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VIA UPS NEXT DAY

July 6, 2009

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Compliance of Commonwealth of Pennsylvania with Section 410(a) of the American Recovery and Reinvestment Act of 2009; Docket No. I-2009-2099881; Initial Comments of West Penn Power Company d/b/a Allegheny Power

Dear Secretary McNulty:

West Penn Power Company d/b/a Allegheny Power (“Allegheny Power” or “the Company”) submits initial comments in response to the Investigation Order entered May 6, 2009 by the Commission at the above-captioned docket.¹

The investigation initiated by the Investigation Order pertains to the American Recovery and Reinvestment Act of 2009 and its general policy that state regulatory commissions ensure that financial incentives are available for energy efficiency. In particular, the Commission sought comments about the issue of rate decoupling and its potential to encourage energy efficiency and conservation while ensuring the financial viability of utilities.

Rate decoupling, also known as revenue decoupling, separates a utility’s level of sales from the level of revenues the utility is authorized to collect. One objective of revenue decoupling is to strike a balance of promoting energy efficiency that results in decreased energy sales while giving the utility an assurance that it will be given the opportunity to recover its expenses associated with delivering energy and without significantly impacting the utility’s ability to earn its authorized rate of return on rate base investment.

Allegheny Power strongly supports the use of rate decoupling and urges the Commission to advance its use in Pennsylvania. Rate decoupling has several benefits:

- Removes disincentives to utilities for implementing energy efficiency, conservation, and demand side response programs.

¹ *These Initial Comments are being filed electronically and are deemed filed today.*

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- Provides revenue stability to utilities.
- Reduces utility business risks. A utility that is fully exposed to the effects that weather, the business cycle, and other sales volume variations that affect net earnings, must carry more equity than one that has a decoupling mechanism. Rating agencies have recognized this (e.g., Standard and Poor gave Northwest Natural Gas their lowest business risk profile rating since the utility's WARM (decoupling) mechanism took effect; Moody's explicitly recognizes the benefit of risk mitigation measures).
- The Edison Electric Institute, the American Gas Association, and the National Association of Regulatory Utility Commissioners have performed research and/or taken positions that support the further development of industry-wide decoupling policies.
- Decoupling should be recognized as a utility incentive for states to receive Energy Efficiency & Conservation program funds as appropriated in the American Recovery & Reinvestment Act.

The Investigation Order specifically requested comments about Act 129's restrictions on recognition of lost revenues through an automatic adjustment clause. The Company recognizes that Pennsylvania's Act 129 poses an impediment for the recovery of lost revenues for those conservation measures implemented by Act 129, as Act 129 seems to prohibit current recovery of lost revenues as part of an automatic adjustment clause. However, Act 129 should not be seen as a barrier to the recognition and recovery of lost revenues. For example, Act 129 expressly anticipates that "decreased revenue and reduced energy consumption may be reflected in revenue and sales data used to calculate rates in a distribution - base rate proceeding filed by an electric distribution company under section 1308...." 66 Pa.C.S. § 2806.1(k)(3). The Company submits that, for Act 129 expenditures, the Commission should devise rate recovery methods under Section 1308, such as single-issue base rate proceedings, or single-issue non-base rate proceedings, to true up sales and revenue information to account for lost revenues.

Respectfully submitted,



John L. Munsch

Attorney

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cc: Certificate of Service
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CERTIFICATE OF SERVICE

I hereby certify that on the 6th day of July, 2009, a true and correct copy of **Initial Comments** of West Penn Power Company d/b/a Allegheny Power were served by U.P.S. Next Day upon the following:

Office of Consumer Advocate
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Forum Place, Fifth Floor
Harrisburg, PA 17101-1923

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