PPL Electric Utilities

Testimony before the Senate Consumer Protection and Professional Licensure Committee on Understanding Your Electricity Bill

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Good morning, Chairman Stefano and members of the Committee. Thank you for the opportunity to share PPL Electric's views surrounding "policy driven" costs that comprise a residential and small commercial customer's bill, with some additional thoughts specifically around Act 129's Energy Efficiency and Demand Response mandates, as well as the Alternative Energy Portfolio Standards (AEPS) Act.

My name is Shelby Linton-Keddie, and I serve as Senior Director, Regulatory and Public Affairs for PPL Electric Utilities (PPL Electric). Our Company serves 1.5 million customers across 29 counties in central and eastern Pennsylvania. We are committed to providing safe, reliable, and affordable electric service to our customers while fulfilling our obligations as a regulated electric utility subject to the jurisdiction of the Pennsylvania Public Utility Commission (PUC). This includes several state programs and mandates with which we are required to comply under the Public Utility Code.

Policy Related Bill Components

We applaud the Committee for taking the time to discuss what makes up a customer's electricity bill and putting a spotlight on the number of mandates and programs that exist for Pennsylvania electric utility customers. Based on our analysis, current existing policy driven costs are having a significant impact on residential and small commercial customers' monthly bills. When breaking out costs related to smart meters (SMR2), competitive retail electricity market enhancement and education (CER), Energy Efficiency (ACR4), Universal Service programs (USR), Tax Cuts and Jobs Act (TCJA), State Tax Adjustment Surcharge (STAS), Net Metering costs (recovered from default service customers both in the Generation Service Charge (GSC) and Transmission Service Charge (TSC), and Alternative Energy Credit costs (AEC) (recovered from default service customers for compliance with the AEPS Act), these policy costs currently account for $18.16 (~10.5%) of the monthly residential customer bill and $28.53 (~19%) of the monthly small commercial and industrial customer bill. Notably, the biggest single policy cost for residential customers is that related to Universal Service, while the largest policy impact for small commercial customers is around Net Metering.

Many of the laws under which we operate are decades old and in need of review to determine not only whether the benefits of these programs are exceeding the costs, but also whether these laws are meeting the needs of Pennsylvania consumers today and in the future.

Act 129 of 2008

Act 129 of 2008 was passed 17 years ago at a time when the Commonwealth was preparing for its electric rate caps to expire and anticipated dramatic rate increases associated with that expiration. As such, Act 129 was intended not only to promote Energy Efficiency and Conservation (EE&C) as a way to prevent rate shock, but also to educate electric utility customers on actions they can take to have more control over their bills.

As passed, the Act directed the PUC to establish an EE&C program and required that, by July 1, 2009, all electric distribution companies (EDCs) with 100,000 or more customers develop and file for approval with the PUC an EE&C plan to reduce electric consumption and annual system peak demand. If an EDC fails to achieve the energy efficiency (EE) and peak demand reductions required under the plan, they will be subject to a civil penalty of not less than $1 million but can be as high as $20 million.

In addition, the PUC must routinely evaluate the EE&C program to determine whether its benefits exceed its costs. If they do, the Commission may set additional incremental reduction requirements for EDCs. Over the past 15 years, the PUC has consistently determined that the plans' benefits exceed their costs and have imposed further reduction targets. We are now preparing for Phase V, likely to begin June 1, 2026.

Act 129 has seen success in promoting EE&C. Since its inception, across all participating EDCs, Act 129 has resulted in approximately 17 million MWh of energy savings and nearly 2,700 MW of peak demand reduction through demand response and energy efficiency measures. However, this success has come at no insignificant cost to customers. Through the first three Phases and first two years of Phase IV, PPL Electric customers alone have paid over $750 million for the program. Across the Commonwealth, EDC customers have paid almost $2.7 billion for Act 129 since its implementation. As common, low-cost measures reach saturation, EDCs will need to implement more expensive EE&C measures, causing EDC compliance to become even more challenging and costly to ratepayers.

When looking at the time that has passed since Act 129's inception, the requirements of the program, the costs associated with it, the efficiency standards that have evolved over the last 15 years and the structure (which is motivated by penalty avoidance rather than incentives), the time is ripe to revisit this statute and really examine whether these programs are still meeting their intended goals.

Alternative Energy Portfolio Standards Act

Act 213 of 2004, the Alternative Energy Portfolio Standards Act, requires annual increasing percentages of electricity sold to Pennsylvania retail customers be derived from alternative energy resources. Generally, Act 213 requires that EDCs and electric generation suppliers (EGSs) serving load include a specific percentage of electricity from alternative resources in the generation they sell to Pennsylvania customers. The total amount of electricity to be supplied by alternative resources increased to its peak total of 18% in 2021, including 8% from Tier I resources, such as solar, and 10% from Tier II resources, such as waste coal. All EDCs and EGSs have been required to comply since January 1, 2011. To meet the requirements of Act 213, EDCs and EGSs acquire alternative energy credits in quantities commensurate with the required tier percentage and electricity sold to retail customers. AECs are separate from the electricity sold to customers and can be sold or traded separately from the power. AECs are generally purchased by EDCs and EGSs to meet the AEPS requirements for any given year. Act 40 of 2017 closed the border for solar credits for Tier I solar carve-out compliance. Beginning in June 2023, Act 114 of 2020 prohibited Tier II AECs from outside of PA to be used for AEPS compliance, which has led to a significant increase in the price of Tier II AECs.

Should an EGS or EDC not meet the minimum percentage of electricity from eligible energy resources, they are assessed an Alternative Compliance Payment (ACP). However, even if making an ACP, it does not relieve a utility's duty to procure these credits. Any credits not procured in the year a utility pays an ACP rollover to the next year.

While PPL Electric believes an entire review of AEPS should take place, at minimum, the provisions regarding alternative compliance payments should be revised so that these payments do not function as a penalty, but instead as a cap on compliance cost and obligations. More fundamentally, the incentives and targets included in AEPS should be revisited to determine the right mix of resources for the state with special consideration given to the right uses for each resource. Not only have prices and technological advances changed since the bill's passage two decades ago, but also have the Commonwealth's generation supply portfolio and projected demands. The Commonwealth should ensure that we have the right mix of resources going forward that appropriately balances reliability, affordability, and sustainability.

Conclusion

Pennsylvania has historically been a leader in the energy space. To continue playing a leading role, the Commonwealth must be proactive in modernizing its energy policy and developing solutions that work for today's challenges and opportunities.

PPL Electric looks forward to continuing to work with this committee, the General Assembly and other interested stakeholders to develop collective, forward-thinking, and innovative solutions to ensure sustainable long-term reliability of electricity supply and delivery that drives economic growth and prosperity in the Commonwealth at reasonable customer cost.