

**Before the Commonwealth of Pennsylvania
Senate Democratic Policy Committee**

**Legislative Hearing
Lowering Your Consumer Electric Bill
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I. INTRODUCTION

Good morning, Chair Miller, Senator Kane, and Members of the Senate Democratic Policy Committee. My name is Darryl Lawrence. I have the honor of serving as Pennsylvania's Consumer Advocate. Thank you for the opportunity to testify about electricity affordability in Pennsylvania.

II. EXECUTIVE SUMMARY

Addressing electricity affordability is vital to the safety, health, and economic well-being of Pennsylvania utility consumers.

There are three main takeaways that I would like this Committee to consider:

1. First, when setting rates for regulated distribution wires service, the following methods should be required in ratemaking:

a. the use of a fair capital structure where the equity portion does not exceed 50 percent.

b. the use of the Average Life Group (ALG) depreciation procedure, which is used in a vast majority of state jurisdictions.

Using these fair ratemaking methods is important to the interests of both consumers and shareholders. These methods would not discourage shareholders from investing in Pennsylvania and would provide relief to consumers by lowering electricity bills.

2. Second, to protect consumers from paying excessive prices when shopping, it should be required by law that shopping customers must affirmatively consent to paying a variable rate. If they do not consent, shopping customers should be returned to default service at the end of their fixed price contract rather than rolled over to a variable rate.

Despite even the very best of supplier practices in providing consumers with notice of expiring fixed price terms, consumers often miss these prompts. When consumers roll over to variable rates, they often associate that consequence with a bad experience in the retail shopping market, discouraging shopping by the affected consumer and any consumers who learn about it. Inserting a safeguard that consumers must first provide affirmative consent before paying a variable rate could protect consumers and potentially encourage shopping.

3. Finally, while the introduction of hyperscale data centers in Pennsylvania presents opportunities and challenges, the Commission must require electric utilities to have mandatory safeguards in place in their retail tariffs to ensure that the interconnection of new data centers will not harm existing consumers by shielding consumers from rate increases and service curtailments. My office is committed to doing its part to protect existing ratepayers.

III. EXPANDED DISCUSSION

A. Use fair ratemaking methods in setting electric distribution rates.

1. Use hypothetical capital structures with the equity portion not exceeding 50 percent.

Capital structure is the relative percentage of equity and debt that a company uses to finance its investments. Equity is more expensive than debt. A capital structure where the equity portion exceeds 50%, while slightly reducing financial risk for creditors and investors, increases the overall cost of capital, which must be recovered through rates.

Typically, while regulated utilities are not publicly traded companies, their parent companies are. The parent company acts as a holding company which wholly owns any regulated utility subsidiaries. As a parent company is publicly traded and its subsidiary public utility is not, the parent company's capital structure often differs from the subsidiary utility's capital structure.

This structure benefits the parent company through a concept referred to as double leveraging. Through double leveraging, the parent company issues debt and infuses that debt into the regulated subsidiary as common equity. Since equity is more expensive than debt, this reduces costs to the parent company at the expense of the subsidiary's ratepayers. The costs that the parent company can collect from its subsidiary public utility are far greater than the cost of issuing debt.

For ratemaking purposes, utilities should not be permitted to use a capital structure with an equity portion exceeding 50 percent, notwithstanding the actual capital structure of the utility, its parent, or affiliates. The use of an evenly split 50% equity/50% debt capital structure for ratemaking purposes is fair for both shareholders and ratepayers. Importantly, using a hypothetical capital structure for ratemaking purposes would not affect the actual capital structure of the utility, its parent, or affiliates.

In a relatively recent electric rate case, the use of an evenly split, hypothetical equity/debt capital structure adjustment in calculating the revenue requirement would have resulted in annual savings to rate payers of approximately \$30 million. The use of a fair, hypothetical capital structure to set rates is an established ratemaking practice. When the actual equity portion exceeds 50 percent, I recommend that Pennsylvania law requires the use of a hypothetical capital structure with an equity portion not exceeding 50 percent.

2. Use the Average Life Group (ALG) depreciation procedure.

The underlying principle of utility depreciation is intergenerational equity. Ratepayers who benefit from utility assets should pay for the assets during the benefit period, which is the life of the assets. Intergenerational equity is achieved through allocating costs to ratepayers consistently over that time-period.

Under the Average Life Group (ALG) depreciation procedure, the average life of all property results in the same depreciation rate applied to each age interval. As a simple example, if \$1 million of utility plant is depreciated under the ALG procedure over 10 years, ratepayers are charged \$100,000 per year. The ALG depreciation procedure is required by a supermajority of jurisdictions nationally and is already used by many Pennsylvania utilities, either for all of their plant or for some of their plant.

Under the Equal Lives Group (ELG) depreciation procedure, property is divided into subgroups that each have a common life. The ELG procedure is an accelerated form of depreciation recovery, it results in higher rates for current customers. In a recent proceeding, the OCA's recommendation to use the ALG procedure instead of the ELG procedure would have resulted in over \$63 million in annual savings for ratepayers.

The larger the investments, the larger the discrepancy will be between the two procedures. Given the significant investments in electric infrastructure that either are in process or coming soon, the impact of the utility's choice of depreciation procedures has an even more significant impact on customer rates.

Pennsylvania should join the supermajority of states that require the ALG procedure.

B. Shopping customers must affirmatively consent to pay a variable rate.

Many residential consumers sign up for a fixed price contract for a brief period due to attractive “temporary” prices, often three months. When the period expires, they may, without realizing it, be rolled over to a variable price contract whose price is much higher than their fixed price contract. Customers should not be penalized for shopping for their generation supply – and the penalties are harsh. In my many discussions with consumers across the state, the message is the same, “I’ve been burned once and I’m never doing that again!” Is it any wonder that residential shopping statistics on how many customers have switched to an EGS in Pennsylvania continue to hover around 20 percent?

Residential shopping customers overpaying to the tune of two to three hundred dollars per year for electric service is a long-standing pattern that is not isolated to any utility’s service territory. While the current regulations require an EGS to issue notices to their customers, the customer is not required to affirmatively consent to any rate change or methodology used by the EGS to calculate either fixed or variable rates. These contracts expose residential customers to a highly volatile electric supply market. This negative renewal option policy contributes to higher rates and customer confusion when higher bills must be paid to avoid collection action.

My recommendation is that shopping customers should be required to affirmatively consent to pay a variable rate. If such consent is not given, a couple options could happen. First, the customer can be automatically returned to their utility’s default service at the end of the fixed-price contract. Or, the customer can be rolled over to another fixed price contract offered by the same supplier provided that the contract price does not exceed the default service rate by more than a certain percentage. Other states have passed automatic renewal laws that can serve as examples.¹

A consumer’s silence should not be interpreted as acceptance of a variable rate contract for essential utility services. Rolling over to variable contracts after a teaser rate or fixed price promotion has resulted in customers overpaying for electricity service. In

¹ See e.g., Illinois Il. Admin. Code tit. 83, § 412.230 - Contract Renewal, <https://www.law.cornell.edu/regulations/illinois/Il-Admin-Code-tit-83-SS-412.230> (last visited June 17, 2026); see 50 state survey, available here <https://www.faegredrinker.com/-/media/files/insights/automatic-renewal-state-laws-charts-overview-w0205738.pdf?hl=en-US>.

fact, the vast majority of residential customers served by an EGS pay more than the price to compare over any reasonable period. We have three data points that confirm this:

- Through discovery in a default service plan proceeding, we learned that in 2025, 84 EGSs served a major electric utilities' residential customers, 68 of which served customers at a rate higher than the applicable price to compare. This resulted in the residential shopping customers paying nearly \$85 million more in generation charges as compared to the utility's default service rate or price to compare (PTC) (specifically, those consumers paid to those 68 EGSs an average price in 2025 that was 27% higher than the PTC). Those same utility residential shopping customers paid approximately \$395 million more than the PTC between January 2022 and January 2026.
- We also reviewed EIA data from 2021 to 2024 which tells the same story across Pennsylvania – there is a difference of hundreds of millions of dollars across the state. Again, this equates to residential shopping customers paying two to three hundred dollars more per year for the “energy” portion of electricity as compared with the default service rate.

Requiring that electricity suppliers obtain affirmative consent from Pennsylvania's consumers increases transparency, results in more informed electricity consumers, and helps prevent customers from overspending for vital electric service.

The biggest complaint I hear from customers is that they signed up with a supplier and are later faced with significant increases to their electricity bills. If a customer is satisfied with their electric supplier, they may tell a few of their friends. On the other hand, if a customer is upset with their supplier, they tell their friends, share negative experiences online, and likely never shop for electricity again. Returning customers to default service at the end of their contract with a supplier also improves trust and confidence in Pennsylvania's supplier market as customers would not be switched to overpriced contract terms without their affirmative consent.

C. Mandatory tariff protections are needed to shield existing consumers from costs and reliability risks caused by new data centers.

The introduction of large-scale data centers in Pennsylvania presents opportunities and challenges. If introduced and implemented in a thoughtful and considered manner, the economic benefits for Pennsylvania could be substantial. Conversely, without sufficient safeguards for ratepayers, the interconnection of new data centers could create substantial

upward pressure on electric rates and increase reliability risks in this Commonwealth. Such an outcome would be untenable, as Pennsylvania ratepayers are already seeing increased electric rates due to many factors, including a substantial reduction in the available generating capacity as compared to the forecasted load increases.

Data centers use extraordinary amounts of electricity to power their businesses. Due to their significant demand for electricity, the interconnection of data centers to electricity systems are causing significant costs to be incurred by energy providers to meet this extraordinary demand for electricity. These costs should be paid for by data centers as the cost causers. Prominent owners of data centers have pledged to pay for the costs that they cause within the states and regional markets where they plan to locate their new facilities.² Ensuring that new data centers, and not existing ratepayers, pay for the costs that they cause is a policy choice that has been made and publicly communicated by the data center community and executive branches of government, both at the national and state levels.

In addition to causing costs, data centers are causing reliability risks for the electricity grid due to their extraordinary demand outpacing existing and new generation supply and demand response resources. Data centers, not existing customers, should bear the costs and consequences of these reliability risks, which are created by their fast-paced interconnection to electricity wire systems (i.e., the distribution and transmission systems) unless and until there exists sufficient capacity within the region to meet their electricity consumption needs.

To honor these pledges and policy choices and to protect existing ratepayers from these costs and risks, within Pennsylvania there is existing statutory authority and responsibility placing obligations upon the Commission and the EDCs to act in a manner that respects a cooperative federalism framework and that protects reliable and affordable electricity service for existing ratepayers while also meeting the new extraordinary electricity demand of data centers. Pursuant to this existing authority and responsibility, the Commission and the EDCs must act and they must act soon. My office is continuing to do strongly advocate for these results at PJM and at the Federal Energy Regulatory Commission.

Thank you for the opportunity to speak here today. I look forward to your questions.

² See The White House, Ratepayer Protection Pledge, March 4, 2026, available at <https://www.whitehouse.gov/articles/2026/03/ratepayer-protection-pledge/>; see also The White House, Fact Sheet: President Donald J. Trump Advances Energy Affordability with the Ratepayer Protection Pledge, March 4, 2026, <https://www.whitehouse.gov/fact-sheets/2026/03/fact-sheet-president-donald-j-trump-advances-energy-affordability-with-the-ratepayer-protection-pledge/>.