

BEFORE THE PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. M-2015-2518883

In the Matter of En Banc Hearing on)
Alternative Ratemaking Methodologies) The Energy Freedom Coalition of America’s
) Comments on Alternative Ratemaking
) Methodologies
)

Executive Summary

The Energy Freedom Coalition of America (“EFCA”) hereby submits comments to the Pennsylvania Public Utilities Commission (“Commission”) regarding the Commission’s March 3, 2016 Hearing on Alternative Ratemaking Methodologies. EFCA is a national advocacy group that promotes the use of distributed energy resources (“DERs”). EFCA members provide Pennsylvanian’s with a variety of DERs, including distributed solar generation, thermal and battery storage, microgrids, demand management, EV charging stations, demand response, and energy efficiency products. EFCA has over 100 employees in Pennsylvania, and members include Silevo, LLC, SolarCity Corporation, and ZEP Solar, LLC,

We applaud the Commission for bringing together various stakeholders in a non-adversarial proceeding to discuss alternative ratemaking methodologies. DERs and energy efficiency programs provide Pennsylvania ratepayers with the opportunity to save money on their utility bills. EFCA is pleased to find several key areas of agreement in the hearing, including the need to remove market barriers that prevent customers from taking advantage of these opportunities. EFCA agrees with the testimony of the Regulatory Assistance Project, National Resources Defense Council, and the Keystone Energy Efficiency Alliance (KEEA) that supports the concept of full revenue decoupling in Pennsylvania. EFCA believes revenue decoupling in Pennsylvania is appropriate for several reasons.

1. Full revenue decoupling removes the utility’s “throughput incentive” of promoting the use of their systems in order to boost revenue.
2. Alternative rate designs with fixed or demand charges raised by other stakeholders would remove simple and transparent price signals, and ultimately limit the ability of customers to reduce their energy costs.
3. Full revenue decoupling preserves a customer’s ability to control their energy costs with DERs and energy efficiency.

Pennsylvania has made great strides with energy efficiency and conservation since Act 129 was enacted. The continued success of programs that provide customers with tools to reduce their energy bills is an important policy objective for the State. Ensuring that continued success requires the removal of potential market barriers that create an environment in which customers have more options to save, not less. A decoupling mechanism would remove a potential barrier by allowing utilities to recover their prudently incurred costs, while continuing to promote Pennsylvania’s energy efficiency and energy management programs going forward. A decoupling mechanism can also help delay rate cases and the associated

attention and ratepayer expenses that rate cases bring.¹ For these reasons, EFCA believes a fair and transparent decoupling mechanism is just, reasonable, and in Pennsylvania’s public interest.

1. Full revenue decoupling removes the utility’s “throughput incentive” of promoting the use of their systems in order to boost revenue.

Pennsylvania’s traditional regulation model does not give utilities the incentive to promote customer energy efficiency or adoption of DERs. Since customers are charged for the energy they use, it is in a utility’s interest to increase energy sales in order to increase revenues. This is referred to as the “throughput incentive.”

EFCA believes that adopting a full revenue mechanism would remove this utility disincentive. Rather than targeting a specific rate to charge customers, decoupling targets a specific revenue percentage to recover. Decoupling is beneficial for utilities because it allows them to recover prudently incurred costs between rate cases, independent of sales, which can fluctuate due to weather conditions, changes in customer behavior, or other factors. Lastly, decoupling provides revenue and earnings stability for the utility, which as pointed out KEEA’s testimony, credit rating agencies view decoupling as having a positive effect on the creditworthiness of utilities.²

2. Alternative rate designs raised by other stakeholders would remove simple and transparent price signals, and ultimately limit the ability of customers to reduce their energy costs.

Customers understand that the more electricity they consume, the larger their electricity bill will be. This is because their utility rates are mostly based on volumetric charges. In filed testimony and at the March 3, 2016 public hearing, several stakeholders raised the need for alternative rate designs, such as straight-fixed variable rate designs or demand charges, which allow for greater recovery of fixed costs. While a decoupling mechanism allows for full recovery of fixed costs, the stakeholders suggested rate design reform to reflect cost-structures that would provide revenue stability. PPL’s testimony stated “rate design needs to be updated for residential customers to lessen the reliance upon usage based charges to recover fixed costs...”³ Edison Electric Institute (EEI) presented similar testimony at the public hearing, stating that “we need to reduce reliance on the kilowatt-hour charge for fixed cost recovery.”⁴ Columbia Gas testified that “current usage-based pricing of fixed distribution costs gives false price signals to customers.”⁵

¹ Testimony of Richard Sedano, Regulatory Assistance Project, before the Pennsylvania Public Utility Commission. En Banc Hearing on Alternative Ratemaking Methodologies. Docket No. M-2015-2518883. Document 1417842, slide 23.

² Testimony of Eric D. Miller, Keystone Energy Efficiency Alliance, before the Pennsylvania Public Utility Commission. En Banc Hearing on Alternative Ratemaking Methodologies. Docket No. M-2015-2518883. Pg. 5.

³ Testimony of Scott R Koch, PPL Electric Corporation, before the Pennsylvania Public Utility Commission. En Banc Hearing on Alternative Ratemaking Methodologies. Docket No. M-2015-2518883. Pg. 4, lines 5-7.

⁴ Testimony of Eric Ackerman, EEI, before the Pennsylvania Public Utility Commission. March 3, 2016 En Banc Hearing on Alternative Ratemaking Methodologies. Docket No. M-2015-2518883. Comment from the Question and Answer section of Panel 1, see video at minute 54: <https://www.youtube.com/watch?v=9C7ZnoVqVDw>

⁵ Testimony of Paula A. Strauss, Columbia Gas of Pennsylvania/NiSource, before the Pennsylvania Public Utility Commission. En Banc Hearing on Alternative Ratemaking Methodologies. Docket No. M-2015-25118883. Pg. 7.

EFCA disagrees with the notion that rate-structures should reflect cost-structures. There are many capital intensive industries that recover their fixed costs on a volumetric basis, including the oil industry, airlines, retail, shipping industries and many others. Moreover, fixed charges send signals about cost types, but do not send *price signals* to change customer behavior. Volumetric prices send clear price signals to customers and are easy to understand. Customers know that if they become more efficient or use less energy, their energy bill will also fall.

While greater fixed or demand charges would lead to more revenue stability for utilities, it would be detrimental to ratepayers and their ability to control energy costs. With these suggested rate changes, customers would not be able to save as much money on their bills if they become more energy efficient or adopted DERs. From a customer perspective, the rate reforms suggested by the PPL, EEI and Columbia Gas are the antithesis of utility decoupling. Rather than decoupling utility revenues from sales, the fixed and demand charge rate designs effectively decouple a customer's bill from their electricity consumption. A potential unintended consequence of such a rate design is that actual energy demand increases since a large portion of the bill is fixed.

3. Full revenue decoupling preserves a customer's ability to control their energy costs with DERs and energy efficiency.

Full revenue decoupling is not a rate, it's a cost recovery mechanism. By preserving the current rate structure and including adjustments to ensure utilities recover their prudently incurred costs, customers have the opportunity to adopt energy and cost saving products. EFCA believes simplicity and transparency in rates and decoupling mechanisms is important because it is easier for customers to identify money saving opportunities and understand their energy costs.

Dated March 16, 2016

Respectfully Submitted,



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