas production and prices.

While the focus of the hearing is on the impact of *rising* energy prices, it may be useful to think in terms of the affordability of energy bills for consumers. But what is an "affordable" energy bill? There is no magic number, and it is a relative concept. In general, for households, we can think of an affordable bill as one that can regularly be paid on a full and timely basis

[2] In 2009, for example, the average annual electricity bill for the residential Standard Offer Service customers of BGE, the largest combined utility in Maryland, was about $1900. The annual bill was about $1600 in 2012.

without substantial household hardship. You can also think of the affordability of energy bills (electricity, gas or other heating fuels) in terms of a percentage of a household's gross (pretax) income.

It has been generally accepted that a reasonable amount for a household to spend on "shelter" costs (rent/mortgage, taxes and utilities) is thirty per cent (30%) of household income (although this concept seems to have been overthrown during the overheated housing market fiasco of this decade). Of that 30%, twenty percent (20%) would reasonably be spent on energy bills. Total energy bills then would equate to about 6% of a household's gross income to be in the range of affordability. This approach to defining affordability has been used and refined by experts and in regulatory programs to address the problems of low-income households in paying their energy bills.

Home energy bills impose significant energy burdens on low and moderate income households. For a family of four with an annual income of $23,550 (100% of federal poverty level in FY 2013), 6% of household income would equate to $1413 annually. However, it is not uncommon for electricity and home heating bills to impose energy burdens far in excess of that "affordable" amount. This can lead to difficulty paying bills on time or falling behind on utility bills; in the long run, it can lead to disconnection of service.

A federally funded program called the Low Income Home Energy Assistance Program (LIHEAP) has helped low-income households pay for heating bills (electric, gas and other fuels) since 1981. This program has helped families of all kinds – seniors on fixed incomes; adults with disabilities, including war veterans, adults and children with serious medical conditions; families struggling to pay bills on unemployment benefits, reduced pay or hours, and loss of other family income. Since low-income households are disproportionately impacted by energy

bills, NASUCA supported full federal funding for LIHEAP at $5.1 billion in FY 2009 and for years thereafter.[3] Unfortunately, while that federal funding level was provided in FY 2010, the funding was reduced in fiscal year 2011 and even further in fiscal years 2012 and 2013.

NASUCA also has a long tradition of support for the adoption of cost-effective energy efficiency programs for all consumers "as a way of conserving valuable energy resources, reducing demand, and reducing customers' utility bills."[4] Energy efficiency programs can produce numerous benefits by directly reducing energy usage (and energy bills) for individual consumers. In the aggregate, they can also positively impact energy bills of consumers. In wholesale market regions operated by RTOs/ISOs, these programs can help reduce market clearing prices and therefore reduce retail prices. For consumers served by vertically integrated utilities that own generating facilities, they can help to avoid construction of more costly transmission or generating facilities and reduce energy costs.

To ensure that low-come families can benefit from reducing their energy usage (and their energy bills), NASUCA also supports federally funded programs for low-income consumers, such as the Weatherization Assistance Program (WAP).[5] Unfortunately, in the past two fiscal years, we have seen reductions in federal funding for weatherization from $174 million in fiscal year 2011 to $68 million in FY 2012 and FY 2013 CR.[6]

There has been extensive discussion, and controversy, about proposals and programs that involve the intersection of energy and environmental policies. In many instances, there are distinct state and regional differences in views by federal legislators, governors and state

[3] NASUCA Resolutions 1997-06 and 2008-03 at www.nasuca.org.
[4] NASUCA Resolutions 2008-05 at www.nasuca.org. See also Resolution 2009-02.
[5] NASUCA Resolution 1997-06 at www.nasuca.org.
[6] Federal stimulus funds provided an additional $5 billion for the Weatherization Assistance Program beginning in fiscal year 2009, resulting in the weatherization of over 1 million homes. Remaining funds will be exhausted soon. $54 million for WAP is included in the House FY 2013 Energy and Water Development Appropriations bill, while the Senate bill provides for $145 million.

legislatures, and state public utility commissions – and state consumer advocate offices may not be that different in that regard. Our member agencies do not – and perhaps should not – always see eye to eye on matters affecting their state consumers, since their primary obligation is to represent the consumers in their states. That obligation requires us to look at the immediate and near-term impacts of policies and programs on energy costs, which our consumers must pay every month – or risk losing that essential service. However, NASUCA members will evaluate policies and programs in their respective states in terms of affordability, to reduce or avoid price volatility and excessive price increases, and the safety and reliability of the energy supply and distribution systems serving the consumers they represent.

Most of our members address these matters in their respective State proceedings. Regional, state and local differences– for example, restructured electric utilities versus vertically integrated utilities; differences in generation resources; differences in state public policies on environmental and emissions concerns –affect positions that individual agencies adopt on certain energy policies. However, despite these differences, NASUCA has taken positions on several issues that implicate both energy and environmental policies. As far back as 1990, NASUCA recognized that in the long-term, it was in the interests of utilities and consumers to factor the potential future costs of reducing carbon dioxide and other greenhouse gas emissions into their generation resource planning. In a 1990 resolution, we voiced our support for the enactment of federal legislation to reduce greenhouse gas emissions on an economy-wide basis, acknowledging "the need to reduce emissions of greenhouse gases" and recommending to the utility industry "that its resource planning must take into account the growth in those emissions." Seventeen years later, in 2007, NASUCA passed a resolution that explicitly called on Congress to implement a program to reduce greenhouse gas emissions. However, in recognition of our

consumer focus, NASUCA stated that any such program "should provide appropriate emission reductions *while minimizing the cost to consumers, and must not produce windfall gains for electric generators at the expense of electric consumers*."[7] The impetus for that resolution was the Congressional debate at the time over the development of a cap and trade program for carbon dioxide emissions. Our very real concern was that the wholesale adoption of an allowance trading program like the sulfur dioxide emission program would hurt consumers in states that had restructured their electric industries, because of the windfall gains to owners of unregulated nuclear power plants.

Most recently, NASUCA adopted a resolution in 2012 urging the EPA "to establish compliance timelines that provide sufficient time to consider appropriate least cost responses so as to avoid rate shock to electric utility customers."[8] We did not take a position on the merits of any of the existing, proposed or future EPA regulations or proposed legislation related to the regulations,[9] but instead emphasized the importance of taking into account the impact of compliance timelines on the ability of state utilities to comply with those regulations without imposing unreasonable or unnecessary costs on utility customers. We emphasized the importance of a reasonable time frame for utilities to address the practical issues associated with retirements or upgrades of existing generation plants and to maintain the integrity and reliability of the existing electric system; and for state regulators to evaluate utility compliance proposals. In particular, NASUCA urged the consideration of the impact of rate increases on consumers that result from varying compliance timelines.

[7] NASUCA Resolution 2007-04 at www.nasuca.org.

[8] NASUCA Resolution 2012-05 at www.nasuca.org.

[9] The Resolution specifically references the Cross State Air Pollution Rule (CASPR), the Mercury and Air Toxics Standards Rule, the Impingement and Entrainment of Aquatic Species in Water Intakes (Clean Water Act §316(b), Coal Combustion Residuals Rule, National Ambient Air Quality Standards, Potential Standards, Potential Greenhouse Gas Reduction Requirements and Regional Haze State Implementation Plans.

NASUCA also has adopted resolutions that uniformly support the continued role and authority of state and local governments in decisions affecting transmission planning and development[10] and the addition of electric capacity resources to achieve legitimate state public policy objectives.[11] These resolutions reflect the concerns of NASUCA member agencies about the adoption of federal proposals or policies that could interfere with state authority or control over siting decisions for transmission or generating facilities and the incorporation of state specific consideration of costs and benefits of proposed projects in decisions to authorize or require construction of these projects. The latter resolution was in response to certain FERC orders issued in April 2011[12] that raise questions about the ability of state and local governments and vertically integrated utilities to make decisions about the construction of electric capacity resources to meet reliability needs or other state public policy purposes.

NASUCA has maintained its commitment to the core mission of its member agencies by advocating and supporting policies and programs that are designed to provide reasonably affordable energy to our consumers while maintaining safety and reliability in the delivery of these services. Over time, we have supported the development and implementation of policies to meet these goals in both the short term and long term. NASUCA has supported energy efficiency programs and low-income weatherization programs, adequate funding for direct energy assistance programs for low-income households, the recognition of state and local government authority to make decisions on transmission and generation facilities to meet the needs of consumers in those states, the implementation of policies to support the development of

[10] NASUCA Resolution 2010-01 at www.nasuca.org.
[11] NASUCA Resolution 2011-06 at www.nasuca.org.
[12] See PJM Interconnection LLC, et al., 135 FERC ¶ 61,022 (April 12, 2011) and ISO New England, et al., 135 FERC ¶ 61,029 (April 13, 2011).

diverse energy resources, including renewable resources, and the adoption of policies to reduce greenhouse gas emissions in a way that minimizes the cost to consumers.

Even if we can achieve some relative stability and cost constraint in the cost of generation resources and electricity supply, there are additional pressures on the distribution rates that are part of consumers' electricity bills. I expect that these rates will continue to rise due to increased transmission and distribution infrastructure costs related to reliability investments, investments to increase the resiliency of the transmission and distribution systems in the face of extreme weather, smart grid and advanced meter investments and new cyber security enhancements. These costs will exert upward pressure on the distribution rate component of energy bills paid by many of our consumers.

Increases in energy bills can be difficult to absorb for many households, and particularly for low and moderate income households. Therefore we continue to urge policymakers to consider the cost impacts on consumers as federal policies and programs are proposed and adopted, and to provide for the continuation and adequate funding of programs to ensure that households with limited and fixed incomes can maintain the essential electricity and gas services they need.

Thank you again for inviting me to participate in this hearing. I would be happy to answer any question you may have at this time.