

**Before the
House Consumer Affairs Committee**

**Hearing on House Bill 531, House Bill 1970,
And Issues Regarding Solar Energy**

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Testimony of

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Good morning Chairman Roae, Chairman Matzie, and members of the House Consumer Affairs Committee. I am Terry Fitzpatrick, President and CEO of the Energy Association of Pennsylvania (“EAP” or “Association”), a trade association comprised of electric and natural gas utilities—also known as electric and natural gas distribution companies—operating in Pennsylvania. EAP advocates for its members before the General Assembly and state agencies, assists its members by facilitating sharing of information and best practices, and provides educational opportunities for employees of its members and others through its operations and consumer services conferences. I am here today on behalf of our electric utility members¹ to address House Bill 531, House Bill 1970, and issues regarding solar energy. Thank you for this opportunity to provide testimony.

Historical Background

Before I address the issues directly, it may be helpful to provide some historical background and also relate my experience with these issues. In 1996, Pennsylvania enacted the Electricity Generation Customer Choice and Competition Act which established a competitive generation market so that market forces determine what types of electric generation are built. The main reason for this law was to lower electricity prices in Pennsylvania, which at that time were 15% above the national average.² I took part in the drafting of this legislation as a member of the staff in the Senate, drawing on experience at the start of my career as a lawyer with the Public Utility Commission (PUC).

In 2004, Pennsylvania enacted the Alternative Energy Portfolio Standards (AEPS) Act, which required that 18% of electricity consumed in the Commonwealth come from renewable

¹ The Association’s electric distribution company members include: Citizens’ Electric Company; Duquesne Light Company; Metropolitan Edison Company; PECO Energy Company; Pennsylvania Electric Company; Pennsylvania Power Company; Pike County Light & Power Company; PPL Electric Utilities Corporation; UGI Utilities, Inc.(Electric Division); Wellsboro Electric Company; and, West Penn Power Company.

² In 2018, electricity prices in Pennsylvania were 4% below the national average. Energy Information Administration, *State Electricity Profiles*, December 31, 2019, www.eia.gov/electricity/state/.

and other alternative energy sources by 2021. This law also put into place a policy known as “net metering” which controls how to credit the electric bill of a customer when the customer generates power from an on-site source such as rooftop solar panels. The passage of the AEPS Act was an intervention in the competitive market to jump-start alternative energy to further environmental goals. At the time this Act was passed, I served as a commissioner of the PUC and I participated in decisions on implementing the new law. Since 2010, I have continued involvement with issues under the AEPS Act in my current role with EAP.

Net Metering

The issue of net metering should be at the forefront of a discussion of solar energy policy in Pennsylvania. Under net metering, a customer-generator receives a credit on their electric bill that is equal in value to the full retail price of electric service for any power they generate. The full retail price for electric service includes not just a charge for energy itself, but also charges for the electric grid that delivers the energy (i.e., transmission and distribution) and to pay for items such as state taxes and government-mandated programs for low-income assistance and energy efficiency.

Clearly, a customer-generator should receive some credit for power they generate; we believe this credit should reflect the wholesale spot-market price of energy. But allowing these customer-generators to avoid paying for the electric grid shifts costs to other customers and is unsustainable over the long-term. Customer-generators are not “off the grid;” they continue to rely upon it to export energy they produce in excess of their use and also to import energy at times when the sun isn’t shining (in the case of a customer with rooftop solar). The grid is very important for a solar customer-generator because it acts as a giant battery that they get to use at any time; it only makes sense that they should pay for this benefit. It is also unfair to allow customer-generators to avoid paying their share of taxes and costs of programs mandated by law to achieve policy goals. The costs that customer-generators avoid paying under net metering do not go away—they are shifted to other customers. Many of these other customers

are less well-off and cannot afford the expense of installing rooftop solar, or they may rent rather than own a house.

Renewable energy also benefits from other government mandates and subsidies. The AEPS Act requires electric utilities and suppliers to purchase at least 8% of their portfolios from renewable technologies. At the federal level, the Energy Information Administration has reported that the overwhelming majority (87%) of federal energy subsidies paid in 2016 went to renewable energy (45%) and energy efficiency (42%).³

EAP recently canvassed its electric utility members and determined that as of last year the subsidy flowing from the general body of customers to customer-generators as a result of net metering is \$16-20 million per year. The total annual subsidy amount has been increasing rapidly because the number of customer-generators has been increasing rapidly. As of 2018, there were 26,000 customer-generators in Pennsylvania. This growth combined with the help of current government mandates and subsidies shows that it is no longer necessary to provide subsidies via net metering to jump-start development of solar energy in Pennsylvania.

One of the arguments used by advocates for continuing to subsidize solar energy via net metering is that this policy is necessary to combat climate change. But to protect customers, strategies for reducing greenhouse gas emissions should be prioritized based upon cost-effectiveness. Large utility-scale solar generation facilities are much more cost-effective than rooftop solar, and in recent years some of these facilities have been built in Pennsylvania without subsidies such as net metering. In addition, electricity customers in Pennsylvania can choose an electricity supplier other than their electric utility, and many competitive suppliers offer renewable energy. Again, the renewable generation facilities that are satisfying this market demand do not rely upon subsidies from net metering.

³ Direct Federal Financial Interventions and Subsidies in Energy in Fiscal Year 2106, *Energy Information Administration*, April 2018; www.eia.gov.

The inequity of net metering has been widely recognized,⁴ and a number of other states have addressed the net metering problem in recent years. Some states have retained net metering. Other states have adopted a variety of solutions: higher fixed customer charges, establishing minimum bills, establishing special rate classes for customer-generators, and instituting proceedings to study a variety of factors designed to establish a “value of solar.” Other potential solutions include setting a cap on the number of customer-generators or the total amount of subsidies, and phasing out net metering over a period of time.

In summary, the current practice of paying the full retail rate for electricity generated by customer-generators is no longer sustainable and should be re-examined. EAP and its electric utility members stand ready to work with this Committee and the General Assembly on reforms to the net metering policy.

House Bill 531 and House Bill 1970

House Bill 531 would amend the AEPS Act to authorize “community solar” facilities that are connected to the electric distribution system and that generate electricity using solar photovoltaic technology. Customers could contract for a subscription to purchase energy from these facilities and their bills would be credited at the “full retail value” for the subscribing customer’s share of the energy produced by the facility. In essence, this language extends the net metering policy to subscribers to community solar facilities. If the community solar facility owners did not receive subscriptions for all the power produced by the facility, the electric utility that owns the distributions system to which the facility is connected would be required to purchase this excess generation at the utility’s “avoided cost” as determined by the PUC. The bill also expresses an intent to “eliminate barriers to participation” by low-income and moderate-

⁴ See e.g., Rethinking the Rationale for Net Metering; Barbara Alexander, Ashley Brown, and Ahmad Faruqi; *Public Utilities Fortnightly*; October 2016; www.fortnightly.com. (“[N]et metering is now causing an unfair shift of costs to non-solar customers. This policy is unfair because it is too expensive, because it shifts essential electricity service costs to those who cannot afford to install solar on their roofs, and because its justification to jumpstart a nascent industry is no longer applicable.”)

income customers, but the means for achieving this goal are not specified and are left to the PUC to address in developing regulations.

If House Bill 531 moves forward, electric utilities have a number of concerns, such as the open-ended requirement to backstop community solar facility owners by purchasing all unsubscribed energy. However, by far the biggest EDC concern with this legislation is the extension of net metering to the bills of subscribers to community solar facilities. To the extent these facilities are authorized and constructed, they will accelerate the growth of subsidies borne by the general body of customers that are not either customer-generators or subscribers to community solar facilities. Extending net metering to the bills of subscribers to community solar facilities, thus allowing them to escape from paying grid charges, is particularly inappropriate since these facilities are connected to the distribution grid and thus rely on the grid to deliver all of the energy generated by the facility.

House Bill 1970 authorizes electric utilities to seek PUC approval of a “local solar” program under which a third party would build a solar photovoltaic facility connected to the distribution grid and sell subscriptions to customers. Subscribers to local solar facilities would pay a cost-based charge for energy from the facility, and other charges on the bill, including transmission and distribution charges, would not be impacted. A range of 5-15% of the output of the local solar facility would be reserved for low-income customers, who could subscribe to the facility without losing their access to customer assistance programs.

House Bill 1970 is better designed than House Bill 531 in that it avoids adding to the burden of subsidies paid by the general body of non-solar customers. In addition, House Bill 1970 is preferable in that it would allow, but not compel, electric utilities to submit a local solar proposal where there is a strong core of customers who may be willing to pay an unsubsidized, cost-based charge for energy from the solar facility.

Thank you for the opportunity to testify and I would be happy to answer your questions.