

Prepared Testimony of
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before the
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Good morning, Senator Miller and members of the Senate Democratic Policy Committee. My name is Stephen DeFrank, Chairman of the Pennsylvania Public Utility Commission (PUC or Commission).

I appreciate the opportunity to testify in front of the Committee today on the important topic of energy affordability in the face of market evolutions in electricity.

The Commission continues to monitor and address critical issues in the state's electricity sector, ensuring that electricity remains reliable, affordable, competitive, and consumer friendly. The Commission is actively engaged in assessing resource adequacy, supporting the continued development of Pennsylvania's competitive electricity markets, and enforcing strict oversight of electric generation and natural gas suppliers to protect consumers from misleading or deceptive practices.

The issue of electric resource adequacy has gained increased attention as a result of activity surrounding PJM Interconnection (PJM), the regional grid operator for Pennsylvania and much of the Mid-Atlantic and Midwest. In February 2023, PJM issued its Energy Transition Report on Resource Retirements, Replacements & Risk (Four R Report). Then in July 2024, PJM released the results of its most recent capacity auction. The Four R Report showed approximately 40 GWs of generation at risk of retirement. Subsequently, PJM's capacity auction resulted in a price increase for the 12-month period beginning June 2025. The primary drivers of these cost increases include:

- The retirement of traditional generation units and the growing use of intermittent renewable energy resources, which require a balanced mix of capacity solutions to maintain reliability.
- Delays in the PJM's interconnection queue to study and approve new resources, as well as supply chain and construction delays for projects that do receive interconnection rights.
- Projected electric load growth, particularly from data centers supporting artificial intelligence (AI) applications, which could account for 16% of total electricity demand by 2039 – up from 4% today.
- Increased adoption of electric vehicles (EVs) and electrification of heating systems, adding to future demand growth.
- Newly established auction parameters.

Recognizing the potential challenges posed by these developments, the PUC hosted a Technical Conference on Resource Adequacy in November of last year. Participants included utilities, generators, consumer advocates, the Governor's Office, and other experts. Key topics discussed included:

- Whether utilities should play a more direct role in securing new generation resources.
- The potential use of long-term power purchase agreements to support new generation development and grid stability.
- The need for large-load users, such as data centers, to provide their own backup generation rather than relying solely on the grid.

- The role of energy storage, demand response, and energy efficiency in balancing supply and demand.
- Regulatory and policy barriers that may slow new generation and transmission development, including lags in PJM’s process for interconnecting new generation resources, local permitting challenges, environmental policies, and supply chain constraints.

Following the conference, the PUC received 30 formal comments that it solicited via the Pennsylvania Bulletin. I am pleased to note that our first action item coming out of the conference was established last week. At our Public Meeting of Thursday, March 27, 2025 the Commission voted to convene an *en banc* hearing to research and discuss the subject of large load tariffs for electric distribution companies (EDC). The goal is to establish a model tariff in Pennsylvania that can appropriately balance the economic development potential of data center customers, the rate stability benefits these large users can bring, the infrastructure upgrades and funding necessary to interconnect these accounts, and important ratepayer protections from interconnection and upgrade costs. The *en banc* hearing will be held on April 24, 2025, in the Keystone Building in Harrisburg.

While I am pleased to be moving forward on this issue, it is not the only item being deliberated at the Commission. We are also placing a keen focus on a number of other topics. First, our technical staff are presently working to refine EDC load growth projections. As a restructured state, the Commission has placed less emphasis on evaluation of integrated resource planning over the last several decades. This is the case since the Commission was largely relieved of this obligation when restructuring occurred, and now the marketplace and PJM are responsible for resource planning. However, with the significant changes taking place in both wholesale and retail electric markets, we have reinvigorated our efforts to retain and analyze more granular load projection data from each of our EDCs to better inform the Commission and the Commonwealth of the future outlook of our electricity markets. For instance, the Commission is interested to see how EDC projections compare with those of PJM. We are also interested to see if some large users are applying for interconnection in multiple EDC service territories simultaneously for the same single project.

Time-of-use (TOU) rate design has also been an issue gaining some traction. TOU rates, when properly designed, can reduce peak demand on the grid, thereby flattening the load curve and helping to reduce the costs associated with meeting peak demand. All major EDCs currently offer TOU rates as part of their provision of default service. However, the uptake on those TOU offerings, whether from EDCs or electric generation suppliers (EGSs), has been low - only 5,970 accounts enrolled in TOU offerings in 2023. Nonetheless, the Commission is committed to improving customer awareness of TOU offerings, as they can be a valuable tool in helping consumers manage increased electricity costs.

Moving on, the Commission has recently approved some competitive power purchase agreements (PPAs) as part of EDC’s default service programs designed to construct new solar generation. Such purchases were approved for Duquesne Light Company, resulting in the construction of a 4.7 MW solar facility located at the Pittsburgh International Airport, and PECO, which is commencing a competitive solicitation for construction of an up to 25 MW solar project in Pennsylvania via a 10-year PPA.

On the topic of energy efficiency, the Commission recently issued a Tentative Order proposing Phase V of the Act 129 Energy Efficiency and Conservation Programs. Our proposed program would run for five years, commencing on June 1, 2026. The proposal includes five main areas of energy efficiency measures: market rate energy efficiency, low-income energy efficiency, solar, combined heat and power, and demand response. As I noted in a statement when approving the Tentative Order, Act 129 has provided significant benefits to the Commonwealth, delivering approximately \$4.5 billion in savings to Pennsylvania homes and businesses. As prices for both generation and delivery of electricity face upward pressures, the value of investments to save on usage will become even more economic. I believe energy efficiency will be an extremely important tool as we navigate this chapter of demand growth. After all, the cheapest watt is the one you do not use.

Another tool the Commission uses to ensure electricity remains reliable and affordable is our participation and advocacy at PJM and the Federal Energy Regulatory Commission (FERC). As I previously stated, wholesale electricity markets are not our jurisdiction, but we are an important stakeholder as our jurisdiction has a direct nexus to these marketplaces. Whether participating directly, or through the Organization of PJM States Inc. (OPSI), the Commission has maintained an active voice. For instance, the Commission filed comments at FERC supporting Governor Shapiro's proposed PJM capacity market reforms. I also personally participated in a FERC Technical Conference discussing the topic of co-located load, offering the perspective of the Commonwealth's utility regulator to ensure end users pay their fair share of costs.

I would also like to touch on Pennsylvania's competitive retail electric marketplace. The Commission strives to ensure Pennsylvania consumers benefit from fair pricing, transparency, and robust supplier competition. In this time of rising electric prices, retail Electric Generation Supplier (EGS) contracts represent an opportunity for customers to save. The PUC provides a great resource to review supplier offerings at PaPowerSwitch.com.

At the same time, the PUC remains vigilant in enforcing consumer protection rules to ensure that electric generation suppliers and natural gas suppliers engage in fair and transparent marketing practices. In April 2024, the Commission issued a Secretarial Letter reminding all suppliers of their obligations under 52 Pa. Code Chapter 111, which governs Marketing and Sales Practices for the Retail Residential Energy Market. This letter followed an increase in consumer complaints about misleading marketing tactics during periods of high electricity prices.

Key supplier requirements in the Commission's oversight include:

- Full transparency when contacting potential customers, including clearly identifying the supplier and stating the purpose of the call.
- Prohibiting misleading statements that could confuse consumers.
- Strict compliance with state and federal "Do Not Call" list laws, which prohibit suppliers from contacting customers who have opted out of solicitation.

Additionally, the Commission continues its ongoing enforcement efforts through investigations and penalties against suppliers found to be violating Pennsylvania's consumer protection rules.

A promising industry development which offers a new avenue for investment, grid management, and resource adequacy are virtual power plants. In September of 2020, FERC issued Order 2222,

allowing distributed energy resources to participate in wholesale markets. Regional Transmission Organizations throughout the country are currently implementing rules and procedures to get this new marketplace up and running. The Commission issued an advanced notice of proposed rulemaking on Order 2222 last year, and we are currently deliberating next steps. Given the investment in advanced metering infrastructure throughout the Commonwealth, the Commission hopes any next steps, including a potential rulemaking, can increase efficiency, enhance service, and potentially lower costs through proper utilization of virtual power plants.

As well, the Commission continues to advocate for necessary and prudent reforms to net metering laws. As we stated in our 2023 Alternative Energy Portfolio Standards (AEPS) Report, current law permits development of net metered systems up to three MW that have no or very little electric load but energy and lighting directly used for the generation facilities themselves. As such, developers reap retail compensation for what is otherwise merchant generation. In our 2023 AEPS Report, we detailed our review of over 230 net meter projects that generated more than 500 times the average electric usage of their facilities, netting each of these accounts up to \$500,000 annually and equating to a projected total figure of over \$100 million that is paid by EDC customers. Keep in mind that this information is from our 2023 AEPS report. We envision our soon to be released 2024 AEPS Report will show a significant increase, potentially up to four times the amount, in the number of these types of accounts. I believe this trend will continue into the coming years, until otherwise addressed by law, due to the lucrative opportunities presented under current law. To that end, the PUC has requested the General Assembly consider modifying the structure of net metering by establishing reasonable bounds to curb the economic harms of subsidizing excess generation at retail, rather than wholesale, rates.

As Pennsylvania's electricity landscape continues to evolve, the PUC remains focused on ensuring resource adequacy through continued engagement with PJM, utilities, and stakeholders to address emerging grid reliability challenges; fostering a competitive electricity market that provides affordable and transparent options for consumers; and enforcing strict supplier oversight to ensure that Pennsylvanians are protected from deceptive marketing and unfair business practices.

The Commission understands there are numerous items of interest and consideration being deliberated regarding electricity markets and EDCs. These include, but are not limited to, the Governor's various electricity reforms as well as modifications to Act 129.

The Commission looks forward to working with the General Assembly, industry partners, and consumer advocates on these issues and others. And of equal importance, the Commission will continue our concerted focus to think outside-the-box about new policies and tools we can presently leverage to further facilitate an affordable, safe, and reliable energy future for all Pennsylvanians.

On behalf of the Commission, I appreciate the opportunity to testify today. I welcome your questions and look forward to continuing our collaboration with the General Assembly to advance policies that benefit all Pennsylvanians.