

**Before the
House Majority Policy Committee
Public Hearing re
The Impact of Inflation on Working People and Their Families
June 14, 2022**

**Testimony (re energy and utility prices) of
Terrance J. Fitzpatrick, President and CEO
Energy Association of Pennsylvania**

Good morning Chairman Causer and members of the House Majority Policy 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.¹ 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. Thank you for this opportunity to testify regarding the recent increase in energy prices which are contributing to higher utility bills, especially electric bills.

Wholesale energy prices have increased significantly over the past year. The Energy Information Administration (“EIA”) has reported that the spot market price of natural gas at the Henry Hub averaged \$6.59 per million British thermal units (MMBtu) in April 2022, up from \$2.66 per MMBtu in April 2021.² Similarly, the wholesale price of electricity in the PJM region (which includes Pennsylvania) rose from \$35.09 per megawatt hour (“MWH”) in the first quarter of 2021 to \$58.33 per MWH in the first quarter of 2022, and EIA projects that it will rise to

¹ EAP members include: Citizens’ Electric Company; Columbia Gas of Pennsylvania, Inc.; Duquesne Light Company; Leatherstocking Gas Company, LLC; Metropolitan Edison Company; National Fuel Gas Distribution Corp.; PECO Energy Company; Pennsylvania Electric Company; Pennsylvania Power Company; Peoples Natural Gas Company LLC; Peoples Gas Company (formerly Peoples TWP); Philadelphia Gas Works; Pike County Light & Power Company; PPL Electric Utilities; UGI Central Penn Gas; UGI Penn Natural Gas; UGI Utilities, Inc.; Valley Energy Inc.; Wellsboro Electric Company; and West Penn Power Company.

² EIA Short Term Energy Outlook, May 2022, p. 2.

\$83.39 in the second quarter of 2022.³ The simultaneous rise in wholesale prices of natural gas and electricity is not just a coincidence, as electricity prices tend to follow natural gas prices due to the growing use of natural gas to generate electricity.

The rise in the wholesale prices of natural gas and electricity has caused a rise in the retail prices that electric and gas utilities charge their customers for energy supplies. Pennsylvania has “restructured” its electric and gas utility industries, which means that these utilities do not produce energy—they do not own power plants and gas wells. As a result, electric and gas utilities must procure supplies for their customers in wholesale energy markets. Restructuring also means that customers have the option of purchasing energy supplies from an “electric generation supplier” or “natural gas supplier” (collectively, “competitive suppliers”) rather than purchase these supplies from their utility. However, these competitive suppliers also purchase energy supplies in wholesale energy markets, so it is no surprise that the prices they offer to customers have also increased recently. The Public Utility Commission administers both a “PA Power Switch” website and a “PA Gas Switch” website to help customers compare competitive offers to each other and to the supply charges of utilities.

Electric and gas utilities have a legal obligation to provide energy supplies for their customers who do not choose competitive suppliers. This supply service is called “default service” in the electric industry and simply the utility’s “gas supply service” in the natural gas industry. At this point, I will focus my testimony on the process by which electric utilities purchase energy supplies, since higher electric prices are the chief concern of customers as we enter the summer and increase our use of air conditioning. However, the two most important points I’ll make here also apply to the procurement process of gas utilities: the process by which utilities make these purchases are subject to regulatory oversight and approval, and utilities do not earn a profit on their sales of energy supplies.

³ *Id.*, Table 7a.

Under Act 129 of 2008, electric utilities are required to use competitive procurement tools to purchase a “prudent mix” of spot market, short-term, and long-term contracts with the goals of providing price stability at the “least cost to customers over time.”⁴ An electric utility’s plan for carrying out this statutory obligation must be set out in a competitive procurement plan that is subject to approval by the Public Utility Commission following a formal process in which all interested parties, including consumer representatives, are provided an opportunity to be heard. It is important to note that while electric utilities are authorized by law to recover the costs of providing default service, they do not earn a profit on these energy sales to customers. Electric utilities only earn a return on the portion of the bill by which they recover charges to pay for the electric distribution system.

Electric utilities adjust their charges for default service quarterly or semi-annually to reflect their purchases of energy in wholesale markets. Due to the higher wholesale electricity prices described above, electric utilities increased their default service charges by a range of 8% to 46% at the beginning of June. The range of increases is chiefly due to differences in the timing of purchases in the wholesale market.

The supply / default service charges typically make up 40% to 60% of a residential customer’s bill, with the remainder consisting mostly of charges to pay for the transmission and distribution systems that transport energy to a customer’s home or place of business. Accordingly, it is important to note that if a customer’s supply charge increases by 25%, that does not mean their total bill is likely to increase by that amount.

What can electric customers do to respond to these increased energy prices? There are a number of options. Customers may consider shifting to “budget billing,” which smooths out month-to-month variations and can make it easier for customers to budget. Customers can also control costs through a number of strategies for conserving energy. This includes adjusting

⁴ 66 Pa.C.S. Sec. 2807 (e)

thermostats, using more efficient lighting and appliances, making sure cooling and heating systems are serviced regularly, and making improvements to weatherize their homes. Under Act 129 of 2008, larger electric utilities are also required to offer programs to help customers pay for the cost of improvements to the energy efficiency of their homes and businesses.

Customers can also consider offers from competitive suppliers, although as noted earlier, prices have also gone up in the retail market. Customers should carefully evaluate competitive offers, for example, by understanding the difference between variable and fixed price products and considering whether early termination fees apply. Customers should also be vigilant to pro-actively exercise their options when their contract with a supplier expires to make sure they are not switched to a potentially volatile variable price product.

If customers are having difficulty paying their electric bill, they should contact their utility to see if they qualify for a wide range of assistance options. These include both utility specific “universal service” programs funded through utility rates⁵ and government sponsored programs. Universal service programs include “customer assistance programs” under which charges are based upon qualifying customers’ ability to pay, hardship fund grants for one-time cash assistance, and “low-income usage reduction programs” under which qualifying customers receive assistance paying for energy efficiency improvements to their homes. Customers may also be able to set up a payment arrangement with their utility to spread out repayment of arrearages or seek assistance through community programs that are available.

Government-sponsored programs for energy assistance include: the Low Income Home Energy Assistance Program (LIHEAP), which has received additional funding from the federal government as a result of the pandemic and remains open until June 17th this year; as well as ongoing COVID-related relief programs such as the federal Homeowners Assistance Fund (HAF) and the federal Emergency Rental and Utility Assistance Program (ERAP), where

⁵ Electric and natural gas utilities expended a total of \$362 million on these programs in 2020.

assistance is available for both past due bills and upcoming payments. Utilities have worked with their local county governments and customer assistance agencies to successfully coordinate implementation of the utility assistance component these federal programs, helping customers impacted by the pandemic clear tens of millions of dollars of arrearages.

Thank you for the opportunity to testify and I'll be happy to answer any questions.