Testimony of the Energy Association of Pennsylvania

Pennsylvania Senate Democratic Policy Committee

Hearing on Energy Affordability

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I. Introduction

Good morning and thank you for the opportunity to testify before the Senate Democratic Policy Committee on energy affordability. Undoubtedly, this is one of the most pressing challenges facing Pennsylvania families and businesses today.

My name is Andrew Tubbs, and I am the President and CEO of the Energy Association of Pennsylvania (EAP). EAP represents Pennsylvania's regulated electric and natural gas distribution utilities. Our member companies deliver reliable energy to nearly nine million homes and businesses across all 67 counties, invest billions annually in Pennsylvania infrastructure, and directly support more than 15,000 high-paying jobs throughout the Commonwealth.

EAP and its members share this Committee's commitment to reducing the burden of energy costs on Pennsylvania households. Rising bills are real, and the frustration behind them is legitimate. But lasting relief requires that we direct legislative attention at the actual drivers of rising costs, and my testimony will identify meaningful, achievable legislative actions can make a real difference for customers.

Today's testimony focuses on five concrete areas where the General Assembly can act now to reduce what Pennsylvania families pay for energy.

II. Understanding What Is Driving Customer Bills

To address energy affordability, it is imperative to start with the structure of the utility bill. Customer electricity bills include four major categories of costs: distribution charges, which cover local infrastructure like poles, wires, and substations; transmission charges, which cover the regional high-voltage grid and are set by the Federal Energy Regulatory Commission; generation supply charges, which are the actual wholesale cost of electricity determined through PJM auctions; and policy-driven costs and mandates, which are state programs passed through to customers and which, as of January 2025, comprised approximately 10.5% of a typical residential electric bill and 19% of a small commercial bill.

For regulated electric utilities, distribution costs make up less than 50% of the customer bill. Generation costs alone, which utilities pass through without any markup or profit, account for around 40 to 60% of a residential customer's total bill. When those costs go up like they have for the past three years, the increases flow directly and entirely to customers.

The steep climb in Pennsylvania utility bills over the past two years has been driven primarily by PJM wholesale capacity market prices. Before a Pennsylvania household consumes a single kilowatt-hour, it is paying for the promise of electricity availability. PJM capacity market costs rose from approximately $2.2 billion for the 2024/2025 delivery year to $14.7 billion for 2025/2026, a nearly sevenfold increase in a single auction cycle. The 2026/2027 delivery year locked in at $16.1 billion. That is more than $30 billion in two consecutive delivery years, all of it has or will be passed through to ratepayers. These payments go directly to independent generation owners and their shareholders. Regulated utilities collect these charges, remit them in full, and have no control over their amount nor earn a return on them whatsoever.

Pennsylvania's energy distribution customers have benefited from the Commonwealth's abundant Marcellus Shale resources, which have kept natural gas commodity costs significantly lower than they would otherwise be. That structural advantage must be protected, and built upon, as Pennsylvania charts its energy future.

This context matters, because solutions that do not address the actual cost drivers will not provide lasting relief for customers. The following five areas represent targeted, evidence-based actions that this Committee and the full Senate can take to meaningfully reduce energy bills for hardworking Pennsylvania families.

III. Pennsylvania Needs New Generation and a Strategy to Secure It

The single most powerful lever for reducing Pennsylvania electric bills over the next decade is new generation. More supply means lower wholesale prices, lower capacity costs, and lower bills for every Pennsylvania household and business. Presently, Pennsylvania customers are paying a scarcity premium, and the answer to a scarcity premium is more supply.

There are signs of market response, but not at the pace needed to meet forecasted demand. PJM recently reported 811 new interconnection requests, an indicator that developers see opportunity in this market, even under capacity market caps . EAP and its members welcome every new megawatt, from every viable fuel source, that can be brought onto the Pennsylvania grid. However, there is a long path from requesting to interconnect a new energy source in PJM to having it being built and brought online. While customers in Pennsylvania will continue to pay for capacity costs, even if capped, that will continue to impact monthly electric bills for the foreseeable future. EAP recommends that continued focus be on ensuring whether the capacity payments being paid to existing generators is being used by independent power producers to invest in new or expanded generation in Pennsylvania.

Further, EAP encourages continued focus on the PJM processes to track that new generation sources come online, and existing Pennsylvania policies, including Pennsylvania’s siting and permitting processes, and its existing default service programs, which could provide an opportunity to secure long-term supply agreements that would provide price stability and incentivize new generation investment.

EAP also supports Pennsylvania's continued engagement in the FERC proceedings surrounding PJM's Reliability Backstop Proposal, to ensure that any new reliability mechanisms are structured fairly and that financial obligations flow proportionally to the parties that have benefited from the current market structure.

Pennsylvania's regulated utilities are unique, as they are fully regulated. They are obligated to serve customers that request service in their service territories. Every price they charge is reviewed and approved by the Commission, following public proceedings. At the present time, no Pennsylvania regulator reviews how capacity revenues are deployed after they are collected. No Pennsylvania legislator can direct a generator to site new construction in Pennsylvania. No Pennsylvania ratepayer has a mechanism to recover overpayments during distorted pricing periods. Collectively, we need to have real discussions about other options, including mandating bring your own generation for large load customers and considering options, such as SB 897, if competitive wholesale markets fail to deliver the new generation that is needed.

IV. Strengthen Retail Market Consumer Protections

Pennsylvania has long been viewed as a pioneer of retail energy competition, with the promise that competitive markets would benefit consumers through lower prices and innovation. While competition has produced benefits for some customers who actively participate, the data now shows a troubling pattern on the residential side.

According to data reported by Pennsylvania's electric and natural gas distribution utilities, residential customers paid approximately $350 million above what they would have paid for default service from their local utility through retail shopping in 2024 alone. This outcome was driven in part by aggressive, misleading, and predatory marketing practices (i.e., bait-and-switch introductory rates), confusing contract terms, and targeting vulnerable customers including seniors and low-income households.

This is not a small consumer protection issue. It is $350 million that left Pennsylvania households, bypassed investment in Pennsylvania infrastructure, and produced no benefit for the customers who paid it.

EAP strongly supports legislative action to address this problem. The House passed HB 2131, which was voted favorably out of committee last month as an important step in advancing consumer protection for retail customers. We view Senate Bill 312 as a constructive companion effort. We urge this Committee to press for the strongest possible consumer protections and clearly assign switching responsibility to the suppliers who have the relevant customer information, as this legislation moves forward in the Senate, including:

- **Affirmative consent requirements** that are clear, verifiable, and enforceable before a customer can be switched to a competitive supplier.

- **Comparative pricing disclosure** that requires competitive suppliers to clearly display their price against the utility's Price to Compare before enrollment.
- **Enhanced protections for vulnerable customers**, including meaningful restrictions on marketing to customers enrolled in universal service programs.
- **Robust enforcement** against misleading or aggressive supplier marketing, with meaningful penalties and non-compliance with switching requirements.

We are committed to working with this Committee to strengthen SB 312 and ensure it delivers real, durable savings for Pennsylvania residential customers.

V. Close the Merchant Generator Net Metering Loophole

Pennsylvania's net metering policy was designed to benefit residential customers who install rooftop solar and other distributed generation systems designed to offset some or all of their electricity usage and to allow them to receive fair compensation for excess energy they send back to the grid. That purpose is legitimate and broadly supported.

However, as currently structured, Pennsylvania's net metering rules contain a loophole that primarily benefits large commercial solar developers, otherwise known as merchant generators, rather than residential customers. Large merchant generators can take advantage of rules intended solely for customer generators, receiving compensation at the full retail distribution rate despite minimal on-site consumption. The result is a cost shift onto other ratepayers — disproportionately lower-income households who cannot afford rooftop installations and who have no ability to opt in to the benefits of distributed generation.

This assessment is not simply EAP's position. In a rare display of unanimity, Pennsylvania's electric utilities, the Commission, the Office of Consumer Advocate, and the Office of Small Business Advocate have all testified or represented that this loophole is causing real and growing harm to residential and small business customers.

Closing the merchant generator net metering loophole is a direct, targeted affordability action that would reduce inequitable cost shifting, produce immediate benefits for residential ratepayers, and do so without sacrificing the legitimate goals of distributed generation policy.

VI. Reopen the AEPS Tier II Border

Pennsylvania's Alternative Energy Portfolio Standard (AEPS) currently applies a closed-border policy for Tier II alternative energy credits (AEC). This means Pennsylvania customers are required to purchase credits only from in-state Tier II resources, restricting the pool of eligible supply and driving up compliance costs by tens of millions per year.

Reopening Pennsylvania's border to out-of-state Tier II credits would directly reduce the price of AEPS compliance by expanding the pool of available resources and restoring competitive market pressure. This is a straightforward, low-risk policy change that would produce real and immediate savings for Pennsylvania ratepayers, without reducing the Commonwealth's commitment to its energy policy goals.

The cost trajectory of Act 114's Tier II AEC prices following the border closure is a vivid illustration of what supply restriction does to ratepayer costs. The General Assembly has the authority and the opportunity to reverse that trajectory.

VII. Reinstate Chapter 14 Consumer Protections

The Responsible Utility Customer Protection Act (Chapter 14) was allowed to sunset in 2024, eliminating important consumer protections for termination, payment arrangements, and utility service access. Pennsylvania's regulated utilities have continued to abide by its provisions as a matter of practice, but the legal framework that protected both customers and utilities is gone.

Chapter 14 ensured that customers who can pay their utility bills do so, thereby preventing cost shifting onto neighbors and preserving the financial integrity of programs that serve vulnerable customers. Its provisions appropriately balanced access to service against the obligation to pay for it.

Reinstating Chapter 14 is a targeted, evidence-based affordability reform. It reduces cost shifting, strengthens the financial sustainability of universal service programs, and restores a clear legal framework for both utilities and customers. It deserves the same legislative attention as other affordability measures before this Committee.

VIII. Utility Ratemaking

Yesterday, the House passed HB 2224. While an amendment to eliminate the regressive electric gross receipts tax would provide immediate and real cost savings to customers, that is the only cost savings the bill offers. For this reason, the EAP remains unequivocally opposed to that legislation as it moves to the Senate.

HB 2224 would place a statutory cap on the return on equity that Pennsylvania's regulated utilities are allowed to earn, a formula equal to the 10-year U.S. Treasury bond yield plus two percent, which would currently yield approximately 6.5%. EAP is not aware of a single state that has established an authorized ROE below 8.5%. This bill to fundamentally overhaul the commonwealth’s regulatory process was considered without a single hearing to obtain feedback from stakeholders and would not place Pennsylvania within the mainstream of utility ratemaking. It would push the Commonwealth well outside it.

Lower authorized returns do not translate automatically into lower customer bills. They translate into higher borrowing costs, reduced investment capacity, and, as the credit markets have already demonstrated, potential credit downgrades. When Arizona Public Service received an authorized ROE of 8.70%, which is still more than two percentage points above what HB 2224 would allow, all three major credit rating agencies immediately downgraded the utility. Borrowing costs rose, and customers paid the difference. Pennsylvania's own utilities have already seen analyst warnings in public reporting that the current regulatory environment risks higher capital costs for ratepayers. HB 2224 would accelerate and deepen that risk.

Pennsylvania's rate case process is exhaustive, independent, and transparent. The Commission, the Office of Consumer Advocate, the Office of Small Business Advocate, the Bureau of Investigation and Enforcement, large industrial customers, and low-income advocates all participate fully in establishing authorized utility returns, case by case, based on evidence. That process is working. HB 2224 would replace it with a formula that has no precedent in any state, conflicts with a century of federal constitutional law under *Bluefield Water Works and FPC* v. *Hope Natural Gas* and would predictably increase the very costs it seeks to reduce.

The five affordability actions outlined above would produce real savings for Pennsylvania families. HB 2224 would not. We urge the Senate to reject it.

IX. Conclusion

Pennsylvania families are paying more for energy, and the General Assembly is right to act. But lasting relief requires honest identification of the cost drivers and targeted legislative action that will make a difference.

The five actions outlined in this testimony represent direct, achievable steps toward lower energy costs for Pennsylvania customers. Each addresses a real cost driver. And each can be advanced this session.

EAP and its members are committed to delivering safe, reliable service at reasonable rates and to being a constructive partner as the General Assembly works toward comprehensive solutions that improve energy affordability for all Pennsylvania customers. We stand ready to work with the Governor, the General Assembly, the Commission, and all other stakeholders on reforms that deliver real and durable benefits for Pennsylvania families and businesses.

Thank you for your leadership and for the opportunity to testify. I welcome your questions.