



PENNSYLVANIA
AMERICAN WATER

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July 31, 2017

Via Electronic Filing

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

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

Dear Secretary Chiavetta:

Pursuant to the Pennsylvania Public Utility Commission's Tentative Order entered on March 2, 2017 and the subsequent comments filed by several parties on May 31, 2017, please accept for consideration, Pennsylvania-American Water Company's Reply Comments regarding alternative ratemaking methodologies for public utilities.

Respectfully submitted,

Susan Simms Marsh

Enclosure

cc: See Certificate of Service

COMMONWEALTH OF PENNSYLVANIA
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

CERTIFICATE OF SERVICE

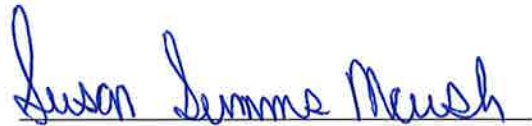
I hereby certify that I am this day serving the above-referenced Reply Comments upon the persons and in the manner indicated below, which service satisfies the requirements of 52 Pa. Code §1.54 (relating to service by a party).

Service by electronic mail on July 31, 2017:

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Date: 7/31/2017

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Alternative Ratemaking Methodologies : **Docket No: M-2015-2518883**
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**REPLY COMMENTS OF
PENNSYLVANIA-AMERICAN WATER COMPANY**

I. Introduction and Background

Pennsylvania-American Water Company (“Pennsylvania-American”)¹ appreciates the opportunity to submit these reply comments following the Pennsylvania Public Utility Commission’s (“Commission’s”) Tentative Order entered on March 2, 2017 and the subsequent comments filed by several parties on May 31, 2017,² regarding alternative ratemaking methodologies for public utilities. Pennsylvania-American commends the Commission for taking steps to review and consider alternative ratemaking mechanisms for water and wastewater utilities and offers the following comments for the Commission’s consideration.

II. Reply Comments

This proceeding has been a broad review of potential alternative ratemaking mechanisms across utility industries. It has served the purpose of compiling perspectives from stakeholders and Pennsylvania-American believes that a more targeted approach would be a beneficial next step. To that end, Pennsylvania-American recommends that the Commission establish industry-

¹ Pennsylvania-American is a water and wastewater public utility regulated by this Commission, and is engaged in the business of collecting, treating, storing, supplying, distributing and selling water to the public, and collecting, treating, transporting and disposing of wastewater for the public. Water and wastewater service is furnished by Pennsylvania-American to the public in a service territory encompassing more than 36 counties and 400 communities across the Commonwealth with a combined population of approximately 2,300,000. Pennsylvania-American is a wholly owned subsidiary of the American Water Works Company, Inc.

² On May 31, 2017, the following parties filed comments addressing the Commission’s questions in the March 2, 2017 Tentative Order with respect to water and wastewater utilities: Aqua Pennsylvania, Inc. (“Aqua”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”) and the Bureau of Investigation & Enforcement (“BI&E”).

specific working groups made up of the utilities, Commission staff, statutory advocates and other interested parties to discuss each of the alternative ratemaking methodologies and determine how best to proceed with each one. Every industry is a bit different and what may work for one may not work as well for another. Consequently, industry-specific working groups can take into account the unique circumstances of each industry to develop a path forward that makes the most sense for that particular industry. Industry-specific working groups will be in the best position to evaluate and recommend the most appropriate approach – be it a rulemaking proceeding, implementation during a rate proceeding or some other method.

While the industry-specific working groups will have the opportunity to address a variety of alternative ratemaking mechanisms, Pennsylvania-American does want to take this opportunity to provide brief comments on revenue decoupling.³ Although improving water efficiency, energy efficiency and conservation are viewed as essential elements of public policy, under current rate structures, water utilities are rewarded for selling more water – the antithesis of the efficiency and conservation ethic. If efficiency and conservation are seen as good things, then removing the barrier to a utility’s promotion of efficiency and conservation must also be a good thing. Rather than implicitly encouraging water use and penalizing a water utility for encouraging conservation, revenue decoupling allows utilities to collect the revenue authorized by the Commission regardless of sales volumes. This allows water/wastewater utilities to further encourage conservation without being penalized for doing so.

In addition to removing an obstacle to promoting end use efficiency, revenue decoupling effectively reduces or even eliminates the contentiousness of the ratemaking process used to

³ Pennsylvania-American also joined the substantive comments of the *National Association of Water Companies, Pennsylvania Chapter*, submitted in this docket on March 15, 2016 (“NAWC Comments”).

determine the appropriate level of revenue upon which to set rates. The overall result is a more efficient and effective ratemaking process and better alignment of stakeholders' interests to provide for more economically and environmentally efficient resource decisions. The reduction or elimination of this contentious obstacle in rate proceedings benefits customers in a couple of ways. First, the savings from less-costly rate proceedings will be passed on to the customers. Secondly, it allows the parties involved in the case to focus upon the issues that are pertinent to providing quality service.⁴

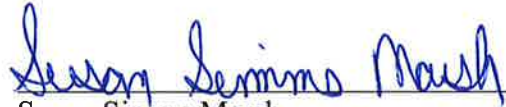
Finally, Pennsylvania-American disagrees with OCA's and OSBA's assertion that revenue decoupling should be joined with a commensurate reduction in a utility's allowed return on equity ("ROE"). A number of commissions addressing the ROE issue have noted the absence of empirical evidence regarding how, if at all, a revenue decoupling impacts a utility's business risk. This absence of evidence is not surprising since investors generally do not associate specific increments to their return requirements with specific rate structures. Rather, investors tend to look at the totality of regulatory and ratemaking approaches in place relative to those in place at comparable companies when assessing risk. Alternative ratemaking approaches have become the norm for regulated utilities across the United States. The approval of adjustment clauses, riders, trackers, forward test years, and cost recovery mechanisms by regulatory commissions is widespread in the utility business and is already largely embedded in financial data, such as stock prices, bond rating and business risk scores. In other words, the impact of a ratemaking mechanism such as decoupling is already reflected in the capital market data of the comparable

⁴ Decoupling is preferable to a straight fixed variable ("SFV") rate design where revenues are collected to a greater extent through fixed customer charges. SFV shifts more of the cost of service to lower water use customers. SFV rate design does not provide customers with appropriate price signals, thereby removing an incentive for customers to conserve. In addition, many low use water customers are also low-income customers so the shift to SFV pricing would have a disproportionate negative impact on some of our most vulnerable customers.

companies. Again, therefore, the implementation of decoupling does not warrant a reduction in ROE.

Pennsylvania-American appreciates the opportunity to comment and looks forward to participating in industry-specific working groups as the Commission continues to consider the implementation of alternative ratemaking methodologies.

Date: 7/31/2017



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