



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

IN REPLY PLEASE
REFER TO OUR FILE

July 13, 2006

R-00061346

TO: ALJ Larry Gesoff
Parties of Record

DOCUMENT
FOLDER

Re: Duquesne Light Company Base Rate Filing

Pursuant to the provisions of the Commission's Procedures Manual § 402(G), Vice Chairman Cawley, has requested that certain issues, as set forth in the attached document, be addressed by the Administrative Law Judge and the parties in the above captioned proceeding.

This letter constitutes notice of the request to all required parties.

Sincerely,

James J. McNulty
Secretary

Attachment

cc: Chairman Wendell F. Holland
Commissioner Kim Pizzingrilli
Commissioner Terrance J. Fitzpatrick
Commissioner Bill Shane
Karen Moury, Executive Director
Veronica A. Smith, Chief ALJ
Bohdan R. Pankiw, Chief, Law Bureau

PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

Re: Duquesne Light Company Base Rate Filing	Docket: R-00061346
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DIRECTED QUESTIONS OF VICE CHAIRMAN CAWLEY

On April 7, 2006, Duquesne Light Company ("Duquesne") filed to increase its distribution revenues by \$143.7 million. As part of its filing to increase rates, Duquesne proposed to increase the level of fixed charges that consumers would pay in their distribution bills, as further detailed in the revised Tariff Electric-Pa. P.U.C. No. 24.

Under the new tariff, residential customers would see their fixed basic service charges increase from \$6.48 per month to \$11.50 (77% increase in fixed charges), while demand-metered GS/GM and GMH commercial customers would experience a monthly increase in fixed charges from \$9.21 to \$30 (\$226% increase in fixed charges). On the other hand, commodity-based charges to most residential customers would rise at a much lower pace (22%). As yet another example of a switch to fixed charges, Duquesne proposes to increase demand charges for demand-based GS/GM customers from \$3.60/kW to \$5.14/kW (43% increase), and from \$2.96/kW to \$5.14/kW (74% increase) for GMH customers. In contrast to the proposed increase in fixed charges, Duquesne proposes to actually decrease distribution commodity charges for some demand-metered GS/GM customers and GMH customers.

Duquesne's filing also continues certain rate structures that reward consumers for using more energy, or that fail to adequately reward customers for using less energy. Specifically, Duquesne proposes to continue its declining block structure for default supply charges, wherein RH, RA, GS/GM and GMH customers pay a lower rate as their usage increases. Further aggravating this situation is the continuation of default service demand charges for GS/GM and GMH customers.

This proposed change raises important policy issues that affect this Commission's goals of promotion and encouragement of conservation of natural resources, including natural gas. Given the extremely volatile and currently high natural gas prices facing this nation, a policy that does not optimally reward consumers for conservation efforts, but instead charges

fixed fees regardless of usage, should, I feel, be addressed by the parties to this case.

In fact, concerned lawmakers recently scheduled a hearing on July 12, 2006 to address these very concerns.¹ I have the same concerns. Others outside of Pennsylvania have also begun to develop policies that reward consumers for conserving energy, yet provide reasonably stable revenues to utilities for distribution services. As an example, at the June 5, 2006 meeting of the MADRI Distributed Energy Resources Workshop, Wayne Shirley of the Regulatory Assistance Project noted that high fixed charges remove incentives for efficiency. Mr. Shirley advocated an alternative "Revenue per Customer Decoupling" Model that rewarded customers for conserving energy. It is my understanding that a number of similar decoupling models have been developed, or are in the process of being developed, in Maryland (BGE, WGL), New Jersey (New Jersey Natural Gas), Oregon (NW Natural Gas), and California (Socal Edison).

I therefore request that the Administrative Law Judge and the parties to this proceeding address the following questions.

1. Do fixed charges for residential and small or medium commercial customer distribution services discourage conservation of energy? If so, what other revenue decoupling models can be implemented that would optimally meet the dual needs of providing incentives for consumers to conserve energy, while providing reasonably stable revenues for utilities?
2. Do declining block rate designs remove the incentive for consumers, especially RA and RH residential consumers and small to medium sized commercial and industrial customers ("C&I"), to conserve energy? If so, should declining block rates for supply and distribution services be phased out over time?
3. Do demand based charges, and in particular demand based charges for default supply service, remove the incentive for consumers, especially small to medium sized C&I customers, to conserve energy? If so, should demand based rates for such customers be phased out over time?
4. Can and should rate designs vary among customer classes? For example, larger industrial and commercial ("C&I") customers generally have a much smaller percentage of their revenues

¹ Policy hearing established by members of the House Republican Caucus from Northwestern Pennsylvania to be held in Erie on July 12, 2006.

attributable to distribution services. Given this dynamic, does the commodity design of supply service rates provide adequate incentive for larger C&I customers to conserve energy?

July 12, 2006
Date


James H. Cawley, Vice Chairman

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