Before the
House Consumer Affairs Committee

Hearing on House Bill 1782
Legislation Authorizing Alternative Ratemaking Mechanisms

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KEEA
KEYSTONE ENERGY EFFICIENCY ALLIANCE

Testimony of

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Introduction

Good morning Chairman Godshall, Chairman Caltagirone, and members of the House Consumer Affairs Committee. I am Eric Miller, the Policy Counsel for the Keystone Energy Efficiency Alliance, or KEEA. Thank you for allowing me to speak today on the important issue of alternative ratemaking.

KEEA is a Pennsylvania-based trade association representing the energy efficiency industry. Our member businesses provide services and advanced energy solutions to ratepayers, companies, and utilities across the Commonwealth. Statewide, our industry accounts for more than 60,000 Pennsylvanian jobs in a variety of industries ranging from manufacturing, construction, engineering, and software development, among others. Collectively, the energy efficiency industry has grown at an annual rate of 7.5% for the past decade, providing jobs in every county in the Commonwealth; jobs that support local economies because they cannot be outsourced.

KEEA supports the tenants of H.B. 1782, and believes that providing a pathway to implement alternative ratemaking mechanisms can provide numerous benefits to the Commonwealth and better align utility financial incentives with the rapidly growing energy efficiency market. We believe that H.B. 1782 can be improved by clarifying the goals of alternative ratemaking mechanisms and setting a clear framework for their adoption.

Background

I want to begin by providing this Committee with some background about KEEA's involvement in this issue thus far. Simply stated, KEEA has been one of the most vocal proponents of alternative ratemaking in the Commonwealth, and participated extensively in proceedings at the PUC on this topic.

Beginning in 2015, we were parties to two rate case settlement agreements where we asked that utilities to hold collaborative meetings exploring whether alternative ratemaking mechanisms could better align utility financial incentives with goal of increasing energy efficiency in the Commonwealth. Next, in 2016 we participated in the PUC's *en banc* hearing to explore the same question. In 2017, we provided comprehensive testimony that proposed a set of policies KEEA believes would balance the interests utilities and consumers, with the deployment advanced energy technologies. Interested parties have had nearly three years to exchange ideas on this topic at the PUC, and KEEA believes most stakeholders have begun to find some areas of agreement on policy options.

This legislation is a critical step in providing clear direction to the PUC that would allow utilities to propose these innovative ratemaking mechanisms.

Discussion

The policies enumerated in H.B. 1782 are essential for the Commonwealth. Over the past decade, advanced energy resources such as energy efficiency, advanced metering, and distributed generation have significantly changed the characteristics of the energy utility industry, a change that will only accelerate as these technologies become more widespread. No longer are customers just flipping on a switch or turning on a machine, consuming electricity and paying whatever it costs. Instead, customers are taking deliberate steps that reduce their overall usage, shift the time of day when they use energy, and even generate power for themselves.

I would like to provide the Committee with one Pennsylvania-wide example of this striking change. On August 21, 2017, the U.S. experienced its first total solar eclipse since 1979. In the run up to the eclipse, future power prices increased in the PJM market based upon the expectation that solar output would decrease, and more electricity would be needed to fill the gap. However, that is not what occurred. Instead, energy demand during the eclipse dropped precipitously, and extra power was not actually needed. There are a multitude of factors that led to decreased demand, but I would like to highlight an interesting one. Ahead of the eclipse, the smart thermostat manufacturer, Nest, asked its customers whether they would like to participate in a voluntary program to shift their usage during the day of the eclipse. Over 100,000 customers in the PJM footprint chose to do so, and consumed less electricity. This new and innovative way of interacting with the grid saved energy, and prevented the dispatch of more expensive electricity resources, something that benefits all customers, even those who were not able to participate.

In the past seven years, efficiency technologies deployed through Act 129 have saved millions of MWh of electricity and provided more than $4 billion in net benefits to every ratepayer in the Commonwealth. These benefits are not just limited to bill savings. Energy efficiency technologies help in utility planning by allowing utilities to defer or even avoid costly distribution upgrades, and like we saw during the eclipse, provide another resource for grid resiliency and reliability. Importantly, the reliability and resiliency benefits of efficiency are not limited to infrequent events like the solar eclipse, but something that can be leveraged daily to shave peak system load and allow customers to consume less energy overall.

Despite the clear benefits of these technologies, the traditional ratemaking scheme in Pennsylvania is not well structured to encourage, or even accommodate these transformative technologies. Our utility regulation is built on model that compensates utilities based on how much energy they sell, not necessarily the other services that they can provide to customers. The current system has served the Commonwealth well for the last century to bring reliable electricity service to every corner of the state, but now negatively impacts the wider adoption of advanced technologies that empower customers to choose how and when they use energy.

This has led to an unfortunate trend of increased fixed customer charges, which increases the portion of customer bills that they cannot avoid paying. As these charges make up a larger percentage of a customer's bill, it takes away their ability to control their costs, and increases the payback period for energy efficiency investments like LED lighting, more efficient machinery, and advanced building controls. Additionally, there are serious consumer concerns around increased fixed charges, which have a disproportionate impact on low-usage low-income customers.

Fortunately, many of the policies included in H.B. 1782 could address this issue by making utilities whole for investments that support energy efficiency and associated technologies, and even provide a financial incentive for utilities that improve their performance in areas like energy efficiency deployment and customer engagement. For example, one policy listed in H.B. 1782, revenue decoupling, can delink utility revenues from utility sales. This could serve two purposes. First, it makes sure utilities receive their authorized revenues even if customers choose to become more energy efficient. Second, it improves the value proposition for utilities to make and support investments in advanced energy technologies. This would address the current situation, whereby utilities lose revenue they cannot recover in between base rate cases when they help their customers save energy.

Another example is performance incentive mechanisms, which would provide new revenue opportunities for utilities when they meet performance criteria that benefits the Commonwealth. These are many possible performance criteria, including exceeding energy efficiency targets and increasing customer participation in programs, among others. States that have provided performance incentives for utility achievement of target criteria have seen robust growth in their advanced energy markets, and empowered customers to control their costs.

KEEA strongly believes that if passed, this bill could have a transformative and beneficial impact on Pennsylvania's regulated utilities, while also benefitting all ratepayers. However, KEEA does not advocate for alternative ratemaking at all costs, and recognizes that other stakeholders have legitimate concerns about the potential for certain alternative ratemaking mechanisms that might be implemented in a manner harmful to their constituents. To ensure that this legislation has the best possible impact on all ratepayers, we propose the following recommendations.

Recommendations

First, we believe the legislation should strengthen its guidance to the PUC regarding the goals of alternative ratemaking. To this end we recommend that encouraging greater deployment of energy efficiency and distributed energy resources be included as one of the primary policy goals of the Commonwealth. As the bill reads today, it states only that alternative ratemaking be consistent with the efficient consumption of energy. KEEA believes that by explicitly stating the policy of the Commonwealth is to encourage the deployment of energy efficiency and other advanced resources, it will ensure that alternative ratemaking mechanisms help customers capture the benefits of these technologies, including reduced customer costs and control of their electricity bills.

Second, KEEA recommends the legislature direct the PUC to set a framework for what types of policies are acceptable under alternative ratemaking. The docket at the Commission spans nearly two years and contains ample information on policy options and stakeholder positions. If the PUC were to address individual ratemaking proposals on an *ad hoc* basis, it would be resource intensive for all parties involved and take years to development reasonable guidelines on the implementation of alternative ratemaking mechanisms.

Conclusion

Thank you for listening to my testimony today. I hope my remarks provided this Committee with some additional information that will be useful while this bill is being deliberated. I am happy to answer any questions the Committee might have.