

Pennsylvania House Consumer Affairs Committee
Testimony of Gregory N. Dudkin, President, PPL Electric Utilities
House Bill 1782
Oct. 23, 2017

Good morning, Chairman Godshall, Chairman Caltagirone, and members of the Committee.

Thank you for the opportunity to be here today to express PPL Electric Utilities' support for House Bill 1782 and discuss its importance to customers and utilities across our Commonwealth.

#####

In Pennsylvania, across the United States and around the world, the energy landscape is changing – more dramatically and at a faster pace than it has in decades. Customers are adopting new technologies like solar generation, and they are more efficient in their energy usage. These trends will continue and will increase, resulting in significantly lower electricity sales over time.

The electric grid is evolving – from a distributor of energy to an energy platform – and as such it will become much more important to all of us. Electric utilities will play a key role in transforming the grid and supporting the new energy economy, while at the same time continuing to provide safe, reliable, affordable and secure energy for all.

Distributed energy resources, or DER, are deployed across the distribution grid and can be used individually or in aggregate to provide value to customers, or the grid, or both. Examples include solar panels, combined heat and power systems, energy storage, and energy management products like smart thermostats. Deploying distributed energy resources in a widespread, efficient and cost-effective manner requires complex integration with the existing electricity grid.

At the outset, I'd like to make it clear that PPL Electric welcomes and supports customer-owned solar panels and other distributed energy resources. We absolutely support our customers' efforts to manage their energy use, and to use electricity more efficiently. This is the right thing to do for our customers, for the environment, and for the Commonwealth. Because of our investments in the grid, our customers already are enjoying first-quartile service reliability and safe, affordable and secure energy. We will continue to do our part and make the investments necessary to transform the grid and integrate distributed energy resources in a way that benefits our customers.

The adoption of distributed energy resources – along with significant energy-savings efforts by our customers like using more efficient lighting and appliances – will result in progressively declining sales of electricity. Under today's regulatory system, this will mean a steady decrease in revenues that utilities can use to invest in the grid, to keep it reliable and to enhance it to meet the changing needs of our customers. This is because today's ratemaking mechanisms tie the amount of utility revenues to the amount of electricity delivered to customers. In short, utility revenues are "coupled" to the amount of electricity we sell. We need to address this issue so utilities will be able to continue to invest in the electric grid to keep it strong and secure for customers. And, as electricity sales decline, customers still will expect electric utilities to provide the safe, dependable service that powers their quality of life.

House Bill 1782 will clarify the Pennsylvania Public Utility Commission's authority to approve alternative ratemaking methods – in particular, those that "decouple" or break the connection between the total amount of energy customers use and the total revenues utilities collect -- as well as multi-year rate plans and performance-based rates. Forms of electric decoupling already are working in 18 states, demonstrating that this system is both doable and sustainable for our future. In California, for example,

decoupling has been in place for many years, and the state's utilities have a long history of using multi-year rate plans. According to the California Public Utilities Commission, the state's decoupling policy is largely responsible for making California the nation's most energy-efficient state while promoting economic growth. New York also has a long history with decoupling and multi-year rate plans to benefit customers. Three-year plans are standard in both states.

In Pennsylvania, alternative ratemaking methods will offer advantages to both customers and utilities. They will ensure the continued reliability of the state's electric grid, while benefitting the environment and providing a system that is fair to all customers – whether or not they choose to install solar panels or other distributed energy resources.

#####

I'd like to start by sharing some more specific information about the changing energy landscape and how it is transforming the way customers and utilities interact with each other.

Electric transmission and distribution systems were designed around the central generating model, with power generated by large central power plants and delivered over long distances to serve local customers. Distributed energy resources present significant challenges for the energy industry. As customers increasingly move to new on-site electric generation options and deploy advanced technologies to consume less energy, innovation will be required to accommodate two-way power flows and solve issues like generation fluctuations (for example, when it's cloudy and solar panels are not generating at normal capacity).

PPL Electric has seen a significant increase in distributed energy resources applications in recent years, with a nearly a six-fold increase between 2015 and 2017. While solar installations are most common, PPL Electric and the industry also are seeing unprecedented growth in the adoption of other technologies such as combined heat and power systems and energy management products such as smart thermostats. We expect this trend to continue.

We already are taking steps to understand how to meet our customers' desires for these technologies. We recently finalized a \$3.1 million grant from the U.S. Department of Energy to support our Keystone Solar Future Project. We'll combine our innovative smart grid technology, which has already resulted in significant reliability improvements, with new tools and software to develop a distributed energy resource management system, or DERMS, which will be used to integrate solar and other distributed energy resources into the grid. This project will demonstrate that solar and other customer-owned generation — properly placed and integrated into the electric grid — can benefit the customers who install it and can have significant benefits for society.

It's clear that the way we operate, on a technological level, is undergoing significant change. This will be largely invisible to our customers — provided we can keep the system reliable.

These issues are not unique to PPL Electric's service area or to Pennsylvania. The electric industry worldwide is examining ways to adjust current business models to adapt to and support these trends in ways that serve all customers, residential and commercial alike. Here in Pennsylvania, House Bill 1782 represents a solution that we believe will work for everyone.

#####

Decoupling would affect only the delivery portion of customer bills. There would be no effect on the generation portion. Our delivery costs for customers are largely fixed, even though customer usage varies greatly. For example, it costs us the same to connect the average new house to the grid, and to serve that house reliably and safely, whether the customer uses 500 kilowatt-hours or 750 kilowatt-hours each month.

Even with declining electricity usage, we still need to invest in infrastructure — poles, wires, transformers and other equipment — so the electric grid can meet customer demand, 24 hours a day, 7 days a week, 365 days a year. It's in everyone's best interest to find a fair way for utilities to earn the amount of revenue authorized by the PUC to maintain a safe, reliable and secure electric grid — while still giving customers the ability to save money when they use less electricity.

#####

PPL Electric believes that the implementation of alternative ratemaking methodologies is crucial to addressing these emerging issues. We commend the PUC for beginning and encouraging additional discussion in the utility industry on the issue of alternative ratemaking. The PUC held an *en banc* hearing in March 2016 to seek information about alternative ratemaking methodologies and received input from a wide variety of parties, including PPL Electric. The PUC also entered a tentative order in March 2017 to request additional information and address issues related to alternative ratemaking. In support of the PUC's efforts, we submitted comments, as well as reply comments, that addressed the issues raised by several stakeholders.

#####

PPL Electric believes that House Bill 1782 would clarify the PUC's authority to approve alternative ratemaking methods as requested by utilities. It's important to note that utilities would be able to voluntarily file for these mechanisms. There would be no requirement to do so. Utilities that choose to use these mechanisms would be required to file for them as part of a base rate case proceeding.

It is important to stress that the intent of House Bill 1782 is to allow utilities to adjust their rate structures to encourage deployment of distributed energy resources in the state. PPL Electric believes that the important issues around alternative ratemaking mechanisms proposed in this legislation and utility ownership of distributed energy resources (which is being proposed in another piece of legislation) are separate and distinct issues and need to be addressed as such.

These alternative ratemaking methodologies are not intended to be one-size-fits-all. Utilities should have flexibility to design and implement the methodologies that are most appropriate for them and their customers.

The focus in this testimony reflects the methodology that PPL Electric currently believes is best for the company and its customers – decoupling with a multi-year rate plan.

I've mentioned that decoupling mechanisms would separate the amount of revenue utilities collect from the amount of electricity sold. Here is some more specific information:

- Under the traditional ratemaking system in Pennsylvania, the PUC approves the price per kilowatt hour which, when multiplied by the number of kilowatt hours sold, determines the revenue a utility collects. Under decoupling, the PUC would approve the revenue a utility can

collect and provide the utility with a mechanism to adjust on a periodic basis its price per kilowatt hour, as sales fluctuate, to reach that predetermined level of revenues.

- Utility revenues would be fixed and approved in advance by the PUC, and a utility could collect only that fixed amount – no more or no less – over the multiple-year time period approved by the PUC. This approved revenue would be based on budgets for each year of the plan, including expenses, capital additions, and a fair return on equity. This is similar to how the revenue requirement in a base rate case is determined today.
- If a utility over-collects on the approved level of revenue, customers would receive a refund through the price adjustment. If a utility under-collects, the price would be adjusted upward to make up the difference. Any adjustments would be filed with the PUC and effective on a schedule set in the utility's proposal before the commission. These periodic adjustments are intended to smooth and reduce spikes in customer bills.
- There would be a general moratorium on rate case filings during the multi-year period submitted by the utility. This will reduce administrative burden and costs for utilities, the PUC, and interested parties who prepare materials for and participate in rate cases.
- Customers would know at the beginning of the multi-year period what their estimated delivery charge will be over the entire period, based on the utility's PUC approved budget, and based on the expected electricity sales over the period.

Another form of alternative ratemaking is performance based rates, under which utilities would be rewarded for innovation and best-in-class performance in areas such as customer satisfaction and reliability. Such incentives also would, importantly, help hold utilities accountable for high levels of service excellence. These types of metrics are already defined in some areas by the industry and the PUC. Performance incentives would provide additional encouragement to utilities to advance

technologies and practices that are in customers' best interests. PPL's sister company in the United Kingdom, WPD, already has experience with performance-based rates.

#####

Approval of House Bill 1782 would open the door to multiple improvements for customers, utilities, and ultimately for the Commonwealth. Customers will benefit from continued investments in a strong, safe and secure grid. Periodic adjustments will make rate changes over time more manageable for customers. And keep in mind that if overall sales were to increase – such as from a surge in usage of electric vehicles, or from a prolonged cold or hot spell – customers would receive a downward price adjustment if a utility using decoupling collected more than its authorized amount of revenues.

Decoupling would not, by itself, lead to higher customer rates over time. Customers would still pay per kilowatt-hour for electricity, and would still have the ability to save money by using less electricity. Decoupling also would not affect the Commonwealth's existing open market for generation supply: Customers would still have the ability to shop for the electricity by choosing among competitive suppliers, as well as the option to stay with default service.

Additionally, decoupling is fair to customers who use lower amounts of electricity. Customers' bills still would be primarily based on how much electricity they use. So, much like today, those customers who use less power would have lower monthly bills than those who use more power. There still would be a strong incentive for customers to conserve energy.

And, PPL Electric remains steadfast in its commitment to providing a wide range of assistance programs for qualified customers.

Through a multi-year rate plan, customers would know up front how much the utility will invest in system improvements over the period, and they would have the ability to comment on it in a base rate proceeding. They would know, too, that utilities will continue to be held accountable to manage costs efficiently, innovate and provide excellent value while ensuring top-notch customer service.

Alternative ratemaking methods enable utilities to more directly support the growth of distributed energy resources technology and energy efficiency measures, by removing disincentives in the form of lost revenue.

Alternative ratemaking such as that enabled by House Bill 1782 better aligns the Commonwealth's ratemaking process with its public policies, which encourage customers of all types to reduce their energy usage.

#####

In conclusion: The energy industry is dramatically changing. House Bill 1782 creates flexibility for ratemaking structures to change along with it. Utility companies need the ability to continue investments to keep their delivery networks strong, safe, reliable and secure for all customers. They also need to be able to fund the integration of new technologies into the grid as it becomes an important platform to enable the new energy future.

Decoupling offers significant advantages for customers, for utilities, and for the Commonwealth of Pennsylvania.

The new structures would be optional – no utility would be required to use them. The PUC would continue to review rates, and would continue to hold utilities accountable to provide safe, reliable, affordable service while investing prudently.

The amount customers pay would still be linked to the amount of electricity they use, and customers would still have incentives to manage their energy use. Decoupling, by itself, does not lead to higher customer bills over time.

Alternative ratemaking mechanisms like decoupling are a win-win strategy for customers, for Pennsylvania, and for electric utilities. It will help keep the electric grid strong and secure, it will benefit the environment by embracing energy efficiency and new energy technologies, and it will help PPL Electric continue to welcome and support customers who want to install their own solar panels and other distributed energy resources.

We appreciate Chairman Godshall and Chairman Caltagirone bringing this important bill before the committee for discussion and thank the bill sponsor, Rep. Sheryl DeLozier, and other legislators who have signed on as co-sponsors, for their strong support of this legislation.

Thank you. I'd be glad to answer any questions.