

Prepared Testimony of

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Introduction

Good morning, Chairman Stefano, Chairman Boscola, and members of the Pennsylvania Senate Consumer Protection and Professional Licensure Committee. I am Stephen M. DeFrank, Chairman of the Pennsylvania Public Utility Commission (PUC or Commission). On behalf of the Commission, I thank you for the invitation to speak about what makes up a utility bill, with a focus on the electric utility sector.

Broadly speaking, an electric customer's bill can be divided into three main sections: distribution, transmission, and generation. The Commission's jurisdiction varies for each of these components. For distribution, the Commission has exclusive economic jurisdiction. With respect to transmission, the Commission holds siting jurisdiction and the Federal Energy Regulatory Commission (FERC) holds economic jurisdiction. Finally, as Pennsylvania's generation sector has been restructured, the Commission has no economic regulatory authority.

Electric Distribution Rates

The distribution component of an electric bill is non-bypassable, meaning it is directly charged to consumers on a per unit basis for every kilowatt or kilowatt-hour of electricity drawn from the grid and cannot be avoided by shopping for electric generation services. The Commission exercises its economic regulatory authority over non-bypassable distribution rates to ensure the utilities are not abusing their monopoly in pricing. The Public Utility Code requires that "[e]very rate made, demanded, or received by any public utility... shall be just and reasonable, and in conformity with regulations or orders of the Commission."¹ Consequently, electric utilities' distribution rates are established within rate case proceedings.² There is no set schedule or timeframe for utilities to file rate cases. The filing cadence for any particular electric utility is at the discretion of that utility and its management.³

The formula for establishing base rates is the following:

$$\textit{Revenue Requirement} = \textit{Expenses} + [\textit{Rate of Return} \times \textit{Rate Base}]$$

¹ 66 Pa. C.S. § 1301.

² 66 Pa. C.S. § 1308(d).

³ Utilities are prohibited, however, from requesting an additional, general rate increase while a rate case is pending before the Commission or until the maximum suspension period expires, whichever is earlier. 66 Pa. C.S. § 1308(d.1).

The Revenue Requirement is the amount of annual revenue that a tariff is designed to permit a utility to recover. A tariff, which is reviewed and approved by the Commission, outlines the rates, terms, and conditions for services provided by the utility company to its customers.

Expenses represent the various items prudently incurred to facilitate the operations and administration of the utility. Examples of traditional expenses recovered in rates include the following:

- Depreciation of facilities
- Administrative and general office expenses
- Labor costs
- Pension obligations
- Customer support systems including metering, billing, collections, and call centers
- Taxes

The Rate of Return is the component in the rate formula designed to provide investors with a fair return on their investment.⁴ The overarching goals of the Rate of Return are to ensure the financial stability of the utility, to maintain the utility's credit rating, and to attract capital. The Rate of Return is determined by utilizing three components: cost of debt, cost of equity, and capital structure.

Rate Base entails the used and useful infrastructure that constitutes a utility's distribution system. The Rate Base of a utility is defined as the original cost of the utility property less the applicable accrued depreciation.⁵ Examples of electric utility Rate Base include the following:

- Wires, poles, and conductors
- Underground conduit
- Meters
- Transformers and substations
- Insulators
- Real estate

Rate case proceedings are often contested, but nonetheless, the Commission must make a determination on the proceedings within nine months.⁶ The Pennsylvania Office of Consumer Advocate and the Pennsylvania Office of Small

⁴ *Bluefield Waterworks & Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679, 690 (1923).

⁵ 66 Pa. C.S. § 1311(b).

⁶ 66 Pa. C.S. § 1308(b).

Business Advocate often intervene in rate case proceedings. If a rate case is contested, the proceeding is assigned to the Commission's Office of Administrative Law Judge. After establishing a case record, including holding public input hearings, the presiding Administrative Law Judge will conclude his or her review by issuing a recommended decision that the Commission must ratify or amend. Once new rates are established, the utility files an updated tariff that reflects the new rates and any other changes or conditions of service flowing from the rate case. Utility tariffs are posted on utility websites and can be accessed via the PUC's website.

The Commission is cognizant that the ratemaking process is complex. We offer an array of tools and informational documents for the public to better understand this important area of economic regulation. For instance, the Commission's website offers information directed to both consumers and utility professionals about rate cases. This includes a two-page fact sheet explaining to consumers what a rate case is and how they can participate and express their concerns and opinions.⁷ Often, a utility customer's best way to participate in a rate proceeding is through public input hearings. These hearings, which the Commission advertises, are convened in the subject utility's service area and provide an opportunity for consumers to directly state their concerns to the presiding ALJ on the record.

Utilities also use a number of riders, or automatic adjustment clauses, in order to timely recover various incurred expenses outside of a rate case. Riders are tariff provisions that permit utilities to periodically adjust rates based on changes in specific costs. The underlying rider must be approved by the Commission as part of the utility's tariff. Generally, these clauses are intended to facilitate the necessary administration of various components of utility services. Examples include the following:

- Distribution System Improvement Charge (DSIC) (Act 11 of 2012)
- State Tax Adjustment
- Tax Cut and Jobs Act (TCJA) adjustments
- Universal Service (66 Pa. C.S. § 2804(9))⁸
- Energy Efficiency and Conservation (Act 129 of 2008)

⁷ www.puc.pa.gov/media/2880/24_ratemaking_complaints.pdf

⁸ The Electric Generation Customer Choice and Competition Act.

Traditionally, there is no rate of return associated with these items, however there is one exception—DSIC, which includes a rate of return as it involves capital expenditures. Commission staff routinely audit utilities’ riders and clauses to ensure revenues recovered match eligible expenses incurred.⁹

I would now like to discuss in greater detail the constituent elements of the electric distribution company (EDC) regulated distribution charges. I note that most of these charges are itemized on the customer’s bill, but there can be exceptions depending upon the utility. How these charges are labelled on the bill can also vary by utility.

- *Customer Charge*: A flat, fixed monthly basic service charge that is intended to assist in recovering fixed utility costs including the costs for metering, billing, service equipment, and other expenses. This charge currently ranges from \$9.00 to \$15.62 at our major EDCs.
- *Usage Charge*: A per-kWh or per-kW fee to recover costs of providing distribution service, including the local wires, transformers, substations and other equipment used to physically deliver electricity to consumers. The charge can also include administrative, personnel, billing and collection costs that support distribution services. These charges currently range from 4.306 to 9.6555 cents per kWh at our major EDCs.
- *Distribution System Improvement Charge (DSIC)*: A charge to recover the reasonable and prudent costs incurred to repair, improve or replace eligible property that is part of the utility’s distribution system as identified in a Long-Term Infrastructure Improvement Plan (LTIIIP).¹⁰ This is authorized by Act 11 of 2012.
- *State Tax Adjustment Surcharge (STAS)*: A rate that recovers increases or refunds decreases in certain state tax rates that occur between base rate cases, including the phased decreases in state corporate net income tax rate passed by the General Assembly.
- *Energy Efficiency & Conservation (EE&C)*: A charge to fund the energy efficiency and conservation measures associated with the implementation of Act 129 of 2008 (Act 129), as outlined in Chapter 28 of the Public

⁹ The audits are conducted pursuant to one or more of the following: 66 Pa. C.S. §§ 505, 506, and 1307(d) and (e); 52 Pa. Code § 54.187(b) or by Commission Order. Not all riders are routinely audited, such as the TCJA.

¹⁰ A utility is required submit an LTIIIP for Commission approval in order to recover eligible cost through DSIC. See 66 Pa.C.S. § 1353. The LTIIIP must show the acceleration of the replacement of aging infrastructure by the utility and be sufficient to ensure and maintain adequate, efficient, safe, reliable and reasonable service to customers.

Utility Code, 66 Pa. C.S. § 2806.1.

- *Tax Cut and Jobs Act (TCJA)*: To reflect changes in the corporate tax rate as a result of the TCJA of 2017.¹¹
- *Gross Receipts Tax (GRT)*: While GRT is bundled in with other distribution charges and is not itemized, the residential bill does include a statement somewhere on the bill providing an estimate of how much of the monthly bill can be attributed to GRT.
- *Universal Service Charges*: Charges to recover the cost of providing universal service programs such as Customer Assistance Programs (CAP) and the Low-Income Usage Reduction Program (LIURP) authorized by the Electricity Generation Customer Choice and Competition Act.¹²
- *Alternative Energy Portfolio Standards (AEPS)*: While mostly included in generation charges, some EDCs do acquire some portions of AEPS requirements on behalf of their entire customer load and pass the cost along via non-bypassable distribution charges. AEPS charges are the result of Act 213 of 2004 (Act 213) that requires EDCs and competitive electric generation suppliers (EGSs) to include a specific percentage of electricity from alternative resources in the generation that they sell to Pennsylvania customers.¹³

Electric Transmission & Generation Rates

As stated above, transmission rates are regulated and established by FERC. Generation rates are unregulated, but are instead set by the market within parameters in a FERC-approved tariff. Transmission rates are recovered by transmission owners (TOs) to support their delivery of bulk power. Generation rates are recovered by the applicable electric generation supplier or default service provider and provide those entities the means to recover costs of delivering power to their appropriate customers of record.

¹¹ For more information, see November 18, 2021 Press Release “PUC Approves Several Utility Plans to Return Nearly \$62 Million in Additional Federal Tax Savings to Customers” (<https://www.puc.pa.gov/press-release/2021/puc-approves-several-utility-plans-to-return-nearly-62-million-in-additional-federal-tax-savings-to-customers>).

¹² 66 Pa. C.S. § 2203(8).

¹³ www.puc.pa.gov/media/2997/aeps-2023-report-final.pdf

Transmission and Generation Rates are bundled together in Pennsylvania to create the Price-to-Compare (PTC). This is the benchmark price charged to all default service customers who have not enrolled with an EGS for their bundled transmission and generation service (i.e. ‘shopped’). While the PTC is not itemized, it can be broken down into the following components:

- *Energy*: The costs of the electricity that the consumer uses.
- *Transmission*: The costs of transmitting electricity via the interstate transmission system, including the costs of constructing and maintaining that system.
- *Capacity*: The costs of capacity, as determined by PJM capacity auctions. Capacity auctions are the mechanism that PJM, our regional transmission organization, uses to ensure that electric supplies are sufficient to meet forecasted future demand. Generators are paid in exchange for their commitment to be available when needed. This cost is passed along to consumers as part of their generation charges. The capacity process is regulated by FERC.¹⁴
- *Ancillary Services*: Related to services used to balance and maintain the transmission system, such as regulation, reserves, and black start services.¹⁵
- *Alternative Energy Portfolio Standards (AEPS) Charges*: Act 213 requires that both EDCs and competitive EGSs include a specific percentage of electricity from alternative resources in the generation that they sell to Pennsylvania customers.¹⁶
- *Taxes*: Including corporate taxes, GRT, realty taxes, etc.

The Commission does oversee the procurement process for electric utilities’ default generation service for their non-shopping customers. Utilities procure and pass-along the cost of this service dollar-for-dollar with no additional mark-up. As of December 1, 2024, the costs of this default service for the residential customer (the PTC) ranged from 9.273 cents to 11.168 cents per kWh at our major EDCs.

¹⁴ More information about PJM’s capacity market is available on its website: <https://www.pjm.com/markets-and-operations/rpm>

¹⁵ More information about PJM’s ancillary services is available on its website: <https://learn.pjm.com/three-priorities/buying-and-selling-energy/ancillary-services-market>

¹⁶ More information about AEPS Act can be found at these websites: <https://www.puc.pa.gov/filing-resources/issues-laws-regulations/aeps-act/> and <https://pennaeps.com/>.

Closing

While this testimony focused on the composition of electric rates, it should be noted that the rates for our natural gas and water utilities are established largely utilizing the very same ratemaking processes. However, as one would expect, there are important distinctions and differences as each utility sector deals with different commodities, different types of infrastructure, and in some cases different provisions of law.

I would like to close by highlighting the Commission's Annual Rate Comparison Report, which can be found at the following link: www.puc.pa.gov/filing-resources/reports/rate-comparison-reports/. The report contains high level summaries of the various rate components for each of our electric and natural gas utilities.

Finally, I thank the committee again for this opportunity to testify today. We are committed to being a resource for the General Assembly as it reviews what is included in rates for electric, natural gas, and water utilities. I hope my testimony today has detailed the PUC's perspective and role regarding this important topic. I am happy to address any questions or concerns that you may have.