

Tori L. Giesler, Esq.
(610) 921-6658
(610) 939-8655 (Fax)

610-929-3601

March 16, 2016

VIA ELECTRONIC FILING

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

**Re: Notice of En Banc Hearing on Alternative Ratemaking Methodologies
Docket No. M-2015-2518883**

Dear Secretary Chiavetta:

Pursuant to the Commission's Secretarial Letter dated December 31, 2015 in the above-captioned proceeding, enclosed herewith for filing are the Comments of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company.

Please contact me if you have any questions regarding this matter.

Very truly yours,



Tori L. Giesler

dln
Enclosures

c: As Per Certificate of Service

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Notice of *En Banc* Hearing on Alternative : Docket No. M-2015-2518883
Ratemakings Methodologies :**

**COMMENTS OF METROPOLITAN EDISON COMPANY,
PENNSYLVANIA ELECTRIC COMPANY, PENNSYLVANIA POWER
COMPANY AND WEST PENN POWER COMPANY**

I. INTRODUCTION

On December 31, 2015, the Pennsylvania Public Utility Commission (“Commission”) issued a secretarial letter announcing that it was opening the above-captioned docket (“December 2015 Secretarial Letter”) in order to begin gathering “information from experts 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.” December 2015 Secretarial Letter at 1. It further went on to notify that it would hold an *en banc* to be held on March 3, 2016, with testimony requested 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 (“March 3 *en banc*”). In addition, the December 2015 Secretarial Letter enclosed a series of twenty-two topics intended to guide the discussion.

On March 3, 2016, testimony was provided at that *en banc* by representatives of the Natural Resources Defense Council (“NRDC”), the Regulatory Assistance Project (“RAP”), the Edison Electric Institute (“EEI”), H. Gil Peach & Associates (“Peach”), the Keystone Energy Efficiency Alliance (“KEEA”) in coordination with the Clean Air Council and NRDC, PPL Electric Utilities Corporation (“PPL”), Columbia Gas of Pennsylvania, Inc. (“Columbia”), the Office of Consumer Advocate (“OCA”), and Alcoa, Inc. on behalf of the Industrial Energy Consumers of Pennsylvania (“IECPA”).

The December 2015 Secretarial Letter provided that written comments could be submitted by all interested parties on these topics and in response to the testimony offered at the March 3 *en banc*, to be filed no later than March 16, 2016. Consistent with the December 2015 Secretarial Letter, Metropolitan Edison Company (“Met-Ed”), Pennsylvania Electric Company (“Penelec”), Pennsylvania Power Company (“Penn Power”) and West Penn Power Company (“West Penn”) (individually a “Company” and in any combination, the “Companies”) submit these comments in response to the Commission’s December 2015 Secretarial Letter and attached topics, as well as the testimony and discussion which took place at the March 3 *en banc*.

II. COMMENTS

In order to understand the possible impacts of implementing any alternative ratemaking mechanism(s) in Pennsylvania, it is first important to appreciate the state of rate regulation as is currently in place and the results of any existing alternative ratemaking methodologies that have already been implemented. An important part of this discussion involves recognition of the fact that the regulatory construct in Pennsylvania in some instances differs substantially from other jurisdictions’ regulatory structures where alternative ratemaking measures may have already been adopted. This distinction is likely to impact or drive any perceived disincentives that might

discourage energy utilities from pursuing aggressive energy conservation and efficiency (“EE&C”) initiatives.

First, Pennsylvania’s passage of the Competition Act¹ in 1996, which unbundled the transmission and generation portion of what had previously been a vertically integrated electric utility industry, had a profound impact on the nature of the electricity market. While that impact has been recognized in many forms, its impact on reducing the “throughput incentive”² experienced by electric utilities seemed to be largely ignored or not addressed by the panelists taking part in the Commission’s March 3 *en banc*. For instance, several witnesses testified to utilities having a “throughput incentive” which is created when volumetric or energy-based prices - that is, prices based on kilowatt hour (“kwh”) usage - are used to recover what are essentially fixed costs, i.e., costs that do not change based on volume.³ Meanwhile, none of the witnesses spoke to the impact that unbundling the transmission and generation portion of the provision of electric service from the distribution portion of electric service has had on any “throughput incentive.” The unbundling of generation and transmission into default service in Pennsylvania essentially turned the costs to jurisdictional electric distribution companies (“EDCs”) of these components of service from largely fixed costs (again, which largely do not change on a volume basis) into energy-based costs (which change dollar for dollar on a volume basis). As a result, any “throughput incentive” EDCs may have historically had associated with the generation and transmission portion of electric service has effectively been eliminated under the Pennsylvania

¹ Electricity Generation Customer Choice and Competition Act, 66 Pa.C.S. §§ 2801-2812.

² A “throughput incentive” occurs when energy-based rates (i.e., kwh-based charges) are used to recover fixed costs incurred by a utility due to the fact that in such situations, the utility reaps the benefits or bears the burdens of the difference in cost versus revenues recovered from those variable rates. That is, to the extent sales decline, revenues will in turn decline and the risk of non-recovery of those fixed costs, which remain static regardless of sales levels, increases.

³ See Testimony of Mark Newton Lowery, PhD, Pacific Economics Group Research LLC, on behalf of NRDC; Testimony of Richard Sedano, Principal, Director of US Programs on behalf of RAP.

regulatory scheme due to the fact that these variable costs to EDCs are fully recovered through corresponding variable rates, eliminating the risk to the utility of non-recovery. This creates a significant distinction between jurisdictions that have unbundled the generation and transmission portion of the bill as opposed to those which still employ the vertically integrated electric utility model. Because of this distinction, the results of alternative ratemaking efforts experienced in vertically integrated jurisdictions should not be looked to for accurate guidance in predicting the viability or likelihood of success in implementing such rate structures in Pennsylvania.

Another point of background that must be considered as part of this discussion relates to the use of surcharge mechanisms, riders or cost trackers in Pennsylvania. Several panelists, including Acting Consumer Advocate Tanya J. McCloskey and Eric Ackerman, Director of Alternative Regulation at EEI, correctly note that the Pennsylvania General Assembly has provided for the limited use of certain alternative ratemaking methodologies and mechanisms through the creation of surcharge mechanisms otherwise referred to as “cost trackers” or “reconcilable cost recovery riders.” The Companies have actively used these riders to collect a variety of costs, including those associated with the provision of default service, universal service offerings, EE&C, non-utility generation, solar photovoltaic requirements, and some non-market based transmission. In addition, the Companies have each received approval of long term infrastructure improvement plans (“LTIIPs”) and have filed corresponding requests for the establishment of Distribution System Improvement Charge Riders (“DSICs”). The use of these rider mechanisms, with their reconciliation processes, assures dollar for dollar cost recovery for contemplated costs to an EDC. As a result, these mechanisms further eliminate any “throughput incentive” that would otherwise exist associated with those specific costs being recovered under such mechanisms.

Ms. McCloskey and Mr. Ackerman also both testified to the importance of Pennsylvania's introduction of the fully projected future test year as a form of alternative ratemaking and an effective tool for utilities in managing the potential declines in sales that result from the implementation of EE&C measures, while allowing utilities to recoup the investments necessary to rebuild infrastructure.

As a result of the Companies' use of rider mechanisms and the unbundling of Pennsylvania's electric market, between 61% and 70% of the average residential default service customer bill for a customer using 1,000 kWh per month across the Companies' territories is calculated today using energy based rates under which there is no "throughput incentive" because of the fact that energy-based charges are used to fully collect variable costs incurred by the EDCs. Meanwhile, the Companies have exercised their ability to use a fully projected future test year in each of their most recent base rate case proceedings which, as further described in the sections to follow, offers the best opportunity under today's statutory framework to mitigate against the negative revenue impacts presented by EE&C mandates in Pennsylvania. These efforts have served to reduce the Companies' "throughput incentives" while maintaining those incentives through energy based prices for customers to participate in energy efficiency programs. Nonetheless, a "throughput incentive" still remains with respect to distribution-related charges. In general, these costs include, but are not limited to, the recovery of and on capital invested by EDCs in the distribution grid itself. Because these costs continue regardless of the degree to which customers are able to reduce their usage through utility-sponsored EE&C programs or any other means, the fact remains that utilities are at risk of not being able to recover revenues sufficient to properly recover these costs, where fixed costs are recovered using kwh charges and usage declines more quickly than traditional ratemaking mechanisms are able keep up. Alternative ratemaking

methodologies, if properly designed, offset the revenue loss and, thereby, reduce the “throughput incentive” that remains with respect to distribution costs.

In his testimony, Mr. Ackerman on behalf of EEI recommends the following principles when considering alternative forms of regulation: (1) regulatory mechanisms that provide cost recovery for prudent utility investments in energy efficiency between rate cases; (2) an earnings opportunity tied to verifiable success in delivering cost-effective energy savings; and (3) mechanisms that allow utilities to recoup fixed costs as power sale volumes decline.⁴ Consideration of any alternative ratemaking concept in light of these principals outlined by EEI is important in order to properly balance a utility’s financial exposure and obligations with the increased requirements and associated risks that are imposed by EE&C and other such policies. While the Pennsylvania General Assembly and the Commission have collectively taken a progressive approach to reducing the “throughput incentive” and providing tools to manage potential declines in sales volumes, the Companies support the Commission’s additional efforts through this docket to consider measures that could be further adopted. In the course of that effort, any alternative ratemaking methods contemplated should be considered against these key principals outlined by EEI. The Companies also offer the following considerations and feedback with respect to those twenty-two topics identified for discussion in the Commission’s December 2015 Secretarial Letter.

Alignment of alternative rate mechanisms with the energy utilities’ implementation of energy efficiency and conservation programs

The Companies identify various alternative rate mechanisms within these comments, each of which are aligned with and can be used to encourage utilities’ implementation of EE&C programs. Some of those alternative rate mechanisms, such as the use of surcharges and riders,

⁴ Testimony of Eric Ackerman on behalf of EEI at 2.

or the employment of fully projected future test years, are already in use in Pennsylvania. While the current statutory framework attempts to motivate EDCs to implement EE&C programs through a “stick approach” (i.e., by imposing legislative penalties for non-performance), the Companies recognize that alternative rate mechanisms and performance incentive mechanisms have been utilized in other jurisdictions as one form of a “carrot” to better incentivize advanced energy resources. To that end, these alternative mechanisms are more likely to incentivize utilities than the current construct, as the mechanisms are designed to protect utilities against the detriments of being forced to intentionally reduce their own revenues and therefore negatively impact their bottom lines.

The statutory and regulatory barriers, if any, associated with alternative rate mechanisms in Pennsylvania

The most significant barrier to EDCs’ ability to recover lost distribution revenues resulting from utility-managed energy efficiency activity is the express statutory prohibition on recovery through a reconcilable automatic adjustment clause of decreased revenues of an EDC due to reduced energy consumption or changes in energy demand resulting from the implementation of EE&C plans. 66 Pa.C.S. § 2806.1(k)(ii). Under traditional base rate ratemaking, changes are only made to prospective revenues lost between the time energy efficiency measures begin to take effect and the next base rate case. As a result, those lost revenues that occur prior to the implementation of rates from a base rate case cannot be recovered absent a loss revenue rider mechanism. Given the existing prohibition, in order to align utility financial incentives with the interest in helping customers to consume energy more efficiently, legislation would need to be enacted which would allow for the recovery of lost distribution revenues resulting from utility-managed EE&C plans through a lost revenue adjustment mechanism (“LRAM”). Such a legislative change would serve to address the regulatory lag experienced by EDCs under the current statutory framework for recovery of lost distribution revenues.

Whether the benefits of alternative rate mechanisms exceed any costs associated with implementing the rate mechanisms

The various mechanisms that may be considered under an alternative ratemaking model come with differing degrees of implementation costs based on the complexity and length of the regulatory process to implement. Certain forms of decoupling, such as those that include both a revenue decoupling mechanism (“RDM”) and revenue adjustment mechanism (“RAM”), formula rates, and multi-year plans tend to have higher administrative expenses than other forms of decoupling such as LRAMs, straight fixed variable (“SFV”) rate designs, or forward test year approaches, as discussed in greater detail later in these comments. These costs are predominantly administrative in nature, and include not only those that would be incurred by EDCs, but also those borne by the regulator and any stakeholders resulting from the implementation of the various mechanisms.

The only other tangible cost of implementing alternative rate mechanisms that the Companies are able to identify are those associated with intra-class cost shifting that results from all alternative rate mechanisms. Intra-class cost shifting results when some customers use less energy by taking advantage of energy efficiency measures and, therefore, reduce the utility’s revenue. When this occurs, the decoupling mechanism would restore that revenue by increasing kwh charges to all customers within that class. In turn, customers who have not reduced their energy usage will ultimately pay more than they otherwise would have, absent the mechanism, resulting in intra-class cost shifting. However, at least in the case of cost shifting as a result of implementation of the SFV model, that cost shifting is consistent with long-held and accepted cost causation principles.

Whether there is an optimal rate mechanism for encouraging energy efficiency and conservation programs

The Companies do not advocate an “optimal” rate mechanism for encouraging energy efficiency looking at the long-term horizon. However, any analysis of available mechanisms should incorporate consideration of the aforementioned EEI guiding principles in pursuit of alternative regulatory structures. In the short term, the Companies continue to support traditional cost-based increases to the customer charge which, paired with legislative changes to allow a lost distribution revenue rider, are likely to eliminate much of the disincentive to EDCs in undertaking more aggressive EE&C efforts. From the utility perspective, a stronger reliance upon a rate structure that is fixed in nature will increase a utility’s incentive or, at the very least, remove existing disincentives, to initiate additional EE&C efforts. And, given the deregulated construct in Pennsylvania today, customers would still be able to manage their costs with respect to the variable portion of their bills in a meaningful way. As a point of illustration, even if the Companies were to establish a 100% fixed rate for their industrial classes, those customers would still see a large percentage of their bill charged under a variable rate due to the proportion of the generation piece of their bills. The same holds true for the residential classes, where approximately 60 to 70% of the charges are variable due to the costs of generation and transmission, as well as most of the Companies’ reconcilable riders.⁵

Whether there is an optimal rate mechanism for encouraging more efficient system operations

Revenue decoupling mechanisms, in general, do not create an impact to distribution system operations. In fact, from a cost causation perspective, a review of an electric utility’s cost of service for its distribution system reflects that a large percentage of its costs are fixed costs and therefore should be recognized as a customer component. To this point, the National Association

⁵ The only exception being the Companies’ Smart Meter Technologies Charge Riders, which are charged as a fixed cost, when there are costs flowing through those riders.

of Regulatory Utility Commissioners' ("NARUC") Cost Allocation Manual recommends that the customer component of any cost of service study be determined by the minimum grid study. The minimum grid study is designed to identify any and all costs of the poles, conductors, transformers, and service drops of the minimum size that would be required to serve each class of customer, regardless of the volume of their consumption.

Identification of best practices in other jurisdictions

As discussed earlier in these comments, it is important to compare Pennsylvania with jurisdictions that share comparable regulatory landscapes, including but not limited to those which share similar energy efficiency provisions as applicable to EDCs

Furthermore, consideration should be given to introduction of a performance incentive mechanism ("PIM") that could be awarded to utilities for attaining energy efficiency goals in Pennsylvania. PIMs are being included in rate design to better incentivize advanced energy resources. As Eric Miller of KEEA testified, a 2014 survey found that of the twenty-nine states that had implemented PIMs, twenty-four of them also had some form of revenue decoupling. Of the types of PIMs implemented, energy efficiency PIMs are the most widespread. A number of factors contribute to EE&C performance. However, the states that have adopted decoupling complimented by PIMs have reaped considerable benefits in the form of avoided generation, transmission and distribution costs.

Pros and cons of alternative rate mechanisms, such as straight fixed variable rate design, lost margin recovery mechanisms for conservation programs or incentive regulation tied to energy efficiency and conservation performance

In addition to the three guiding principles recommended by EEI with respect to any consideration of alternative ratemaking forms, EEI has generally recognized seven primary forms

of alternative ratemaking methodologies.⁶ While the Companies consider all seven of these forms to be methods of decoupling, they come with varying degrees of complexity:

1. Cost Trackers (rider mechanisms or surcharge mechanisms that allow dollar for dollar recovery – and specifically those that allow capital cost recovery such as Pennsylvania’s distribution system improvement charge mechanism);
2. LRAMs or Lost Revenue Adjustment Mechanism (allowing lost distribution revenue resulting from utility-sponsored energy efficiency to be recovered through a rider mechanism between rate cases);
3. Revenue Decoupling (while the Companies noted above that they consider each of these seven mechanisms to be forms of decoupling, EEI’s Alternative Regulation Update notes that “revenue decoupling adjusts a utility’s rates periodically to help its actual revenue track its allowed revenue more closely.” EEI further notes that most decoupling systems have two basic components: a RDM and a RAM, as defined earlier in these comments. The RDM tracks variance between actual and allowed revenue and adjusts rates to reduce them. The RAM escalates allowed revenue to provide relief for growing cost pressures.);
4. SFV or Straight Fixed Variable Rate Design (generally recognizing the fixed nature of distribution costs in the pricing of distribution service);
5. Forward Test Year – (already adopted by Pennsylvania as the fully projected future test year);
6. Multiyear Rate Plans; and

⁶ Edison Electric Institute, “Alternative Regulation for Evolving Utility Challenges: An Updated Survey,” January 2013 (“Alternative Regulation Update”).

7. Formula Rate Plans – (most notably adopted by FERC for the setting of Network Integrated Transmission rates).

The Companies offer the following with respect to the pros and cons of each of these seven fundamental forms of alternative ratemaking.

Cost trackers

Cost trackers, otherwise referred to as “surcharges” or “riders,” are extremely useful for purposes of recovering costs incurred by the utility due to statutory mandates or regulatory policies. Good examples of these include the costs of implementing programs such as energy efficiency, universal service, default service, consumer education, etc. Such mechanisms offer the utility the opportunity to recover costs on a dollar for dollar, expedited basis, regardless of the amount of a customer’s consumption, without having to file full-fledged rate case proceedings. As a result, these mechanisms eliminate any “throughput incentive” associated with those costs recovered through the mechanism, while allowing customers to receive the benefits of energy efficiency or other consumer-oriented efforts by utilizing energy-based rates, where appropriate.

The downside to cost tracking mechanisms, however, is that they are typically not available to utilities in Pennsylvania for purposes of recovering capital costs, with the limited exception of those established for the purpose of recovering the costs of a utility’s LTIPs or the EDCs’ deployment of smart meters.

Lost Revenue Adjustment Mechanisms

LRAMs offer value in that they eliminate the risk to an EDC of resulting lost revenue due to declining sales following implementation of EE&C programs by providing certainty of revenue through a reconcilable rider. This mechanism assures timely cost recovery tied specifically to an individual utility’s energy efficiency activity, without the

downside of interclass cost shifting, assuming proper design is used. Meanwhile, the mechanism ensures that the individual customer's incentive to participate in utility sponsored energy efficiency programs is not reduced.

However, this type of mechanism is presently not permissible under Pennsylvania law and, in fact, is explicitly *prohibited*, as discussed earlier in these comments. In addition, if permitted, some jurisdictions have adopted models which effectively account for customer-initiated energy efficiency activities that are not otherwise part of an EDC's approved plan. Customers would also experience limited intra-class cost shifting, as energy-based prices would increase for those customers not participating in utility sponsored energy efficiency programs.

Revenue Decoupling (as defined by EEI in its Alternative Regulation Report)

Because it tracks actual versus allowed revenues, revenue decoupling offers incentives to utilities to develop rate designs which encourage demand side management ("DSM"), while retaining the individual customer's incentive to participate in EE&C programs. Furthermore, as long as it is properly designed, a decoupled rate structure would not need to result in interclass cost shifting.

However, the effort to implement revenue decoupling presents a high degree of administrative burden, while also potentially running afoul of traditional cost causation principals. Furthermore, whether the current statutory construct would support this type of a model is questionable, and there may be a need for legislative change before such a model could be implemented. Also, like the LRAM alternative, revenue decoupling can result in intra-class cost shifting as volumetric prices increase for those not able to reduce usage through implementation of energy efficiency measures.

Straight Fixed Variable Rate Design

Once established, a SFV design offers the benefit of no incremental administrative burden to utilities, stakeholders, or regulators than the rate constructs in place in Pennsylvania today. Furthermore, such a rate design model has the advantage, as all decoupling mechanisms do, of de-linking energy efficiency losses with revenue that is not tied to consumption, offering a more stable revenue stream for the utility. This in turn allows the utility to take a more aggressive approach with respect to implementing EE&C programs, with reduced risk to the utility's bottom line. Meanwhile, the model follows cost causation principles recognized (albeit not fully implemented) today, which dictate that most of a utility's distribution cost is fixed and should not be based on consumption-based rates, with no resulting inter- or intra-class cost shifting. Furthermore, this model could be implemented under today's statutory and regulatory construct without change.

The downside to this model, however, is to limit a utility's growth potential due to the fact that most of its revenue will be fixed. Furthermore, consumer advocates and customers have shown a reluctance to accept this type of rate design, in part due to the fact that low usage customers may be adversely affected as compared to existing rate design, despite the fact that this model is consistent with cost causation principles. Given this reluctance, a successful implementation of this type of rate design requires a gradual implementation and customer education. Today, between 92-95% of a residential customer's bill is calculated using energy-based charges. A change to a SFV rate design would likely result in a drop of that range to between 70-80%, meaning that a change to a SFV rate design would give residential customers only slightly less incentive to participate in energy efficiency programs than they have under today's rate design.

Forward Test Year

With the introduction of the fully projected future test year in Pennsylvania, many utilities have begun taking advantage of this model. The benefit to this model as it specifically relates to EE&C efforts is that it allows EDCs to forecast their EE&C-related revenue losses, which enables them to more actively and aggressively pursue energy efficiency programs with less regard to the negative revenue impacts that these programs typically present.

Unfortunately, the downside to this model that remains is the fact that with each passing year following such a rate case, any incremental lost revenues will go unrecovered absent the filing of a new case. Therefore, this model does not offer the long-term view that reduces the need for more frequent rate case filings from a lost revenue perspective.

Multiyear Rate Plans

Multiyear rate plans allow a tiered approach to ratemaking, which, if structured properly, aids in reducing the regulatory lag between cases associated with the recovery of increased distribution costs to a utility. At the same time, this benefit reduces administrative costs to all regulatory participants as a product of the fact that multi-year rate plans reduce the frequency with which a utility would need to initiate rate case proceedings. However, when the rate case proceedings do take place, the review and approval process is significantly more complicated and difficult, as the establishment of a multi-year plan would be intensely detailed-oriented.

Formula Rate Plans

Similar to those benefits identified with respect to multi-year rate plans, formula rate plans offer the advantage of permitting a utility to change its rates based on an earnings tracker, in turn reducing earning variances between rate case proceedings. Furthermore,

unlike multi-year rate plans, from an administrative perspective, there is also the added benefit that regulatory costs are contained through what amounts to a more limited review and hearing process than typically occurs during a rate case proceeding as undertaken under today's statutory construct. However, Pennsylvania's current statutory framework does not permit this type of rate structure and, therefore, any movement towards this type of rate regulation would require a change in law.

Identification of cost of capital impacts

Mr. Ackerman's testimony on behalf of EEI pointed out that a number of highly qualified researchers have analyzed the possible relationship between decoupling and the market cost of equity using a variety of methods, and found that decoupling has no discernable impact of the utility's cost of equity capital. Given the outcome of this research, this point of consideration does not offer significant value when measuring one methodology against another.

Whether an annual cap on adjustments is appropriate or necessary

Proponents of multi-year rate plans and revenue decoupling suggest that those alternative ratemaking methods may require annual caps as part of the overall plan. If decoupling is used in combination with updated rate designs, significant volatility in rates is not likely to occur. Therefore, annual caps would be unnecessary. This is because decoupling adjustments, positive or negative, should be small, resulting in a minimal difference in a customer's average monthly bill.

Whether allowing decoupling to be used as an attrition mechanism results in more rate increases than decreases independent of the energy efficiency and conservation program success

Decoupling mechanisms generally are established with the intent of addressing energy efficiency consumption reductions. If they are established in the form of a reconcilable rider, the changes in rates are usually implemented on a scheduled basis. Whether there would be more

increases or decreases would be dependent on the variables that were used in preparing a reconciliation of a past year in the same way as any other reconcilable mechanism functions today.

Whether alternative rate mechanisms have a disparate impact on new customers versus existing customers and whether there are rate mechanisms that mitigate or eliminate these disparate impacts

The Companies have not identified any expected difference in the impact on new customers as opposed to existing customers associated with any of the alternative rate mechanisms.

Concerning the revenue-per-customer decoupling model, should there be a difference between the adjustment made if use per customer is rising and the adjustment made if use per customer is declining, in order for the utility to be “made whole” independent of utility conservation efforts

The Companies have not studied the complexities of this model closely enough at this point to be able to provide significant input as to this point of consideration. To the extent the Commission desires to consider more complex forms of alternative rate mechanisms such as decoupling and multiyear rate plans to gain a full understanding of intended and unintended consequences of their implementation, the Companies recommend further study and stakeholder meetings, as the implications may be broader than can be fully vetted through a comment process.

Whether periodic rate proceedings to “re-link” revenue with other ratemaking inputs are necessary

The need for rate proceedings in order to “re-link” revenue with other inputs is largely dependent on the alternative ratemaking model that has been implemented. For example, cost trackers are often used to recover volatile or mandated costs that do not tend to trigger new revenue. Thus, they actually serve to decrease the frequency with which rate cases are needed as there is no need to “re-link” revenue with other ratemaking inputs. Likewise, as discussed in more detail earlier in these comments, LRAMs compensate utilities for short-term base distribution rate revenue losses due to utility-sponsored energy efficiency programs, without the need for periodic rate proceedings to “re-link” revenue with other ratemaking inputs. The implementation of a SFV

rate design also does not require the “re-linking” of revenues, as rate cases would not be driven by sales declines but rather by increased investment and cost. Formula rate plans, which operate like a wide-scope cost tracker, would require annual rate increases conforming to the established formula, but not necessarily rate increase proceedings for the purpose of linking revenues.

On the other hand, under a revenue decoupling model, a revenue adjustment mechanism is needed to ensure increased revenue is allowed as utility costs rise. Without this adjustment mechanism, frequent rate cases would be required. A cap could be established with respect to the rate adjustment that is permitted within a given year outside a rate case. Nonetheless, generally, supporters of revenue decoupling often suggest periodic rate proceedings to relink rates with other ratemaking programs in place. Along the same lines, while a multi-year rate plan may externalize ratemaking through the use of attrition relief mechanisms and cost trackers, cases would likely still need to be held every three to five years, depending upon the length of plan adopted and an ability to accurately forecast years in advance. Similarly, forward test years, while helpful, have limited value in scenarios where the costs to utilities rise faster than their billing determinates, although this is not a revenue linkage concern.

Identification of any risk of interclass or intraclass cost shifts, including low income community cost impacts, and whether those cost shifts are inappropriate

If properly designed, alternative rate mechanisms present a minimal risk of interclass shifting, assuming that the alternative rate mechanisms are determined by each rate schedule's perspective cost of service. However, *intraclass* cost shifting could become apparent, as has been discussed earlier in these comments. For instance, under a properly structured SFV approach, intraclass cost shifting would be consistent with cost causation principals, resulting in a customer's fixed costs increasing, while their kWh charges decrease. Thus, those who use the least amount will see the largest effect on their bills, and will also be picking up a higher percentage of costs

allocated to the class. Under decoupling and other alternative rate mechanisms, intraclass cost shifting occurs without the benefit of being consistent with cost causation principals.

Whether alternative rate mechanisms increase customer bill volatility

All of the alternative rate mechanisms discussed have the potential to dampen the volatility of customer bills. This is because while there will be more frequent rate changes, those changes that do occur will be less significant in impact than under traditional ratemaking.

Imposition of conditions by other state regulatory commissions as a result of implementation of novel rate designs

Generally, the imposition of higher customer charges and recovery of lost distribution revenue associated with utility sponsored energy efficiency programs should be able to be imposed without any conditions from state regulatory commissions. The Companies have not studied the conditions imposed by other state regulatory commissions as a result of implementation of the more complex forms of alternative regulation discussed herein and therefore offer no specific feedback to any such conditions.

Impacts alternative rate mechanisms may have on incentives for customers to participate in energy efficiency and conservation programs

Proponents of increased energy efficiency goals argue that the rates need to be largely variable in order to incentivize customers to participate. However, as discussed earlier in these comments, 60 to 70% of residential customer's bills would still be variable even if 100% of base distribution rates were recovered through a fixed charge. Therefore, increased fixed charges will not reduce the incentives to customers to increase their own efforts regarding energy efficiency. In traditional rate regulation, a portion of fixed costs are recovered through kWh charges, resulting in the "throughput incentive" to EDCs, and intra-class subsidies to result as customers who can afford energy efficiency measures push costs to those who can't. The LRAM, revenue decoupling,

and SFV pricing are methods that are designed to diminish the relationship between revenue and system use without significantly altering a customer's incentive to participate in EE&C programs.

Is there a need for a fixed-rate element, and whether those fixed-rate elements should be customer-based, demand-based, or time-of-use based

As discussed earlier in these comments, it is entirely appropriate that customers be charged a fixed-rate element in any rate design. In fact, cost of service principles support the recovery of a much greater percentage of base distribution rates through customer-based and demand based rates than what the Companies' rates provide for today. However, not all costs should be fixed. As Scott Koch, PPL, testified, the costs associated with providing service for distribution operations are customer or demand based. However, a large proportion of revenue from residential customers is often collected through a volumetric usage charge. As discussed throughout these comments, even if 100% of base distribution rates were collected on a fixed basis, residential customers would still be billed between 60% and 70% of the cost of electricity through energy based charges. This is important as it assures proper price signaling to customers which would in turn allow those customers to make informed and educated decisions with regard to participating in EE&C programs. Whether or not a customer will participate in EE&C programs is highly correlated with the savings that they will encounter by doing so. Thus, usage-based rates should contain some measure of variability.

Whether large volume electricity and natural gas consumers should be excluded from the rate mechanisms

The Companies generally support consistent application of rate mechanisms across their various customer classes. Properly structured, the alternative ratemaking mechanisms discussed within these comments and testified to at the March 3 *en banc* should not result in interclass subsidies. While both the IECPA and EEI suggest excluding the Industrial Classes, as a result of

fear of intra-class subsidies, those fears are equally applicable to the residential and commercial classes.

Whether decoupling diminishes a utility's incentive to restore service after a storm

Of the alternative rate mechanisms reviewed, the Companies are only aware that decoupling has been criticized as replacing distribution revenue lost as a result of extended outages resulting from storms in Maryland. As a result, Maryland now makes adjustments for extended storms within their decoupling mechanisms. The Companies provide an expeditious response to customer outages during storms under all circumstances, without regard to rate impact. It is their philosophy that when an outage occurs, it is critical to restore service to their customers as soon as possible to protect those customers' interests as part of their provision of safe and reliable service as required by the Public Utility Code and this Commission's regulations. The adoption of any of the alternative ratemaking mechanisms, including decoupling, will not affect the Companies' restoration of service following a storm or any other interruption.

Integration with the currently existing Distribution System Improvement Charge ("DSIC") programs

DSICs as designed in Pennsylvania are charged based on a percentage of distribution revenue. To the extent that a revenue decoupling mechanism changes the structure of the distribution charge, it should be included in the determination of the baseline distribution charge upon which an EDC could apply the DSIC percentage to.

III. CONCLUSION

Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company appreciate the opportunity to provide comments in response to the December 2015 Secretarial Letter. The Companies are not in general opposed to alternate ratemaking methodologies. However, the specific details associated with each alternate methodology need to be studied carefully to make sure there is adequate balancing of interests and

to ensure that the three principles described previously by Mr. Ackerman are met. We will continue to collaborate with the Commission and interested stakeholders on this important topic.

Respectfully submitted,

Dated: March 16, 2016



Tori L. Giesler
Attorney No. 207742
FirstEnergy Service Company
2800 Pottsville Pike
P.O. Box 16001
Reading, PA 19612-6001
Phone: (610) 921-6658
Fax: (610) 939-8655
Email: tgiesler@firstenergycorp.com

Counsel for:
Metropolitan Edison Company,
Pennsylvania Electric Company,
Pennsylvania Power Company and
West Penn Power Company

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Notice of En Banc Hearing on Alternative : Docket No. M-2015-2518883
Ratemaking Methodologies :**

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and correct copy of the foregoing document upon the individuals listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

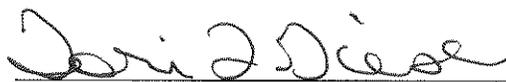
Service by first class mail, as follows:

John R. Evans
Office of Small Business Advocate
Suite 1102, Commerce Building
300 North Second Street
Harrisburg, PA 17101

Tanya J. McCloskey
Office of Consumer Advocate
555 Walnut Street, 5th Floor Forum Place
Harrisburg, PA 17101

Johnnie E. Simms
Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Dated: March 16, 2016



Tori L. Giesler
Attorney No. 207742
FirstEnergy Service Company
2800 Pottsville Pike
P.O. Box 16001
Reading, Pennsylvania 19612-6001
(610) 921-6658
tgiesler@firstenergycorp.com