AEE INSTITUTE

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July 31, 2017

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Reply Comments of the Advanced Energy Economy Institute on Alternative Ratemaking Methodologies, Docket No. M-2015-2518883

Dear Secretary Chiavetta,

The Advanced Energy Economy Institute (AEE Institute) respectfully submits these comments in response to the Commission's Tentative Order on March 2, 2017, and in reply to comments due on May 31, 2017. Our comments provide perspectives on 1) the promise of performance-based regulation and ratemaking for Pennsylvania; and 2) specific rate design methodologies outlined in the Tentative Order.

If there are any questions, comments, or concerns related to these reply comments, feel free to contact me directly.

Regards,

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Pennsylvania Public Utilities Commission

Alternative Ratemaking Methodologies M-2015-2518883

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Reply Comments of
The Advanced Energy Economy Institute in Response to the Tentative Order
Entered March 2, 2017

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## Preface

On March 2, 2017, the Pennsylvania Public Utility Commission ("PUC" or "Commission") issued a Tentative Order requesting comment on alternative ratemaking methodologies that may address issues currently facing Pennsylvania's regulated public utilities, as well as processes for advancing said methodologies. The Advanced Energy Economy Institute (AEE Institute) was pleased to provide those Initial Comments in response to the Tentative Order. The Tentative Order also solicited written replies to comments, which we provide here.

## Introduction

AEE Institute commends the Commission for deliberating the efficacy and appropriateness of alternatives to traditional ratemaking principles for public utilities. The primary focus of our Initial Comments, filed May 31, 2016, was on Performance-based regulation (PBR). In our whitepaper on PBR in Pennsylvania,[1] filed as a supplement to our initial comments, we suggested that PBR can be seen as an evolution of existing frameworks, not a wholesale replacement for traditional regulatory approaches. We also offered perspectives on several supportive ratemaking approaches.

## Replies to Initial Comments

As noted in our AEE Institute whitepaper, the utility sector is entering a period of significant change, driven by new technologies, evolving customer needs, environmental imperatives, and an increased focus on grid resiliency. Performance-based regulation (PBR) is a regulatory framework that attempts to align the behavior

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[1] *Performance Based Regulation for Pennsylvania*, Advanced Energy Economy Institute, March 2017, available for download at http://info.aee.net/performance-based-regulation-for-pennsylvania-report.

and financial interests, rewarding utilities for achieving well-defined outcomes (performance metrics). In our review of initial comments, we found several themes related to performance incentives, including stakeholder support of the Commission's authority to act related to performance-based ratemaking, broad support for the Commission's use of that ratemaking authority, public utilities that welcome performance incentives, and stakeholders will to develop a performance-based rate structure.

First, multiple stakeholders support the Commission's authority to establish performance incentives for utilities. Our whitepaper notes that the Commission has clear ability to do so under statute, including Act 129. This interpretation is directly supported in the comments of the Keystone Energy Efficiency Alliance[2] (KEEA), Clean Air Council, and the Natural Resources Defense Council, which note "There are no significant statutory or regulatory barriers associated with alternative ratemaking mechanisms in Pennsylvania" (at page 5).

Second, stakeholders encouraged the Commission to consider performance incentives that will benefit customers and regulated utilities, and align rates with objectives in Act 129.

We support the direction of the comments of PPL Electric (PPL), in which they appear to reach the conclusion that, in the face of new technological and economic developments, traditional ratemaking is no longer sufficient. Specifically, they noted that performance incentives can help align grid challenges with revenues, and encourages an exploratory approach by the Commission. PPL also noted that performance incentives for reliability and customer satisfaction would work well with revenue decoupling, a policy that we also support. Further PPL's recommendations are consistent with important design considerations for PBR that we note in our Initial Comments, including multi-year rate plans, and regulatory flexibility. While details, such as the length of the multi-year rate plans, need to be determined, we are broadly in alignment with PPL's perspectives on PBR and other supporting regulatory changes.

PECO's comments generally support limited performance incentives, and discuss reliability metrics as a potential category of performance. Duquesne Light Company proposes investigating select performance incentives.

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[2] KEEA provided material support to the AEE Institute in drafting the whitepaper

While we acknowledge that utilities may have different system needs that may lead to distinct rate design objectives, we believe that the Commission is able to consider state-wide performance objectives while adjusting to specific needs. In defining categories of desired utility performance, those categories would be consistent with statutory authority and policy mandates. To implement PBR, it will preferable for the Commission to work with a range of stakeholders to define, prioritize, and incentivize utility performance. This is preferable to eah utility taking its own, different approach. While details of implementation may ultimately differ, the Commonwealth will be better served by taking as uniform approach as possible. We believe that while utilities may be in different developmental stages for modernizing their respective grids, the objectives of public policy remain consistent across the state.

## Conclusion

AEE Institute appreciates the opportunity to provide these Reply Comments. As we and other parties have noted, performance-based regulation is an important evolution in regulatory ratemaking. We believe the Commission has sufficient authority and stakeholder support to further investigate the potential for PBR for Pennsylvania.

We would the to thank the Commission for initiating this en banc proceeding, and are looking forward to further engage the Commission and all stakeholders to create a rate design that better aligns utility objectives with earning opportunities in ways that foster a 21st century electricity grid in the Commonwealth.