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March 16, 2016

Rosemary Chiavetta
Secretary of the Commission
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Docket No.: M-2015-2518883
Sierra Club Comments on Alternative Ratemaking Methodologies

Dear Sec. Chiavetta:

On December 31, 2015, the Pennsylvania Public Utility Commission published Notice of *En Banc* Hearing on Alternative Ratemaking Methodologies, which took place on March 3, 2016. The notice invited interested parties to submit written comments on this docket by March 16, 2016. The following comments are submitted on behalf of the Sierra Club and our more than 24,000 members in the Commonwealth regarding this critical issue, following my attendance at the hearing. We thank you for the opportunity to comment and look forward to future participation in shaping our clean energy future.

Sincerely,

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I. The Imperative of the Utility of the Future

The question before the Commission should not be whether to engage in alternative ratemaking for distribution utilities, but when and how. Climate disruption is upon us, and the magnitude of the threat demands that we transition to a carbon-free energy sector as quickly as possible. A critical component of this transition is the rapid deployment of energy efficiency, smart grid technologies that are able to seamlessly match demand with more variable renewable supply, and energy storage technologies. Act 129 Energy Efficiency and Conservation (EE&C) programs and smart meter requirements are a good start, but the plain truth is that Act 129 is not driving change nearly fast enough. In order for us to rise to the existential challenge posed by climate disruption, we will need utility companies to be willing partners in the transformation of the electric system, not obstacles. Unfortunately, the current ratemaking model forces most utilities into the latter role, because their revenues and ultimately their very existence are dependent on volumetric sales of electricity, which we as a society must dramatically reduce.

Across the country, electric demand has already decoupled from economic growth, and it is time for electric rates to decouple from sales. National efficiency standards and state usage reduction mandates are driving down electricity demand, leaving utilities to seek more frequent rate increases to remain whole. Costs of distributed solar continue to fall and the number of installed systems continues to rise exponentially. Critics of net-metering policies claim that they are unsustainable; that at high solar penetration rates, there will be too few customers actually paying to maintain the grid, and too many using it for next to no cost. Sierra Club is an outspoken supporter of net metering in the present, but fundamentally this criticism is correct: the current ratemaking model cannot accommodate solar at the level of solar deployment that we need while keeping utilities solvent. However, the solution to the problem is not simply to reduce net-metering benefits or slap flat fees on customer-generators, as these policies simply stifle the growth of this necessary power source. Instead, we need to find a comprehensive solution that rewards utilities for building and maintaining a new electric grid designed specifically for high levels of distributed generation, and full revenue decoupling is a fundamental component of that solution.

II. Remove Disincentives and Provide Reasonable Incentives

We echo the analysis and conclusions of comments submitted by Natural Resources Defense Council (NRDC), Clean Air Council (CAC), and Keystone Energy Efficiency Alliance (KEEA): we support full revenue decoupling, with built-in protections for consumers, and reasonable performance-based incentives for utilities. First and foremost, utilities should not have an incentive to maximize throughput of electricity. This current incentive structure is in the best interest of no one: not the customer, not the environment, and increasingly, due to technological improvements, not even the utilities' shareholders. The effect of the current ratemaking model is that utilities must fight any rational public policy effort to reduce energy waste or stimulate deployment of distributed generation. At the very least, utilities must be neutral to these policies, and must have a viable path to meet revenue requirements when these

worthwhile policy objectives are achieved. Better yet, utilities should be willing partners in accelerating energy system transformation.

All ratemaking systems provide incentives to utilities to do something. The task of the PUC is to ensure that these incentives are aligned with the electricity grid we are marching towards, not the one that we are leaving behind. Of course utility incentives must be reasonable, as it is never in the public's interest to overpay for any investment. Incentives for exceeding efficiency and demand response mandates could be quite helpful, but the scope of incentives considered should be broad. For example, there could be incentives for excelling in reliability performance or service restoration after storms, exceptional customer service, development of microgrids with backup generation for critical infrastructure, and provision of comprehensive behind-the-meter efficiency programs. The result of such incentives would be to transform utilities from sellers of kilowatt-hours to full service energy providers. This properly aligns the interests of utilities and customers. No customers want to consume more electricity; rather they want to make the best use of their access to electricity, and increasingly, want to do so with the smallest possible carbon footprint.

III. Vulnerable Customers Must be Protected

Multiple models for alternative ratemaking have been proposed and implemented, and not all are beneficial. Sierra Club steadfastly opposes straight-fixed variable (SFV) pricing, or any model that significantly increases fixed fees to customers while reducing variable volumetric rates. SFV is problematic for two key reasons. First, it is regressive. Low-income customers tend to live in smaller spaces than higher-income customers, and by extension use less electricity on average. SFV pricing results in lower-income customers providing subsidies to higher income customers who consume more electricity, which is completely unacceptable. Second, SFV is a significant disincentive for all customers to conserve electricity, so much so that it could completely offset the progress made so far under Act 129. This is incompatible with addressing the climate crisis.

However, it is not enough to simply avoid the pitfall of SFV. Sierra Club also recognizes the possibility for low income customers to be negatively impacted under full revenue decoupling if appropriate counter-measures are not taken. For example, ramped up energy efficiency programs in a decoupled environment could result in significant reductions in overall electricity sales, which in turn would cause electric distribution rates to increase. At the same time, generation rates should decrease with lower demand, but possibly to a lesser degree, resulting in a higher blended rate. In this scenario, any low-income customer who has not been able to reduce his or her electricity consumption could experience higher bills as a result of an increased blended rate. For this reason, Sierra Club supports the following: 1) caps on distribution rate increases, particularly for low-income customers, and 2) EE&C programs targeted at low-income customers with a goal of near-universal penetration. These programs do not need to be comprehensive to be successful; even changing a single light bulb could result in enough savings to offset the expected minor net increases in the blended rate.

IV. Conclusion

In the Secretarial letter announcing the *En Banc* hearing, the PUC posed three main questions: 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. Sierra Club's answer to all three questions is yes. Our allies at NRDC, CAC, and KEEA have provided more detailed analysis and documentation, with which we generally agree. We encourage the PUC to also consult with the Regulatory Assistance Project, as we consider them some of the foremost experts in how to structure just and effective rate policy in the public interest.

Rather than try to add volumes to the excellent testimony of these parties, we simply urge the Commission to prioritize this critical issue and act as quickly as possible. This is the type of issue where being overly conservative can end up costing the public dearly by continuing to invest in antiquated infrastructure and retaining barriers to energy waste reduction, all the while delaying the necessary and extremely time-sensitive work of reducing carbon pollution. As the saying goes, you can't be neutral on a moving train.