

800 North Third Street  
Suite 203  
Harrisburg, PA 17102  
Tel (412) 393-6231  
Fax (717) 525-7460



**Shelby A. Linton-Keddie**  
Manager, State Regulatory Affairs and Senior Legal Counsel  
[slinton-keddie@duqlight.com](mailto:slinton-keddie@duqlight.com)

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May 30, 2017

**HAND DELIVERY**

Ms. Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
2<sup>nd</sup> Floor, Room-N201  
400 North Street  
Harrisburg, PA 17120

**Re: Alternative Ratemaking Methodologies  
Docket No. M-2015-2518883**

Dear Secretary Chiavetta:

Enclosed please find Duquesne Light Company's Comments in the above-referenced proceeding.

Upon receipt, if you have any questions regarding the information contained in this filing, please contact the undersigned or Audrey Waldock at 412-393-6334 or [awaldock@duqlight.com](mailto:awaldock@duqlight.com).

Sincerely,

Shelby A. Linton-Keddie  
Manager, State Regulatory Affairs  
And Senior Legal Counsel

Enclosure

c: Kriss Brown ([kribrown@pa.gov](mailto:kribrown@pa.gov))  
Marissa Boyle ([maboyle@pa.gov](mailto:maboyle@pa.gov))  
Andrew Herster ([aherster@pa.gov](mailto:aherster@pa.gov))

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RECEIVED  
BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
2017 MAY 30 PM 4:00

Alternative Ratemaking Methodologies

PA PUC  
SECRETARY'S BUREAU  
FRONT DESK  
Docket No. M-2015-2518883

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COMMENTS OF  
DUQUESNE LIGHT COMPANY

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**Background**

On December 31, 2015, the Pennsylvania Public Utility Commission (“PUC” or “Commission”) issued a Secretarial Letter, announcing its intention to hold an *en banc* hearing in order to gather information “regarding the efficacy and appropriateness of alternative ratemaking methodologies...that remove disincentives that might presently exist for energy utilities to pursue aggressive energy conservation and efficiency initiatives.”<sup>1</sup> On March 3, 2016, a number of invited experts, including researchers, energy companies (one electric distribution company (“EDC”) and one natural gas distribution company (“NGDC”)),<sup>2</sup> and consumer advocates gave testimony before the Commission on their thoughts regarding revenue decoupling, as well as its effect on both customers and energy efficiency. Not surprisingly, the views of the testimony varied, and, to aid its evaluation of these issues, the PUC invited other interested stakeholders to submit comments following the *en banc* hearing.

Consistent with that invitation, Duquesne Light Company (“Duquesne Light” or “Company”) submitted Comments on March 16, 2016, for the Commission’s consideration. On March 2, 2017, the Commission issued a second order at the above-captioned docket, continuing

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<sup>1</sup> Notice of *En Banc* Hearing on Alternative Ratemaking Methodologies, Docket No. M-2015-251883, Secretarial Letter (“SL”) (Dec. 31, 2015) at 1.

<sup>2</sup> PPL Electric Utilities Corporation and Columbia Gas of Pennsylvania, Inc., respectively.

its investigation by “seeking comments on, and potential processes to advance, alternative rate methodologies that address issues each utility industry is facing.”<sup>3</sup> While the original inquiry centered on revenue decoupling and its intersection with energy efficiency, the March 2 Order is much broader based, citing nine different methodologies for consideration and recommendation.<sup>4</sup>

On March 21, 2017, the Office of Consumer Advocate (“OCA”) filed a Motion for an Extension of Time for Comments and Reply Comments, citing the extreme importance of the issues being examined in this proceeding and noting that “it is essential that there be a full and complete record.”<sup>5</sup> The Commission agreed with these characterizations and, by Secretarial Letter dated March 23, 2017, extended the Comment period to May 31, 2017, with Reply Comments due on July 31, 2017.

In accordance with the revised due date, Duquesne Light hereby files Comments for the Commission’s consideration.

#### **Duquesne Light Comments from March 16, 2016**

As indicated *supra*, the Company submitted Comments in the first phase of this investigation. In general, and to help frame Duquesne Light’s position, the Company described its customer base. Operating for more than 135 years, Duquesne Light is a Pennsylvania EDC that provides electric service to approximately 590,000 customers in and around the City of Pittsburgh, operating in portions of Allegheny and Beaver Counties. Of that 590,000, approximately 89% are residential customers, 25% of whom are low-income, and only about 5% of whom use electric for heating. Accordingly, the Company has unique characteristics when compared to other EDCs.

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<sup>3</sup> Alternative Ratemaking Methodologies, Tentative Order, Docket No. M-2015-2518883, at 1-2 (hereinafter “March 2 Order”).

<sup>4</sup> Mechanisms for consideration and discussion summarized in the March 2 Order include the following: decoupling, lost revenue adjustment mechanism, straight/fixed variable pricing, cost trackers, choice of test years, multi-year rate plans, demand charges, standby and backup charges and performance incentive mechanisms. *See generally*, March 2 Order.

<sup>5</sup> Alternative Ratemaking Methodologies, Docket No. M-2015-2518883, Secretarial Letter (Mar. 23, 2017).

What works for other Commonwealth electric companies may not be appropriate for Duquesne Light, and vice-versa, due to variations in Company size, revenue requirements, customer make-up and usage patterns. No matter what mix of ratemaking methodologies is ultimately chosen, Duquesne Light believes that all charges should fall under a framework of inclusionary energy policy, where the benefits and costs are properly distributed, thus minimizing cross subsidization as much as possible.

Duquesne Light's March 2016 Comments noted that Pennsylvania, although still relying heavily on charges with volumetric components, has been making strides to incorporate various mechanisms that get closer to achieving rates that match the actual cost of service.<sup>6</sup> Specifically, mechanisms such as cost trackers, the recent expansion of the distribution system improvement charge ("DSIC") to include EDCs, and the option of choosing between historic, future or fully projected future test years provide utilities with options for both better collecting and projecting revenue recovery.<sup>7</sup>

However, more needs to be done to ensure long term viability for EDCs. As reiterated below, EDCs are facing revenue stressors that are only growing in number:

EE&C programming is only one of many pressures that distribution grids (and corresponding revenues) face when the majority of EDC rates are tied to the volumetric usage of electricity. In addition to a greater focus on EE&C [both due to Act 129 and more efficient appliances, generally], advances in technology have allowed customers to use the electric distribution grid differently – whether it is greater penetration of solar panels (and corresponding net metering), the use of Combined Heat and Power ("CHP") or other forms of Distributed Generation ("DG"), the time when all an EDC's customers "plug in" 24/7/365 is a thing of the past. *As customers use the distribution grid in various ways, utilities, as well as the Commission, should consider different methodologies for recovering costs.*<sup>8</sup>

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<sup>6</sup> See Duquesne Light March 16, 2016 Comments at 2.

<sup>7</sup> *Id.*

<sup>8</sup> See *id.* at 4 (emphasis added).

This conclusion remains true today. As advances in metering, technology, and customer usage evolve, so should the ways EDCs collect revenue in order to better value the distribution system and recover costs to ensure long term reliability and stability of the distribution grid.

### **Comments to the March 2, 2017 Order**

As noted *supra*, last year the Commission hosted an *en banc* hearing and received one round of comments, mostly centered on the idea of revenue decoupling, its intersection with energy efficiency programs (Act 129)<sup>9</sup> and its potential effects on different customer classes, specifically low-income. As observed by Duquesne Light in its March 16, 2016 comments and echoed by the Commission in the March 2 Order, “the only agreement, if any, obtained at the March 3 hearing is that this is a complicated issue with numerous effects and that a number of issues should be considered when evaluating different ratemaking methodologies.”<sup>10</sup>

While the Commission generally characterized the 2016 positions of utility companies on revenue decoupling and alternative ratemaking as articulated in the list below, these general concerns only begin the discussion of what is necessary to ensure a sustainable utility model. Specifically, in the March 2 Order, the PUC stated that utilities, in the first phase of this investigation, expressed the following general concerns:

1. A one-size-fits-all approach should be avoided and revenue decoupling should be considered on an individual-utility basis as well as on an individual-customer class basis. Each Pennsylvania energy utility is unique in terms of system architecture, geography, cost structure, customer profile, and revenue requirement;
2. The utilities agree with caution expressed by one representative that “any alternative method that is proposed would have to be studied and implemented carefully to avoid conflict of recovery incentives with current mechanisms in place;”
3. The impact on low-income customers; [and]
4. The impact on large commercial and industrial (“C&I”) customers.<sup>11</sup>

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<sup>9</sup> See 66 Pa. C.S. §2806.1

<sup>10</sup> Duquesne Light March 16, 2016 Comments at 1-2; March 2 Order at 2.

<sup>11</sup> March 2 Order 2017 at 5 (internal citations omitted).

While not parsing the above conclusions individually in order to state the Company's specific agreement or disagreement, Duquesne Light agrees that a "one-size-fits all approach" for EDCs should be avoided. In addition, depending on the determinants associated with a particular methodology, implementation of certain mechanisms must occur after smart meters are fully deployed<sup>12</sup> and back-office functionality for those meters is fully operational. No matter what methodology or methodologies are chosen, education for customers will be crucial, and care should be given to incorporate only those methodologies that complement or enhance existing rate mechanisms, such as cost trackers tied to legislatively mandated obligations and DSIC.

As a general proposition, Duquesne Light believes that alternative rate design should:

- Result in rates that are just and reasonable;
- Provide customer benefits in the form of rate stability, simplicity, and fairness;
- Give EDCs revenue stability and therefore an opportunity to earn a fair rate of return;
- Reflect impacts of consumption degradation from Act 129 programs on a full and current basis, rather than being required to wait for a rate base proceeding;<sup>13</sup>
- Be implemented through gradualism to mitigate rate impacts, address unintended consequences and allow customer acceptance and adoption; and
- Minimize both intra- and inter- customer class subsidization.

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<sup>12</sup> Consistent with its Commission approved Plan, Duquesne Light anticipates having smart meters fully deployed by the end of 2019. (See Docket No. P-2015-2497267)

<sup>13</sup> Advocates often argue that higher fixed customer distribution charges will diminish EE&C Program effectiveness and adoption of EE&C measures. Duquesne Light believes that gradual increases to fixed charges with full and current cost recovery to account for mandated EE&C targets will ensure customer participation while simultaneously providing more stable EDC revenue.

Simplicity is essential for customer adoption. Reading and understanding a customer bill should not require a two page explanation or a technical expert to explain. Alternative ratemaking methodologies that are easy to explain and easy to implement have already seen success and wide utilization - the DSIC is one such example. Simplicity is also essential for EDC adoption. Transparency and prescribed methodologies, approved by the Commission in formal proceedings, will benefit EDCs and customers over time. In general, residential rates should provide more certainty for low income customers. To that end, rate design concepts should be developed to help establish a stable budget for everyone, not just those participating in budget billing or CAP. Finally, alternative rate design, when implemented, should not require customer enrollment. Enrollment programs often result in more complexity, confusion, and costs.

Consistent with these principles, Duquesne Light recommends that the Commission consider the following alternative rate design concepts:

- More straight/fixed variable pricing;
- Select performance incentives;
- Formulaic approaches to derive distribution revenue requirements;
- Revenue normalization adjustment clauses; and
- Use of pilot programs to test new rate designs before making wholesale changes.

These concepts are discussed in further detail herein. Critically, these concepts are not intended to be exclusive or prescriptive; rather, they represent tools that should be available to each EDC when developing the appropriate rate structure for its size, revenue requirement, customer make-up and usage.

The Commission recognizes EDCs have experienced flat or declining energy consumption and demand in recent years, due to various factors, including economics, mandated Act 129 EE/DR

programs, more efficient appliances, improved lighting, fuel switching, and a greater penetration of distributed generation (“DG”).<sup>14</sup> As explained *supra*, with these challenges comes the need to re-evaluate how costs are recovered from customers.

When discussing the issue of future utility cost recovery, some suggest that rate base/rate of return ratemaking should be replaced with something else, without discussion of other methodologies. This type of conversation ignores the practical reality of how rates are currently collected and how they are likely to be recovered in the future. Today, Duquesne Light collects the bulk of its distribution revenue in three ways: through distribution rates by rate schedule, through mandated cost trackers, and through its DSIC. Individual surcharges for DSIC and cost trackers related to legislative mandates are unlikely to go away any time soon. As a result, alternative methodologies chosen going forward need to factor and account for use of these mechanisms.

Moreover, as more types of DG interconnect with an EDC’s distribution system, resulting in different effects, it is conceivable that a number of alternative methodologies will be used simultaneously in an attempt to accurately value both the attributes and efficiencies the distribution system is gaining for each form of DG, balanced with the benefits and services customers receive.<sup>15</sup> This reality, combined with the breadth of factors unique to each company, is why EDCs *must* be

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<sup>14</sup> See generally March 2 Order at 15.

<sup>15</sup> As an aside, Duquesne Light believes that the issues and cost recovery surrounding distributed generation are unique to each EDC and should be treated as separate and apart from the discussion about base distribution rates generally. Not only does distributed generation have limited adoption at this time, but there also exists a number of unknowns as to its future penetration and effects on both the distribution system and other customers.

For example, in the past year and half, both SolarCity and SunPower have begun operating in the Company’s territory. It remains to be seen what long terms effects this growth in penetration will have on the distribution system, load, and other, non-solar owning customers. As a result, without any changes in the current construct, the potential for cross subsidization is real.

given flexibility and various tools in their toolbox rather than the Commission dictating one particular solution or methodology to the exclusion of others.

It is difficult, absent study and evaluation on a pilot basis of different options, to endorse one particular method as the superior or singular path forward. Duquesne Light supports continuing use of cost trackers as well as the DSIC and is considering new methodologies including select performance incentives, revenue normalization adjustment clause, and a formulaic approach to derive distribution revenue requirements. In the interim, the Company supports a move toward more straight/fixed variable pricing, which can be implemented today, and better reflects the match between cost causation and utility revenues. Additionally, allowing EDCs to utilize a five year average sales forecast could lessen the impacts from Act 129 EE&C/DR plans.

Legislation that specifically names and authorizes these methodologies would be the clearest way to settle any ambiguities around Commission authority and the ability of EDCs to use these mechanisms. However, irrespective of clear statutory authority, the Commission should draft a Policy Statement that contemplates a number of potential ratemaking methodologies, including the ones that Duquesne Light supports (straight/fixed variable design, performance incentives, cost trackers, formulaic approach to derive a distribution revenue requirement, and revenue normalization adjustment clauses), and provides guidelines for their use. At a minimum, the Commission should clearly articulate its position on the current authority it has regarding use of these alternative ratemaking methodologies in order to determine where the PUC believes its statutory authority is limited or absent.

To suggest that one can, in 2017, determine a singular methodology that is best for all situations going forward, without actual information on customer and EDC effects, is ill-advised. It is more likely that it will take trial and error using different methodologies though pilots of small

test groups before determining the best option for customers, EDCs, and the Commission. Utilities should be given options and flexibility to determine what is appropriate for their size, revenue requirement, customer make-up and usage.

**Reponses to Commission Questions for Electric Utilities**

1. *Identify the alternative rate methodology(ies) each EDC is currently using, including the number and types of automatic adjustment clauses, cost trackers and separate cost recovery mechanisms.*

Duquesne Light uses the following:

- a. Four distribution cost trackers (retail market, universal service, energy efficiency, smart meter)
- b. One transmission cost tracker (TSC)
- c. POLR
- d. DSIC
- e. Used a Fully Projected Future Test Year in 2013 distribution base rate case
- f. Wholesale transmission cost tracker (FERC Formula)

*Also identify, as a percentage of total costs or venues, the cost or revenues each separate mechanism recovers.*

<b>Duquesne Light uses the following:</b>	Forecasted CAL2017 *	
Distribution cost trackers:		
Retail Market Enhancement Surcharge	0.04%	
Universal Service Charge	2.34%	
Energy Efficiency and Conservation Surcharge	1.72%	
Smart Meter Charge	3.59%	
DSIC	0.64%	8.33%
Transmission cost trackers:		
Transmission cost tracker (TSC)	6.32%	
Wholesale transmission cost recovery (Net of TSC through PJM Bill)	8.85%	15.17%
Supply cost trackers		
POLR	25.1%	25.1%
Used a Fully Projected Future Test Year in 2013 distribution base rate case	N/A	
Base Distribution		49%
Other Revenue		2%
Total Revenue		<u>100.00%</u>

\* Percentage of total revenue recovered through each separate mechanism.

2. *If any, what alternative rate methodology(ies) could and should be used by EDCs? Regarding the proposed methodology(ies), please provide specific comments on:*
  - a. *The potential advantages;*
  - b. *The potential disadvantages;*
  - c. *The effects on all rate classes, with a specific focus on small volume, low-income, income-challenged and large C&I customers, as well as a discussion regarding any potential inter- or intra-class cost shifting;*
  - d. *The effects on existing energy efficiency and peak demand reduction programs; and*
  - e. *The effects on the number and/or frequency of base rate case filings, as well as possible rate increases or decreases.*
3. *How would the particular alternative rate methodology(ies) interact with existing mechanisms or traditional ratemaking principles currently in use or available to EDCs (e.g. the distribution system improvement charge (DSIC) or FPFTY, etc.)?*
4. *How would such a methodology be implemented? Specifically, in what timeframe? Is there a need for a gradual implementation or phasing-in process?*

Without the ability to test methodologies and understand the actual impacts on all customers, it is impossible to identify one preferred or singularly beneficial approach at this time. Duquesne Light supports continuing use of cost trackers and the DSIC surcharge as well as considering new methodologies including select performance incentives, a formulaic approach to derive distribution revenue requirements and a revenue normalization adjustment clause. In the interim, the Company supports a move toward more straight/fixed variable pricing to better align utility revenues and costs, which can be implemented immediately.

In an effort to mitigate any potential inter- or intra- class cost shifting, Duquesne Light recommends, no matter which alternative methodology is ultimately chosen, that there should be no change in inter-class cost allocation methodology (*i.e.*, historic industry methodologies should be continued and developed in distribution rate cases based on allocated cost of service studies).

Finally, in order to provide for gradualism, avoid rate shock, and allow needed time for system changes as well as customer education, changes in rate methodologies should happen over time. Again, without actual information on the precise effects of different methodologies on all customers and an ability to evaluate changes in customer behavior, it is impossible to state what specific timeframe would be needed. Depending on the methodology, it is possible that smart meter deployment and back office functionality would need to be fully operational before any wholesale changes are made (such as if demand charges are used), which suggests that the earliest some alternative ratemaking methodologies could be implemented on a widespread basis is 2020. Conversely, other mechanisms, such as SFV and use of performance incentives, can be implemented immediately.

#### **Straight/Fixed Variable Design**

The report titled, "Alternative Electricity Ratemaking Mechanisms Adopted by Other States," ("Report") prepared for the Public Utility Commission of Texas,<sup>16</sup> describes Straight-Fixed Variable rates as follows:

Utilities have variable costs that depend primarily upon the volumes of electrical energy consumed, and they have fixed costs that depend primarily upon number of customers or peak loads. Under traditional ratemaking, large shares of fixed costs are recovered through volumetric charges (dollars per kWh) rather than through fixed monthly charges (dollars per customer-month) or peak demand charges (dollars per peak kW). **This traditional approach leads to systematic mismatches between utility revenues and costs: growing sales cause utility revenues to rise faster than costs, while shrinking sales cause utility revenues to fall faster than costs.**

To foster a better match between utility revenues and costs, straight fixed-variable (SFV) rates allow utilities to recover substantially all fixed costs through fixed monthly charges or peak demand charges **that are independent of the volumes of**

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<sup>16</sup> See Alternative Electricity Ratemaking Mechanisms Adopted by Other States," ("Report") prepared for the Public Utility Commission of Texas, available at: <https://eepartnership.org/wp-content/uploads/2016/10/Alternative-Ratemaking-Mechanisms-160525.pdf>

**electrical energy consumed.** Volumetric charges are used to recover substantially all variable costs that depend primarily upon the energy consumed.<sup>17</sup>

The advantages of SFV for both customers and EDCs are more simplicity and predictability of charges. By having higher fixed charges that are tied to the actual costs to serve and lower volume-based charges, customers will have lower variations in their bill, a bill that better reflects the reality of cost causation, and EDCs will have more predictable cost recovery.

Often times, advocates criticize higher fixed charges, citing feared disparate impacts on low-income and low-usage customers. However, these conclusions, without hard evidence, are speculative at best, as consumption differences are based on a multitude of factors.<sup>18</sup>

In addition, because SFV rates track cost causation supported by cost of service studies and are less dependent on volumetric usage, there is no need to wait to move toward a simpler and more equitable construct until smart meter deployment is completed and back office functionality is fully operational. If justified by a cost of service study, and found to be just and reasonable by the Commission through a distribution base rate proceeding, there is no reason why customer charges cannot be increased to better account for a utility's fixed costs that are dependent on the number of customers and are divorced of usage.

The current mismatch between revenues and costs, which is exacerbated by utility sales losses, must not be allowed to continue. This disconnect between cost drivers and revenue

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<sup>17</sup> *Id.* at 13 (emphasis added).

<sup>18</sup> *Id.*, n. 13. Specifically, footnote 13 of the Report states:

The effect that an SFV tariff would have on low-income customers is far from conclusive. The literature is not consistent regarding whether low-income customers use more or less electricity than the average customer. Consumption often depends on demographics other than income, such as family size; quality of housing stock; owners versus renters; whether renters pay electric bills directly; end uses such as water heating, cooking, and space heating; appliance efficiency; and age of householders. There are many other ways of addressing low-income customers' energy affordability issues besides allocating fixed costs to variable charges that may or may not be beneficial to low-income customers.

recovery is not only unfair for EDCs but is also unsustainable as flat or declining energy consumption and demand continues going forward. Proper rate methodology should reflect cost causation while providing sufficient revenue to utilities in order to ensure the safety and reliability of the distribution grid going forward.

Duquesne Light does not believe that imposition of SFV, by itself, will diminish either the value or opportunity for efficiency gains, especially if required by Act 129 and bundled with other, more favorable methodologies like performance incentives related to Act 129 goals. Further, use of SFV does not have any anticipated negative effect on the DSIC.

### **Performance Incentives**

As part of the *en banc* hearing, suggestions were made that revenue decoupling and performance incentive mechanisms should be implemented together to remove barriers for utilities to promote energy efficiency.<sup>19</sup> In essence, performance incentives provide positive motivation for utilities to maintain or improve service quality. Performance incentives, in theory, could be tied to a number of different areas – EE&C targets, reliability metrics, safety performance, etc.

Depending on how structured and what funding mechanisms are in place, performance incentives could have little or no practical effect on customer rates. For example, a performance incentive could be instituted for early achievement or over achievement of Act 129 goals and tied to the EE&C Program budget as a cap. There would be no need for additional penalties for non-compliance, because Act 129 already provides them. As for performance incentives tied to other metrics, the amount, allocation and assessment would have to be approved by the Commission or authorized by statute. Accordingly, because incentives can be designed in numerous ways and

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<sup>19</sup> See March 2 Order at 11.

attached to different metrics, the Company reserves its opinion on any specific proposal until one is offered.

### **Formulaic Approach to Derive the Distribution Revenue Requirement for Base Rate**

#### **Proceeding**

As an alternative to revenue adjustment mechanisms, Duquesne Light recommends consideration of using a formulaic approach to derive the distribution revenue requirement for a base rate proceeding. Under this methodology, the Company would use a similar concept to the FERC formula, that is transparent and uses published data from either the FERC Form 1/PUC Annual Report filing or possibly other quarterly report filings. The template would derive the revenue requirement and rate of return and be the basis on which to compare EDCs. EDCs would file this revenue requirement calculation on a set schedule or as part of its rate proceeding, adding expense adjustments (*e.g.* tree trimming/veg management, bad debt expense) and plant additions for the Future Test Year or Fully Projected Future Test Year, similar to the FERC formula. Projects at some level, such as larger than \$10M in the FPFTY, could be described in detail on each tab and justified in testimony. EDCs could propose an ROE in testimony, but in no instance would receive an ROE lower than the DSIC ROE for its FPFTY revenue requirement.

Benefits of this methodology are that the regulatory process would be simplified and therefore less costly, the DSIC would not be harmed because EDCs would continue to invest in rate base, and more frequent true-ups would mitigate customer bill impacts.

Similarly, use of this formula would not impact Act 129 programs under current law. The budgets for Act 129 programs are based on EDC revenues from 2006. Even as revenue requirements have changed over time, the budgets for Act 129 have remained consistent.

Moreover, the DSIC would have little impact. As is the case now, the DSIC surcharge would get reset to zero as of the effective date of new base rates<sup>20</sup> and a DSIC ROE would either be determined as part of the base rate proceeding or likely dictated by the ROEs as articulated in the TUS Quarterly Reports.

**Revenue Normalization Adjustment Clause (a.k.a. Lost Revenue Adjustment Mechanism)**

Duquesne Light is interested in exploring a mechanism that would adjust base distribution revenues every six (6) or twelve (12) months. A typical base rate case, when approved, establishes an allowed revenue requirement at approved rates and forecasted billing determinants (sales) that only change upon the completion of another base rate proceeding. If using a Revenue Normalization Adjustment Clause, the Company would compare actual delivery revenues on a more timely basis, adjusted for changes in the number of customers, against the rate case revenue approved amount. If the difference between adjusted and actual revenue *in aggregate* is outside a defined bandwidth (e.g., +/- 2% of total base distribution revenue), an evaluation of revenue differences *by customer class* would be done and rates would be adjusted up or down, accordingly. The adjustment to rates would be a percentage increase/decrease to customer class distribution rates, similar to a DSIC adjustment.

EE&C/DR programs would be unaffected by a change in revenue (since the budgets are statutorily set based on 2006 revenue) but the allowed revenue adjustment would mitigate lost revenues due to implementation of EE&C/DR programs after the FPFTY (assuming this was the test year chosen for the rate case).

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<sup>20</sup> See 66 Pa. C.S. §1358(b)

There should be minimal impact to DSIC surcharge. However, use of a Revenue Adjustment Normalization Clause could cause the DSIC to fail its earnings test and remain in an over-earning position for an extended period of time following the FPFTY.

The adjustment would also result in weather normalized revenue, mitigating revenue impacts for an eventual base rate case.

The first revenue adjustment could occur in the year following the FPFTY (e.g. if 2019 was the FPFTY, and the Company could evaluate 2020 revenues based on FERC Form 1/PUC reports.

From an EDC perspective, these adjustments would better reflect actual revenues at the time of changes (either up or down), rather than perpetuating existing regulatory lag. In addition, revenue adjustment mechanisms enable EDCs to recover fixed costs that would otherwise be lost due to conservation, such as those mandated by Act 129.

From a customer perspective, revenue adjustment mechanisms would change distribution rates on a more frequent basis than waiting years for the next distribution rate case, but would include the possibility for downward adjustments or no adjustments if revenues were within 2% of base distribution revenue. More frequent rate adjustments would also significantly mitigate the rate shock that customers may otherwise experience following a base rate proceeding. Additionally, more frequent adjustments may reduce the frequency of rate cases, which saves customers money.

**Responses to Vice Chairman Place Statement Directed Questions**

1. *Provide overall supportive or critical comments on the outlined advanced rate design structure.*
2. *For a demand-based rate design, what system peak should be used? For example, RTO peak hours, EDC peak hours, rate class peak hours?*
3. *How many hours should be used to calculate the demand billing determinant? Should there be periodic demand ratchets? Should this be measured, for example, over 1*

- hour, 5 hours, 10 hours, or perhaps 20 hours seasonally, monthly? Should a daily hourly time range be established in which coincident peak will be measured?*
4. *How should peak demand be measured? Should each measurement be based, for example, on a 15 minute, 30 minute or 1 hour period?*
  5. *Should tiered demand rates be used?*
  6. *What costs should be recovered under the coincident peak demand charge? Which cost "bucket" should information systems, billing systems, customer service systems, customer service costs, operational expenses, or other costs (please specify) under such a new rate design?*
  7. *What other "rate gradualism" mechanism should be employed?*
  8. *What revenue streams should be excluded (e.g. § 1307 automatic adjustment revenues)?*
  9. *While large customers generally have demand-based non-coincident peak charges, should large customer demand charges be modified to incorporate coincident peak-based charges?*
  10. *What would the range of cost impacts be, if any, for low income customers? Under a given model, what modifications should be considered to Low-Income/Customer Assistance Program participants to maintain affordability and ratepayer equity?*
  11. *What type of consumer education programs should be provided to customers when implementing alternative ratemaking methodologies?*

In addition to the March 2 Order questions, Vice Chairman Andrew Place proposed the following rate design for EDCs, upon which he seeks additional comment:

- 3-part rate – Existing customer charge, demand charge, and volumetric charge
  - Customer charge recovers metering and service line extension costs, based on size of service drop or service meter provided.
  - Coincident Demand Charge covers basic distribution grid capital and fixed grid operating costs.
  - Volumetric charge covers other variable costs and operating expenses.
- Gradualism – move to full rate structure, as approved by the Commission, over 9 years in 3-year increments. [a third every three years]
- Demand charge determinant, based on coincident peak usage intervals during the day, month, season or year.
- Cost allocation between rate classes is unaffected – no change in policy implemented through base rate proceedings.
- Demand charges would be "net metered" to the extent they reduce coincident peak usage.<sup>21</sup>

The Vice Chairman recognized that smart meter deployment and back office functionality would be prerequisites for coincident demand charge rate design and that customer education

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<sup>21</sup> Alternative Ratemaking Methodologies. Docket No. M-2015-251883, Statement of Vice Chairman Andrew G. Place at 2 (Mar. 2 2017).

would be needed to help explain advanced rate structures.<sup>22</sup> The Company's comments to the Vice Chairman's specific rate design proposal are below.<sup>23</sup>

Duquesne Light wants to note at the outset that the comments that follow are directly in response to the Vice Chairman's proposed rate design and is not a specific design that the Company supports. However, there are some aspects of the Vice Chairman's proposal upon which Duquesne Light agrees:

- Rather than perpetuate the mismatch between fixed cost recovery through volumetric charges, there should be greater movement toward fixed charges that are dependent on the number of customers and disconnected from usage, as well as only having variable costs tied to usage charged by consumption;
- No matter the methodology chosen, there should be no change in the way cost allocation is determined (*i.e.*, historic industry methodologies should be continued and developed in distribution rate cases based on allocated cost of service studies); and
- To provide for gradualism, avoid rate shock, and allow needed time for system changes and customer education, changes in rate methodologies should be incorporated over time.

Notwithstanding, the Company strongly disagrees with the proposed use of coincident peak demand, and does not believe that demand charges should be implemented for residential customers.

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<sup>22</sup> *Id.*

<sup>23</sup> In addition, Vice Chairman Place contemplated a reliability performance-based mechanism, that in concept and as explained *supra*, Duquesne Light supports exploring. *Id.* at 2-3. Because these incentives can be designed in numerous ways and can be attached to different metrics, the Company reserves its opinion on any specific proposal until one is offered.

Distribution billing demand should continue to be based on customer's non-coincident peak demand (and not coincident peak (ICP) demand). The distribution system is designed based on non-coincident load associated with customers connected to the system.

Moreover, it is premature to implement demand charges for residential customers. Not only would such changes need to wait until full smart meter deployment, but residential customers are only beginning to understand the information associated with, and potential benefits of, smart meters. Changing fundamental billing methodology just as customers are understanding their energy patterns could create customer confusion and would require extensive education – on topics such as how to interpret information obtained from smart meters, an explanation of demand charges as well as an explanation of how demand charges would now be implemented into residential distribution rates.

Conversely, it is appropriate for EDCs to recover more costs through distribution demand charges from demand metered C&I customers. C&I customer demand – regardless of timing (*e.g.* ICP) drives system design. C&I customers understand billing demand. Demand charges, while variable, are less volatile than volumetric energy charges and will ensure those costs are appropriately recovered from the customers creating the load.

Further, distribution billing demand (non-tiered) should continue to be based on each EDC's current interval. Duquesne's interval is 15 minutes - there is no reason to change this measure. Customers have energy management systems designed based on this measure. Changing the measure of demand to an interval other than the current interval may create customer confusion and unintended consequences for an EDC (*e.g.*, will changing how demand is measured affect engineering design?).

In addition, base distribution rates have been designed, in part, using historic data which includes billing demand based on an EDC's unit of measure. As a result, a sound analysis of system demand data at an interval other than the existing EDC's unit of measure would be required. Such an analysis could take years and, absent bill analysis, would place unnecessary risk on an EDC's cost recovery and risk on customers for misaligned demand charges.

For these reasons, Duquesne Light does not support demand charges in general or based on the coincident peak rather than billing determinants for residential customers. As explained *supra*, the Company prefers a move toward SFV design (with no demand component), coupled with performance incentives where appropriate.

### **Responses to Commissioner Sweet Statement**

Commissioner Sweet did not propose a list of questions to be answered, but did highlight two issues that he "found to be of great importance" on which he wanted stakeholder feedback.<sup>24</sup> First, Commissioner Sweet asked for feedback on methodology impacts on *all* customers, with specific focus on those considered low-income or income-challenged. Secondly, upon noting the usefulness and importance of repairing and replacing aging and unsafe infrastructure through use of Commission-approved Long Term Infrastructure Improvement Plans (LTIIPs), with associated costs collected through Distribution System Improvement Charges (DSICs), Commissioner Sweet is soliciting comments on how any methodologies chosen may impact the replacement of infrastructure associated with the DSIC.

To the extent these questions have not yet been answered, the Company addresses these concerns as follows:

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<sup>24</sup> Alternative Ratemaking Methodologies, Docket No. M-2015-251883, Statement of Commissioner David W. Sweet (Mar. 2, 2017).

Unfortunately, with many of these methodologies, it is impossible to predict with certainty the exact effects on all customers, including those who are considered low-income or income-challenged. This is why Duquesne Light believes it is of utmost importance to gather data on different methodologies through use of pilots of trial size test groups before widespread adoption. Through use of limited pilot programs, EDCs, stakeholders and the Commission could track impacts, observe unintended consequences, and propose solutions, as necessary, that need to be addressed before socializing these changes among the broader customer base.

Similarly, Duquesne Light believes that any alternative methodologies chosen should complement existing mechanisms, such as cost trackers for legislatively mandated programs that provide full and current cost recovery and the DSIC, not dilute their effectiveness. To that end, while use of some alternative ratemaking methodologies would potentially lessen the need for more frequent rate cases, in general, because a base rate case needs to be filed within five years prior to the date of a DSIC petition filing (*see* 66 Pa. C.S. § 1353), this restriction would still be in place if a company seeks to utilize this mechanism.

**Conclusion**

Duquesne Light applauds the Pennsylvania Public Utility Commission for continuing the conversation regarding changes to the current ratemaking structure to better recognize and account for competing pressures on the electric system and different uses of the distribution grid. Through this proceeding the Commission should draft a Policy Statement that contemplates a number of potential ratemaking methodologies, including the ones that Duquesne Light supports (straight/fixed variable design, select performance incentives, cost trackers, formulaic approach to derive a distribution revenue requirement, and revenue normalization adjustment clauses), and provides guidelines for their use. At a minimum, the Commission should clearly articulate its position on the current authority it has regarding use of these alternative ratemaking methodologies in order to determine where the PUC believes its statutory authority is limited or absent. The Company looks forward to further discussion and examination of these issues and remains more than willing to testify regarding its views on this very important topic should the opportunity arise.

Respectfully submitted,



Shelby A. Linton-Keddie (Pa. I.D. 206425)  
Manager, State Regulatory Affairs  
Sr. Legal Counsel  
Duquesne Light Company  
800 North Third Street  
Suite 203  
Harrisburg, PA 17102  
[slinton-keddie@duqlight.com](mailto:slinton-keddie@duqlight.com)  
Tel. (412) 393-6231

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