Energy Association of Pennsylvania
800 North Third Street, Suite 205, Harrisburg, Pennsylvania 17102
Telephone (717) 901-0600 • Fax (717) 901-0611 • www.energypa.org

March 16, 2016

Rosemary Chiavetta, Esq., Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, Pennsylvania 17120

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

Dear Secretary Chiavetta:

Enclosed for filing please the Comments of the Energy Association of Pennsylvania filed to the *en* banc hearing in the above-referenced docket.

Sincerely,

Donna M. J. Clark

Donna M. J. Clark
Vice President and General Counsel

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

En Banc Hearing on Alternative Ratemaking Methodologies	: :	M-2015-2518883

COMMENTS OF THE
ENERGY ASSOCIATION OF PENNSYLVANIA

I. INTRODUCTION

On December 31, 2015, the Pennsylvania Public Utility Commission ("Commission" or "PUC") announced it would hold an *en banc* hearing on March 3, 2016 to seek information from experts regarding the efficacy and appropriateness of alternative ratemaking methodologies, such as revenue decoupling, that remove disincentives that might presently exist for energy utilities to pursue aggressive energy conservation and efficiency initiatives. The stated purpose of the hearing was "to permit participants to inform the Commission on the following rate issues: (1) whether revenue decoupling or other similar rate mechanisms encourage energy utilities to better implement energy efficiency and conservation programs; (2) whether such rate mechanisms are just and reasonable and in the public interest; and (3) whether the benefits of implementing such rate mechanisms outweigh any costs associated with implementing the rate mechanisms."[1] The Commission held the hearing as scheduled in two panels with a total of nine presenters. Each presenter was given time to offer testimony with opportunity for Commissioners questions following.

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[1] Secretarial Letter, December 31, 2015, Docket No. M-2015-2518883

Following the March 3 hearing, the Commission allowed for any interested party to submit comments under this docket by March 16, 2016. The Energy Association of Pennsylvania ("Association" or "EAP"), a trade association whose members include the major natural gas and electric public utilities operating in the Commonwealth of Pennsylvania, submits these comments on behalf of its electric distribution company ("EDC") and natural gas distribution company ("NGDC") members.[2] Individual member companies may submit additional input on these issues presently before the Commission.

II. COMMENTS

EAP thanks the Commission and its staff for holding the hearing and allowing for public comment on alternative ratemaking methodologies. We appreciate the complex nature of this topic as well as the Commission's initiative in beginning to explore it through the *en banc* process and collection of expert testimony.

As the Commission reviews the testimony provided by the panelists as well as input from additional stakeholders, EAP recommends that the focus remain on maintaining flexibility and tailoring any rate design to the needs of each individual utility based on the characteristics of its system and service territory. Any alternative method that is encouraged should be thoroughly studied, vetted, and implemented by a utility through individual regulatory proceedings so as to account for any conflict of recovery incentives with current mechanisms.

Progressive ratemaking methodologies include a myriad of mechanisms – including some already utilized by utility companies in Pennsylvania – such as cost trackers, the distribution

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[2] EDC Members include: Citizens' Electric Company; Duquesne Light Company; Metropolitan Edison Company; PECO Energy Company; Pennsylvania Electric Company; Pennsylvania Power Company; Pike County Light & Power Company; PPL Electric Utilities Corporation; UGI Utilities, Inc.(Electric Division); Wellsboro Electric Company; and, West Penn Power Company. NGDC Members include: Columbia Gas of Pennsylvania, Inc.; Pike County Light & Power Company; National Fuel Distribution Corp.; PECO Energy Company; Peoples Natural Gas Company LLC; Peoples TWP LLC; Philadelphia Gas Works; UGI Central Penn Gas, Inc.; UGI Penn Natural Gas, Inc.; UGI Utilities Inc.; and Valley Energy Inc.

system improvement charge ("DSIC"), use of a fully-forecasted test year, and a weather normalization mechanism.

To the Commission's question of whether revenue decoupling or another mechanism could incent utilities to better implement energy efficiency and conservation programs, EAP agrees with the testimony provided by the experts on March 3 — that is, that alternative ratemaking, if properly implemented, removes the potential disincentive or conflict between energy efficiency programs and utility revenue currently based on volumetric rates.[3] EAP agrees with testimony provided by EEI during the *en banc* that any potential mechanism should include "(1) … cost recovery for prudent utility investments in energy efficiency between rate cases, (2) an earnings opportunity tied to verifiable success in delivering cost-effective energy savings, and (3) mechanisms that allow utilities to recoup fixed costs as power sale volumes decline."[4] Therefore, it is important not to consider alternative ratemaking in a vacuum, but rather in conjunction with other regulatory tools that together can provide incentive for utilities to continue to promote energy efficiency among consumers.

Decoupling or other alternative ratemaking methodologies create a more neutral environment, removing the disincentive to pursue additional efficiency under a system where more sales equals more revenue for utilities. However, movement toward more aggressive energy efficiency utility programs may not automatically happen without more of a carrot approach, such as the implementation of performance incentive mechanisms ("PIM") or recovery of lost revenue.[5] A PIM is a method by which to link utility revenue (monetary incentive) to its

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[3] Docket No. M-2015-2518883, submitted *en banc* testimony by H. Gil Peach, p. 9-10; Mark Lowry (PEG), p. 5; PPL Electric, p. 4; Eric Ackerman (EEI), p. 2-3; Eric Miller (KEEA, CAC, NRDC), p. 6-7.
[4] Docket No. M-2015-2518883, submitted *en banc* testimony by Eric Ackerman (EEI), p. 2
[5] In September 2015, EAP provided testimony before the Pennsylvania House Consumer Affairs Committee detailing suggested improvements to Act 129 of 2008, such as the ability to recover lost revenue and the elimination of the specific penalty provision in Act 129.

performance in meeting certain targets or policy goals of the Commission and/or the Commonwealth. With respect to energy efficiency, PIMs are usually designed to award utilities a monetary incentive for any program-related savings above what is required by law or design. For Pennsylvania, this could mean that utilities receive a financial reward for any additional, voluntary energy savings achieved beyond the mandates of Act 129. The design of these mechanisms can be tailored to meet policy objectives and would provide a strong positive incentive for utilities to pursue additional cost-effective energy efficiency in the Commonwealth. In fact, a PIM would bring Pennsylvania in line with 29 other states that offer such incentives to utilities for the purpose of incentivizing energy efficiency. EAP believes that PIMS together with alternative ratemaking mechanisms, such as decoupling, should be considered as a tool available to utilities in the context of the current proceeding.

To the Commission's question of whether such rate mechanisms are just and reasonable and in the public interest, EAP believes that with proper design and implementation they can meet these criteria. EAP again emphasizes the need for flexibility and would not be in favor of mandating or requiring a particular mechanism. To the extent that a proposed alternative ratemaking mechanism can stabilize revenue in the face of short-run usage fluctuations due to changes in weather, the business cycle, or other conditions, the adjustment could reduce price volatility between rate cases for consumers. To the extent these methodologies can reduce the need for expensive and time-consuming rate cases, they could further reduce administrative costs for utilities and consumers. EAP believes that ultimately the reasonableness or desired applicability of a particular mechanism would be the subject of individual utility initiated proceedings.

To the Commission's question of whether the benefits of implementing such rate mechanisms outweigh the associated costs, EAP believes that they may. The ultimate cost-benefit analysis, however, would need to be established in the context of specific mechanism as proposed by a utility in a proceeding before the Commission.

III. CONCLUSION

EAP appreciates the opportunity to comment at the outset of this proceeding and requests that, in encouraging utilities to consider alternative ratemaking mechanisms, the Commission adopt an approach which allows for maximum flexibility for an individual utility to propose rate design changes that meet statewide policy objectives and account for the differences in service territories, operations and customer demographics. We look forward to working with the Commission and all stakeholders to continue to evaluate and research options that best meet policy goals and fit the needs of both customers and Pennsylvania utilities in maintaining fair and reasonable prices.

Respectfully submitted,

Terrance J Fitzpatrick
Terrance J. Fitzpatrick
President & CEO
tfitzpatrick@energypa.org

Donna M. J. Clark
Donna M. J. Clark
Vice President & General Counsel
dclark@energypa.org

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Harrisburg, PA 17102

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