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March 16, 2016

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

VIA ELECTRONIC FILING

RE: En Banc Hearing on Alternative Ratemaking Methodologies; Docket No. M-2015-2518883

Dear Secretary Chiavetta:

Attached for filing with the Pennsylvania Public Utility Commission are the Comments of Citizens' Electric Company of Lewisburg, PA and Wellsboro Electric Company in the above-captioned proceeding.

If you have any questions concerning this matter, please contact the undersigned. Thank you.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

A handwritten signature in cursive script that reads 'Alessandra L. Hylander'.

By

Alessandra L. Hylander

ALH/sar

Enclosure

c: Chairman Gladys M. Brown (Via e-mail and First Class Mail)
Vice Chairman Andrew G. Place (Via e-mail and First Class Mail)
Commissioner John F. Coleman, Jr. (Via e-mail and First Class Mail)
Commissioner Pamela A. Witmer (Via e-mail and First Class Mail)
Commissioner Robert F. Powelson (Via e-mail and First Class Mail)

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

EN BANC HEARING ON : Docket No. M-2015-2518883
ALTERNATIVE RATEMAKING :
METHODOLOGIES :

COMMENTS OF
CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA AND
WELLSBORO ELECTRIC COMPANY

I. INTRODUCTION

On December 31, 2015, the Pennsylvania Public Utility Commission ("Commission") published a Notice of an *En Banc* Hearing on Alternative Ratemaking Methodologies ("Notice") scheduled for March 3, 2016. The Commission characterized the meeting as an opportunity for experts to discuss "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."¹ Specific issues to be discussed at the hearing include: "(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."²

The Commission attached a list of discussion topics to its Notice; these topics are designed to guide the discussion at the March 3 hearing and assist affected parties in drafting

¹ Notice of *En Banc* Hearing on Alternative Ratemaking Methodologies, Docket No. M-2015-2518883, p. 1 (Dec. 31, 2015).

² *Id.*

their Comments. Citizens' Electric Company of Lewisburg, PA ("Citizens") and Wellsboro Electric Company ("Wellsboro") (collectively, "Companies" or "Citizens' and Wellsboro") hereby respectfully submit the following Comments in response to the Commission's Notice.³

II. COMMENTS

Citizens' and Wellsboro reviewed the Notice with respect to whether there is "need for a fixed-rate element, and whether those fixed-rate elements should be customer-based, demand-based, or time-of-use based."⁴ As the Commission is aware, Citizens' and Wellsboro are two of the smallest Electric Distribution Companies ("EDCs") in the Commonwealth, each serving approximately 6,913 and 6,294 customers, respectively. The small customer base for each company creates unique and amplified impacts on their financial condition when customers pursue distributed generation or energy efficiency. Unlike larger EDCs, Citizens' and Wellsboro do not have as many customers and energy sales to offset the potential loss of distribution revenues for rate elements billed according to usage, whether on a kW or kWh basis. Citizens' and Wellsboro respectfully suggest that the Commission consider expansion of its policy delineating which "basic customer costs" can be collected through a fixed charge (also referenced herein as a "customer charge") and approve the movement to modified fixed/variable pricing for small utilities.

Historically, the Commission has held that a fixed charge may only recover "basic customer costs," which predominantly include "costs for the meter and service drop, meter reading, and billings."⁵ The Commission noted that it adopted this cost methodology for "several

³ In addition to filing these Comments, the Companies also support the Comments filed in the above-captioned docket by the Energy Association of Pennsylvania, particularly with respect to the importance of maintaining flexibility in considering and approving alternative ratemaking methodologies for individual public utilities.

⁴ *Id.* at pg. 3.

⁵ *Pa. Pub. Util. Comm'n v. Pa.-American Water Co. Affiliated Interest Agreement Between Pa. American Water Co. & American Water Works Serv. Co., Inc.*, 1994 Pa. P.U.C. LEXIS 121, 111-113, Docket No. R-00932670, et al.

major Pennsylvania electric utilities."⁶ This policy severely limits the percentage of distribution costs that can be collected through the fixed charge. Wellsboro currently collects around \$816,122 through fixed customer charges, which represents 17.4% of total distribution revenues (\$4,696,063). Citizens' recovers approximately \$759,492 through fixed customer charges, approximately 16.7% of total distribution revenues (\$4,561,142).⁷ If the Commission expands the range of fixed costs that can be recovered through the customer charges and implements modified fixed/variable pricing for small utilities, it would "rela[x] the revenue/usage link with low administrative cost since it requires neither decoupling true ups nor load impact calculations. When average use is declining, base revenue will grow with fixed/variable pricing so that rate cases tend to be less frequent even if the decline is largely driven by external forces."⁸

The Commission initiated this *en banc* hearing to discuss alternative ratemaking, demonstrating that it is ready to consider new and innovative rate-making methodologies different from more traditional ratemaking. By initiating this discussion, the Commission demonstrates its commitment to developing the best ratemaking mechanism that accounts for evolutions in the Commonwealth's energy sector. Therefore, Citizens' and Wellsboro respectfully suggest that the Commission depart, in general, from its traditional definition of customer charges, or, in the alternative, depart from this standard solely for small utilities, where energy efficiency measures or net metering by a large customer can substantially impact sales.

(1994) (citing *Pa. Pub. Util. Comm'n. v. West Penn Power Co.*, 59 Pa. P.U.C. 552, 612 (1985)); *Pa. Pub. Util. Comm'n. v. PPL Elec. Utils. Corp.*, 2012 Pa. P.U.C. LEXIS 1757, 205 (2012) ("appropriate items to be included in a customer charge . . . are the direct customer costs [as follows]: meter expenses, expenses for services and customer installations, expenses for meter reading and customer records and collection, other customer accounting expenses, depreciation expense, and net salvage amortized for meters and services, and the rate base related return and income taxes on customer-based rate case").

⁶ *Pa.-American Water Co. Affiliated Interest Agreement Between Pa. American Water Co. & American Water Works Serv. Co., Inc.*, 1994 Pa. P.U.C. LEXIS at 111.

⁷ In correspondence, Citizens' and Wellsboro referred to "service charges" and "facility charges" in a manner that suggests they consider these charges synonymous with "customer charges."

⁸ Mark Newton Lowry, et al., *Alternative Regulation for Emerging Utility Challenges: 2015 Update*, Edison Electric Institute, November 11, 2015, at 28.

Expanding the universe of fixed costs that comprise a customer charge seems preferable to introducing a new automatic adjustment clause, which may be complex and cumbersome to administer.

Citizens' and Wellsboro have filed periodic rate cases since restructuring. In each filing, the Companies have taken steps to eliminate the legacy rate designs such as declining block distribution rates. They have also sought to gradually increase the customer charge for each rate schedule. Citizens' and Wellsboro will be submitting rate cases later this year where the Companies anticipate proposing additional movement to the maximum customer charges allowed for each rate schedule under the current policy.

The Commission previously indicated willingness to amend the customer charge mechanism. In *Pa. Pub. Util. Comm'n. v. Columbia Gas of Pa., Inc.*, 2011 Pa. P.U.C. LEXIS 185, the Commission noted that it "encourage[s] parties to present viable alternative rate mechanisms for our consideration that may more optimally balance the needs of consumers and utilities in delivering reliable natural gas."⁹ In previous decisions, the Commission has held that different costs "may be considered for inclusion in the customer charge . . . subject to scrutiny on a case-by-case basis."¹⁰ In expressing a willingness to consider altering the customer charge on a case-by-case basis, the Commission demonstrates a progressive approach and an understanding that a uniform customer charge approach cannot properly account for the unique challenges faced by individual utilities.

Citizens' and Wellsboro desire to continue the shift of distribution revenue recovery to more stable and predictable fixed customer charges. The Commission's endorsement of this goal in this proceeding will greatly assist that process. Although Citizens' and Wellsboro support

⁹ *Id.* at *82.

¹⁰ *Pa. Pub. Util. Comm'n. v. Aqua Pa., Inc. (formerly Pa. Suburban Water Co.)*, 2004 Pa. P.U.C. LEXIS 39, *98.

modified fixed/variable pricing as an alternative regulatory option for all utilities, at a minimum, the Commission should adopt this standard for smaller utilities. Smaller utilities, like Citizens' and Wellsboro, would benefit more from an expanded definition of fixed costs in lieu of automatic adjustment mechanisms, which are cumbersome to administer. In other proceedings, the Commission has previously granted exceptions to the rules for smaller utilities. For example, during its consideration of Long Term Infrastructure Improvement Plans ("LTIIIP"), the Commission noted it "acknowledge[s] the comments of the various utilities, especially the **smaller utilities**, that there may be need for utility management to have the flexibility, if circumstances arise, to deviate from a previously approved LTIIIP. However, significant modifications/deviations to the LTIIIP will be subject to public notice and Commission approval. Accordingly, we will draft regulations that [may] allow for this flexibility as long as the utility identifies operational, financial, or other justifications for deviating from its approved plan."¹¹ The alternative regulation methods for smaller utilities deserve similar flexibility.

¹¹ Final Implementation Order, *Implementation of Act 11 of 2012*, 2012 Pa. P.U.C. LEXIS 1223, *34.

III. CONCLUSION

WHEREFORE, the Citizens' Electric Company of Lewisburg, PA and Wellsboro Electric Company respectfully request that the Pennsylvania Public Utility Commission consider these Comments in evaluating the utility of establishing an alternative ratemaking methodology.

Respectfully submitted,

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Dated: March 16, 2016