



**Testimony of
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PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Before the Senate Consumer Protection and Professional Licensure Committee

FirstEnergy Power Plant Closures

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Chairman Tomlinson, Chairwoman Boscola and members of the Committee, thank you for the opportunity to present testimony on FirstEnergy's announcement that it will close two power plants in southwestern Pennsylvania.

As you heard this morning, the deactivation of the Hatfield's Ferry and Mitchell plants will mean the loss of approximately 2,000 megawatts of base load generation and over 380 jobs in the region. The Pennsylvania Public Utility Commission (PUC) is deeply concerned about the impact of these plant retirements on Pennsylvania and their potential effect on the overall reliability of the electric grid. Our goal is to protect the public interest and avoid any harmful impacts on consumers as a result of these closures. In particular, the PUC wants to prevent an unreasonable increase in electricity prices or a situation where there is inadequate generation to respond to the electricity needs of the region.

With these goals in mind, the PUC has taken a proactive role in examining the issue. The PUC has reached out to PJM Interconnection, Inc. (PJM) and its Independent Market Monitor (IMM) for their assessments of the situation. On August 23, 2013, my colleagues and I met with PJM and other interested stakeholders to hear firsthand about how the deactivations will impact both grid reliability and the local economy. In that meeting, PJM reinforced the message it has stated publicly, which is that these plant closures will impact reliability and that FirstEnergy should keep at least a portion of the units running past the proposed deactivation date of October 9, 2013.

Additionally, because FirstEnergy cited the cost of compliance with current and future environmental regulations as one of the reasons for the closures, the PUC has requested a meeting with Gina McCarthy, the Administrator of the U.S. Environmental Protection Agency (EPA), to discuss the Hatfield's Ferry and Mitchell plant deactivations. In this meeting, my colleagues and I will share our perspective with Administrator McCarthy and discuss environmental compliance options that could keep the plants operating longer. We are awaiting a response to our request.

The closure of the Hatfield's Ferry and Mitchell power stations is a critical issue for Pennsylvania. My colleagues and I will do everything we can to ensure the outcome will not have a detrimental effect on Pennsylvania electric customers. However, I want to be clear that PUC's interest in this matter is by no means an attempt to exercise any regulatory authority over FirstEnergy with respect to these plant closures. The PUC strongly supports the restructured electricity market in Pennsylvania and understands it is not our place to make managerial decisions for wholesale electric generation suppliers in our state. However, in a situation like this, where FirstEnergy's plant closures will potentially affect overall grid reliability, it is the PUC's responsibility to ask some hard questions.

This is particularly essential since FirstEnergy's decision to deactivate these plants does not correspond with the story it told just a few months ago about the future of these plants. In a

presentation given at the Morgan Stanley Utilities Conference in March 2013, FirstEnergy said it was considering converting the units at the Hatfield's Ferry and Mitchell stations to natural gas co-firing units.¹ Given that these power plants are located in southwestern Pennsylvania and are sitting on top of one of the largest shale gas deposits in the world, it makes sense that FirstEnergy would want to take advantage of this low-cost resource and convert to natural gas co-firing units. The question is - what has changed in four months?

FirstEnergy maintains that the results of the 2013 capacity auction, which PJM posted on May 24, 2013, influenced its decision. However, those results apply to the period 2016-2017 and have no immediate economic or environmental impact on the short-term operation of the Hatfield's Ferry or Mitchell plants.

Indeed, the world that FirstEnergy and all other electric generators are operating in today is infinitely more complicated than it was in the past. Complying with the new regulations promulgated by EPA is a complex and expensive undertaking. However, other power plants in the region have been able to successfully adapt to the changing landscape of the energy industry. For example, GE Capital Corporation is installing emission control equipment in the Homer City Generating Station in Indiana County that could cost as much as \$750 million to comply with upcoming federal regulations.

The EPA "train wreck" that FirstEnergy cites as a primary reason for the plant closures has been looming for a long time. The compliance deadline for the Mercury and Air Toxics Standards (MATS) rule, which will impact the Hatfield's Ferry and Mitchell stations, is still two years away. Throughout the country, electric generation suppliers have been using this time to prepare and make plant upgrades. It is unclear why FirstEnergy has not taken similar measures, particularly in the case of the Hatfield's Ferry plant, which has a waiver extending the MATS compliance deadline until April 2016. Moreover, in 2009, Allegheny Energy, Hatfield's Ferry's previous owner, spent \$650 million on a scrubber system that removed 95 percent of the plant's sulfur dioxide emissions and significantly reduced its mercury emissions.

From an outside perspective, it appears that options may be available to FirstEnergy to keep these plants running – by converting them to natural gas or scrubbing them to comply with EPA regulations. The biggest question then, is given the reliability impacts that these closures will have on the region, why is FirstEnergy opting to deactivate these plants?

Even if FirstEnergy determined that for economic reasons, it does not want to upgrade or convert the Hatfield's Ferry and Mitchell plants, why is it not attempting to sell the plants to a third party who would be willing to explore a fuel conversion or make the necessary upgrades? FirstEnergy certainly made concerted effort to do so with its hydropower assets. On September 4, 2013, FirstEnergy sought approval from Federal Energy Regulatory Commission (FERC) to sell 11 of its hydroelectric power facilities located in Pennsylvania, Virginia, and

¹ See FirstEnergy Company Overview for Morgan Stanley Utilities Conference at p. 58 (March 7, 2013)

West Virginia. Why FirstEnergy is not attempting a similar sale for the Hatfield's Ferry and Mitchell plants is unclear. These are the critical questions that FirstEnergy must answer. The company owes a better explanation to its employees, the local communities, and to Pennsylvania's electric consumers.

Lastly, assuming FirstEnergy does not reverse course on its decision to close these plants, I would urge the PJM IMM to evaluate the effect of the Hatfield's Ferry and Mitchell plant deactivations on FirstEnergy's remaining generation and transmission assets in PJM. I would also encourage the IMM to examine the impact that the closures will have on Locational Marginal Prices (LMP).

Conclusion

The future of the Hatfield's Ferry and Mitchell power plants is vitally important to the PUC. As the Chairman of an agency that is charged with protecting the public interest, my goal is to ensure that the final outcome of this matter does not hurt consumers or decrease the reliability of our electric grid.

The closure of these plants would represent a real loss for Pennsylvania – not only as a source of inexpensive, unsubsidized power, but for two communities in Washington and Greene Counties. While this may be a business decision for FirstEnergy, it is a decision that impacts real people by eliminating the livelihood for 380 employees and potentially increasing electricity prices for the rest of us. Accordingly, I hope that we can work together to find a positive resolution to this issue.

Thank you again for the opportunity to testify today. I welcome any questions you may have.