



State Commission Staff Surge Call: Clean Energy and the COVID-19 Pandemic

April 27, 2020

The COVID-19 outbreak is creating challenging economic conditions for customers, utilities, and state governments. The pandemic is having and will continue to have impacts on ratepayer-funded clean energy and transportation electrification programs during what may be a prolonged economic recession. Utilities may need to reassess spending priorities in the near future, and state public utility commissions will be working to mitigate detrimental effects on customers as much as possible while balancing the need to continue funding clean energy programs. This call featured expert speakers Stefanie Brand, Director for the Division of Rate Counsel in New Jersey, and Karl Rábago, Senior Policy Advisor at Pace Energy and Climate Center and Principal at Rábago Energy LLC.

Presenter Remarks

Decreasing electricity usage and rapidly rising unemployment creates a challenging environment for both electricity customers and utilities. Stefanie emphasized that the hardest period of the pandemic may be yet to come, with many customers likely to continue struggling to pay bills. Many will accumulate arrearages if they are unemployed for extended periods. A “death spiral” could emerge if this cycle continues, as costs of unpaid bills are spread to other customers still paying their bills. Rates will go up for these customers, which can cause even more customers to be unable to afford electricity.¹

However, climate change is still occurring, and reliable, dependable, clean electricity is more important than ever. Maintaining just and reasonable rates throughout the pandemic while continuing to pursue policy goals and being sensitive to economic conditions is a critical task for regulators. Stefanie offered an example of transportation electrification programs. While electrification is, in her opinion, sound policy, regulators should not be passing the entire bill to utilities to then pass along to customers, adding their weighted average cost of capital (WACC). Electric vehicles (EVs) are still more expensive than internal combustion engine vehicles, and many people cannot even think about purchasing a new car before economic conditions improve. Stefanie cited an example of siting a ratepayer-funded EV charging station in a low-income neighborhood, where residents in the community will not be using it. Given this environment, regulators should explore other avenues of funding to support worthwhile energy goals. For transportation electrification, New Jersey can use funds from the Regional Greenhouse Gas Initiative, a multi-state carbon dioxide cap-and-trade program, as well as Electrify America funds from the Volkswagen settlement. Utilities and car companies should also invest some of their own money, as broader EV adoption will increase electricity use, thereby benefitting utilities, and car companies will make more sales as customers see broadly available charging infrastructure.

Stefanie also discussed energy efficiency (EE) programs. EE is typically a cost-effective way to reduce emissions and benefit customers. Low- to moderate-income (LMI) customers could benefit significantly from EE programs, particularly as they face economic hardship, but they are also difficult to reach, as they tend to live in older, rental housing and lack upfront money to invest in EE improvements. Another issue with EE is decoupling. Many states have decoupling mechanisms that break the link between utility revenue and volumetric electricity sales, this removing the disincentive for utilities to pursue EE. However, as customers use less electricity during the pandemic, Stefanie projects that decoupling will

¹ Uncollectable bills are covered through rates in New Jersey.



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ensure shareholders will be made whole at the expense of ratepayers. Stefanie expressed that regulators should consider pausing or limiting decoupling during the pandemic to avoid this scenario, and consider whether a lower return on equity (ROE) is appropriate for utilities given the lower level of risk associated with EE spending.

Karl began his remarks by framing the impacts of the pandemic as “known unknowns.” We do not yet know what the impacts will be, but we know that a departure from business as usual is coming. Karl cited his experience at Austin Energy during the 2008 financial crash in helping regulators prepare for what could be coming from COVID-19.

First, Karl summarized the impacts we are already seeing and measuring. Electricity sales are down by around 10 percent, with residential use slightly up, commercial significantly down, and industrial unclear. Intra- and inter-day peaks are flattening in the residential and commercial sectors. Regulators should consider whether these impacts are significant and persistent before taking action to address them. In Karl’s view, the impacts are significant for many customers as they face losses of earnings and high energy burdens. Changes to short-term costs are also likely to be significant. Regulators should begin by initiating ongoing data reporting from utilities to ensure that they have the information they need to compare conditions under COVID-19 to normal conditions and act to address significant and persistent impacts. Karl emphasized that regulators should be looking at the relationship between income and energy consumption. Data in this area would highlight opportunities for EE and distributed energy resources (DERs) to be particularly beneficial.

Karl then offered ten key areas for regulators to watch:

1. Monitor arrearages and how they accrue for customers. If arrearages take up a household’s budget, less will be available for cost-effective EE and DER investments. With historically low interest rates, Property Assessed Clean Energy (PACE), Pay As You Save (PAYS), and on-bill financing could be attractive options.
2. After the 2008 financial crash, uncollectible utility bills increased in 2009 and 2010 compared to 2008. It will take time for costs to move through the system. Growing uncollectibles could reduce utility earnings, acting as a further disincentive to clean energy investments.
3. EE and clean energy funds should not be repurposed to meet short-term revenue shortfalls.
4. Customers that cannot afford their electricity bills are likely simultaneously having trouble affording housing, food, and other essential services. LMI customers are particularly vulnerable to both loss of earnings and high energy burdens.
5. Congress is continuing to debate additional stimulus funding. Utilities and communities should consider “shovel-ready” projects, drawing lessons from the American Reinvestment and Recovery Act of 2009 (ARRA). Projects should be able to spend their funds by putting people to work and delivering results. While leading Austin Energy, Karl obtained nearly \$40 million in funding for distributed energy service programs from ARRA, and ran the first utility-administered weatherization program using ARRA funding. While most regulators do not have direct oversight of weatherization programs, they could encourage utilities to work with state energy offices to make weatherization an attractive target for stimulus funding.
6. As Stefanie discussed, decoupling was not designed for the broad revenue impacts that COVID-19 is creating. Consider limits to decoupling during the pandemic.



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7. Oil, gas, coal, and other fuel prices are at historic lows, creating a source of cost savings to be passed on to customers. Regulators should understand and quantify the impacts of fuel price changes, and prepare for an eventual rebound as normal conditions resume.
8. The investment community cares about earnings, even though debt costs are falling, and wants to see increased equity. Regulators and the public do not want to see boosted utility earnings and shareholder payments at the expense of ratepayers.
9. However, COVID-19 is creating opportunities for functionalized ROE incentives. Regulators should consider incentives for utility investment in LMI EE, grid modernization, DER integration, transportation electrification, and other spending that will facilitate the clean energy transition and benefit customers. While many of these programs cannot resume under stay-at-home orders and social distancing, they can ramp up quickly once the crisis has passed.
10. Prepare for future events, and take actions now to help customers in the next crisis. A second wave of COVID-19 could emerge later this year. Hurricane season is starting for coastal states. Several states in the Southeast have experienced damaging tornadoes in recent weeks. Regulators and utilities should expect old challenges to recur in addition to new, unforeseen events.

Discussion

State commission staff on the call asked several questions following up on points Stefanie and Karl had made. Staff asked how states can meet DER and EE goals while being sensitive to costs. Karl recalled Austin Energy's green energy program that offered customers the chance to freeze the energy portion of their rate for ten years, enabling them to benefit from the fixed-price contract that Austin Energy was negotiating with renewable developers. Over the ten-year period, the green rate proved to be cheaper, supported EE programs, and allowed customers to better anticipate their energy bills and manage volatility. Austin Energy customer service helped publicize the green rate to customers that called about problems paying their bill. Replicating this approach could enable EE programs to continue while creating better conditions for ratepayers. Stefanie added that New Jersey has a government energy aggregation program where a municipality can purchase electricity in the competitive market on behalf of its citizens. While individual customers may shy away from green options, which they could perceive as more expensive, municipalities can step up to continue supporting clean energy.

Staff also asked if utilities and customers would have the bandwidth to create and sign up for green tariffs during the pandemic. Karl and Stefanie agreed that utilities may shift priorities within green programs, such as favoring community solar over residential rooftop solar. However, COVID-19 creates an opportunity for regulators to speak to the importance of clean energy programs. Regulators also need a better understanding of customers' energy burdens to improve the targeting of clean energy programs.

A commission staffer said the Public Service Commission was struggling with rapidly changing usage profiles as much of the state was staying at home. Karl stated that preliminary data suggests residential usage is slowly increasing. Further, residential consumption is relatively inelastic to price, meaning that regulators will need to understand the long-term drivers of changing use and not respond in an overly aggressive way to short-term variations. Load among commercial and industrial customers is likely to change in more substantial ways than that of residential customers.



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Another staffer asked about how to restructure decoupling programs to deliver savings to ratepayers rather than shareholders. Stefanie answered that some gas utilities in New Jersey have modified decoupling provisions and the state is looking at how to transfer these changes to electric utilities, including tying revenue to EE program performance.

California PUC Update

To conclude the call, a commission staffer from California summarized a [public workshop](#) the Public Utilities Commission (CPUC) held virtually on April 23 to explore the impacts of COVID-19 on customer-oriented clean energy programs. The workshop was divided into two segments: an opening panel on challenges, and a second panel on opportunities, with stakeholders encouraged to participate via webinar. California and other states have already authorized utilities to invest significant amounts of ratepayer funding in EV charging infrastructure in commercial areas or multi-unit dwellings and for customers with medium- and heavy-duty vehicle fleets. The CPUC has started to collect data but is now considering how to continue measuring the impacts of spending given the economic impacts of COVID-19. The CPUC is using the pandemic as an opportunity to collect data about how pandemic-driven changes are affecting how different clean energy programs are implemented and how programs could be modified to continue operations if the state remains under a stay-at-home order.

Conclusion

COVID-19 has created a new reality for utilities, regulators, and customers. In fewer than three months, much of the country has shifted to stay-at-home orders or recommendations, creating new demands on the energy system. However, many commissions will maintain their focus on clean energy as the crisis continues. Karl and Stefanie emphasized opportunities to improve the way clean energy programs are designed and implemented during the pandemic. Better data on household energy burdens and impacts of COVID-19 will be essential to navigating this crisis and coming back in a stronger position to weather future events. Regulators face a challenging task, but can draw on lessons from the 2008 economic crisis and successful approaches in other states as they balance clean energy goals with affordable, reliable electricity.

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