Legislative Budget and Finance Committee

A Study Pursuant to SR 116:
Supplier Consolidated Billing

<u>Report Comments by Stephen Fickes, Deputy Executive Director</u>
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Good morning. Madam Chair and members of the Committee. I am pleased to be here this morning to discuss the results of our study pursuant to Senate Resolution 116 (SR 116). My testimony today may seem complex and involves an "alphabet soup" of acronyms for regulatory terms -- but at the heart of this study is a review of Pennsylvania's permissible billing practices for energy, specifically electricity. With that brief introduction, I'll start by providing an overview of our first acronym – SCB, or supplier consolidated billing.

We are all familiar with the monthly electric bill, which is sent by our respective state-regulated utility, known as an Electric Distribution Company or EDC. And, if we are active consumers, we have used the Public Utility Commission's website to shop for an electricity supplier – which is known as an Electricity Generation Supplier or EGS. This ability is feasible thanks to the deregulation that occurred in the 1990s that essentially split electric service between utility-provided transmission charges and supplier-provided charges for generating electricity. The former is a PUC-reviewed rate, while the latter is a competitive rate offered by suppliers, which are licensed by the PUC, but not regulated like utilities. Billing for these two services -- the distribution charges from the utility -- and the generation charges from the supplier -- is where our study takes focus.

In Pennsylvania, utilities handle the administrative aspect of billing. This arrangement, known as "utility-consolidated billing," has been the mainstay of electric billing practices. We delve into the details of how this process works in the report, but at a high level, the process involves advanced data sharing between the entities. For example, the utility uses shared information to compile and send the consolidated bill to the customer and reimburses the supplier through a purchase of receivables arrangement. Finally, the utility collects and keeps the full payment from the customer. Pennsylvania also offers a dual billing option, whereby both the utility and the supplier send the customer a bill; however, this option is rarely used and is only available if the supplier offers a dual billing option.

While utility consolidated billing remains the standard billing practice, there is a third option – supplier consolidated billing or SCB. Under SCB – the billing process is reversed – that is, instead of the utility sending the consolidated bill, the supplier sends the bill to the customer and reimburses the utility for its charges. SCB and the historical context of its usage are the focus of SR 116 and the remainder of our report.

Regarding the historical context of SCB, the topic has been loosely debated for decades, but in 2018 it took renewed significance when the PUC held two hearings on the matter. As part of SR 116, we were asked to review the evidence presented at those hearings, which we supplemented with new interviews and data collected from stakeholders and industry experts. We also looked at the SCB billing options used in selected states, like Texas, Georgia, and Maryland -- where SCB is set to be implemented by December 31, 2024.

From our review, opinions were as varied in 2018 as they are today. SCB proponents view it as the next evolution in electricity deregulation and see it as a platform by which suppliers can improve customer connections while offering new targeted products and services. For example, in Texas, consumers have different billing options available, such as free weekends or special plans for electric vehicle recharging, to name just a few. Opponents of SCB, which include consumer advocates, utilities, and others - point to legal limitations in the Public Utility Code, as well as the ultimate end cost to ratepayers for making this significant change in billing practices. Ultimately, the PUC closed the matter citing that there was "neither clear authority for, nor consensus on how to implement SCB," which has had the effect of putting the issue in limbo.

SCB's legality within the Public Utility Code is a significant concern and was something we were asked to review. To be clear, our interpretation is not a legal opinion as the matter would ultimately be decided by the courts, but from our research, section 2807(c) of the Public Utility Code is a primary obstacle to SCB's implementation. We discuss the issue in the report, but this section arguably places the duty for billing upon the utility and not the supplier. Conversely, proponents claim that this section uses non-presumptively mandatory language, such as "may be responsible" instead of "shall be responsible," with respect to electricity billing. As such, proponents contend a workable pathway exists to implement SCB.

Beyond these legal discussions, there are other limitations possibly hindering SCB. For example, Pennsylvania's well-established consumer protections would need to be rewritten - as would customer service functions such as terminations, restorations, payment arrangements, and addressing customer complaints - all of which fall to utilities and not suppliers. There is also the potential for customer confusion, as Pennsylvania residents have grown accustomed to dealing with their utility on service-related issues. Proponents believe these issues can be mitigated with appropriate oversight from the PUC.

We also examined the potential cost impact of transitioning to SCB. While proponents argue that the service would ultimately lead to increased competition and cost savings, opponents are concerned that the implementation and administrative costs would outweigh any potential benefits. We analyzed projections from industry experts and stakeholders to gain a better understanding of these implications; however, because SCB remains a hypothetical discussion, with many different and competing variables, we cannot cite a specific cost projection. Conceivably, SCB might offer cost savings to customers in the future -- but these savings are currently uncertain as it is difficult to determine how added or new services might benefit consumers with differing needs. Moreover, we found that some consumers are willing to pay a premium for electricity supply that comes from solar or wind sources, so simply citing a cost savings potential can be misleading.

As for the next steps, our report offers two primary recommendations related to SCB. First, we recommend that policymakers monitor SCB in Maryland as a "test case." Maryland's venture should allow us to watch the transition and learn what worked successfully and what could be improved. To that end, we recommend the General Assembly require us to a conduct follow-up study looking at the specifics of Maryland's transition. Secondly, we recommend that if SCB is determined to be a needed outcome in Pennsylvania, the Public Utility Code should be amended to make a clear transition to SCB. Further, other sections that conflict with utility or supplier responsibilities should be amended.

In conclusion, the implementation of supplier-consolidated billing remains a challenging issue. While proponents argue that SCB would create new opportunities for suppliers to connect with customers and offer value-added products and services, opponents assert that legal limitations and potential cost increases to ratepayers make it a risky proposition. Our study highlights these issues by examining the evidence presented during PUC hearings and analyzing data collected from stakeholders and industry experts. Ultimately, the decision to implement SCB will require further discussion and consensus-building among all parties involved.

Finally, I would like to acknowledge the excellent cooperation we received from the PUC staff, including Executive Director Jennifer Berrier, and the Director of the Office of Competitive Market Oversight, Daniel Mumford. I would also like to thank our staff, including analysts David Beaudoin and James Wynne, who contributed significantly to this report. At this time, I would be pleased to answer any questions you may have.