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March 16, 2016

VIA ELECTRONIC FILING

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

In re: Alternative Ratemaking Methodologies; Docket No.: M-2015-2518883;
THE PENNSYLVANIA STATE UNIVERSITY'S COMMENTS

Dear Secretary Chiavetta:

Enclosed for filing with the Pennsylvania Public Utility Commission is The Pennsylvania State University's Comments in the referenced matter.

If you have any questions regarding this filing, please do not hesitate to contact me.

Very truly yours,

Thomas J. Sniscak

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Counsel for The Pennsylvania State University

TJS/CMA/das
Enclosures
cc: Gladys M. Brown, Chairman
Andrew G. Place, Vice Chairman
Pamela A. Witmer, Commissioner
John F. Coleman, Jr., Commissioner
Robert F. Powelson, Commissioner
Honorable Charles E. Rainey, Jr.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Alternative Ratemaking Methodologies	Docket No. M-2015-2518883

COMMENTS OF

THE PENNSYLVANIA STATE UNIVERSITY

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DATED: March 16, 2016

The Pennsylvania State University (Penn State or PSU) submits these comments for the Pennsylvania Public Utility Commission (Commission) to consider in reviewing the efficacy and appropriateness of alternative ratemaking methodologies.

I. INTRODUCTION

The Commission held an *en banc* hearing on March 3, 2016 to seek information from selected participants 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. These invited participants presented testimony and answered commissioners' questions 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]

Penn State has dedicated a specific investment of $60 million to energy savings programs over the next five years, and Penn State plans to improve its overall energy utilization by 20 percent over the next 10 years. Pennsylvania's energy utilities are essential partners in Penn State's sustainability, energy efficiency and conservation efforts. Penn State therefore applauds the Commission's initiative in investigating the extent to which alternative ratemaking methodologies might remove not only disincentives that might presently exist that dissuade energy utilities from aggressively pursuing energy conservation and efficiency initiatives, but

[1] The Commission also published a non-exhaustive list of topics concerning alternative ratemaking mechanisms designed to guide the discussion. *See* Secretarial Letter to Interested Parties re Notice of *En Banc* Hearing on Alternative Ratemaking Methodologies, Docket No. M-2015-2518883 (Dec. 31, 2015) (attachment).

also incentives that might exist for energy utilities to resist or oppose end users' energy conservation and efficiency measures.

Three important points have emerged from the diverse points of view presented to the Commission at the *en banc* hearing. First, revenue decoupling – in some form – would likely mitigate the negative impact of demand-side side energy efficiency measures on utilities' ability to meet their revenue requirements and invest in critical infrastructure. Second, before the Commission can adopt an alternative ratemaking methodology such as decoupling, it must consider and resolve a number of legal, economic and policy issues based upon careful consideration of the particular characteristics of Pennsylvania's energy utilities and their respective customers. Third, due to the multiplicity of revenue decoupling mechanisms available and the need to take each utility's individual characteristics into account, it is not possible on this record to provide definitive answers to the questions posed by the Commission. Penn State looks forward to participating in the Commission's continuing investigation of this important aspect of Pennsylvania's energy regulation.

II. SUMMARY OF COMMENTS

PSU generally supports consideration of some form of revenue decoupling as a means of reconciling demand-side energy efficiency and conservation measures with utility revenue requirements. However, the Commission must ensure that any changes to Pennsylvania's regulatory framework are driven by demonstrated need, not generalizations. While there may be very good arguments for particular methodologies adopted in other jurisdictions, any alternative ratemaking methodology adopted by the Commission must be consistent with Pennsylvania law and energy policy. The attractive attributes of alternative ratemaking methodologies should not obscure the benefits of the traditional ratemaking, such as transparency, opportunities for stakeholder input, and continued Commission supervision. Decoupling therefore should not displace general rate cases. Finally, as the Commission has recognized in other contexts, one size does not necessarily fit all, and alternative ratemaking methodologies therefore should be considered on a utility-by-utility and customer class-by-customer class basis.

III. COMMENTS

Nine witnesses submitted testimony at the *en banc* hearing:

- **Mark Newton Lowry**, on behalf of the Natural Resources Defense Council (NRDC)
- **Richard Sedano**, on behalf of the Regulatory Assistance Project (RAP)
- **Eric Ackerman**, on behalf of the Edison Electric Institute (EEI)
- **Hugh Gilbert Peach**, at the Commission's invitation
- **Eric Miller**, on behalf of the Keystone Energy Efficiency Alliance (KEEA), the Clean Air Council (CAP) and NRDC
- **Scott R. Koch**, on behalf of PPL Electric Utility Corporation (PPL)
- **Paula A. Strauss**, on behalf of Columbia Gas of Pennsylvania, Inc. (Columbia Gas)
- **Tanya J. McCloskey**, Acting Consumer Advocate, on behalf of the Office of Consumer Advocate
- **David F. Ciarlone**, on behalf of the Industrial Energy Consumers of Pennsylvania (IECPA)

These witnesses presented a diverse set of perspectives on the issues raised by the Commission, and the *en banc* hearing thus has provided a good start for the Commission's consideration of alternative ratemaking methodologies in the energy sector. PSU generally supports consideration of some form of revenue decoupling as a means of reconciling demand-side energy efficiency and conservation measures with utility revenue requirements. Penn State offers the following comments in response to the participants' presentations for the Commission's consideration.

A. Changes To Pennsylvania's Regulatory Framework Must Be Driven By Demonstrated Need, Not Generalizations.

The Pennsylvania Legislature and this Commission have dedicated substantial efforts to creating a regulatory framework that effectively promotes energy efficiency and demand side management while providing utilities with progressive ratemaking methods. Act 129 established a comprehensive regulatory structure for implementing energy efficiency and conservation measures in Pennsylvania. As Acting Consumer Advocate McCloskey testified, under Act 129, Pennsylvania's seven major utilities currently spend approximately $240 million annually on energy efficiency and demand response programs.[2] The Act 129 Phase I programs produced on a statewide basis 123% of the mandated energy savings goal and 113% of the mandatory demand reduction goal, and Phase II is proving to be equally successful.[3] With respect to ratemaking, Pennsylvania utilities already enjoy access to several alternative ratemaking mechanisms. These consist of cost trackers, the distribution system improvement charge ("DSIC") and the use of a fully projected future test year ("FPFTY"). Cost trackers are already available to recover expenses associated with the conservation initiatives and programs required by Act 129. The FPFTY allows utilities to adjust their rates to reflect reduced demand. The DSIC ensures funding for the system improvements required to maintain and enhance reliability.

Most of the witnesses at the *en banc* hearing who urged the adoption of decoupling or other alternative ratemaking methodologies did so on the basis of general regulatory policy and

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[2] Testimony of T. McCloskey at 2.

[3] *Id.* at 3.

economic theory.[4] While these witnesses explained how traditional ratemaking can create disincentives for utilities' implementation of demand side energy efficiency programs and how various flavors of decoupling can be used to mitigate those disincentives, none provided any evidence that regulatory framework enacted by the Pennsylvania Legislature and implemented by this Commission has failed to promote Pennsylvania's policies of promoting energy efficiency, conservation, and system improvement while at the same time providing Pennsylvania's utilities with the opportunity to recover their prudently incurred costs of service.

Penn State submits that any modifications to Pennsylvania's ratemaking methodologies must be made in response to an actual, demonstrated need. General regulatory theories and the experience of other states, while informative, do not provide sufficient basis for overturning Pennsylvania's existing regulatory structure.

B. Any Alternative Ratemaking Methodology Must Be Consistent With Pennsylvania Law And Policy.

In addition to addressing actual need, any change to Pennsylvania's regulatory framework adopted by the Commission must be consistent with the existing statutory mechanisms and legislative policies. Several of the witnesses at the *en banc* hearing raised concerns regarding the compatibility of decoupling with the Public Utility Code. For example, Acting Consumer Advocate McCloskey contended that the General Assembly effectively rejected the decoupling approach when it passed Act 129.[5] Mr. Ackerman, Director of Alternative Regulation of the Edison Electric Institute, departed from his prepared testimony to state that decoupling would require changes to Pennsylvania's net metering program, which is prescribed by statute.

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[4] *See, e.g.*, Testimonies of M. Lowry (NRDC), R. Sedano (RAP), E. Ackerman (EEI), H. Peach, E. Miller (KEEA, CAP and NRDC)

[5] Testimony of T. McCloskey at 5.

In addition to conflicting with express statutory provisions, some revenue decoupling mechanisms may thwart the legislative goals of Act 129 and other provisions of the Code. For example, while a decoupling mechanism may remove a utility's disincentive to promote demand side conservation measures, it may also remove customers' incentive to reduce consumption in exchange for cost savings. The observation of the Industrial Energy Consumers' witness, Mr. Ciarlone, is equally applicable to large institutional customers such as Penn State:

> For the large, energy-intensive customer, decoupling eliminates the incentive to make incremental investment in energy efficiency. Why should a business undertake a large investment in new equipment, facilities, training, permits, etc., to reduce its energy intensity if it will not be able to earn a return on that investment through lower energy costs?[6]

Therefore, Penn State agrees with PPL witness Mr. Koch's admonition that "[a]ny alternative method that is proposed would have to be studied and implemented carefully to avoid conflict of recovery incentives with current mechanisms in place."[7]

C. Decoupling Should Not Displace General Rate Cases.

One of the benefits of decoupling emphasized by its proponents is the reduction in the frequency of general rate cases and the corresponding expenditure of Commission, utility and stakeholder resources. Penn State believes this benefit is illusory. As Mr. Koch testified, alternative ratemaking methods such as revenue decoupling and performance based rates "require additional utility resources as well as increased oversight by the regulators. These methods require more data and additional scrutiny to verify the numbers provided."[8]

Furthermore, while general rate cases can become burdensome if too frequent, they provide opportunities for stakeholder input, ensure utilities receive revenues that are adequate to

[6] Testimony of D. Ciarlone at 7.

[7] Testimony of S. Koch at 5.

[8] Testimony of S. Koch at 4-5.

cover their prudently incurred costs plus a reasonable rate of return, and confirm that utilities are not collecting too much or too little. Therefore, Penn State agrees that any revenue decoupling mechanism should include periodic, fully-litigated rate cases -- at least every three years.[9]

D. Alternative Ratemaking Methodologies Should Be Considered On A Utility-by-Utility and Customer Class-by-Customer Class Basis.

Each of Pennsylvania's energy utilities is unique in terms of system architecture, geography, cost structure, customer profile and revenue requirement. Penn State agrees with the witnesses who caution that alternative ratemaking methodologies such as decoupling must be considered on an individual-utility basis. Moreover, decoupling should not be applied across all of a utility's customer classes without an examination of its effects on each customer class[10] such as intra-class and inter-class cost shifting.[11] For large customers who, like Penn State, are already maximizing their efficiency and conservation efforts, "decoupling will not help them reduce energy use; rather, it will simply make their rates subject to fluctuations of other companies' or customer classes' energy use."[12]

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[9] *See* Testimony of E. Miller at 8.

[10] As KEEA witness Mr. Peach observes, very large customers (such as Penn State) may experience sharp year-to-year swings in rates due to decoupling. *See* Testimony of H.G. Peach (proposing cap on adjustments to mitigate this effect). Columbia Gas witness Ms. Strauss explains that "Columbia has not proposed the LDC [levelized distribution charge] for commercial and industrial customer classes because there is less homogeneity of usage characteristics. Commercial and industrial customer demands can vary substantially and this can impact distribution costs of service due to the variability in the investments required for meters and services for these customers." Testimony of P. Strauss at 13.

[11] *See, e.g.*, Testimony of D. Ciarlone at 8.

[12] Testimony of D. Ciarlone at 8.

IV. CONCLUSION

The Commission's *en banc* hearing, the testimony submitted by the invited participants, and the comments submitted by Penn State and other interested parties represent the beginning of the process of considering the possibility of adopting alternative ratemaking methodologies in Pennsylvania. Penn State appreciates the opportunity to submit these comments and looks forward to participating in this ongoing proceeding.

Respectfully submitted,

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