



PHILADELPHIA GAS WORKS

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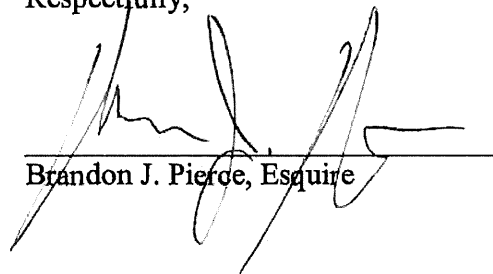
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
2nd Floor, 1 North
400 North Street
Harrisburg, PA 17120

Re: Comments of Philadelphia Gas Works on Alternative Ratemaking Methodologies Docket Number M-2015-2518883

Dear Secretary Chiavetta:

Please find attached the Comments of Philadelphia Gas Works ("PGW") on Alternative Ratemaking. Please contact me if you have any questions.

Respectfully,



Brandon J. Pierce, Esquire

Enclosures

cc: Kriss Brown (kribrown@pa.gov), Law Bureau
Marissa Boyle (maboyle@pa.gov), Technical Utility Services
Andrew Herster (aherster@pa.gov), Technical Utility Services

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**COMMENTS OF PHILADELPHIA GAS WORKS
ON ALTERNATIVE RATEMAKING METHODOLOGIES**

I. INTRODUCTION

Philadelphia Gas Works (“PGW” or the “Company”) submits these Comments in response to the Pennsylvania Public Utility Commission’s (“PUC” or “Commission”) March 2, 2017 Tentative Order (“March 2017 Tentative Order”)¹ inviting interested parties to submit written comments that address issues each utility industry is facing and processes for advancing these methodologies.² The Pennsylvania Office of Consumer Advocate (“OCA”) filed a Motion for an Extension of Time for Comments and Reply Comments on March 21, 2017. The Commission granted the OCA’s Motion by Secretarial Letter on March 23, 2017, setting the submission date for comments and reply comments on May 31, 2017, and July 31, 2017, respectively.

PGW appreciates the opportunity to submit comments and broadly supports the Commission’s interest in implementing energy efficiency and conservation goals while maintaining efficient utility operations at just and reasonable rates. The overarching theme of PGW’s Comments is that the use of alternative ratemaking methodologies should be flexible and

¹ Vice Chairman Andrew G. Place, Commissioner David W. Sweet, and Commissioner Robert F. Powelson each issued a statement in conjunction with the March 2017 Tentative Order.

² On March 3, 2016, the Commission convened an *en banc* hearing at Docket No. M-2015-2518883 to seek information from interested stakeholders on the efficacy and appropriateness of alternatives to traditional ratemaking principles for public utilities. A number of parties testified as to alternative ratemaking methodologies, including utilities and energy companies, consumer advocates, and researchers. Following the *en banc* hearing, interested parties were permitted to submit written comments by March 16, 2016.

available to utilities to utilize as they need, but should not be a prescriptive or one-size fits all approach.

II. COMMENTS

PGW is the largest municipal natural gas utility in the country and provides natural gas service to approximately 500,000 customers within the city of Philadelphia and is the only utility distributing natural gas within the city of Philadelphia. Effective July 2000, the Commission was given the statutory authority to regulate PGW.³ Since coming under the Commission's jurisdiction, PGW has actively participated in numerous Commission proceedings, including several rate cases, and appreciates this opportunity to provide its Comments on this issue of alternative ratemaking methodologies.

In the March 2017 Tentative Order, the Commission requested that natural gas utilities provide comments on five specific questions regarding the “reasonableness and efficacy of NGDCs utilizing alternative rate methodologies in a manner that balances the potential competing interests associated with system expansion and infrastructure replacement.”⁴ Additionally, Vice Chairman Andrew G. Place issued a Statement that included, *inter alia*, eighteen directed questions for natural gas distribution companies. Commissioner David W. Sweet also issued a Statement requesting that the parties inform the Commission as to how any proposals may impact: 1) customers, especially low-income and income-challenged populations; and 2) the replacement of infrastructure and the associated DSIC. Finally, Commissioner Robert F. Powelson issued a Statement noting that a “one-size-fits-all” approach may not be feasible and that he looks forward to comments with proposals that benefit the interests of all stakeholders.

³ 66 Pa. C.S. § 2212.

⁴ March 2017 Tentative Order at 16.

In response to the Commission's March 2017 Tentative Order and the Statements of the Vice Chairman and Commissioners, PGW provides the following comments:

a. March 2017 Tentative Order

The Commission's March 2017 Tentative Order set out five questions directed specifically to NGDCs, to which PGW responds as follows:

1. *Identify the alternative rate methodology(ies) each NGDC is currently using, including the number and types of automatic adjustment clauses, cost trackers and separate cost recovery mechanisms. Also identify, as a percentage of total costs or revenues, the costs or revenues each separate mechanism recovers.*

PGW currently uses the following automatic adjustment clauses, cost trackers, and/or separate cost recovery mechanisms, each listed with the percentage of total revenue billed:

- Universal Service and Energy Conservation Surcharge: 9.1%
 - Other Post Employment Benefit Surcharge: 2.5%
 - Efficiency Cost Recovery Surcharge: 0.33%
 - Restructuring and Consumer Education Surcharge: 0.002%
 - Distribution System Improvement Charge: 5.2%⁵
2. *If any, what alternative rate methodology(ies) could and should be used by NGDCs and explain why would they be beneficial? Regarding the proposed methodology(ies), please provide specific comments on:*
 - a. *The potential advantages;*
 - b. *The potential disadvantages;*

⁵ This percentage represents the DSIC as a percent of total revenues. As a percent of distribution revenues only, the DSIC represents 7.5%.

- c. *The effects on all rate classes, with a specific focus on small volume, low-income, income-challenged and large C&I customers, as well as a discussion regarding any potential inter- or intra-class cost shifting;*
- d. *The effects on existing energy efficiency programs; and*
- e. *The effects on the number and/or frequency of base rate case filings, as well as possible rate increases or decreases.*

PGW has experienced declining sales volume primarily due to warmer weather and, since 2002, has used a weather normalization adjustment (“WNA”) clause to recover lost margin when it is warmer than normal and return excess gained margin to customers when it is colder than normal. On February 27, 2017, PGW filed for a base rate increase⁶ and it did not propose an alternative rate methodology because PGW’s sales volume tracks so closely with experienced temperatures in Philadelphia; therefore, its WNA remains the most appropriate mechanism for PGW to recover the lost margin related to lost sales volume. Due to the close tracking of sales volume and temperature, it is difficult to identify the portion of PGW’s sales volume loss due to conservation and the installation of energy efficient appliances, unless the sales volumes loss is related to specific measures implemented in PGW’s Demand Side Management Program and Low Income Usage Reduction Program (“LIURP”).

a. and b. The potential advantages and disadvantages of each of the alternative rate methodologies are best evaluated within the context of each NGDC’s needs. For some NGDCs, many types of alternative rate methodologies may not be attractive if their sales volume is relatively stable or increasing. For other NGDCs, the advantages and disadvantages of each type of alternative ratemaking mechanism are unique to each NGDC because the choice of a certain type of alternative rate methodology is dependent upon the specific reasons why the NGDC is

⁶ Docket No. R-2017-2586783.

seeking to implement such a mechanism and these reasons may vary among NGDCs. For the foregoing reasons, an evaluation of an alternative ratemaking methodology is best made on an individual NGDC basis within the context of regulatory filings with the Commission.

c. Similar to the response directly above to parts a. and b., the effects on rate classes and customers is best evaluated within the context of a regulatory filing requesting a specific alternative rate methodology.

d. Generally, many alternative rate methodologies allow recovery for revenues lost due to conservation efforts and the installation of energy efficient appliances. If such methodologies are properly designed and available, this will help create a more supportive environment for the expansion of existing energy efficiency programs.

e. Within the context of PGW's cash flow ratemaking methodology, its WNA assisted in delaying its current base rate increase filing; however, most of the rate increase request is due to increased costs and warming temperature trends.

3. How would the particular alternative rate methodology(ies) interact with existing mechanisms or traditional ratemaking principles currently in use or available to NGDCs (e.g., DSIC, FPFTY, etc.)?

PGW does not believe that the alternative rate methodologies set forth would require a significant or material change in its DSIC or the application of a FPFTY in a base rate case. Nonetheless, each NGDC should analyze this on a company-specific basis. It is important to note that attempting to discern the impact on an individual NGDC at this stage may vary from what an NGDC discovers in practice after it begins the process of seeking to implement an alternative rate methodology.

4. *Address the efficacy of weather normalization adjustments currently in use, what changes should be made to the adjustments to improve them and whether they should be expanded to other NGDCs.*

If an NGDC is experiencing sales volume decline and most of the decline is due to weather, the NGDC will benefit from implementing a WNA. If there are other significant and material causes of sales volume decline, the NGDC should consider other forms of alternative rate methodologies that recover the cost to serve for all/most significant declines.

As discussed above, PGW implemented a WNA in December 2002, which has decreased customer bills when colder than normal and charged customer bills when warmer than normal. As also discussed above, PGW filed for a base rate increase in February 2017. While PGW proposed no change to the design of the weather normalization mechanism, the Company has found that due to warming temperatures, heating degree days are trending downward more rapidly than a 30-year average weather normal. Therefore, PGW has used a 10-year average weather normal to more accurately track the downward trend in heating degree days. Additionally, PGW has been advised by its base rate consultant, The Brattle Group, that 30-year *trending* weather⁷ shows an even warmer weather trend in the future than using 10-year weather normal.

5. *How would such a methodology be implemented? Specifically, in what timeframe? Is there a need for a gradual implementation or phasing-in process?*

Implementation timeframes are generally dependent upon the complexity of the alternative rate methodology and how long it will take to modify a billing system and create the

⁷ Weather normals with shorter time horizons adapt to current conditions but may need to be updated as climatic shifts continue, while trended normals inherently track continued climate trends.

appropriate reporting functionalities. Most likely, gradual implementation or a phasing-in process will add complexity and cost to billing system changes.

b. Statement of Vice Chairman Andrew G. Place

Vice Chairman Place raises, *inter alia*, considerations specific to the natural gas industry in his Statement and requests comments on his proposal. Specifically, the Vice Chairman proposes consideration of a “revenue per customer” model. Vice Chairman Place then goes on to list eighteen directed questions to NGDCs, which PGW responds to as follows:

- 1. Provide overall supportive or critical comments to the outlined NGDC decoupling structure.*

The revenue per customer model may be the appropriate decoupling structure for some utilities but a single type of decoupling should not be prescribed as the ideal model for all utilities. NGDCs should be provided the opportunity to voluntarily propose a decoupling mechanism that best meets the needs of that specific NGDC. The advantages and disadvantages of each type of mechanism are unique to each NGDC. The choice of a certain type of alternative rate methodology is dependent upon the specific reasons and needs of the NGDC that is seeking to implement such a mechanism and these reasons vary among NGDCs. For the foregoing reasons, an evaluation of an alternative ratemaking methodology is best considered on an individual NGDC basis within the context of regulatory filings with the Commission.

- 2. Has this proposal been successfully or unsuccessfully implemented in other jurisdictions?*

PGW is unaware of any assessment(s) that measures the degree of success of a revenue per customer model implemented in other jurisdictions.

3. *Are there any statutory and regulatory barriers in Pennsylvania to a revenue-per-customer decoupling for NGDCs?*

None.

4. *through 18.*

Questions 4 to 18 are best left to be assessed by an individual NGDC within the context of a base rate filing before the Commission.

c. Statement of Commissioner David W. Sweet

Commissioner Sweet also issued a Statement in conjunction with the March 2017 Tentative Order, reiterating the need for comments on two key areas. The first area Commissioner Sweet addresses is the need to consider the effect of alternative rate methodologies on all customers, especially low-income⁸ and income-challenged⁹ customers. Second, Commissioner Sweet requests that utilities provide comments on how implementing alternative rate methodologies could impact the replacement of infrastructure and the associated DSIC, specifically, as it relates to the frequency and need for base rate case filings.

On the first issue, PGW's CAP is a percentage of income program. Therefore, implementing alternative rate methodologies will not impact low-income customers enrolled in its CAP.

On the second issue, PGW interprets Section 1353 of the Public Utility Code, 66 Pa. C.S. § 1353, as applicable only to a Company's initial DSIC filing.¹⁰ As such, alternative rate

⁸ Low-income customers are those at 150% or below the Federal Poverty Income Guidelines (FPIG). The annual gross income for a family of four living at 150% of the 2017 FPIG is \$36,900. See the Federal Poverty Guideline: <https://aspe.hhs.gov/poverty-guidelines>.

⁹ Commissioner Sweet states, "In this context, income-challenged customers would be those near, but not below, the Federal Poverty Income Guidelines or those that are identified as payment troubled customers (e.g., large arrearages)."

¹⁰ Section 1353 states, in relevant part, "a utility may petition the commission, or the commission, after notice and hearing, may approve the *establishment of* a distribution system improvement charge to provide for the timely recovery of the reasonable and prudent costs incurred to repair, improve or replace eligible property in order to

mechanisms would not affect the replacement of infrastructure and associated DSIC for those utilities that have already established DSIC mechanisms pursuant to Commission approval.

d. Statement of Commissioner Robert F. Powelson

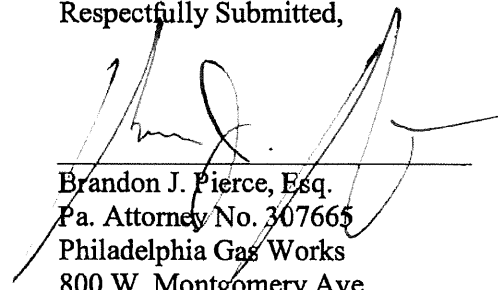
Commissioner Powelson's Statement notes that a "one-size fits all" rate design approach may not be feasible and that he looks forward to receiving comments that increase the use of alternative rate mechanisms that benefit all stakeholders. As discussed fully above, PGW agrees with Commissioner Powelson that one-size does not fit all. Rather, utilities should be permitted to individually propose using those alternative rate mechanisms that benefit the specific utility and its customers, as well as other stakeholders. Providing this flexibility will ensure that the appropriate alternative rate mechanisms, if any, can be tailored to the needs of each utility and its customers.

ensure and maintain adequate, efficient, safe, reliable and reasonable service." 66 Pa. C.S. § 1353(a) (emphasis added).

III. CONCLUSION

Philadelphia Gas Works appreciates the opportunity to provide these Comments in response to the Commission's request for feedback on alternative ratemaking methodologies. PGW broadly supports the Commission's energy efficiency and conservation goals while maintaining efficient utility operations at just and reasonable rates. PGW encourages the Commission to provide maximum flexibility to utilities in implementing any alternative rate mechanisms such that each utility can be responsive to its needs and those of its customers. PGW looks forward to continuing to work with the Commission and other stakeholders on this important initiative.

Respectfully Submitted,



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