Duquesne Light
Our Energy...Your Power

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March 16, 2016

VIA ELECTRONIC FILING
AND REGULAR MAIL

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

Re: **Alternative Ratemaking Methodologies**
Docket No.: M-2015-2518883

Dear Secretary Chiavetta:

Pursuant to the Commission's December 31, 2015 letter, enclosed please find Duquesne Light Company's written comments regarding the efficacy and appropriateness of alternative ratemaking methodologies.

If you have any questions regarding the information contained in its comments, please contact the undersigned.

Sincerely,

Shelby Linton Keddie/am

Shelby Linton-Keddie
Manager, State Regulatory Affairs
And Senior Legal Counsel

Enclosure

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BEFORE THE
PENNSYLANIA PUBLIC UTILITY COMMISSION

Notice of *En Banc* Hearing on Alternative Ratemaking Methodologies

Docket No. M-2015-2518883

COMMENTS OF
DUQUESNE LIGHT COMPANY

On December 31, 2015, the Pennsylvania Public Utility Commission ("Commission") issued a Secretarial Letter, announcing its intention to hold an *en banc* hearing in order to gather information "regarding the efficacy and appropriateness of alternative ratemaking methodologies ... that remove disincentives that might presently exist for energy utilities to pursue aggressive energy conservation and efficiency initiatives." SL at 1. A number of invited experts, including researchers, energy companies (one electric distribution company ("EDC") and one natural gas distribution company ("NGDC")) and consumer advocates testified before the Commission on March 3, 2016, giving their views on three specific questions: (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. *Id.*

Not surprisingly, the views of the testimony varied. Some stated there "are no downsides" to revenue decoupling (Peach), some advocated for modernization of utility rates (Ackerman), others believed that the current law (Act 129 of 2008) and rate mechanisms have worked well (McCloskey), and at least one Company suggested that, based on its experience in other states, a Levelized Distribution Charge for residential customers (comprised of fixed rate for distribution service and a volumetric charge for commodity) is ideal (Strauss). The only agreement, if any, obtained at the March 3 Hearing is that this is a complicated issue with numerous effects and that a number of issues should be considered when evaluating different ratemaking methodologies.

For those that did not testify, the Commission invited Comments for consideration as long as they are submitted by March 16, 2016. Consistent with that direction, Duquesne Light Company ("Duquesne Light" or "Company") hereby files comments for the Commission's consideration.

COMMENTS

Duquesne Light is a public utility as defined in Section 102 of the Public Utility Code, 66 Pa.C.S. § 102. Duquesne Light provides electric service to approximately 590,000 customers in the City of Pittsburgh and Allegheny and Beaver Counties of Pennsylvania. Of that 590,000, approximately 89% are residential customers, approximately 25% of which are low income. Accordingly, changes to residential rates as well as their effects on low-income customers demand specific focus and consideration in Duquesne Light's service territory.

Historically in Pennsylvania, utility rates in the energy sector have largely been tied to volumetric throughput with few exceptions. As a result, when consumption of electricity goes down, whether it be naturally through use of more efficient technology/appliances or mandated through non-voluntary EE&C programs such as those required by Act 129, so do utility revenues. In recognition of this reality, the Commission and Legislature have, over time, worked to craft different options that are already forms of alternative ratemaking.

As a result, distribution rates, even though retaining volumetric components, have gradually been making strides to get closer to the actual cost of service. In addition, mechanisms such as cost trackers (like the EE&C surcharge), the expansion of the applicability of the distribution system improvement charge ("DSIC") to energy utilities and the option of using a

Fully Projected Future Test Year ("FPFTY") have provided utilities with options for both collecting and projecting revenue recovery. While this DSIC ability for EDCs and the FPFTY have only been in effect since 2012 and are, accordingly, relatively "new" – the Commission, as it enters Phase III of EE&C programs, seeks to gather information on different ratemaking methodologies and their resulting effects on EE&C. Duquesne Light has had only one rate case using a FPFTY and has not yet filed for a DISC, so it has limited data concerning the effect of these alternative ratemaking mechanisms.

Act 129 has limits both on the amount of money that can be spent by EDCs, as well as a prohibition on collection of decreased revenue and reduced consumption outside of a distribution rate case.[1] Moreover, Duquesne Light is only compensated and credited for conservation directly tied with Act 129 programs, while remaining vulnerable to EE&C implementation (and any corresponding reduction in revenue) initiated by customers outside these programs. Further, rather than including any incentives for utilities to "better implement" programs, Act 129 includes mandatory penalties (not recoverable from ratepayers) if the utility does not achieve mandated reductions in consumption.[2] The suggestion by the questions posed in the December 31, 2015 Secretarial Letter is that if there are less "disincentives" to utilities for participating in EE&C programs (such as decreased revenue with no ability to displace those losses with revenue on a full and current basis), it would somehow "encourage energy utilities to better implement energy efficiency and conservation programs."

Before discussing the possibility of ratemaking changes below, Duquesne Light questions the implication in the Secretarial Letter that, absent incentives, it has lagged in its implementation of EE&C Programming. To that end, Duquesne Light would like to clarify for

[1]See Pa.C.S. §§2806.1(k)(2),(k)(3).
[2]See Id. at §(f)(2).

the record that, to date, the Company has not only met but exceeded its Act 129 mandated goals. In Phase I, between 12/1/2009 through 5/31/2013, Duquesne Light saved 556,282 MWh, which was 132% of its mandated savings goal of 422,565 MWh. Based on current information, in Phase II, which will end 5/31/2016, Duquesne Light's EE&C Plan has saved 275,391 MWh of its mandated 276,722 MWh savings goal.

Regardless of Act 129 and its effects on utility revenues (and/or how it carries out its programs), EE&C programming is only one of many pressures that distribution grids (and corresponding revenues) face when the majority of EDC rates are tied to the volumetric usage of electricity. In addition to a greater focus on EE&C, advances in technology have allowed customers to use the electric distribution grid differently – whether it is greater penetration of solar panels (and corresponding net metering), the use of Combined Heat and Power ("CHP") or other forms of Distributed Generation ("DG"), the time when all an EDC's customers "plug in" 24/7/365 is a thing of the past. As customers use the distribution grid in various ways, utilities, as well as the Commission, should consider different methodologies for recovering costs.

However, the implications of wholesale ratemaking changes are considerable. It is difficult, absent study and evaluation on a pilot basis of different options, to endorse one particular method as superior or the singular path forward. Duquesne Light would be open to the possibility of trying different methods on a small scale – like a Levelized Distribution Charge for residential customers, to see its effects, if any, on EE&C, as well as its effects (both positive and negative) on low income customers. Other alternative mechanisms that could be studied on a pilot basis include the use of throughput trackers, or a modified rate for different classes, tying different percentages as fixed and variable for various customers to see its effect, if any, on consumption.

Duquesne Light continues to be concerned about the impact that these changes could have on our low income customers. Specifically, in Western Pennsylvania, the solar efficiency rate is approximately 14%. Therefore, the only customers who are able to participate in residential, on-site solar net metering are customers who have the right real estate, land mass and finances to make the system worthwhile. For our low income and urban customers, depending on what alternative rate structure is effectuated, the possibility of cross subsidization is real. Duquesne Light wants to ensure that all changes fall under a framework of inclusionary energy policy, where the benefits and costs are properly distributed.

No matter what mechanism is ultimately chosen, Duquesne Light agrees with stakeholders who believe that rates need to be just and reasonable, they need to provide not only proper recovery (including an opportunity for revenue growth) but also proper return for the utility and they need to consider the impact on customers. In addition to these attributes, proper rate design will continue to incent a utility to provide electric service in a safe, reliable manner and encourage investment in its system, while at the same time minimizing cross-subsidization among customer classes.

CONCLUSION

Duquesne Light applauds the Pennsylvania Public Utility Commission for starting the conversation regarding changes to the current ratemaking structure in recognition of competing pressures on the electric system and different uses of the distribution grid. We look forward to continued discussion and examination of these issues and remain more than willing to testify regarding our views on this important topic should the opportunity arise.

Respectfully submitted,

Date: March 16, 2016

Shelby Linton Keddie /bew

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