Committee on Oversight and Government Reform

Subcommittee on Energy Policy, Health Care and Entitlements

Testimony of George E. Hand, February 14, 2013

Chairman Lankford, members of the Subcommittee on Energy Policy, Health Care and entitlements, thank you for the opportunity to appear before you today. My name is George E. Hand. I consider myself fortunate and blessed. I was born in Oklahoma and have lived there all my life. I wasn't raised in a Log Cabin but grew up in a home that had a wood stove for the only heat in the winter and open windows for cooling in the summer. The wood for the stove was mostly cut by my brothers and me. Wood does heat you twice. In the summer time if the open windows didn't do the job we slept outside.

My Mother who turned 87 last week still lives in that house. She still thinks my brothers and I should cut the wood. When we don't, she thinks she embarrasses us by buying the wood. The only other heat in the house today, besides that wood stove, is a small electric wall heater I installed in the bathroom a few years ago. Until last summer there has been no air-conditioning in the house. That was when over her objections, I installed a small window unit in her bedroom. Her electric bill didn't go up much at all. She refused to use it unless someone was watching. She said electricity just costs too much, even if her son is the manager of the electric cooperative.

I am the General Manager and CEO of Canadian Valley Electric Cooperative headquartered North of Seminole, Oklahoma. I have served 28 years in this capacity. Prior to this I was the General Manager of People's Electric Cooperative located in Ada, Oklahoma, for a period of 6 years. Prior to that time, I held several management positions at Tri-County Electric Cooperative in the Oklahoma Panhandle. I am a Register Professional Engineer with a Bachelor of Science from Oklahoma State University. I have a great job and would not want to trade with anyone, especially anyone here.

Canadian Valley Electric Cooperative serves approximately 24,000 retail electric customers in the East Central part of Oklahoma with an investment in electric distribution plant of about 100 million dollars making up 5,000 miles of electric distribution lines. Of these 24,000 retail customers, 90% are residential consumers. Approximately 40% of these residential customers are retired. Our service territory extends from the Eastern edge of Oklahoma City to Lake Eufaula between the Deep Fork of the North Canadian River and the South Canadian River, an area of approximately 3500 square miles. The total electric capacity requirement of our member/owner/customers is about 160 megawatts on a hot summer day or during cold winter night. We do have both in Oklahoma regularly.

At Canadian Valley Electric Cooperative our purpose is simple and straight forward, "To provide electric utility service to our customers at the lowest possible cost consistent with

sound business practices." This mission guides us daily and we have not strayed. We believe that if we can be successful in our mission, it will give the customers we serve the best possible opportunity for a better lifestyle and the businesses that look to us for electric power and energy, the greatest opportunity to be successful, grow, prosper and provide jobs for our member/customers.

Profit is not our purpose. Our purpose is to help others prosper and profit. Most of the territory we serve would not be considered a desirable or even a feasible service territory to a for profit electric utility. But that is okay, together we make it work. Our employees realize that the rewards of their jobs go far beyond the paycheck. That is because our motive and our purpose is to serve our owners. Are all our customers happy with their electric bill? Absolutely not. They know that their electric bills are too high and they will tell you.

We are locally governed by a Board of Trustees chosen by and from our customer/owners. Our Board of Trustees knows a little about elections. They must stand for election at least every three years. But they must face the Cooperative's customers every day at work, in the coffee shop and at Church. I love my job, but facing a Board member who has just had a run-in with an unhappy member is not my favorite part of the job.

This electrical capacity and energy we deliver to our customers is provided by Western Farmers Electric Cooperative (WFEC), a Generation and Transmission Cooperative providing electricity to nineteen rural electric distribution cooperatives in the State covering about ¾ of rural Oklahoma. WFEC has a diversified electric generation resource mix comprised of coal, natural gas, wind, hydro and purchased power. The fuel cost per kWh for the generation mix of WFEC with purchased power during 2012 was approximately 5.35 cents per kWh. With fuel inputs of average natural gas cost of $2.75 per MMBtu and coal cost of about $2.34 per MMBtu, the 2012 fuel and purchased power cost per kWh were as follows:

Resource	GWh	Cents	%
Hugo (Coal)	2,541	2.6	30.2
Combined Cycle (Natural Gas)	1,019	2.5	12.1
Mooreland (Natural Gas)	330	3.2	3.9
Combustion Turbine (Natural Gas)	22	3.0	.3
Hydro	497	1.0	5.9
Wind	1,067	3.9	12.7
GRDA (Purchase Power)	868	2.7	10.3
Purchased Power	2,074	2.4	24.6
	8,418		100

Today, most if not all electric utilities understand the desirability of a diversified electric generating fleet. This helps control price volatility and to a degree enhances reliability. Diversity is also a hedge against the current "flavor" of government regulation. Today in Oklahoma we have several large coal-fired generating plants owned by the electric cooperatives, a quasi-state agency, the Grand River Dam Authority (GRDA)and the investor owned utilities Oklahoma Gas & Electric (OG&E) and Public Service of Oklahoma (PSO). All of these coal plants in Oklahoma were built in the 1970's because the Federal Government mandated that no more natural gas fired electric generating plants be built and further that the existing gas fired plants would have to be shut down in the future. In response to what was the "law of the land", the Fuel Use Act, electric utilities in Oklahoma and elsewhere began rebuilding their electric generating plants to meet their utility responsibilities in the future. In Oklahoma and elsewhere electric generating utilities built large coal fired plants to replace these "banned" gas fired generators. These replacement coal fired plants cost about four times as much to build as the gas fired generators had cost. But the law was clear. By the early 1980's expensive excess generating capacity was everywhere. And about that time we "discovered" that maybe the country was not running out of natural gas. Congress relaxed the pressure to shut down the existing natural gas fired generating plants. Later Congress in the face of reality removed the prohibition on building new natural gas fired generating plants. But the damage to the consumers, businesses and the economy had been done. Electric rates to consumers and businesses doubled as utilities had to service the debt on these new duplicative, excess and unneeded generating plants. The cost burden of this mistake on consumers and businesses lasted for the better part of two decades as the economy grew to need this prematurely built generating capacity.

Now while customers are still paying for those "government mandated" coal-fired plants built in the 1970's and early 1980's, it appears that through regulation the Federal Government will once again step in through "central planning" and change the rules after the fact, and dumping more costs on consumers and the economy. Surely we can learn from the recent history in our lifetimes of the results in other countries and types of governments the folly of central planning by an all controlling government regulatory bureaucracy.

We must realize that regulations have a cumulative cost and eventually the consumer will rebel or just give up. We should be especially concerned when we have a government bureaucracy that can generate new regulations faster than the electric utility industry can build new electric generating plants, and much faster than the consumer and the economy can absorb the cost.

IMPACT ON PEOPLE AND THEIR LIFESTYLES

What comes first, food, shelter, medicine, electricity, doing without?

At Canadian Valley Electric Cooperative we have people call us wanting to know how much their next electric bill will be so they will know how much they have to spend at the grocery store.

An interesting note: Some electric cooperatives in Oklahoma have started an optional prepaid billing system for their consumers who have trouble paying their electric bill or just want to take some control over their electric usage. A common result is a reduction in consumption for these consumers who choose to prepay. When they use the prepaid amount the electricity goes off. It doesn't come back on until an additional amount is paid. Others watch the balance and reduce usage when they don't have money to replenish the balance. Most who choose this method just don't want to be presented with an electric bill they won't be able to pay. Today's rates already cause some customers to make tough choices.

Where are electric rates headed in the future? What could increase them further?

Growing pressures on the electric utility industry will continue to put upward pressure on costs, including additional environmental regulations governing air, water and disposal of ash, as well as continued increases in fuel prices.

Even though our power supplier has a diversified generation mix, lower natural gas prices in 2012 had a significant impact on power costs during the year. All of this savings from lower natural gas prices during 2012 was passed on to consumers. This resulted in a $19 million reduction in electric rates. However, about half that reduction was offset by other cost increases keeping customers from seeing the full benefit of the reduced natural gas price in their monthly electric bills.

Our power supplier, Western Farmers is a member of the Southwest Power Pool (SPP), a Regional Transmission Organization. That organization has approved $7.1 billion in new regional, socialized cost transmission. Costs are now rapidly being included in the rate base. WFEC's portion of this cost increased $8 million dollars in 2012. Currently approved transmission construction in the SPP will likely increase Western's socialized transmission pool cost by about $3 million per year for the next 5 years. This is only for the currently approved transmission plan which will likely increase additionally from year to year as regulatory mandates to increase reliability and security, as well as to provide transmission paths for renewable energy continue to grow.

National Electric Reliability Corp (NERC) reliability and security costs added over $1 million in new costs to Western in 2012 in the form of training, materials and labor. 4 new full time employees were added to keep up with these regulatory requirements. WFEC has gone through 5 audits since NERC became a regulatory body.

Environmental Protection Agency (EPA) Particulate Matter (PM) and Cross State Air Pollution regulations (CSAPR) required WFEC to add low Nitrous Oxide (NOx) burners to natural gas plants in order to reduce NOx generation fleet emissions to regulatory levels. The cost of those additions added over $1 million in increased principal and interest costs. Mercury controls at the coal plant require an additional $5 million in capital, and add an annual $1-$2 million to the annual cost of operation by 2014.

U.S. Fish and Wildlife is moving towards an endangerment finding on the Lesser Prairie Chicken which would place additional costs on Wind generation, and transmission costs in part of Oklahoma and New Mexico.

In Oklahoma as well as elsewhere we are in an on-going drought which has lowered lake levels reducing Hydro generation which must be made up with increased, higher cost fossil fuel generation. This adds to the increasing electric rates to our customers.

Until the last half decade, electric rates were primarily made up of fuel, overhead and maintenance of transmission and distribution wires and substations, and capital costs of generation.

New NERC regulations, new SPP RTO Transmission and regional market, and recent Environmental regulation cost increases which only started in the last few years are expected to continue for the near future. Natural gas prices have increased from the 2012 levels and will likely continue to increase if the economy recovers. Low natural gas prices in 2012 ($2.75 per mmbtu) are expected to rise to $3.70 per mmbtu by the end of 2013. For our power supplier, Western, the cost of fuel to run natural gas fired generation exceeds our current cost of the coal to run the coal fired generation. With all of these increasing costs, electric rates are under growing pressure to rise significantly.

As various coal and rail transportation contracts expire, we see increasing delivered coal prices. In general, the United States has abundant coal reserves. One reason the cost is increasing is the worldwide demand for U.S. coal is increasing.

Regulations continue to pile up -- along with costs

More mandates from the Environmental Protection Agency on air emissions, water quality and coal ash storage and handling threaten to significantly increase the cost of producing electricity.

EPA also marches ahead on regulating carbon emissions under the Clean Air Act.

The EPA has proposed a carbon emissions standard which forces a roughly 50 percent reduction in CO_2 emissions on new coal plants. The rule could impact existing coal-fired plants if they undergo significant modification. There is no current technology to meet this standard on existing plants or on new pulverized coal units.

We like most electric cooperatives use a variety of fuels and technologies to produce electric power for our customers. Some cost more than others. Coal, has historically been our lowest-cost fuel to meet the growing electrical demands of a growing economy. When total customers' requirements increases above the capacity of those resources, then the next lowest-cost generator in the fleet is used. Now the risk of present and future regulations, have effectively taken our nation's most abundant, least cost energy resource off the table for future requirements of a growing economy. These potential threats create too great a capital risk for most electric utilities to consider building new coal fired plants.

As an electric cooperative we are keenly aware of the impact increasing costs for electric energy has on our customers. If we cannot provide electricity at a price they can afford to pay, we are unnecessary. For a residential consumer or a business man or a globally competing industry, increasing electric rates have the same impact on the bottom line as a tax on the bottom line. Most electric consumers don't have any credits to offset this higher electric bill. Their standard of living suffers. For many of our residential customers, an affordable electric bill is a prerequisite to their health and well being.

In Conclusion, as an electric utility service provider we realize our responsibilities are going to be even more challenging in the future. We ask your consideration of the impacts of future policy decisions on the people we both serve in keeping electric service a viable option. Let us all work together to meet these concerns.

I thank you for this opportunity.