Senate Energy, Utilities and Communications Committee
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Prepared Statement

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Madame Chairwoman and members:

First of all, thank you for giving me this opportunity to address the committee on these important issues.

CMTA represents manufacturers of all sizes and types - manufacturers of glass, machine parts, aerospace, to name a few.

One thing all our members have in common is high energy costs. Energy is a significant component of the cost of manufacturing in California.

The issues being discussed here today-Southern California Edison rates and "financing" of the direct access exit fee cap-are of great interest to our members, as we represent both bundled and DA customers in the Edison territory.

In late 2000 and early 2001, many of our members were returned involuntarily to bundled service.

In June, 2001, these and other bundled customers were subjected to a rate increase-an increase that disproportionately impacted large users. Rates for industrial customer increased by 80% to 100%.

Meanwhile, rates for residential customers increased by only 25 percent. And nearly two-thirds of the residential load-usage at or below 130 percent of baseline-was exempt from the June, 2001 rate increase.

The Legislature allowed the PUC to double the rates for manufacturers to save residentials from <u>any</u> rate increase. This threatened the economic survival of many businesses, leading them to find DA contracts.

At that point, DA was the only tool available for them to reduce and stabilize their electric costs, and remain viable and compete in the global market.

DA was the only means by which CMTA members could ameliorate the huge rate increases that were disproportionately imposed on them. It was a mater of economic survival, and maintaining jobs.

Which brings me to the topic of exit fees and the financing of the cap.

I don't plan to address the issue of what the Commission meant when it adopted the TURN language on financing and keeping it within the customer class; we have filed a petition at the Commission along CLECA and that issue is presently before the Commission.

I will say, however, that the working presumption of all parties throughout the months-long proceeding (workshops, hearings, briefings, and comment period) was that the "loan" would come from bundled customers, and DA customers would be responsible for interest payments on an repayment of the loan over time.

The Chair has raised concerns about the loan, and the impact on bundled service customers.

We believe the Commission should spread the "costs" of the exit fee cap as broadly as possible, consistent with its approach to the costs of other policy programs.

The Commission has, over time, adopted policy programs or implemented legislative mandates to make electricity more affordable, improve energy efficiency, and the like. These programs can be very costly, and the general approach of the Commission has been to spread these costs widely across customer classes to lessen the impact on any particular group of customers.

There are many examples of this (1) intervenor compensation, (2) CARE, and (3) the low-income energy efficiency program.

CARE and LIEE provide subsidy of hundreds of millions of dollars each year to low-income households, with the costs of the programs spread on uniform cents per kilowatt hour basis to all sales-bundled and DA-despite the fact that the direct beneficiaries of the program are members of the residential class.

Unlike the exit fee cap "loan" that is the subject of today's discussion, the Commission spreads the costs of these programs-programs that benefit only the residential class-to all customers, <u>without any provision for repayment by residential customers. It is a simple subsidy rather than a loan to be repaid with interest.</u>

The exit fee cap loan has been called a "forced loan" and it is. It is a forced loan that will be <u>repaid with interest</u>.

As for which customers should provide the loan, as I said earlier, we believe the Commission should spread the costs of the loan as broadly as possible, consistent with its approach to the costs of other programs.

Let's consider for a moment what would happen if the PUC determines that the cost has to be retained within each customer class in proportion to its DA sales (66% of all DA sales are within the industrial class): the impact on bundled industrial customers would be approximately 1.34 cents per kWh. A hug hit-wiping out most if not all of the anticipated PROACT rate decrease later this year.

Under this scenario, bundled residential customers would bear virtually no costs associated with the loan (0.016 cents per kWh). (Residential DA is 1.75% of DA load.)

On the other hand, if the cost were spread to all bundled customers evenly, each ratepayer would pay approximately 0.34 cents per kWh.

What we shouldn't do is concentrate the cost of the loan on industrial customers, who have taken a lot of hits in recent years, especially when it comes to energy.

The general weakness in the manufacturing sector in California has been exacerbated by the burden of skyrocketing energy costs.

This has had-and continues to have-a significant impact on our state's economy.

EDD confirms continuing losses of manufacturing employment, and a report prepared by CMTA by the Milken Institute ("Manufacturing Matters") indicates that California has lost 170,000 manufacturing jobs since January, 2001, or 9 percent of the total industrial workforce.

These are high-paying jobs that provide upward mobility for under-skilled workers. The average manufacturing job pays $25, 000 more than the average service job.

And these jobs put money back into state and local coiffures in the form of tax receipts, and create other jobs. For every one manufacturing job, 2.5 more jobs are created-the highest "multiplier" of any sector.

In conclusion…

Concentrating the costs of the loan on industrial customers would be a crippling blow-at the worst possible time, and further impair the ability of our Association members to compete in the global market.

Spreading the loan costs as broadly as possible, on the other hand, would minimize the impact on any particular group of customers, and would be consistent with the PUC's approach to the cost of other programs. And it is worth emphasizing, once again, that is a loan that will be repaid with interest.

Thank you Madame Chair and members.