COMMONWEALTH OF PENNSYLVANIA

July 31, 2017

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Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
PO Box 3265
Harrisburg, PA 17105-3265

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

Dear Secretary Chiavetta:

I am delivering today for filing the Reply Comments of the Office of Small Business Advocate ("OSBA"), to the March 2, 2017 Tentative Order on Alternative Ratemaking Methodologies, at the above-docketed proceeding.

If you have any questions, please feel free to contact me directly.

Sincerely,

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Attorney ID #306921

Cc: Mr. Brian Kalcic
Kriss Brown, PUC Law Bureau
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLY COMMENTS OF THE OFFICE OF SMALL BUSINESS ADVOCATE ON TENTATIVE ORDER

I. INTRODUCTION

On December 31, 2015, the Secretary of the Pennsylvania Public Utility Commission ("Commission") issued a Secretarial Letter noticing an *En Banc* Hearing on Alternative Ratemaking Methodologies on March 3, 2016 ("Secretarial Letter"). The Secretarial Letter outlined three rate issues to be covered at the hearing: (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. The Secretarial Letter also listed several topics to guide this discussion.

Certain persons and organizations were invited to submit written testimony and appear at the *en banc* hearing. The Secretarial Letter also provided for other interested parties to submit written comments following the *en banc* hearing. The OSBA and many other interested stakeholders submitted comments on March 16, 2016.

On March 2, 2017, the Commission issued a Tentative Order continuing and expanding the scope of the investigation by seeking comments on specific alternative ratemaking (and rate design) methodologies within the electric, natural gas, and water and wastewater utility industries. The Tentative Order also explores policy goals beyond the initial goal of promoting energy and efficiency conservation programs.

The OSBA and other stakeholders submitted comments on May 31, 2017.

We thank the Commission for the opportunity to submit the following reply comments, which are focused on responding to the preferred alternative rate methodologies identified by certain electric distribution companies ("EDCs").

II. REPLY COMMENTS

A. OSBA Reply to Duquesne's Comments

In Duquesne's view, advances in metering and technology have enabled customers to utilize the distribution grid in new ways, and the continuing evolution of such technology requires a corresponding evolution in the manner in which EDCs collect revenue (or recover costs).[1] To that end, Duquesne recommends that the Commission give due consideration to authorizing the following: 1) more straight/fixed variable pricing; 2) select performance incentives; 3) formulaic (or FERC-style) approaches to derive distribution revenue requirements; 4) revenue normalization adjustment clauses; and 5) the use of pilot programs to test new rate designs before final implementation.[2]

As a general matter, the OSBA notes that Duquesne's preferred rate/ratemaking alternatives are intended to provide EDC's with either i) greater revenue stability (Items 1 & 4) or ii) an enhanced revenue stream (Items 2 & 3) between base rate proceedings. While the formal adoption of such alternatives would provide obvious benefits to EDCs, nowhere does Duquesne discuss how ratepayers might benefit from such proposals. At present, Duquesne recovers i) 100% of its transmission revenue requirement and default service costs and ii) 14.5%

[1] See the *Comments of Duquesne Light Company* at pp. 2-3.

[2] *Id*, p. 6.

(*i.e.*, 8.33% divided by 57.33%) of its distribution revenue requirement, via cost trackers.[3] In other words, Duquesne, like many EDCs, already receives significant revenue stability and/or cost recovery benefits from the Commonwealth's existing regulatory paradigm. As such, the Commission should carefully weigh the potential benefits to be received by EDCs versus ratepayers before adopting changes to that paradigm. In the OSBA's view, Duquesne's recommended combination of ratemaking alternatives is deficient in that it would provide only one-sided benefits to EDCs, at the expense of ratepayers.

With regard to select performance incentives, Duquesne suggests that such incentives might be tied to EE&C targets, reliability metrics or safety performance measures.[4] To the extent that the Commission decides to authorize performance incentives, the OSBA recommends that such incentives be symmetric in nature, *i.e.*, EDCs should be subject to an equivalent penalty for failure to attain a specific performance target, not just rewarded for exceeding that target.

Duquesne also recommends that the Commission consider adopting a formulaic approach to deriving an EDC's distribution revenue requirement, similar to that used by FERC to set Duquesne's transmission revenue requirement. An expansion in the use of formula-based ratemaking would undermine the Commonwealth's traditional ratemaking review process, which is essential for determining whether an EDC's distribution rates are just and reasonable. As such, the OSBA recommends that the Commission reject an expansion in the use of formula ratemaking.

B. OSBA Reply to PECO's Comments

In its comments, PECO offers its preferred alternative ratemaking approach for EDCs that includes i) a full "revenue per customer" decoupling model applicable to "all customer

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[3] *Id*, p. 9.

[4] *Id*, p. 13.

classes excluding very large customers and possibly certain Street Lighting classes," and ii) a revised residential rate design, including a separate class for net metered residential customers.[5] PECO states that a decoupling mechanism removes the (lost revenue) disincentive for EDCs to offer energy efficiency programs. At the same time, however, PECO admits that "a decoupling mechanism or LRAM would likely not affect existing EE&C plans" since an EDC's mandatory targets and spending limitations would remain in place.[6]

The OSBA argued in its initial comments that an EDC's energy efficiency incentives were *not* misaligned, due to the requirements of Act 129, and that revenue decoupling was not necessary or appropriate for EDCs. PECO's comments affirm the OSBA's view that the energy efficiency argument for revenue decoupling, in the case of EDCs, is misplaced.

The OSBA also argued, however, that if revenue decoupling were to be approved for any of Pennsylvania's fixed utility industries, the Commission should implement a commensurate reduction in a utility's allowed return on equity due to the fact that revenue decoupling would completely eliminate the business risk associated with sales variability. PECO's comments also acknowledge that revenue decoupling protects utilities against revenue losses.[7] The OSBA maintains that any protection against revenue losses is equivalent to a reduction in a utility's business risk and should be paired with a commensurate reduction in a utility's allowed return on equity.

C. OSBA Reply to PPL Electric's Comments

In its comments, PPL discusses its preferred alternative ratemaking approach, which includes i) a (three to five year) multi-year rate plan, ii) full revenue decoupling, and iii)

[5] See the *Comments of PECO Energy Company on Alternative Ratemaking Methodologies* at pp. 13-14.

[6] *Id*, p. 8.

[7] *Id*, p. 7.

performance incentives.[8] PPL claims that a multi-year rate plan would provide transparency concerning the Company's investments, enable the Company to invest in new technology and system improvements without annual rate cases, and reduce the frequency of rate case filings. PPL alleges that full revenue decoupling is appropriate since it would render the Company "unaffected" by a customer's choice to implement distributed energy resources and/or EE&C measures. Finally, PPL claims that performance incentives, crafted around statewide metrics, would "provide additional opportunities to advance technologies and practices that are in the best interest of PPL Electric's customers and the Commonwealth."

In arguing in favor of greater transparency, PPL is implicitly suggesting that there is currently insufficient transparency, from a regulatory perspective, with regard to EDC investments and planning. The OSBA would respectfully disagree. For example, all EDCs are currently required to submit a five-year Long Term Infrastructure Improvement Plan ("LTIIP") for review and approval, in order to establish a distribution system improvement charge ("DSIC"). Such filings provide adequate transparency regarding EDC planning and investments. The OSBA does agree with PPL that, all else equal, multi-year rate plans would reduce the frequency of rate case filings. However, the DSIC, in combination with authorization to choose a fully projected future test year ("FPFTY"), has effectively eliminated the need for "annual" rate filings in the Commonwealth. Instead, EDCs now typically file rate cases on a three-year (or longer) cycle. While it may be possible to extend that cycle to five years, it is far from clear that the cost to achieve such an extension, in the form of pre-approved annual rate increases, presents a worthwhile tradeoff for ratepayers. Relatedly, PPL argues that a multi-year rate plan provides "substantial improvement over the traditional ratemaking system where EDCs

[8] See the *Comments of PPL Electric Utilities Corporation* at pp. 17-23.

unilaterally decide where to spend capital resources and then are subject to review in a subsequent rate proceeding filed after the capital investments are completed and in service."[9] However, PPL's characterization of the traditional ratemaking process as reflecting "unilateral" EDC decisions on "completed and in service" capital investments is no longer accurate in the Commonwealth.

In making its case for full revenue decoupling, PPL suggests that revenue decoupling is necessary in order to render the Company indifferent to a customer's energy efficiency or distributed energy resource ("DER") investments, *i.e.*, remove utility disincentives to promote EE&C measures. As previously discussed, an EDC's EE&C incentives are no longer misaligned with those of the customer, due to the requirements of Act 129. Moreover, to the extent that a problem may exist with respect to cost recovery from DER customers, PPL can address that alleged issue by sponsoring an alternative rate design proposal in its next base rate proceeding. In neither instance should revenue decoupling be deemed necessary or appropriate for an EDC. Once again, however, if revenue decoupling were to be approved for any of Pennsylvania's fixed utility industries, the OSBA recommends that the Commission implement a commensurate reduction in a utility's allowed return on equity.

Finally, with regard to select performance incentives, PPL suggests that such incentives might be tied to statewide customer satisfaction or reliability metrics. To the extent that the Commission decides to authorize performance incentives, the OSBA reiterates that such incentives must be symmetric in nature. If an EDC is to be rewarded for exceeding a statewide performance standard, it should be subject to an equivalent penalty for failure to attain that statewide performance standard.

[9] *Id*, p. 22.

III. CONCLUSION

The OSBA respectfully requests that the Commission consider its comments previously filed in this proceeding, as well as the reply comments above, in reviewing the efficacy and appropriateness of alternative ratemaking methodologies.

Respectfully submitted,

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