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May 31, 2017

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 Valley Energy, 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

By 
Alessandra L. Hylander

ALH:cf

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 :

**ADDITIONAL COMMENTS OF
CITIZENS' ELECTRIC COMPANY OF LEWISBURG, PA,
WELLSBORO ELECTRIC COMPANY, AND VALLEY ENERGY, INC.**

I. INTRODUCTION

On December 31, 2015, the Pennsylvania Public Utility Commission ("PUC" or "Commission") published a Notice of an *En Banc* Hearing on Alternative Ratemaking Methodologies ("Notice") scheduled for March 3, 2016. The Commission indicated that this *en banc* hearing would serve as an opportunity for experts to debate "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 Particular issues to be addressed at the hearing included: "(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

On March 3, 2016, the Commission held an *en banc* hearing on several alternative ratemaking topics, particularly those discussed above. Subsequently, the PUC offered interested

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

² *Id.*

parties the opportunity to file comments to further explain their positions on these issues and discuss the merits of other parties' testimony provided at the *en banc* hearing.

On March 16, 2017, Citizens' Electric Company of Lewisburg, PA ("Citizens") and Wellsboro Electric Company ("Wellsboro") submitted Comments (hereafter referred to as the "Initial Comments") discussing the PUC's policy on customer charges.³ More specifically, Citizens' and Wellsboro recommended that the Commission expand its policy defining which "basic customer costs" can be collected through a fixed charge (also known as a "customer charge") and approve the movement to modified fixed/variable pricing for all utilities, or, in the alternative, solely for small utilities.

On March 2, 2017, the PUC issued a Tentative Order⁴ which summarized the *en banc* hearing and the various comments submitted by stakeholders. The Tentative Order also established next steps for this proceeding. In particular, the Commission requested additional input from stakeholders regarding their experiences with various forms of alternative ratemaking methodologies, including: revenue decoupling; lost revenue adjustment mechanisms; straight fixed/variable pricing; cost trackers; choice of test years; multiyear rate plans; demand charges; standby and backup charges; and demand-side management ("DSM") performance incentive mechanisms. The PUC also expressly requested feedback from parties on alternative ratemaking issues unique to electric, natural gas, and water and wastewater utilities. Accordingly, Citizens', Wellsboro, and Valley Energy, Inc. ("Valley") (collectively, the "Companies") hereby respectfully submit the following Comments in response to the Commission's March 2, 2017 Tentative Order.⁵

³ In addition to filing Initial Comments, Citizens and Wellsboro also supported the Comments filed in this proceeding on March 16, 2016, 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 Tentative Order, Docket No. M-2015-2518883 (Mar. 2, 2017).

⁵ Although Valley was not a co-author of Citizens' and Wellsboro's Initial Comments, Valley supports the positions discussed in those Initial Comments.

The focus of these Comments is on alternative ratemaking issues that particularly pertain to natural gas distribution companies ("NGDCs") and electric distribution companies ("EDCs"); the Companies do not maintain positions on alternative ratemaking methodologies for water and wastewater utilities.

II. COMMENTS

The PUC's Tentative Order requested further comment from interested stakeholders on the "reasonableness and efficacy of employing certain rate methodologies specifically for electric, natural gas, and water and wastewater utilities."⁶ The Companies commend the Commission on its decision to avoid implementing a "one size fits all approach" and instead encourage stakeholders to provide recommended alternative rate methodologies tailored to the specific characteristics and circumstances of each kind of utility. As discussed below, the Companies respectfully recommend that the Commission expand its policy defining which "basic customer costs" can be collected through a fixed charge (also known as a "customer charge") and approve the movement to modified fixed/variable pricing for all utilities, or, in the alternative, solely for small utilities.

As indicated in their Initial Comments, Citizens' and Wellsboro are two of the smallest EDCs in the Commonwealth, each serving approximately 6,913 and 6,294 customers, respectively.⁷ Similarly, Valley is one of the smallest NGDCs in the Commonwealth, serving around 6,671 customers.⁸ The Companies do not employ any alternative rate methodologies at this time. Because the Companies have small customer bases, their finances are significantly impacted when customers pursue distributed generation or energy efficiency and conservation

⁶ Tentative Order, p. 14.

⁷ Initial Comments, p. 2.

⁸ Valley is technically classified as a "small natural gas utility" by the PUC because it has annual intrastate operating revenues under \$40 million. See http://www.puc.pa.gov/utility_industry/natural_gas/committees_and_working_groups/small_gas_task_force_.aspx.

projects. Unlike larger EDCs and NGDCs, the Companies lack the extensive customer base and energy sales to offset the potential loss of distribution revenues for rate elements billed according to usage.

As indicated in Citizens' and Wellsboro's Initial Comments, traditionally "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.'"⁹ The Commission adopted and applied this cost methodology to "several major Pennsylvania electric utilities."¹⁰ This policy significantly reduces the percentage of distribution costs that the Companies can collect via their customer charges. 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).¹¹ Valley currently collects around \$945,040 through fixed customer charges, which represents 18% of total distribution revenues (\$5,199,530).

If the Commission expands the realm of costs that can be recovered through 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

⁹ Initial Comments, p. 2 (citing *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. (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"))).

¹⁰ Initial Comments, pp. 2-3 (citing *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).

¹¹ 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."

fixed/variable pricing so that rate cases tend to be less frequent even if the decline is largely driven by external forces."¹²

Expanding the definition of "customer charge" to include additional demand-related costs presents several benefits for both utilities and customers. First, this approach stabilizes revenues for utilities (which should lead to less frequent rate cases and therefore reduce costs to ratepayers). Likewise, including additional demand-related costs in the customer charge also stabilizes costs for customers because those demand-related costs would be channeled into a fixed distribution charge. As a result, customers would no longer be faced with the uncertainty of a volumetric demand charge which could fluctuate significantly or the uncertainty of a cost tracker or other automatic adjustment mechanism. In other words, in lieu of subjecting customers to fluctuating charges, expanding the customer charge would facilitate easier budgeting practices for customers particularly sensitive to changes in rates (*e.g.*, low-income, income-challenged, and large commercial and industrial ratepayers) and reduce rate shock. Furthermore, if the change is implemented in a rate case, interclass cost-shifting issues can be minimized.

During Citizens' and Wellsboro's recent base rate proceedings, each utility proposed to expand the universe of costs that comprise the customer charge. Both utilities incur distribution system costs based upon the number of customers connected to the system and the peak demand the system is designed to serve. None of the distribution system costs, or at most only minimal costs, are affected by kWh usage. For residential customers and small non-residential customers, the customer charge recoups only a fraction of customer-related costs. The remainder of customer-related costs, as well as all demand-related costs, are recovered via the kWh charge.¹³

¹² Initial Comments, p. 3 (citing Mark Newton Lowry, et al., *Alternative Regulation for Emerging Utility Challenges: 2015 Update*, Edison Electric Institute, November 11, 2015, at 28).

¹³ Citizens' Electric Statement No. 1, Direct Testimony and Exhibits of Howard S. Gorman on Behalf of Citizens' Electric Company of Lewisburg, PA; Docket No. R-2016-2531551, pp. 34-35 (Oct. 28, 2016) ("Historically, this was

In order to appropriately identify the portion of demand-related costs that should be included Citizens' and Wellsboro's monthly customer charges, Citizens' and Wellsboro each reviewed Wellsboro's 2015 residential bills and developed tables that showed the percent of customer-months meeting minimal levels of demand and the associated demand costs, customer charge costs, and total monthly charge.¹⁴ By reviewing average demand to determine the portion of demand-related costs that could be subsumed under the customer charge, both Citizens' and Wellsboro employed a cost-of-service approach.

Individuals opposed to the Companies' proposal may argue that expanding the customer charge would reduce customer incentive to conserve energy, as customer charges do not change based on consumption. This argument arose in Citizens' and Wellsboro's recent base rate proceeding, where one of the parties implied that increases in customer charges would be burdensome to low-usage customers and that higher fixed charges – and the resulting lower volumetric charges – do not send price signals to customers to conserve energy.¹⁵ However, the reality is that lower volumetric transportation or distribution charges represent only a portion of

due to the lack of customer-level demand data, the need for revenue stability (for the utility) and cost stability (for customers) and historical practice. Citizens' now has the ability to determine the monthly demand for the majority of its residential customers, using the metering and reporting equipment now in place. In addition, as stated above, costs are incurred based on peak demand not on usage . . . [I]t is appropriate to include some portion of demand-related costs in the monthly charge, in order to align the utility's revenue and costs more closely, and to help stabilize the utility's revenue and customers' costs."); Wellsboro Electric Statement No. 1, Direct Testimony and Exhibits of Howard S. Gorman, Docket No. R-2016-2531551; p. 35 (Oct. 28, 2016) ("Historically, this was due to the lack of customer-level demand data, the need for revenue stability (for the utility) and cost stability (for customers) and historical practice. Wellsboro now has the ability to determine the monthly demand for the majority of its residential customers, using the metering and reporting equipment now in place. In addition, as stated above, costs are incurred based on peak demand not on usage . . . [I]t is appropriate to include some portion of demand-related costs in the monthly charge, in order to align the utility's revenue and costs more closely, and to help stabilize the utility's revenue and customers' costs.").

¹⁴ Citizens' Electric Statement No. 1, Direct Testimony and Exhibits of Howard S. Gorman on Behalf of Citizens' Electric Company of Lewisburg, PA; Docket No. R-2016-2531551, p. 35 (Oct. 28, 2016); Wellsboro Electric Statement No. 1, Direct Testimony and Exhibits of Howard S. Gorman, Docket No. R-2016-2531551; pp. 35-36 (Oct. 28, 2016).

¹⁵ Citizens' Electric Statement No. 1R, Rebuttal Testimony and Exhibits of Howard S. Gorman on Behalf of Citizens' Electric Company of Lewisburg, PA; Docket No. R-2016-2531551, p. 17, lines 5-9 (Dec. 22, 2016); Wellsboro Electric Statement No. 1R, Rebuttal Testimony and Exhibits of Howard S. Gorman, Docket No. R-2016-2531551; p. 17, lines 5-9 (Dec. 22, 2015).

the price signal to customers. The Generation Supply Service Rates ("GSSRs") or Gas Supply Rate ("GSR") will continue to be predominantly (or solely) a volumetric charge that provides a more important conservation price signal.

By convening this investigation into alternative ratemaking methodologies, the Commission has demonstrated that it is prepared to consider progressive rate methodologies and is committed to developing an optimal rate mechanism that better accounts for the characteristics of the current energy market. As a result, the Companies respectfully suggest that the Commission depart from its traditional definition of customer charges, or, in the alternative, depart from this standard solely for small utilities, where usage fluctuations can substantially impact revenues. This action would be preferable to introducing a new automatic adjustment clause, which may be complex and cumbersome to administer.

As indicated in Citizens' and Wellsboro's Initial Comments, the PUC previously expressed 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 remarked 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."¹⁶ 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."¹⁷ By considering altering the customer charge on a case-by-case basis, the Commission has demonstrated a progressive mindset and an understanding that a uniform customer charge approach cannot properly account for the unique challenges faced by individual utilities. Despite these statements,

¹⁶ Initial Comments, p. 4.

¹⁷ *Id.* at p. 4 (citing *Pa. Pub. Util. Comm'n. v. Aqua Pa., Inc. (formerly Pa. Suburban Water Co.)*, 2004 Pa. P.U.C. LEXIS 39, *98).

Citizens' and Wellsboro faced predictable opposition based on the Commission's general policy when they proposed to add a small portion of the demand costs to the fixed customer charge. The Companies urge the Commission to provide a clear statement in this proceeding that the "policy" will not be followed for small utilities.

Although the Companies support 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 would benefit more from an expanded definition of fixed costs in lieu of automatic adjustment mechanisms, which are difficult to administer. In other circumstances, such as Long Term Infrastructure Improvement Plan ("LTIIP") proceedings, the Commission granted exceptions to the rules for smaller utilities.¹⁸ Here, the alternative rate methodologies for smaller utilities deserve similar flexibility.

¹⁸ *Id.* (citing Final Implementation Order, *Implementation of Act 11 of 2012*, 2012 Pa. P.U.C. LEXIS 1223, *34 (The PUC "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 LTIIP. However, significant modifications/deviations to the LTIIP 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.").

III. CONCLUSION

WHEREFORE, the Citizens' Electric Company of Lewisburg, PA, Wellsboro Electric Company, and Valley Energy, Inc., 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: May 31, 2017