

## Comments of AARP Before the Pennsylvania Public Utility Commission

Alternative Ratemaking Methodologies – Docket No: M-2015-2518883

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PA PUBLIC UTILITY COMMISSION  
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AARP submits these comments in response to the Commission Order entered March 2, 2017, seeking further comments in this docket. AARP previously submitted Comments in this Docket on March 16, 2016. As we stated in our earlier comments, AARP supports the Commission's efforts to maximize the benefits of energy conservation to the people and the economy of Pennsylvania. AARP agrees that consumers are best served when they are able to obtain the energy that they actually need at a reasonable price while avoiding the use of unnecessary energy through cost-effective conservation measures.

As we previously noted, however, certain of the alternative ratemaking approaches that have been suggested in this docket do more harm than good and will not well serve either Pennsylvania utility consumers or the Pennsylvania economy as a whole. In particular, AARP noted its strong opposition to the efforts by electric and natural gas utilities to impose substantial increases in their fixed monthly customer charges. Raising the unavoidable fixed customer charges of residential customers sends exactly the wrong signal to customers because it reduces their ability to save money by reducing their usage. Proposals to impose high unavoidable customer charges on residential customers might alleviate some utility concerns about reduced revenues due to conservation, but such proposals have a deleterious effect on the very customers who are being asked to conserve. Such proposals have a particularly harmful impact on low income and low usage customers who will be forced to pay higher bills even if they take steps to conserve energy. AARP therefore continues to urge the Commission to reject any efforts to impose higher fixed customer charges on residential customers.

AARP's earlier comments also expressed skepticism regarding the need for and the legality of the use of "decoupling" mechanisms as a means to promote greater energy efficiency in Pennsylvania. The question of whether or not to implement decoupling as part of Pennsylvania's energy efficiency regulatory framework was explicitly addressed by the General

Assembly in Act 129 of 2008. Specifically, while establishing automatic surcharges to recover the costs of our energy efficiency, demand response, and smart meter programs, the General Assembly declared that such cost recovery may not include “decreased revenues of an electric distribution company due to reduced consumption or changes in energy demand.” 66 Pa. C.S. Sections 2806.1(k)(20) and 2807(f)(4). Under the express language of Act 129, therefore, it appears that the type of decoupling mechanism proposed by some of the commenters in this proceeding would be unlawful.

Most importantly, the lack of decoupling has not prevented Pennsylvania from implementing a successful energy efficiency agenda in which our electric utilities have met or exceeded the initial energy saving goals mandated by Act 129 as well as the goals established by the Commission in subsequent proceedings. Under Act 129, electric distribution companies are expressly required to meet those goals and are subject to monetary penalties if they fail to meet them.

Moreover, while any revenues that might be lost as a result of conservation programs cannot be recovered as part of the automatic surcharge between rate cases, utilities can reflect such revenue losses on a prospective basis in base rate cases, which now permit the use of fully forecasted future test years. As such, AARP continues to question the need for and the Commission’s legal authority to implement a decoupling mechanism at this time.

In addition to reiterating its previous positions on high fixed customer charges and decoupling, AARP wishes to express its opposition to any attempt to implement residential demand charges on a mandatory or default basis. The issue of demand charges is addressed by the Commission at pages 10-11 of its March 2, 2017 Order and in the accompanying Statement by Vice Chairman Andrew Place.

It is AARP’s understanding that demand charges are not mandated or provided on a default basis to residential customers of investor-owned utilities anywhere in the nation and there is good reason for that. Residential demand charges would be difficult for customers to understand and, in the absence of sophisticated load control equipment, would make utility bills extremely hard to control. Traditionally, demand charges have been based on an individual customer’s own peak usage at a particular point in time (for example, a 15 minute or one hour time frame) over the course of a billing period.

But it is not clear how a residential customer will know when that peak demand will occur (much less be able to respond to) particularly since many pieces of major household equipment – such as refrigerators, air conditioners, and hot water heaters – cycle on and off automatically over the course of a day. To the extent that the purpose of a demand charge is to provide “price signals” to customers, such signals are of no use if customers are unable to respond to them. The day may arrive when all of Pennsylvania’s households are equipped with “smart” appliances that will operate in accordance with price signals from the utility system operator, but that day is far off and may never occur for the great bulk of lower and middle income consumers. Instead of providing reasonable guidance to customers on how to use energy wisely, a mandatory residential demand charge serves more as a kind of “gotcha” rate that arbitrarily bases each customer’s bill on the customer’s usage at a particular point in time which the customer may not even know is occurring.

In discussing the potential benefits of demand charges, the Commission states in its March 2, 2017 Order that “[t]he objective behind the use of demand charges is to send desired price signals to influence customer behavior by encouraging customers to consume less usage during peak demand periods and more usage during off-peak demand periods” and that “[s]hifting demand to off-peak periods may increase the load factor of the utility system and therefore potentially defer investments in additional system capacity.” Order at 10-11. AARP would respond first that, as noted above, it is not clear whether and how the average residential customer would be able to respond to the price signals provided by a demand charge. Second, the Commission Order here does not appear to distinguish between the individual customer’s non-coincident peak usage and the utility coincident system peak costs which are based on the system usage as a whole. There is no reason to believe that every individual residential customer’s own usage would peak at the same time as the system peak, nor is there any evidence that the vast majority of a utility’s distribution system costs are related to an individual’s non-coincident peak usage.

In his statement issued on March 2, 2017, PUC Vice Chairman Place proposes a nine-year transition to a coincident peak based demand charge for all customers. While a coincident peak based charge may bear some relation to the utility’s overall costs, AARP respectfully submits that such a charge would still be confusing to customers and provide little system benefit. It is still not clear how a consumer would know when the utility coincident peak is

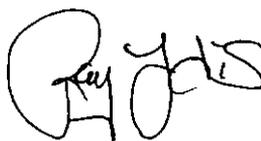
occurring. Indeed, the utility itself does not know when the peak hour has occurred during a given period until after the period is over. It is also still not clear how a typical residential customer would be expected to respond to a peak demand charge in the absence of load control equipment that is not likely to be found in most low and moderate income homes either now or anytime in the foreseeable future. Such a charge might be especially harmful to customers who use medical devices powered by electricity whose use must be determined by medical necessity, not utility rate design.

It should also be noted that as a result of restructuring, the PUC only regulates the distribution portion of the utility's rates. While the generation costs of a utility (or competitive electric generation supplier (EGS)) may vary greatly based on system peaks and time of use, those costs have been unbundled from Pennsylvania's regulated distribution costs. At the wholesale level, PJM generation products are routinely priced on an on-peak, off-peak, and even hourly basis. PJM peak capacity costs are separately priced as well. At the Pennsylvania retail level, Act 129 requires all utility default service providers to offer time-of-use rates, 66 Pa. C.S. Section 2807(f)(5), that customers are free to adopt on a voluntary basis, and, of course, EGS's are free to offer such services as well. The benefits of voluntary time-of-use rates for generation service, however, do not justify in any way the imposition of mandatory demand charges for utility distribution service.

For the reasons stated above, AARP strongly urges the Commission to reject any suggestion in this proceeding that the implementation of mandatory or default demand charges for residential customers is appropriate including the proposal for a nine year phase in plan

AARP PA again thanks the Commission for this opportunity to submit these Comments and respectfully urges the Commission to consider these Comments as it moves forward in this important proceeding.

Respectfully submitted,



Ray Landis

Advocacy Manager AARP PA

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