



House Consumer Affairs Committee Hearing on Alternative Ratemaking for Natural Gas and Electric Distribution Companies

House Bill 1782

Comments of the Retail Energy Supply Association

The Retail Energy Supply Association (RESA)* submits the following comments on House Bill 1782 – Alternative Ratemaking for Natural Gas and Electric Distribution Companies.

RESA is a broad and diverse group of retail energy suppliers who share the common vision that competitive retail energy markets deliver a more efficient and customer-oriented outcome than traditional monopoly-protected utility regulation. RESA members are devoted to working with stakeholders to promote vibrant and sustainable competitive retail energy markets for all residential, commercial and industrial consumers.

In 1996, Governor Tom Ridge signed into law the “Electricity Generation Customer Choice and Competition Act,” which restructured the state’s electricity industry to provide for customer choice among competing electricity suppliers.

As a result, consumers are no longer captive to a single monopoly-protected utility company for their electric supply. Scores of retail suppliers now compete to provide energy products to households, churches, schools and universities, small businesses and manufacturers offering innovative products and services specifically tailored to meet the customer’s needs and individual energy circumstances.

Currently more than 2 million Pennsylvania electricity customers are served by competitive suppliers, including 1.7 million residential customers. Competitive supply represents more than 65% of Pennsylvania’s total electricity demand. Retail competition has spurred economic development and job creation here in the Commonwealth.

RESA would like to divide its discussion on House Bill 1782 into two distinct parts – alternative ratemaking mechanisms and utility ownership and deployment of distributed energy resources.

** The comments expressed in this filing represent the position of the Retail Energy Supply Association (RESA) as an organization but may not represent the views of any particular member of the Association. Founded in 1990, RESA is a broad and diverse group of more than twenty retail energy suppliers dedicated to promoting efficient, sustainable and customer-oriented competitive retail energy markets. RESA members operate throughout the United States delivering value-added electricity and natural gas service at retail to residential, commercial and industrial energy customers. More information on RESA can be found at www.resausa.org*

First, this legislation seeks to clarify the authority of the Public Utility Commission to approve an application to establish alternative rates and rate mechanisms by utilities.

RESA's members see first-hand how the energy landscape is changing based on the companies' daily interactions with customers and businesses. Market participants have successfully deployed energy efficiency and conservation (EE&C) programs which have resulted in consumers using less electricity. RESA recognizes that the incumbent utilities serve an important role as operators of the transmission and distribution system and agrees that the regulated utilities should have the option to explore alternate ratemaking mechanisms to address the impacts of reduced consumption on utility revenue.

RESA encourages the Commission to ensure that any applications to implement alternative ratemaking are thoughtfully and carefully considered to assess the impact not only on the regulated utilities but also on other market participants and customers. The Commission should also ensure that the proposed mechanisms meet the goals of improving the efficiency and effectiveness of the transmission and distribution system and ensure that these rates remain just and reasonable compared to the ratemaking mechanisms already in place.

Second, the legislation seeks to give the utilities cost-recovery mechanisms and rates to support and fully recover the allocated costs to deploy infrastructure and distributed energy resources (DERs). The legislation loosely defines DERs as a "distributed generation resource, energy efficiency, energy storage, alternative fuel vehicles and associated infrastructure, and demand response technology."

While RESA does not object to the consideration of certain alternative ratemaking mechanisms, RESA maintains that the utilities should use the alternative rate recovery mechanisms under consideration in this bill to improve the necessary transmission and distribution infrastructure, not to develop, deploy, or own DERs.

On this important point, the utilities should be tasked with taking the necessary steps to ensure that the transmission and distribution systems are designed to support and promote deployment of DERs by third parties. For example, completing the deployment of advanced metering and upgrades to software systems that allow for timely, complete and accurate flow of customer-specific usage information supports deployment of DERs. Utility focus around DERs should be on deploying and maintaining the distribution system needed to support these new projects.

While RESA recognizes that DERs will have an increasingly important role in our energy landscape, RESA also believes that the private market should be encouraged to deploy these resources based on market demands. Doing so will not only ensure efficient deployment but will also place the risk of investment on the private marketplace, not all ratepayers.

To be clear, DERs are products and services that should be and already are provided by the competitive retail market and should not be a part of a utility's rate base. Allowing the utilities

to deploy and receive full cost recovery for DERs will place other market participants at a clear competitive disadvantage.

RESA members and other third party companies are already investing their own capital in DER projects. When the utility gains the right to recover costs for such projects from ratepayers through cost increases in distribution rates at no risk, these private companies are at a disadvantage. This recovery by the utilities does not provide a level playing field or transparency for all players in the market. What incentives do utilities have to ensure that the dollars they invest in such projects are prudent and that they come within or below budget projections, since their costs and returns are guaranteed?

In addition, the Commonwealth has wisely made the decision to adopt competitive markets for electric generation and natural gas and remove the utilities from the generation function. Allowing utilities to own and operate DERs does the exact opposite of what the Choice Act intended.

RESA urges that the legislation be amended to eliminate the language that provides authority to allow utilities to seek cost recovery for DERs, including electric vehicles and associated infrastructure, compressed natural gas infrastructure, energy efficiency and demand response products and anything else that might be classified as "distributed energy resources."

With this issue addressed, we again acknowledge that alternative ratemaking could offer potential benefits to ratepayers and would be worthwhile to explore with all stakeholders in a meaningful way.

While legislation like House Bill 1782 may seem innocuous at first glance, there can be significant public policy consequences. For example, how will utility ownership of distributed generation products impact the Commonwealth's competitive retail electric market?

If the committee finds that alternative ratemaking as set forth in House Bill 1782 is worth further exploration, then RESA strongly urges that the legislation be amended to remove the authority of the Commission to allow utilities to seek cost recovery for DERs.

Thank you for the opportunity to offer comments on this legislation.