Testimony for Dick Webster, Vice President, Regulatory Strategy and Policy
PECO Energy Company
Before the Pennsylvania House of Representatives Committee on Consumer Affairs
Regarding HB 1782
October 23, 2017

Thank you Chairman Godshall, Chairman Caltagirone and members of the House Consumer Affairs Committee for the opportunity to testify today regarding House Bill 1782, the Alternative Ratemaking legislation introduced by Rep. Delozier. I am Dick Webster, Vice President of Regulatory Policy and Strategy at PECO, the electric and gas distribution company serving more than 1.6 million electric and more than 500,000 natural gas customers in southeastern Pennsylvania.

On behalf of PECO, I'm pleased to express our strong support for HB 1782 and commend Representative Delozier for introducing this timely and innovative legislative proposal. Technology advancements and evolving customer preferences are significantly changing the economic and operational models for the electric, and to a lesser extent, natural gas utility industries. This legislation recognizes these emerging trends and positions that are rapidly developing in Pennsylvania and authorizes the Public Utility Commission to explore new regulatory tools for fairly and sustainably funding our essential energy distribution infrastructure networks.

Overview

For decades, energy consumption grew in tandem with economic growth. Customer bills were largely based on monthly metered, volumetric usage even though a significant amount of utility costs are fixed system and capacity costs. While this represents an imperfect system for recovering costs of service, it provides a relatively simple and easy-to-understand pricing structure and worked well for that time period.

In recent years, a number of factors have begun placing stresses on this model. At the same time, new metering technologies that Pennsylvania has embraced offer tools that can potentially enable new rate designs that can result in rates that are more reflective of the cost. And other jurisdictions have developed regulatory structures that seek to drive higher levels of performance by utilities through new performance-based rate structures.

The Heart of the Challenge

Since 2007, electric load growth has been flat to declining while the costs of providing service have increased. These increases are the result of investments in reliability and customer-facing systems, as well as costs common to all employers such as inflation and health care.

Customers are now meeting their energy needs while using less energy. More energy efficient products and energy efficiency programs under Act 129 have changed the long-standing correlation between electric load growth and energy consumption. We believe this is a long-term trend – a new normal – and not a transient situation.

We are also seeing increasing amounts of distributed generation interconnecting to PECO's grid. Customers who can take advantage of distributed generation substantially reduce their own consumption when net metering rules apply, and with these reductions, they also sharply reduce their own contributions to funding the grid.

However, because utilities must build their systems to serve the peak load requirements of our customers – and these peaks do not generally coincide with maximum production from DG systems – our cost of serving these customers do not substantially decline. Many DG customers actually take power from the grid during peak times but offset the usage for billing purposes under net metering rules thus foregoing any contribution to funding the grid. In many cases, system costs actually increase because of the more complex nature of managing two-way power flows and intermittent resources.

For PECO, this is almost exclusively an issue for our residential customer class, as our commercial and industrial customers have been transitioned successfully to demand-based rates.

Of course, efficient use of energy and clean, distributed generation are both good things. The trick is to develop regulatory approaches that recognize these trends and adjust our ways of paying for the grid appropriately.

Potential Solutions

Right now, there's no one model for how to do this best. Virtually every state in the U.S. and countries around the world are looking at this issue. We could probably design new rates that optimally assigned costs, but if these rates were so complex that customers could not understand and respond to price signals on usage, we'd struggle with implementation.

At the same time, if we leave our residential rate structures exactly as they are today, we're either going to experience some level of unreasonable and unfair cost shifting among customers or underfund the grid.

The best answer, I believe, is to encourage utilities to develop and propose a range of new rate structures that will allow regulators and stakeholders to examine their relative merits in meeting two high-level policy goals – fair allocation of costs and sustainable grid funding. The PUC would not be required to approve any particular proposal, but it would be clearly authorized to approve those that it finds in the public interest and consistent with these policy goals.

Upon PUC approval, we would develop data on how customers respond to new ratemaking structures, or alternatively, how performance-based rates impact utility performance.

House Bill 1782 takes exactly this approach and provides maximum flexibility for the Pennsylvania Public Utility Commission to consider utility proposed rate alternatives that satisfy the fair and sustainable tests. This is important, because even as we talk about concepts like decoupling, performance-based rates or residential demand charges, we should recognize that there are multiple potential variations on each of these concepts.

HB 1782 also provides the Commission flexibility to consider utility proposals for innovative rate designs for emerging applications such as electric vehicles and battery storage systems. For each of these technologies, designing rates that encourage efficient charging and discharge of electric energy will play an important part in determining how beneficial they can be to the overall grid.

Summary

House Bill 1782 provides the authority and flexibility necessary for the Pennsylvania Public Utility Commission to develop new rates that reflect the changing ways our customers are using energy.

It maintains the essential consumer protections of the ratemaking process, and encourages Pennsylvania to develop innovative approaches to keep pace with technology and changes in customer preferences.

Thank you for the invitation to testify here today, and I'd be pleased to answer any questions.