

Prepared Testimony of
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before the
House Energy Committee

April 14, 2026



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Introduction

Good morning, Chair Fiedler, Chairman Causer, and members of the House Energy Committee. My name is Stephen M. DeFrank, Chairman of the Public Utility Commission (Commission). I appreciate the opportunity to testify before the Committee today on House Bill No. 2348 (HB 2348 or the Bill).

There has been significant and sustained concern regarding the cost impacts of the current net metering construct. This is not a new issue. The Commission has repeatedly highlighted the growing imbalance within the existing framework and the resulting cost shifts to non-participating customers.

Notably, on March 2nd, 2026, this Committee held a hearing at which I provided testimony detailing the Commission's projections for those exorbitant costs: \$6.4 million in 2026, \$90 million in 2027, and up to \$700 million in the long-run annually if structural issues are not addressed. These are not theoretical figures as they reflect real and growing affordability impacts on Pennsylvania ratepayers.

As such, I noted the Commission's support for legislative updates to net metering rules that would continue to foster true end-user net metering customers - those that were always the intended beneficiaries - while preventing merchant generators from receiving excessive compensation at the expense of other customers on the system.¹

At its core, the current structure allows certain large-scale participants to receive compensation that exceeds the value of the electricity they provide to the grid. That gap does not disappear, but rather, is borne by other customers.

HB 2348

HB 2348 represents a meaningful step toward reform of the merchant generator issue. However, in the long run the Bill would retain provisions that the Commission believes will eventually create renewed structural cost shifting issues. Potential refinement may be necessary to avoid recreating similar challenges over time, which I will highlight herein.

HB 2348 attempts to differentiate between true customer-generators and larger, merchant generators, and to align compensation more closely with the value provided to the electric grid. While complex, through the many provisions included therein, the Bill would help to incrementally reduce the inequities in the current net metering construct. The revisions proposed in HB 2348 create different subsets of net meter classifications which generally eliminate the loophole used by

¹ The March 2nd, 2026, testimony is available at <https://www.puc.pa.gov/about-the-puc/commission-testimony/>.

merchant generators while maintaining the current compensation scheme for a majority of customer generators.

The Commission's initial summary of the Bill by category is outlined below.

- ***Virtual Meter Aggregation***

HB 2348 eliminates the two-mile geographic limitation on virtual meter aggregation. This would provide broader access to net metering benefits for customers. More specifically, customer-generators will now be able to site generation resources where it best makes sense while still being able to offset their load so long as the alternative energy resource is located in the same electric distribution company (EDC) service territory as the load.

- ***Customer-Generator Classifications***

The Bill would reclassify net metering into four categories, with each category receiving a specific compensation scheme.

- *Small customer-generators* – compensated at the full retail value.

This group of customers, identified as those with an alternative energy system sized up to 50 kilowatts (kW), would encompass the vast majority of residential and small business rooftop solar accounts. All of these accounts would experience no change from the current net metering rules.

- *Large customer-generators* – compensated at the avoided cost.

This subset includes customers sized above 50 kW and up to 3,000 kW. New or prospective customers in this subset would see changes in the net metering rules. These changes appear largely intended to mitigate the harm caused by merchant generators under the current net metering rules. For instance, these customers would be required to have independent load separate from the alternative energy system. As well, these systems would be capped at no more than 200% of the customer's annual load.

For customers in this subset who are already interconnected or have submitted an interconnection application to an EDC before September 1st, 2025, the existing net metering rules would continue to be applied until the system is updated or until December 31st, 2050, whichever is sooner.

- *Large customer-generators on warehouse or commercial rooftops* – compensated at full retail value.

Any large customer generator which has an alternative energy system atop a warehouse or commercial rooftop, as defined in the Bill, would receive full retail value for excess generation.

- *Preferred site virtual meter aggregation generators* – compensated at the full retail value until the system is updated or December 31st, 2050, whichever is sooner.

For customers operating within a virtual meter aggregation design, any excess generation produced at preferred sites, as listed in HB 2348, will be compensated at the full retail value until the system is updated or December 31st, 2050, whichever is sooner. The Bill further clarifies that such facilities will only qualify for full retail value if they are constructed primarily on a preferred site, as determined by the Commission based on the facility’s generating capacity and physical footprint.

- ***Compensation Values***

The Bill establishes the parameters by which the Commission would set the monetary value for “full retail value” and “avoided cost” compensation for excess generation. HB 2348 defines “full retail value” in a manner which appears intended to require valuation at the EDC’s Price-to-Compare (PTC), consistent with existing practice. The Bill’s definition of “avoided cost” appears to focus valuation on the specific locational values determined by the Commission for energy, capacity, transmission, and distribution. This definition would give the Commission some discretion to calibrate compensation based on the location of the resource and the locational marginal price, transmission congestion, distribution system hosting capacity, and capacity market price signals at said location.

- ***Safe Harbor Cap***

HB 2348 gives the Commission the authority to place a cap on the total megawatts (MW) of net meter generation eligible for safe harbor under the Bill. This provision appears to focus only on the subset of customer-generators with a pending interconnection application at an EDC. The Commission would not be permitted to place a MW cap on those customers already operating or those with an approved interconnection application.

- ***Enforcement***

Finally, the Bill provides the Commission with clear authority to enforce the provisions contained therein, including the ability to issue, modify or rescind regulations or orders.

Initial Analysis

While HB 2348 takes positive steps toward net metering reform, the Commission's initial analysis of the Bill has identified the following areas that warrant further consideration.

- *Safe Harbor / Grandfathering*

HB 2348 would clearly put a stop, prospectively, to the systemic inequities being realized by merchant generator intervention into the current net metering landscape. However, the safe harbor, or "grandfathering," provisions of the Bill raise significant concern. Existing customer-generators benefiting from the current inequities of the net metering rules would be permitted to continue until December 31, 2050.

The Commission believes this approach is overly expansive and will lock in existing cost inequities for decades, delaying meaningful relief for existing ratepayers. In effect, the longer the grandfathering period, the longer other customers will continue to bear these exorbitant costs.

We submit that Committee should consider the shortest time period possible for grandfathering these facilities in order to mitigate the financial burden they create. It is important to note that the expiration of any grandfather period would not eliminate the customer-generators' ability to receive compensation but would instead align it more closely with the actual value provided to the system.

The Commission's concern is not with customer-sited generation itself, but with ensuring that all customers contribute fairly to the cost of maintaining and operating a safe and reliable electric system.

The safe harbor provision of the Bill also permits the Commission to place a cap on the amount of MW and, therefore, by definition, the number of facilities provided with this benefit. The Commission may only apply this cap to facilities with pending interconnection applications. We note the legislation does not instruct the Commission as to the goal or intent of the cap. Without a clearly defined policy objective, the application of such a cap risks significant legal challenges for the Commission.

The Commission recommends that the Committee consider adding language in this provision that provides an express purpose for application of the cap, such as to protect ratepayers from burdensome costs, or, to ensure the continued provision of just and reasonable rates. Further, the Committee may want to consider directing the Commission to apply any cap chronologically so customers who submitted interconnection applications first would have a higher likelihood of not being removed by the cap.

As well, the Bill requires compensation for “grandfathered” accounts at the EDC’s small general service or small commercial rate schedule. This requirement creates a structure that could shift costs inappropriately between customer classes, particularly from larger participants to small and medium-sized business customers.

- ***Rate Schedule Requirements for Warehouse or Commercial Rooftop System***

Similarly, the Bill requires compensation for net meter systems on warehouse or commercial rooftops to be established under an EDC’s small general service or small commercial rate schedule. Again, the Commission believes this requirement will likely shift costs from larger commercial or industrial participants onto smaller commercial customers, creating an outcome that is neither transparent nor equitable. Specifically, this will likely result in unnecessary cross-subsidization of rates between large commercial accounts and small to medium sized commercial accounts. For instance, consider if an industrial rooftop net meter system is receiving compensation under a small commercial rate then the small commercial rate class could bear costs that do not reflect their own usage or system impact. The Commission thus recommends that larger commercial or industrial participants pay avoided cost and not be tied into the EDCs small general service or small commercial rate schedules. This is consistent with the Commission’s view that costs should not be shouldered by non-net metered customers or subsidized by the small commercial or general service customers.

- ***Excess Generation from Virtual Meter Aggregation Projects on Warehouse or Commercial Rooftops***

HB 2348 requires compensation for this subset of net meter accounts on a monthly basis. The Commission notes that net meter accounts are compensated for any excess generation on an annual basis, which the Bill does correctly identify throughout its other provisions. We highlight for your consideration to modify this section to read annually.

- ***Long Term Ramifications of Continued Payment at Full Retail Value***

The Commission believes that this Bill will make a positive impact in the short and medium term. However, in the long term, we submit that continued compensation at the full retail value will recreate the same cost-shifting challenges this legislation is intended to address, particularly as participation expands. Without a clear, long-term transition strategy, today’s solution risks becoming tomorrow’s problem.

The distribution grid is almost always being utilized daily in some form by net metered accounts, especially typical mass market rooftop solar accounts. This is the

case since solar generates electricity during the daylight hours, while a typical home consumes electricity throughout the day and night.

To ensure the distribution system is adequately funded in an equitable manner, the Commission recommends that the Committee consider a transition date for many or all of the subset categories of customers enumerated above to move to compensation at avoided costs. This will ensure the Commission is able to appropriately compensate net meter customers for the value they bring to the grid, while not imposing the lion's share of distribution system costs on all non-net metered customers.

The electric system is a shared network with shared costs. When some customers are able to avoid paying for that system, those costs do not disappear - they are shifted to others. If net meter policies allow customers to completely avoid paying their fair share, those without net metering will unfairly be left shouldered with the necessary costs to maintain the grid that is being utilized by all.

The Commission is particularly concerned about the rapid growth and scale of these projects, which has accelerated the financial impact beyond what was originally contemplated when Pennsylvania's net metering policies were established.

Conclusion

The Commission is currently running analyses to project the impact of the HB 2348 cost reduction in comparison with our projections under the current paradigm. As we finalize these figures we will be sure to communicate them to the Committee. While it would appear that HB 2348 will have an impact by reducing some costs associated with the current net metering structure, the Bill leaves the potential to entice development in many of the subset categories offering full retail value, thereby limiting the positive impacts on affordability the Commission is most interested in realizing.

In closing, the Commission believes HB 2348 is a constructive step in the right direction. We commend this Committee for bringing it up for consideration. As the Commission has continually stated, net metering is not sustainable in its current form.

This Bill represents necessary progress toward prudent reform. But additional refinements will be essential to ensure long-term affordability, fairness, and system sustainability. The Commission stands ready to work with the General Assembly to ensure that Pennsylvania's net metering framework supports innovation while protecting all customers from unintended and disproportionate costs.

We hope that you consider the input provided above as you deliberate HB 2348, and I am happy to answer any questions the Committee may have.