

CITIZEN POWER

Public Policy Research Education and Advocacy

March 16, 2016


Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: *En Banc* Hearing on Alternative Ratemaking Methodologies; Docket No. M-2015-2518883

Dear Secretary Chiavetta:

Enclosed please find Citizen Power's Comments, in the above referenced proceeding.

Sincerely,



Theodore Robinson
Counsel for Citizen Power

Enclosures

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

***En Banc* Hearing on Alternative Ratemaking Methodologies** : **Docket No. M-2015-2518883**
:

COMMENTS OF CITIZEN POWER, INC.

I. INTRODUCTION

Citizen Power, Inc. (“Citizen Power”) respectfully submits these Comments in response to the December 31, 2015 Pennsylvania Public Utility Commission (“Commission”) Secretarial Letter which both announced an *en banc* hearing on alternative ratemaking methodologies scheduled for March 3, 2015 and provided that interested parties could submit written comments to the Commission by March 16, 2015. Included within the Secretarial Letter was a list of issues concerning alternative ratemaking methodologies.

II. COMMENTS

Citizen Power is a regional, nonprofit, energy advocacy organization based in Pittsburgh. Citizen Power has a long track record of working to increase the use of renewable energy and energy efficiency technologies, secure least cost electricity for low income customers and establish rules that prevent market power and help to ensure a level playing field in the deregulated electricity marketplace. Citizen Power utilizes media, education, and litigation in state and federal regulatory venues to achieve its goals. Since we are focused on electricity, our

comments are limited to the use of alternative ratemaking methodologies as applied to electric utilities.

Citizen Power is generally in support of pricing mechanisms that encourage the development of energy efficiency from the perspective of both the utility and the consumer. Energy efficiency benefits the environment through a reduction in the amount of air pollution, an externality that is not properly priced into the cost of energy. Energy efficiency also helps consumers since it is significantly less expensive than the cost of new electricity resource options. In general, we believe that pricing mechanisms should not get in the way of the development of energy efficiency.

For this reason, Citizen Power is strongly against the use of a straight-fixed-variable (SFV) rate design. It discourages consumers from implementing energy efficiency solutions and conserving energy. SFV rates also shift greater costs onto low-volume consumers, which are disproportionately low-income consumers. Rate designs that have zero or minimal fixed customer charges are preferable because they promote lower energy usage, which in turn reduces the overall cost of electricity. Citizen Power also supports the additional energy savings that can be achieved through the use of inclining block rates.

On the other hand, the use of lost revenue adjustment mechanisms (LRAM) or decoupling, by themselves, are not effective in promoting electricity utilities to better implement energy efficiency and conservation programs. Currently, utilities have a strong incentive to meet their energy efficiency targets because of the potential for incurring penalties. However, they do not have any incentive to surpass their energy efficiency targets except for the ability to carryover savings to the future. Although both LRAM and decoupling remove the revenue disincentive for surpassing the targeted savings, they also do not provide any incentive to

maximize savings. In fact, one could argue that a small disincentive against energy efficiency still remains because of a corporate institutional bias toward growth. For these reasons, Citizen Power does not believe that LRAM or decoupling will significantly impact the way that electric utilities are implementing their energy efficiency and conservation programs in Pennsylvania.¹ Electric utilities currently are surpassing their energy efficiency targets because of the ability to carryover savings. Despite our skepticism that decoupling alone can promote energy efficiency programs, we do agree that decoupling does have other advantages such as eliminating the use of fixed charges and improving the credit ratings of utilities. In our opinion, if Pennsylvania increases their energy efficiency targets significantly in the future, the use of decoupling mechanisms should be re-investigated. Furthermore, if decoupling is used, Citizen Power supports a 3% annual cap on adjustments.

On the other hand, the use of incentive mechanisms tied to energy efficiency and conservation performance, such as shared savings, either as a stand-alone program or in conjunction with decoupling, may promote expanded energy efficiency programs because they properly incentivize increased energy efficiency savings. The question is whether the incentive mechanisms are cost effective from the standpoint of consumers and in the public interest. In looking at the data collected by the American Council for an Energy-Efficient Economy in their 2015 State Energy Efficiency Scorecard, incentive mechanisms may have an impact upon the effectiveness of the energy efficiency expenditures as measured by cost per MWh of savings.²

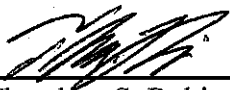
¹ There is some countervailing evidence that decoupling can increase overall energy efficiency savings. For example see *Decoupling Case Studies: Revenue Regulation Implementation in Six States*. Janine Migden-Ostrander et. al. The Regulatory Assistance Project (2014). Available at: <http://www.raonline.org/document/download/id/7209>. However, it is difficult to determine the impact of decoupling alone given the differing statutory and regulatory requirements in each state as well as additional incentive mechanisms.

² The 2015 State Energy Efficiency Scorecard. Annie Gilleo et al. American Council for an Energy-Efficient Economy (October 2015). Available at: <http://aceee.org/research-report/u1509>. By comparing the electric efficiency spending by state in Table 9 with the net incremental electricity savings in Table 13, the cost per MWh of savings was generally less in states with performance incentives (for those states spending of 1% or more of the statewide

Citizen Power is not aware of a comprehensive cost/benefit study of incentive mechanisms.

Without more concrete evidence supporting that the benefits from incentive programs are greater than the costs, Citizen Power currently does not support the use of incentive mechanisms at this time. However, Citizen Power would support a pilot program to help determine whether incentive mechanisms are in the public interest.

Respectfully Submitted,

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electricity revenues on energy efficiency). However, this data only suggests there might be a correlation. Variations may also result from the differences between the state programs, the different measurement and verification methodologies used by the states, the fact that the savings were only a one year snapshot, the different cost of electricity in each state, the allowed rate of return, and the differing sizes of the energy efficiency efforts.