

COMMONWEALTH OF PENNSYLVANIA



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July 31, 2017

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:

Attached for electronic filing please find the Office of Consumer Advocate's Reply Comments in the above-referenced proceeding.

Respectfully Submitted,

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Enclosure

cc: Certificate of Service  
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CERTIFICATE OF SERVICE

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

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Reply Comments in the manner and upon the persons listed below:

Dated this 31st day July 2017.

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

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REPLY COMMENTS  
OF THE  
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DATED: July 31, 2017

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## I. INTRODUCTION

On December 31, 2015, the Pennsylvania Public Utility Commission (Commission) issued a notice of *En Banc* Hearing on Alternative Ratemaking Methodologies at Docket No. M-2015-2518883 (*En Banc* Hearing Notice) to be held on March 3, 2016. The Commission also invited all interested parties to submit Comments no later than March 16, 2016. In the *En Banc* Hearing Notice, the Commission sought testimony and comments primarily in the context of energy efficiency and conservation, and demand response. A number of interested parties, including the Acting Consumer Advocate Tanya J. McCloskey, on behalf of the Office of Consumer Advocate (OCA), testified before the Commission at the March 3, 2016 *En Banc* Hearing. Additionally, the OCA and more than twenty other parties submitted initial Comments.

On March 2, 2017, the Commission issued a Tentative Order wherein it sought additional input regarding alternative ratemaking methodologies. Specifically, the Commission sought responses to numerous, comprehensive questions related to the reasonableness and efficiency of alternative ratemaking methodologies, as applied across the various utility industries. In its March 2, 2017 Tentative Order, the Commission expanded the scope of comments to include alternative ratemaking as applied to water and wastewater utilities. The Commission invited interested parties to submit Comments and Reply Comments addressing the issues raised in its Tentative Order.<sup>1</sup> Vice Chairman Andrew G. Place, Commissioner Robert F. Powelson, and

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<sup>1</sup> The Commission initially ordered that Comments be submitted within 45 days of the entry date of the Order and that Reply Comments be submitted within 75 days of the entry of the Order. On March 21, 2017, the OCA filed a Motion for Extension of Time, requesting that the Commission amend its Tentative Order dated March 2, 2017 to allow 90 days from the entry date of the Order for interested parties to submit Comments and 150 days from the entry date of the Order to submit Reply Comments. The Commission's Bureau of Investigation and Enforcement, the Office of Small Business Advocate, the Pennsylvania Utility Law Project, and the Energy Association of Pennsylvania also indicated that they were in support of the relief requested in the OCA's Motion. Accordingly, the Commission issued a Secretarial Letter on March 23, 2017 granting the OCA's Motion for Extension of time and setting May 31, 2017 as the deadline for Comments and July 31, 2017 as the deadline for Reply Comments.

Commissioner David W. Sweet also issued Statements on March 2, 2017, wherein they raised additional questions and issues for comment.

On May 31, 2017, the OCA submitted Comments to the Commission's Tentative Order (May 31, 2017 Comments). In its May 31, 2017 Comments, the OCA noted that Pennsylvania utilities currently use a broad array of alternative ratemaking methods, which have been targeted to achieve specific purposes and objectives set forth by the General Assembly, and which seek to balance utility benefits and consumer protections. The OCA submitted that with the current regulatory framework and array of alternative ratemaking methods already being employed by Pennsylvania utilities, there has been no demonstration that further alternative ratemaking methods are needed at this time. The OCA took the position that authorizing the use of additional alternative ratemaking methods is unlikely to result in additional benefits to ratepayers, may cause harm to Pennsylvania ratepayers, is unnecessary, and may be contrary to Pennsylvania law. As such, the OCA submitted that the Commission should not consider further alternative ratemaking.

A number of other interested parties also submitted Comments to the Commission's Tentative Order.<sup>2</sup> The OCA submits that the Comments filed by other parties have not changed

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<sup>2</sup> Specifically, in addition to the OCA, the following parties also filed Comments to the Commission's Tentative Order: the Commission's Bureau of Investigation and Enforcement (I&E); Peoples Natural Gas Company LLC and Peoples TWP LLC (Peoples); Advanced Energy Economy Institute (AEE Institute); the Pennsylvania Utility Law Project (PULP); Valley Energy, Citizens' Electric Company of Lewisburg, PA, and Wellsboro Electric Company (Valley Energy et. al.); Philadelphia Gas Works (PGW); the Office of Small Business Advocate (OSBA); Met-Ed Industrial Users Group, Penelec Industrial Customer Alliance, Philadelphia Area Industrial Energy Users Group, PP&L Industrial Customer Alliance, and West Penn Power Industrial Intervenors (collectively, the Industrials); the Energy Association of Pennsylvania (EAP); PECO Energy Company (PECO); Aqua Pennsylvania, Inc. (Aqua); UGI Distribution Companies (UGI); Keystone Energy Efficiency Alliance (KEEA); National Fuel Gas Distribution Corporation (National Fuel); Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company (collectively, FirstEnergy); Columbia Gas of Pennsylvania, Inc. (Columbia or Columbia Gas); PPL Electric Utilities Corporation (PPL); Natural Resources Defense Council, Sierra Club, and Clean Air Council (NRDC et. al.) and, separately, Natural Resources Defense Council (NRDC); American Eagle Paper Mills, ArcelorMittal, E-Finity Distributed Generation, Cargill, Ecolab, Schneider Electric, Sheet Metal & Air Conditioning Contractors' National Association of Pennsylvania, and Veolia North America (collectively, AEPN et. al.); Duquesne Light Company (Duquesne Light); the American Council for



the OCA's position. It is clear from the Comments of the other parties that Pennsylvania utilities already have a substantial number of alternative ratemaking mechanisms in place, or the ability to implement certain alternative ratemaking mechanisms, such as the Distribution System Improvement Charge (DSIC), the use of a fully projected future test year, automatic reconcilable surcharges for energy efficiency and conservation costs, universal service cost recovery, smart meter cost recovery, and many more. It is equally clear from the Comments that the alternative ratemaking mechanisms being discussed here have the propensity to benefit utilities by guaranteeing more revenue, reducing their risk profiles, and reducing their incentives to operate in the most efficient manner possible, while at the same time ensuring a more robust bottom line to shareholders. Conversely, there does not appear to be any commensurate benefits that would flow in the direction of ratepayers.

As noted in OCA's May 31, 2017 Comments, the ratemaking process should provide a balancing of stakeholder interests wherein investors and shareholders are provided an opportunity to recover prudent and reasonable costs as well as provide for the opportunity to earn a fair rate of return on investment. At the same time, this process should provide ratepayers with just and reasonable rates that are easily understood and provide adequate price signals in order to utilize resources in an efficient manner. In these regards, the Comments provided by virtually all of the public utilities support plans that tilt the balancing of interests towards utility/investor interests. While some of the utilities claim customer benefits from the utility advocated alternative rate making mechanisms, these claims are misguided in terms of accepted economic

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an Energy Efficiency Economy (ACEEE); American Association of Retired Persons (AARP); and the Alliance for Industrial Efficiency (Alliance).

theory and practice, and result in little more than shifting the risk of operating a business from shareholders to captive ratepayers.

To the extent the Commission adopts various alternative rate making plans or methods which guarantee revenue recovery through decoupling, straight-fixed variable pricing, cost trackers, or other automatic recovery mechanisms, utilities' profits are all but guaranteed. To understand this concept, one must consider the cost structure of public utilities. The vast majority of a utility's variable costs is currently collected on a dollar-for-dollar basis through cost tracker mechanisms or is not applicable to distribution only utilities; e.g., purchased gas costs, production and transmission electric costs. Therefore, the vast majority of costs for which a utility is currently at risk, reflect "sunk," or short-run costs. By their very nature, these costs are not significantly volatile, nor do they vary to any substantial degree in the short-run. While some so-called short-run costs do increase over time simply due to inflation; e.g., salaries and wages and additions to plant investment, Pennsylvania specifically allows for the use of forecasted test years to account for cost increases, and for most utilities, Distribution System Improvement Charges ("DSIC") as a guaranteed recovery mechanism for additions to plant in service. As a result, there is very little volatility in the costs for which a utility is currently at risk. Therefore, to guarantee the remaining variable in the earnings equation; i.e., revenue recovery, is to all but guarantee profitability to utilities. Such guarantees tilt the balance of interests in shifting the business and financial risks of operating a public utility from shareholders directly to captive ratepayers. The OCA submits that these guaranteed revenue recovery mechanisms promote the inefficient utilization of our scarce resources, reduce the incentive for regulated monopoly public utilities to operate as efficiently as possible, and are not needed as a replacement for traditional rate making that has allowed Pennsylvania utilities the

opportunities to recover their costs as well as the ability to attract and maintain capital. Should the Commission allow any guaranteed recovery mechanisms, however, the OCA submits that there must be a significant reduction to the allowed rates of return of public utilities in the Commonwealth. Indeed, and as discussed above, should the Commission allow guaranteed revenue recovery, public utilities will become virtually risk free.

The Comments, taken as a whole, demonstrate that it would be unsound practice to modify the current regulatory framework in Pennsylvania to implement further alternative ratemaking. For instance, while various parties support a variety of different alternative ratemaking mechanisms in their Comments, the Comments do not demonstrate a consensus as to the appropriate approach or mechanism that should be adopted, nor do the Comments demonstrate how a specific approach will be beneficial to the public. Rather, the various parties each appear to recommend the alternative ratemaking mechanism(s) that would be most beneficial to that particular party and, potentially, to the detriment of Pennsylvania ratepayers.

The OCA maintains that there has been no demonstration that there is a discernable benefit to further alternative ratemaking for any of the utility industries, and the Commission should not further entertain consideration of these mechanisms. In Sections II through IV, below, the OCA will respond to some specific issues addressed by other interested parties in their respective Comments.<sup>3</sup> Due to the voluminous nature of the Comments filed, the OCA's

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<sup>3</sup> These Comments were prepared with the assistance of regulatory consultant Glenn A. Watkins. Mr. Watkins obtained his B.S. in economics and M.B.A. from the Virginia Commonwealth University in 1982 and 1988, respectively. Mr. Watkins is a Principal and Senior Economist with Technical Associates, Inc., an economics and financial consulting firm. Mr. Watkins conducts marginal and embedded cost of service, rate design, cost of capital, revenue requirement, and load forecasting studies involving numerous electric, gas, water/wastewater, and telephone utilities. He has provided expert testimony in numerous jurisdictions, including Alabama, Arizona, Delaware, Georgia, Illinois, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Vermont, Virginia, South Carolina, Washington, and West Virginia.

Reply Comments may not address all issues. The OCA's silence on any issue addressed in any of the Comments should not be construed as the OCA's acceptance of a certain position.

## **II. REPLY COMMENTS ON TENTATIVE ORDER QUESTIONS**

### **A. Electric Utilities**

As discussed by the OCA in its May 31, 2017 Comments, Act 129 of 2008 (Act 129 or the Act) has provided a comprehensive regulatory structure for implementing energy efficiency and demand side response programs.<sup>4</sup> See OCA May 31, 2017 Comments at 5-10. Pennsylvania EDCs have been successful in achieving the consumption and demand reduction goals mandated by Act 129. See OCA Comments at 7-8; see also Act 129 Energy Efficiency and Conservation Program Compliance Order, Docket No. M-2012-2289411, Order at 3 (April 6, 2017).

As noted by the OCA and outlined by the EDCs in their respective Comments, EDCs in Pennsylvania are currently utilizing certain alternative ratemaking methodologies, including the DSIC, the Fully Projected Future Test Year (FPFTY), the Energy Efficiency Surcharge, the Smart Meter Surcharge, the State Tax Adjustment Surcharge, the Universal Service Riders, and the Storm Damage Expense Rider, to name a few. See Duquesne Light Comments at 9; see also FirstEnergy Comments at 4-5; see also PPL Comments at 16-17; see also PECO Comments at 4-6; see also UGI Comments at 6-7.<sup>5</sup> As noted by I&E in its Comments, "Today, reconcilable riders predominate, utility revenues are stable, and the opportunity to earn a return is more assured." I&E Comments at 6. Additionally, there has been no demonstration that EDC

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<sup>4</sup> In addition to Act 129, the General Assembly, through Act 114 of 1986, included several provisions in the Pennsylvania Public Utility Code to address the implementation of energy conservation measures, provide for timely cost recovery, and provide for performance factor considerations. See 66 Pa. C.S. §§ 523(b)(4), 1319, and 1505(b). The OCA addresses these provisions in further detail under Section II(B) (related to natural gas utilities), below.

<sup>5</sup> Moreover, it is worth noting that in their respective Comments, some EDCs failed to identify the percentage of total costs or revenues that are currently being recovered through each form of alternative ratemaking, as requested by the Commission in its Tentative Order. See UGI Comments at 6-7; see also FirstEnergy Comments at 4-5. Without this information, it is not possible to determine what percentage of each utility's distribution revenue is actually "at risk," and to properly evaluate whether further alternative ratemaking is necessary.

reliability has been suffering under the regulatory framework currently in effect in Pennsylvania. See OCA May 31, 2017 Comments at 10. In light of the effectiveness of the current regulatory framework, including Act 129, and the array of alternative ratemaking methods already being employed by Pennsylvania utilities, there has been no demonstration that further alternative ratemaking methods are needed at this time or would result in benefits to ratepayers.

Despite the effectiveness of our existing regulatory framework, in their respective Comments, parties support various forms of alternative ratemaking for Pennsylvania electric utilities, including: 1) Decoupling; 2) Lost Revenue Adjustment Mechanism; 3) Straight Fixed Variable; 4) Cost Trackers; 5) Choice of Test Years; 6) Multiyear Rate Plans; 7) Demand Charges; 8) Demand Side Management (DSM) Performance Incentive Mechanism; and 9) High Fixed Customer Charges. The broad menu of alternative ratemaking proposals supported by the EDCs raises significant questions as to what particular public need we are seeking to address. Unlike the need to address aging infrastructure for the public's benefit, which the General Assembly sought to address through the DSIC mechanism with consumer protection, each EDC seeks to select the mechanism(s) that best meet its needs.

More to the point, the EDCs acknowledge that there has been no demonstration here of any particular need for or benefit from such mechanisms. In its Comments, Duquesne Light provided:

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.

[...]

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 through 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 best for their size, revenue requirement, customer make-up and charge.

Duquesne Light Comments at 8-9. Similarly, PPL noted, “[T]he most prudent approach is to avoid a single, uniform methodology and provide EDCs flexibility in implementing alternative ratemaking methodologies that most appropriately address their needs and the interests of their customers.” PPL Comments at 9-10. PECO also urged the Commission “to provide sufficient flexibility for individual companies to fashion innovative proposals [...]” PECO Comments at 3. Similarly, UGI provided, “UGI believes that there is no ideal rate design that should apply to all [...] EDCs at all times. In general, UGI believes there should be a bias towards permitting [...] EDCs discretion in making initial rate proposals [...]” UGI Comments at 4.

In these Comments, Pennsylvania EDCs have essentially acknowledged that there has been no demonstration that a specific alternative ratemaking mechanism will improve Pennsylvania’s regulatory framework and provide benefits to the public. Rather, Duquesne Light, PPL, PECO, and UGI recommend that each EDC should be permitted to seek approval to implement any form of alternative ratemaking that it finds most beneficial. Allowing EDCs to implement any form of alternative ratemaking would have a substantial impact on Pennsylvania’s regulatory framework, which has been carefully crafted to achieve specific energy efficiency and demand side response goals, while balancing utility benefits and consumer protections.

The various forms of further alternative ratemaking recommended in the Comments submitted by other parties also pose significant risks to Pennsylvania ratepayers. Any form of alternative ratemaking lowers the risk a utility faces in providing utility services by guaranteeing at least a portion of revenue recovery. That risk is then shifted to consumers, severing the

balance of utility benefits and consumer protections that the current regulatory framework has successfully achieved. Below, the OCA will address its specific concerns with the alternative ratemaking mechanisms for EDCs that were supported by various parties in their respective Comments.

### **1. Revenue Decoupling**

While most respondents recommend against a one size fits all alternative ratemaking plan, all utilities advocate for some form of revenue decoupling whether it be in the form of a revenue per customer, or straight-fixed variable rate design. While decoupling mechanisms, such as required revenues per customer, provide revenue stability to the utilities, these plans quite often introduce additional volatility to customers' bills that are not tied to individual customer's usages or demands within a billing period. As an example, most revenue per customer decoupling plans are structured on a lagged basis. That is, if for example there is a so-called revenue shortfall (excess) in November, the surcharge (credit) will not be implemented until a later billing period such as January or February. In the instance of an abnormally mild November in which there is a so-called revenue shortfall coupled with a severe January or February requiring consumers to use more electricity, a customer's decoupled January or February bill will be even higher due to the so-called revenue shortfall that occurred several months earlier. Clearly, such mechanisms provide an inefficient, if not confusing, price signal to customers as it relates to their efficient utilization of energy.

While the OCA strongly recommends against the implementation of any decoupling in Pennsylvania, should this Commission adopt revenue decoupling plans for utilities, this decoupling should apply to all customer classes, including industrial customers, and subject to the consumer protections identified in the OCA's May 31, 2017 Comments. OCA May 31, 2017 Comments at 19-21. In their Comments, the Industrials strongly opposed the adoption and

implementation of revenue decoupling. Industrial Comments at 5-8. The Industrials provide many reasons supporting their opposition to revenue decoupling, to which the OCA agrees. The Industrials, however, also assert that should the Commission permit revenue decoupling, it should not apply to the industrial class. Industrial Comments at 8. While it may be argued that large industrial customers are sufficiently sophisticated and have the technological ability and incentive to maximize energy conservation, if this Commission feels that guaranteed revenue recovery through decoupling is in the public interest, changes in industrial energy usage and demand should also be reflected in any decoupling mechanism. These changes in industrial energy usage and demand may be due to increases or decreases in production, as well as conservation efforts, similar to the changes in usages attributable to residential and commercial customers.

## **2. Lost Revenue Adjustment Mechanism (LRAM)**

In their respective Comments, Duquesne Light, FirstEnergy, and PECO supported the LRAM. Duquesne Light Comments at 15-16; FirstEnergy Comments at 8; PECO Comments at 7-9. Under the LRAM, utilities are permitted to recover the lost distribution revenues directly caused by energy efficiency measures.

This mechanism raises significant concerns about the ability to evaluate and verify the energy savings (or lost revenues) produced by these programs in order to properly adjust rates. The OCA submits that implementing such a mechanism could also create a perverse incentive for utilities to discourage customer-initiated energy efficiency and improvements in building codes and standards that would result in more efficiency.

LRAMs are no longer in widespread use by utilities. Recently, in October 2105, the Montana Public Service Commission discontinued its LRAM mechanism, finding, *inter alia*:



[T]he LRAM does not eliminate the throughput incentive. Because LRAM only adjusts rates to account for volumes of energy saved, it only mitigates the throughput incentive with respect to those volumes, and even then, only if the savings are measured accurately. The LRAM may actually create a perverse incentive to maximize both the estimates of savings attributable to utility efforts and actual sales volumes, because both reward the utility with revenues. Although the LRAM was intended to mitigate the throughput incentive, it does so only in a limited way, and only if certain assumptions are accurate.

In the Matter of the Lost Revenue Adjustment Mechanism of NorthWestern Energy, Public Service Commission of the State of Montana, Regulatory Division Docket No. D2014.6.53, Order No. 7375a at 10-11 (Oct. 15, 2015).<sup>6</sup>

Moreover, Act 129 enables electric utilities to include forecasted lower revenues as a result of the implementation of energy efficiency and demand response programs in a base rate case. The OCA submits that addressing reduced usage in a base rate case, as Act 129 provides, is reasonable and has worked well in Pennsylvania. There has been no demonstration that this method of recovery has caused a financial burden to Pennsylvania EDCs. By reflecting the impact on sales in the context of a base rate case, the Commission can assure that prospective rates reflect the anticipated energy efficiency consumption reductions, address all other factors that may offset the need for a rate change, and address any burdens to ratepayers.

As such, the OCA submits that the Commission should not consider adopting the LRAM approach.

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<sup>6</sup> Montana Public Service Commission Commissioner Roger Koopman commented on the LRAM, as follows: "Raising rates on consumers when they respond positively to energy conservation is one of the worst ideas policymakers have ever come up with. Once again, this commission has shown the courage to challenge existing bad policy, and to stand up for the consumer who has been paying dearly for it." Montana Public Service Commission votes to discontinue Lost Revenue Adjustment Mechanism, MTN News, Oct. 16, 2015, available at <http://www.krtv.com/story/30279064/montana-public-service-commission-votes-to-discontinue-lost-revenue-adjustment-mechanism>.

### 3. Straight Fixed/Variable Pricing (SFV)

A number of parties supported SFV pricing for electric utilities. See e.g. FirstEnergy Comments at 9-10. With regard to SFV pricing, or substantial increases to fixed monthly customer charges, however, most responding utilities argue that because the majority of their utility's costs are fixed in nature, that revenue recovery should be based largely on fixed charges. These arguments are at odds with the pricing structure found in competitive industries<sup>7</sup> as well as accepted economic price theory and practice.

Under economic theory, efficient price signals result when prices are equal to marginal costs. It is well known that costs are variable in the long-run. Therefore, efficient pricing results from the incremental variability of costs even though a firm's short-run cost structure may include a high level of sunk or "fixed" costs or be reflective of excess capacity. Indeed, competitive market-based prices are generally structured based on usage; *i.e.* volume-based pricing. As an example, an oil refinery costs well over a billion dollars to build such that its cost structure is largely comprised of sunk, or fixed, costs. However, these costs are recovered one gallon at a time.

Perhaps the best known micro-economic principle is that in competitive markets (*i.e.*, markets in which no monopoly power or excessive profits exist) prices are equal to marginal cost. Marginal cost is equal to the incremental change in cost resulting from an incremental change in output. It is readily apparent that because marginal costs measure the changes in costs with output, short-run "fixed" costs are irrelevant in efficient pricing. This is not to say that efficient pricing does not allow for the recovery of short-run fixed costs. Rather, they are

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<sup>7</sup> It is often said that regulation should serve as a surrogate for competition to the greatest extent practical (See for example, James C. Bonbright, et al., Principles of Public Utility Rates, page 141 (Second Edition, 1988).

reflected within a firm's production function such that no excess capacity exists and that an increase in output will require an increase in costs -- including those considered "fixed" from an accounting perspective. As such, under efficient pricing principles, marginal costs capture the variability of costs, and prices are variable because prices equal these costs. As a result, efficient competitive prices are established based on long-run costs, which are entirely variable in nature.

Marginal cost pricing only relates to efficiency. This pricing does not attempt to address fairness or equity. Fair and equitable pricing of a regulated electric utility's products and services should reflect the benefits received for the goods or services. In this regard, those that receive more benefits should pay more in total than those who receive fewer benefits. Regarding electricity usage, the level of kWh consumption is the best and most direct indicator of benefits received. Thus, volumetric pricing promotes the fairest pricing mechanism to customers and to the utility.

High fixed charge rate structures actually promote additional consumption because a consumer's price of incremental consumption is less than what an efficient price structure would otherwise be. A clear example of this principle is exhibited in the natural gas transmission pipeline industry. As discussed in its well-known Order 636, the FERC's adoption of a "Straight Fixed Variable" ("SFV") pricing method<sup>8</sup> was a result of national policy (primarily that of Congress) to encourage increased use of domestic natural gas by promoting additional interruptible (and incremental firm) gas usage. The FERC's SFV pricing mechanism greatly reduced the price of incremental (additional) natural gas consumption. This resulted in significantly increasing the demand for, and use of, natural gas in the United States after Order 636 was issued in 1992.

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<sup>8</sup> Under Straight Fixed Variable pricing, customers pay a fixed charge that is designed to recover all of the utility's fixed costs.

FERC Order 636 had two primary goals. The first goal was to enhance gas competition at the wellhead by completely unbundling the merchant and transportation functions of pipelines.<sup>9</sup> The second goal was to encourage the increased consumption of natural gas in the United States. In the introductory statement of the Order, FERC stated:

The Commission's intent is to further facilitate the unimpeded operation of market forces to stimulate the production of natural gas... [and thereby] contribute to reducing our Nation's dependence upon imported oil...<sup>10</sup>

With specific regard to the SFV rate design adopted in Order 636, FERC stated:

Moreover, the Commission's adoption of SFV should maximize pipeline throughput over time by allowing gas to compete with alternate fuels on a timely basis as the prices of alternate fuels change. The Commission believes it is beyond doubt that it is in the national interest to promote the use of clean and abundant gas over alternate fuels such as foreign oil. SFV is the best method for doing that.<sup>11</sup>

The FERC's objective in adopting SFV pricing suggests that the price signal that results from SFV pricing is meant to promote additional consumption, not reduce consumption. Thus, a rate structure that is heavily based on a fixed monthly customer charge sends an even stronger price signal to consumers to use more energy.

Some responding utilities claim that absent SFV pricing, or substantially higher fixed monthly charges, residential small volume users are being subsidized by large volume users. Once again, when carefully examined, those statements are not correct. Invariably, large volume residential energy users are very weather sensitive as they use a large percentage of their energy

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<sup>9</sup> Pipeline Service Obligations and Revisions to Regulations Governing Self-Implementing Transportation Under Part 284 of the Commission's Regulations; Regulation of Natural Gas Pipelines After Partial Wellhead Decontrol, Docket Nos. RM91-11-001 and RM87-34-065, Federal Energy Regulatory Commission Order No. 636 at 7 (Apr. 8, 1992).

<sup>10</sup> Id. at 8 (alteration in original).

<sup>11</sup> Id. at 128-129.

requirements for space heating. These large volume space heating customers tend to use large amounts of energy during peak winter and/or summer periods and considerably less energy during non-peak periods; *i.e.*, when the weather is milder. These lumpy usage patterns result in fairly low load factors. Conversely, small volume users that do not rely on electricity or natural gas for space heating purposes, tend to use energy more uniformly throughout the year such that they exhibit higher load factors. It is well known that low load factor customers impose greater costs on the system (per unit or per customer) than do high load factor customers.

Finally, SFV pricing or high fixed monthly charges inhibit the ability of customers to manage their energy bills. That is, if a large portion of a customer's energy bill is fixed in nature, there is less ability for that customer to control its energy bill through efficiency or other consumption decisions.

#### **4. Cost Trackers**

Cost trackers, also known as surcharges or riders, allow for recovery of specific expenses outside of a general base rate case. Pennsylvania EDCs currently utilize a variety of cost tracking mechanisms, including the Distribution System Improvement Charge (DSIC), the Energy Efficiency Surcharge, the Smart Meter Surcharge, the State Tax Adjustment Surcharge, Universal Service Riders, and the Storm Damage Expense Rider. In their Comments, PPL and AEE Institute acknowledged the importance of the cost tracking mechanisms already being employed by electric utilities in Pennsylvania. See PPL Comments at 12; see also AEE Institute Comments at 9. I&E also addressed cost trackers in its Comments, stating: "Today, reconcilable riders predominate, utility revenues are stable, and the opportunity to earn a return is more assured. As such, I&E does not believe that it would be necessary or proper to expand the use of riders and surcharges at this time." I&E Comments at 6.

The OCA agrees with I&E that expanding the use of riders and surcharges for Pennsylvania EDCs is not necessary, particularly in light of the extensive use of cost tracking mechanisms already being employed by Pennsylvania electric utilities. The OCA further submits that it would be advantageous to continue utilizing the existing regulatory model, as it has allowed EDCs to achieve energy efficiency and demand side management goals, improve infrastructure and maintain reliable service, while at the same time balancing utility benefits and consumer protections. There is no demonstration that further alternative ratemaking will provide any additional advantages.

#### **5. Choice of Test Years**

The OCA submits that the use of a FPFTY is one of the alternative ratemaking mechanisms that is currently permitted under Pennsylvania's existing regulatory framework and employed by Pennsylvania EDCs. As noted by the OCA in its May 31, 2017 Comments, Pennsylvania's robust distribution base rate process also allows for the use of a fully projected future test year (FPFTY) in setting rates. 66 Pa. C.S. § 315(e). Thus, a utility can effectively look a full two years forward in determining its revenues and expenses. The impact of energy efficiency programs can be reflected in the fully forecasted *pro forma* revenues and sales estimates when determining a just and reasonable level of rates.

A number of interested parties supported the use of a FPFTY in their Comments and recognize its benefits. See PECO Comments at 4 ("Because the fully projected future test year better aligns incurred cost with cost recovery, use of this rate mechanism, will reduce regulatory lag and may enable utilities to extend the period between base rate filings."); see also FirstEnergy Comments at 10-11 ("The Companies appreciate that this methodology has been adopted in Pennsylvania and have availed themselves of its benefits [...]."); see also KEEA Comments at 5 ("Existing tools include [...] the Fully Projected Future Test Year [...].

Together, these tools assist the Commonwealth’s regulated utilities adapt to the changing utility landscape.”); see also AEE Institute Comments at 10.

Again, the current regulatory framework has worked well in Pennsylvania. Further alternative ratemaking would have a substantial impact on Pennsylvania’s existing regulatory framework.

While acknowledging the benefits of using a FPFTY, FirstEnergy also asserted, however, “The disadvantage to this method is the EDC must file a full distribution base rate case to realize the benefits of this forward-looking method.” FirstEnergy Comments at 11. While FirstEnergy views base rate cases as a “disadvantage,” the OCA submits that base rate cases provide the Commission and the parties a full opportunity to examine utility operations and align rates. EDCs should not be entitled to such “benefits” without a proper examination process.

**6. Multiyear Rate Plans**

In their respective Comments, PPL, PECO, and AEE Institute supported the use of multi-year rate plans, wherein a utility’s multi-year rate plan filing would set forth the projected budget for each year of the plan period. See PPL Comments at 13-14, 18-23; see also PECO Comments at 11-12; see also AEE Institute Comments at 10. PPL and AEE Institute suggested a plan period of 3-5 years. See PPL Comments at 13, 18; AEE Institute Comments at 10. In support of its position, AEE Institute noted that multiyear rate plans “should decrease the number of and frequency of rate base filings [...] cut down on the cost of administrative oversight [...] and less time will be spent in the hearing room[.]” AEE Institute Comments at 10. PPL provided that the use of multiyear rate plans will “provide customers and interested parties with transparency about the utility’s planned expenses and capital additions.” PPL Comments at 13. PECO, however, acknowledged that “the ability to accurately forecast several years into the future may be a challenge with multi-year rate plans.” PECO Comments at 11. PECO also noted that with

multiyear rate plans, “the frequency of base rate filings may be decreased” and acknowledged that “legislation authorizing multiyear rate plans might be required prior to implementation.” PECO Comments at 12.

The OCA submits that Pennsylvania law and accepted ratemaking principles do not permit multiyear rate plans. As noted above, the Pennsylvania Public Utility Code allows for the use of a FPFTY in setting rates. 66 Pa. C.S. § 315(e). As such, a utility can effectively look a full two years forward in determining its revenues and expenses. Pennsylvania law does not permit a utility to use a longer time period, as would be required under multiyear rate plans. Moreover, multiyear rate plans would be contrary to the fundamental ratemaking principle that all ratemaking claims must be based upon known and measurable expenses. See e.g. Pa PUC v. City of Lancaster - Sewer Fund, 2005 Pa. PUC LEXIS 44 at \*102-103 (Aug. 26, 2005) (City of Lancaster).

Furthermore, the claims that multiyear rate plans would cut down on rate case filings and hearings and costs associated with administrative oversight miss a critical point. Base rate cases in and of themselves are not a negative, as they provide the Commission, the parties, and the public a full opportunity to examine utility operations and align rates. By reflecting the impact on sales in the context of a base rate case, the Commission can assure that prospective rates reflect the anticipated energy efficiency consumption reductions, address all other factors that may offset the need for a rate change, and address any burdens to ratepayers.

As such, the OCA submits that the Commission should not consider multiyear rate plans.

## **7. Demand Charges**

Demand charges establish the distribution system rates based on the distribution system capacity used by the customer. In their respective Comments, many parties expressed concerns with mandatory demand charges for residential customers. See e.g. PULP Comments at 3-7; see



also AARP Comments at 2-4; see also NRDC et. al. Comments at 14-16; see also UGI Comments at 16 (noting that it lacks the requisite infrastructure to implement a demand charge rate for all customer classes); see also KEEA Comments at 20-21. For example, in its Comments, AARP pointed out:

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. [...] Instead of providing 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.

AARP Comments at 2-3. Similarly, PULP stated:

PULP respectfully asserts low income and income-challenged consumers would be disproportionately harmed by residential demand charges. Indeed, [...] there is little evidence that residential consumers can appropriately respond to residential demand charge price signals – even with extensive education – and the relationship between individual residential peak demand and cost causation is tenuous at best.

PULP Comments at 3.

As discussed by the OCA at length in its May 31, 2017 Comments, the OCA also does not support mandatory demand charges for residential customers. See OCA May 31, 2017 Comments at 39-51. The OCA submits that residential customers are generally without sufficient information to identify peak demand and have limited ability to respond to such demand charges. The existing residential rate structure, comprised of a reasonably low fixed monthly customer charge and a volumetrically-based energy charge, has worked well for investors and ratepayers. This accepted residential rate structure has provided utilities with the ability to recover their costs and earn reasonable returns and, at the same time, has provided

adequate price signals to enable residential consumers the ability to control the total cost of their energy bills through their rational decisions on how to use energy.

#### **8. DSM Performance Incentive Mechanisms**

In their respective Comments, some parties suggested that further alternative ratemaking for electric utilities should be coupled with DSM Performance Incentive Mechanisms. See e.g. NRDC et. al. Comments at 8-12. Again, the OCA submits that Pennsylvania has achieved robust energy efficiency and demand response under Act 129 without DSM Performance Incentive Mechanisms. Furthermore, demand response programs are also provided by competitive suppliers, making performance metrics for EDCs particularly inappropriate, as it may encourage improper competition. There has been no demonstration that DSM Performance Incentive Mechanisms or other forms of further alternative ratemaking will improve the provision of demand response beyond that achieved under Act 129.

#### **9. Customer Charges**

In their respective Comments, Valley Energy et. al. and PECO supported increasing the fixed customer charge. Valley Energy et al. Comments at 5; PECO Comments at 14 (“PECO would continue to move its fixed charge (customer charge) to be fully cost based.”). AARP, on the other hand, noted its strong opposition to impose substantial increases in fixed monthly customer charges. AARP Comments at 1.

The OCA is in agreement with AARP that establishing a high fixed customer charge raises serious concerns. As discussed by the OCA in its Comments, proponents of high fixed customer charges often seek to expand the definition of “fixed costs” to encompass as many charges in the fixed component as possible, which severs the relationship between usage and the embedded costs of the utility system. Additionally, increasing the fixed customer charge is contrary to effective energy efficiency and conservation efforts. High fixed charge rate

structures could reduce a customer's incentive to conserve energy, because he or she will receive less of a benefit through conservation efforts.

High fixed customer charges are also contrary to a long line of Commission decisions - and particularly the consistent Statements of former Chairman James Cawley - that warn against high fixed customer charges because of their negative impact on customer conservation. See Pa. PUC et. al. v. UGI Penn Natural Gas; Pa. PUC et. al. v. UGI Central Penn Gas, Docket Nos. R-2008-2079660 et. al.; R-2008-2079675 et. al., Statement of then- Chairman Cawley (August 27, 2009); see also Pa. PUC et. al. v. PG Energy, Docket No. R-00061365, Statement of then- Vice Chairman Cawley (November 30, 2006); see also Pa. PUC et. al. v. Duquesne Light Company, Docket No. R-00061346, Statement of then- Vice Chairman Cawley (November 30, 2006). The OCA submits that there has been no demonstration that the Commission should allow for increased customer charges.

**B. Natural Gas Utilities**

As discussed by the OCA in its May 31, 2017 Comments, while Act 129 does not apply to natural gas utilities, Pennsylvania's regulatory framework provides for implementation of energy efficiency and demand side management programs, while providing for timely cost recovery and consideration of performance factors. See OCA May 31, 2017 66 Pa. C.S. §§ 1505(b), 1319, and 523(b)(4). Pennsylvania natural gas utilities have long-standing low income usage reduction programs (LIURP) that address specific needs of low income customers for energy efficiency and conservation efforts, and some NGDCs have implemented more wide-scale energy efficiency programs. Additionally, Pennsylvania Natural Gas Distribution Companies (NGDCs) are currently utilizing certain alternative ratemaking methodologies, including the DSIC, to assist with the recovery of costs related to the accelerated infrastructure repair and replacement programs that are underway. See UGI Comments at 10-11; see also

National Fuel Comments at 3; see also PGW Comments at 3; see also Columbia Gas Comments at 4-6; see also Peoples Comments at 2-3.<sup>12</sup> As noted by I&E in its Comments, “Today, reconcilable riders predominate, utility revenues are stable, and the opportunity to earn a return is more assured.” I&E Comments at 6. As is the case with electric utilities, in light of the effectiveness of the current regulatory framework, further alternative ratemaking is not necessary.

Despite the effectiveness of our existing regulatory framework, in their respective Comments, parties supported various forms of alternative ratemaking for Pennsylvania natural gas utilities, including: 1) Decoupling; 2) Lost Revenue Adjustment Mechanism; 3) Straight Fixed Variable; 4) Cost Trackers; 5) Choice of Test Years; 6) Multiyear Rate Plans; 7) DSM Performance Incentive Mechanism; 8) Weather Normalization Adjustment (WNA); and 9) High Fixed Customer Charges. The broad menu of alternative ratemaking proposals supported by the NGDCs raises significant questions as to what particular public need we are seeking to address. Unlike the need to address aging infrastructure for the public’s benefit, which the General Assembly sought to address through the DSIC mechanism with consumer protection, each NGDC seeks to select the mechanism(s) that best meet its needs.

More to the point, the NGDCs acknowledge that there has been no demonstration here of any particular need for or benefit from such mechanisms. In its Comments, Columbia Gas stated, “It is Columbia’s position that each Pennsylvania NGDC’s rate design options should be individually analyzed, as no single rate design is applicable for all circumstances.” Columbia Gas Comments at 7. Similarly, PGW provided, “[A]n evaluation of an alternative ratemaking

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<sup>12</sup> Moreover, it is worth noting that UGI has not identified the percentage of total costs or revenues that are currently being recovered through alternative ratemaking, as requested by the Commission in its Tentative Order. See UGI Comments at 10-11. Without this information, it is not possible to determine what percentage of each utility’s distribution revenue is actually “at risk,” and to properly evaluate whether further alternative ratemaking is necessary.

methodology is best made on an individual NGDC basis within the context of regulatory filings with the Commission. PGW Comments at 5. PECO also urged the Commission “to provide sufficient flexibility for individual companies to fashion innovative proposals [...]” PECO Comments at 3. Peoples also asserted, “[T]he Commission should preserve ratemaking flexibility to best address company-specific facts and issues.” Peoples Comments at 4. Likewise, UGI provided, “UGI believes that there is no ideal rate design that should apply to all NGDCs [...] at all times. In general, UGI believes there should be a bias towards permitting NGDCs [...] discretion in making initial rate proposals [...]” UGI Comments at 4.

In these Comments, Pennsylvania NGDCs essentially acknowledged that there has been no demonstration that a specific alternative ratemaking mechanism will improve Pennsylvania’s regulatory framework and provide benefits to the public. Rather, these natural gas utilities recommend that each NGDC should be permitted to seek approval to implement any form of alternative ratemaking that it finds most beneficial. Allowing NGDCs to implement any form of alternative ratemaking would have a substantial impact on Pennsylvania’s regulatory framework, which has been carefully crafted to balance utility benefits and consumer protections.

The various forms of further alternative ratemaking recommended in the Comments submitted by other parties also pose significant risks to Pennsylvania ratepayers. Any form of alternative ratemaking lowers the risk a utility faces in providing utility services by guaranteeing at least a portion of revenue recovery. That risk is then shifted to consumers, severing the balance of utility benefits and consumer protections that the current regulatory framework has successfully achieved. Below, the OCA will address its specific concerns with the alternative ratemaking mechanisms for NGDCs that were supported by some parties in their Comments.

## **1. Revenue Decoupling**

While most respondents recommend against a one size fits all alternative ratemaking plan, all utilities advocate for some form of revenue decoupling whether it be in the form of a revenue per customer, or straight-fixed variable rate design. While decoupling mechanisms, such as required revenues per customer, provide revenue stability to the utilities, these plans quite often introduce additional volatility to customers' bills that are not tied to individual customer's usages or demands within a billing period. As an example, most revenue per customer decoupling plans are structured on a lagged basis. That is, if for example there is a so-called revenue shortfall (excess) in November, the surcharge (credit) will not be implemented until a later billing period such as January or February. In the instance of an abnormally mild November in which there is a so-called revenue shortfall coupled with a severe January or February requiring consumers to use more natural gas, a customer's decoupled January or February bill will be even higher due to the so-called revenue shortfall that occurred several months earlier. Clearly, such mechanisms provide an inefficient, if not confusing, price signal to customers as it relates to their efficient utilization of energy. While the OCA strongly recommends against the implementation of any decoupling in Pennsylvania, should this Commission adopt revenue decoupling plans for utilities, this decoupling should apply to all customer classes.<sup>13</sup>

## **2. Lost Revenue Adjustment Mechanism (LRAM)**

In its Comments, National Fuel supported the use of the LRAM, indicating that the use of the LRAM, along with other alternative ratemaking mechanisms, has had a positive impact in New York. National Fuel Comments at 2. PECO also supported the use of the LRAM for

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<sup>13</sup> The OCA discussed its position that revenue decoupling, if implemented, should apply to all customers, including the industrial class, in Section II(A)(1), above.

NGDCs. See PECO Comments at 7-9. As noted, under the LRAM, utilities are permitted to recover the lost distribution revenues directly caused by energy efficiency measures.

As discussed in Section A(2), above (related to Electric Utilities), this mechanism raises significant concerns about the ability to evaluate and verify the energy savings (or lost revenues) produced by these programs in order to properly adjust rates. The OCA submits that implementing such a mechanism could also create a perverse incentive for utilities to discourage customer-initiated energy efficiency and improvements in building codes and standards that would result in more efficiency.

While New York may permit National Fuel to use the LRAM, LRAMs are no longer in widespread use by utilities. Recently, in October 2105, the Montana Public Service Commission discontinued its LRAM mechanism, finding, *inter alia*:

[T]he LRAM does not eliminate the throughput incentive. Because LRAM only adjusts rates to account for volumes of energy saved, it only mitigates the throughput incentive with respect to those volumes, and even then, only if the savings are measured accurately. The LRAM may actually create a perverse incentive to maximize both the estimates of savings attributable to utility efforts and actual sales volumes, because both reward the utility with revenues. Although the LRAM was intended to mitigate the throughput incentive, it does so only in a limited way, and only if certain assumptions are accurate.

In the Matter of the Lost Revenue Adjustment Mechanism of NorthWestern Energy, Public Service Commission of the State of Montana, Regulatory Division Docket No. D2014.6.53, Order No. 7375a at 10-11 (Oct. 15, 2015).<sup>14</sup>

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<sup>14</sup> Montana Public Service Commission Commissioner Roger Koopman commented on the LRAM, as follows: "Raising rates on consumers when they respond positively to energy conservation is one of the worst ideas policymakers have ever come up with. Once again, this commission has shown the courage to challenge existing bad policy, and to stand up for the consumer who has been paying dearly for it." Montana Public Service Commission votes to discontinue Lost Revenue Adjustment Mechanism, MTN News, Oct. 16, 2015, available at <http://www.krtv.com/story/30279064/montana-public-service-commission-votes-to-discontinue-lost-revenue-adjustment-mechanism>.

Simply put, the LRAM does not result in just and reasonable rates or bring any benefits to consumers. As such, the OCA submits that the Commission should not consider adopting the LRAM approach.

### **3. Straight Fixed/Variable Pricing (SFV)**

Some commentators supported the use of SFV pricing for natural gas utilities. See e.g. Columbia Comments at 7-9. With regard to SFV pricing, or substantial increases to fixed monthly customer charges, however, most responding utilities argue that because the majority of their utility's costs are fixed in nature, that revenue recovery should be based largely on fixed charges. These arguments are at odds with the pricing structure found in competitive industries<sup>15</sup> as well as accepted economic price theory and practice.

Under economic theory, efficient price signals result when prices are equal to marginal costs. It is well known that costs are variable in the long-run. Therefore, efficient pricing results from the incremental variability of costs even though a firm's short-run cost structure may include a high level of sunk or "fixed" costs or be reflective of excess capacity. Indeed, competitive market-based prices are generally structured based on usage; *i.e.* volume-based pricing. As an example, an oil refinery costs well over a billion dollars to build such that its cost structure is largely comprised of sunk, or fixed, costs. However, these costs are recovered one gallon at a time.

Perhaps the best known micro-economic principle is that in competitive markets (*i.e.*, markets in which no monopoly power or excessive profits exist) prices are equal to marginal cost. Marginal cost is equal to the incremental change in cost resulting from an incremental

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<sup>15</sup> It is often said that regulation should serve as a surrogate for competition to the greatest extent practical (See for example, James C. Bonbright, et al., Principles of Public Utility Rates, page 141 (Second Edition, 1988).



change in output. It is readily apparent that because marginal costs measure the changes in costs with output, short-run “fixed” costs are irrelevant in efficient pricing. This is not to say that efficient pricing does not allow for the recovery of short-run fixed costs. Rather, they are reflected within a firm’s production function such that no excess capacity exists and that an increase in output will require an increase in costs -- including those considered “fixed” from an accounting perspective. As such, under efficient pricing principles, marginal costs capture the variability of costs, and prices are variable because prices equal these costs. As a result, efficient competitive prices are established based on long-run costs, which are entirely variable in nature.

Marginal cost pricing only relates to efficiency. This pricing does not attempt to address fairness or equity. Fair and equitable pricing of a regulated natural gas utility’s products and services should reflect the benefits received for the goods or services. In this regard, those that receive more benefits should pay more in total than those who receive fewer benefits.

High fixed charge rate structures actually promote additional consumption because a consumer’s price of incremental consumption is less than what an efficient price structure would otherwise be. A clear example of this principle is exhibited in the natural gas transmission pipeline industry. As discussed in its well-known Order 636, the FERC’s adoption of a “Straight Fixed Variable” (“SFV”) pricing method<sup>16</sup> was a result of national policy (primarily that of Congress) to encourage increased use of domestic natural gas by promoting additional interruptible (and incremental firm) gas usage. The FERC’s SFV pricing mechanism greatly reduced the price of incremental (additional) natural gas consumption. This resulted in significantly increasing the demand for, and use of, natural gas in the United States after Order 636 was issued in 1992.

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<sup>16</sup> Under Straight Fixed Variable pricing, customers pay a fixed charge that is designed to recover all of the utility’s fixed costs.

FERC Order 636 had two primary goals. The first goal was to enhance gas competition at the wellhead by completely unbundling the merchant and transportation functions of pipelines.<sup>17</sup> The second goal was to encourage the increased consumption of natural gas in the United States. In the introductory statement of the Order, FERC stated:

The Commission's intent is to further facilitate the unimpeded operation of market forces to stimulate the production of natural gas... [and thereby] contribute to reducing our Nation's dependence upon imported oil...<sup>18</sup>

With specific regard to the SFV rate design adopted in Order 636, FERC stated:

Moreover, the Commission's adoption of SFV should maximize pipeline throughput over time by allowing gas to compete with alternate fuels on a timely basis as the prices of alternate fuels change. The Commission believes it is beyond doubt that it is in the national interest to promote the use of clean and abundant gas over alternate fuels such as foreign oil. SFV is the best method for doing that.<sup>19</sup>

The FERC's objective in adopting SFV pricing suggests that the price signal that results from SFV pricing is meant to promote additional consumption, not reduce consumption. Thus, a rate structure that is heavily based on a fixed monthly customer charge sends an even stronger price signal to consumers to use more energy.

Some responding utilities claim that absent SFV pricing, or substantially higher fixed monthly charges, residential small volume users are being subsidized by large volume users. Once again, when carefully examined, those statements are not correct. Invariably, large volume residential energy users are very weather sensitive as they use a large percentage of their energy

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<sup>17</sup> Pipeline Service Obligations and Revisions to Regulations Governing Self-Implementing Transportation Under Part 284 of the Commission's Regulations; Regulation of Natural Gas Pipelines After Partial Wellhead Decontrol, Docket Nos. RM91-11-001 and RM87-34-065, Federal Energy Regulatory Commission Order No. 636 at 7 (Apr. 8, 1992).

<sup>18</sup> Id. at 8 (alteration in original).

<sup>19</sup> Id. at 128-129.

requirements for space heating. These large volume space heating customers tend to use large amounts of energy during peak winter and/or summer periods and considerably less energy during non-peak periods; *i.e.*, when the weather is milder. These lumpy usage patterns result in fairly low load factors. Conversely, small volume users that do not rely heavily on natural gas for space heating purposes, tend to use energy more uniformly throughout the year such that they exhibit higher load factors. It is well known that low load factor customers impose greater costs on the system (per unit or per customer) than do high load factor customers. Moreover, and of particular relevance to the natural gas industry, line extension policies for virtually every NGDC in the State are structured such that if a particular customer's expected usage is below a particular threshold, that customer must pay a contribution to extend facilities to serve that customer or pay an additional surcharge to recover what is known as the uneconomic cost of providing service to a new customer.

Finally, SFV pricing or high fixed monthly charges inhibit the ability of customers to manage their energy bills. That is, if a large portion of a customer's energy bill is fixed in nature, there is less ability for that customer to control its energy bill through efficiency or other consumption decisions.

#### **4. Cost Trackers**

Cost trackers, also known as surcharges or riders, allow for recovery of specific expenses outside of a general base rate case. Pennsylvania's NGDCs utilize several cost tracking mechanisms, including the DSIC, the State Tax Adjustment Surcharge, and the Weather Normalization Adjustment. In its Comments, National Fuel acknowledged the benefits of cost tracking mechanisms. See National Fuel Comments at 4. I&E also addressed cost trackers in its Comments, stating: "Today, reconcilable riders predominate, utility revenues are stable, and the opportunity to earn a return is more assured. As such, I&E does not believe that it would be

necessary or proper to expand the use of riders and surcharges at this time.” I&E Comments at 6.

The OCA agrees with I&E that expanding the use of riders and surcharges for Pennsylvania NGDCs is not necessary, particularly in light of the use of cost tracking mechanisms already being employed by Pennsylvania natural gas utilities. The OCA further submits that it would be advantageous to continue utilizing the existing regulatory model, as it has allowed NGDCs to achieve energy efficiency, improve infrastructure and maintain reliable service, while at the same time balancing utility benefits and consumer protections. There is no demonstration that further alternative ratemaking will provide any additional advantages.

#### **5. Choice of Test Years**

The OCA submits that the use of a FPFTY is one of the alternative ratemaking mechanisms that is currently permitted under Pennsylvania’s existing regulatory framework and employed by Pennsylvania NGDCs. As noted by the OCA in its May 31, 2017 Comments, Pennsylvania’s robust distribution base rate process also allows for the use of a fully projected future test year (FPFTY) in setting rates. 66 Pa. C.S. § 315(e). Thus, an NGDC can effectively look a full two years forward in determining its revenues and expenses.

In their Comments, several parties supported the use of a FPFTY for Pennsylvania NGDCs. See PECO Comments at 15 (“In its next gas base rate filing, PECO anticipates it will use a fully projected future test year.”); see also KEEA Comments at 5 (“Existing tools include [...] the Fully Projected Future Test Year [...]. Together, these tools assist the Commonwealth’s regulated utilities adapt to the changing utility landscape.”).

Again, the current regulatory framework has worked well in Pennsylvania. Further alternative ratemaking would have a substantial impact on Pennsylvania’s existing regulatory framework.

## 6. Multiyear Rate Plans

In its Comments, PECO suggested that there are certain benefits of multi-year rate plans, wherein a utility's multi-year rate plan filing would set forth the projected budget for each year of the plan period. See PECO Comments at 11-12. PECO also acknowledged, however, that "the ability to accurately forecast several years into the future may be a challenge with multi-year rate plans." PECO Comments at 11. PECO further provided that with multiyear rate plans, "the frequency of base rate filings may be decreased" and acknowledged that "legislation authorizing multiyear rate plans might be required prior to implementation." PECO Comments at 12.

The OCA submits that Pennsylvania law and accepted ratemaking principles do not permit multiyear rate plans. As noted above, the Pennsylvania Public Utility Code allows for the use of a FPFTY in setting rates. 66 Pa. C.S. § 315(e). As such, a utility can effectively look a full two years forward in determining its revenues and expenses. Pennsylvania law does not permit a utility to use a longer time period, as would be required under multiyear rate plans. Moreover, multiyear rate plans would be contrary to the fundamental ratemaking principle that all ratemaking claims must be based upon known and measurable expenses. See e.g. City of Lancaster at \*102-103.

Furthermore, the claim that multiyear rate plans would decrease the frequency of base rate filings misses a critical point. Base rate cases in and of themselves are not a negative, as they provide the Commission, the parties, and the public a full opportunity to examine utility operations and align rates. By reflecting the impact on sales in the context of a base rate case, the Commission can assure that prospective rates reflect the anticipated energy efficiency consumption reductions, address all other factors that may offset the need for a rate change, and address any burdens to ratepayers.

As such, the OCA submits that the Commission should not consider multiyear rate plans.

## **7. DSM Performance Incentive Mechanisms**

In their respective Comments, some parties suggested that the Commission should implement DSM Performance Incentive Mechanisms for NGDCs. See OSBA Comments at 8 (suggesting that DSM Performance Incentive Mechanisms are more appropriate for the natural gas and water/wastewater utilities, but “should be coupled with a Commission approved, utility specific, energy efficiency or conservation program/plan [...]”); see also PECO Comments at 12 (noting that performance incentives can be used to further policy objectives, but also noting that the use of performance incentives alone would not address existing cost shifting concerns). Again, Pennsylvania NGDCs have achieved energy efficiency under the current regulatory framework without specific DSM Performance Incentive Mechanisms. There has been no demonstration that DSM Performance Incentive Mechanisms or other forms of further alternative ratemaking will improve energy efficiency already being achieved under the current regulatory framework.

Additionally, in its Comments, UGI stated:

UGI NGDCs [...] believe the Commission should more actively signal it is open to making explicit performance awards in base rate proceedings for NGDCs [...] if they, among other things, take ‘[a]ction[s] to encourage development of cost-effective energy supply alternatives [...].’

UGI Comments at 12. While the OCA acknowledges that Section 523 of the Public Utility Code, 66 Pa. C.S. § 523, provides for performance factor consideration, including actions to encourage the development of cost effective conservation and load management (66 Pa. C.S. § 523(b)(4)), the Commission does not need to actively “signal” that it will fully consider the evidence of record. Each NGDC must present the necessary facts on the record in support of a proposed performance incentive.

## **8. Weather Normalization Adjustment (WNA)**

Columbia and PGW are the two major Pennsylvania NGDCs that have WNAs currently in use. In their respective Comments, National Fuel and UGI suggested that WNAs should be an available option to them as well. See National Fuel Comments at 2, 4-5; see also UGI Comments at 12. It is worth noting, as discussed in the OCA's May 31, 2017 Comments, both Columbia's and PGW's WNAs have a deadband (Columbia-5% and PGW-1%). Both WNAs operate solely from October through May. The OCA also notes that PGW is a unique, cash-flow utility, and Columbia was in the midst of an accelerated infrastructure replacement program when the Commission approved Columbia's WNA.<sup>20</sup> The efficacy of PGW's WNA is currently being reviewed in its rate case at Docket No. R-2017-2586783.

The OCA does not recommend an expansion of WNAs without a showing of the need for such a mechanism and the benefits upon such a showing. Any WNAs must include adequate limitations to recovery, including but not limited to, the following: (1) WNAs should have a deadband, (2) WNAs should be limited to winter heating seasons; (3) WNAs should operate on a real-time basis; and (4) overall rates must reflect the fact that utility risks are reduced by the WNA.

## **9. Customer Charges**

In their respective Comments, PECO and Valley Energy et. al. supported increasing the fixed customer charge. PECO Comments at 17 ("PECO would phase in an increase in fixed charges for residential customers to a level that recovers all fixed costs that are not related [to] the volume of gas used by a customer or the demand placed on the mains."); Valley Energy et.

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<sup>20</sup> Columbia's WNA was initially approved on a pilot basis and as part of a Settlement Agreement in Docket No. R-2012-2321748 and was accompanied by a decrease in the existing residential customer charge and a recognition that the increased revenue stability and reduced risk was considered in establishing the revenue requirement.

al. Comments at 5. AARP, on the other hand, noted its strong opposition to impose substantial increases in fixed monthly customer charges. AARP Comments at 1.

The OCA is in agreement with AARP that establishing a high fixed customer charge raises serious concerns. As discussed by the OCA in its Comments, proponents of high fixed customer charges often seek to expand the definition of “fixed costs” to encompass as many charges in the fixed component as possible, which severs the relationship between usage and the embedded costs of the utility system. Additionally, increasing the fixed customer charge is contrary to effective energy efficiency and conservation efforts. High fixed charge rate structures could reduce a customer’s incentive to conserve energy, because he or she will receive less of a benefit through conservation efforts.

High fixed customer charges are also contrary to a long line of Commission decisions - and particularly the consistent Statements of former Chairman James Cawley - that warn against high fixed customer charges because of their negative impact on customer conservation. See Pa. PUC et. al. v. UGI Penn Natural Gas; Pa. PUC et. al. v. UGI Central Penn Gas, Docket Nos. R-2008-2079660 et. al.; R-2008-2079675 et. al., Statement of then- Chairman Cawley (August 27, 2009); see also Pa. PUC et. al. v. PG Energy, Docket No. R-00061365, Statement of then- Vice Chairman Cawley (November 30, 2006); see also Pa. PUC et. al. v. Duquesne Light Company, Docket No. R-00061346, Statement of then- Vice Chairman Cawley (November 30, 2006). The OCA submits that there has been no demonstration that the Commission should allow for increased customer charges.

### **C. Water Utilities**

Aqua Pennsylvania, Inc. (Aqua) filed Comments regarding various alternative ratemaking provisions. The OCA submits that Aqua’s proposals, as it recognizes, have conflicting goals. Moreover, Aqua acknowledges that it already uses three of the alternative



ratemaking methodologies identified by the PUC: 1) Choice of Test Years, 2) State Tax Adjustment Surcharge (STAS), and 3) a Pennsylvania Infrastructure Investment Authority (Pennvest) charge.<sup>21</sup> Aqua Comments at 3. Other Class A water utilities also have a number of alternative ratemaking mechanisms in place. Allowing water utilities to implement any form of alternative ratemaking would have a substantial impact on Pennsylvania's regulatory framework.

The various forms of further alternative ratemaking recommended in the Comments submitted by Aqua also pose significant risks to Pennsylvania ratepayers. Any form of alternative ratemaking lowers the risk a utility faces in providing utility services by guaranteeing at least a portion of revenue recovery. That risk is then shifted to consumers, severing the balance of utility benefits and consumer protections that the current regulatory framework has successfully achieved. Below, the OCA will address its specific concerns with the alternative ratemaking mechanisms that were supported by Aqua in its Comments.

### **1. Revenue Decoupling**

Aqua states that it has seen a steady decline in consumption since 1971. Aqua Comments at 4. It also states that average residential consumption in its Southeast region has gone from 7,200 gallons per month in 1971 to approximately 4,100 gallons per month in 2016. *Id.* Aqua notes that the decline can be attributed to several factors including the use of high efficiency plumbing fixtures and appliances, water conservation and price elasticity. *Id.*

According to Aqua, the benefits of decoupling include greater certainty in collecting its authorized revenues, ability to promote conservation without a negative impact on its rate of return, protection from fluctuations in revenue due to changes in weather, and the potential to

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<sup>21</sup> Moreover, it is worth noting that Aqua has not identified the percentage of total costs or revenues that are currently being recovered through alternative ratemaking, as requested by the Commission in its Tentative Order. See Aqua Comments at 3. Without this information, it is not possible to determine what percentage of each utility's distribution revenue is actually "at risk," and to properly evaluate whether further alternative ratemaking is necessary.

delay base rate case filings and reduce overall requested increases. Aqua Comments at 4-5.

Aqua acknowledges that there are disadvantages including that customers would not see the need to conserve, and may in fact see higher bills even after they have reduced usage, and that customers will find it difficult to anticipate their bill amounts. Aqua Comments at 5.

The OCA submits that with no showing of benefits and the identified disadvantages of decoupling, there is no need to further consider revenue decoupling for water utilities.

## **2. Straight Fixed/Variable Pricing (SFV)**

Aqua supports the use of straight fixed/variable pricing (SFV). Aqua Comments at 5-6. However, Aqua also acknowledges that the potential disadvantages would be the impact on conservation efforts and low income customers. Id.

As the OCA discussed extensively with regard to the electric and natural gas industries, SFV does not reflect pricing structures found in competitive industries, sends inefficient price signals, and promotes additional consumption. See Sections II(A)(3) and II(B)(3), *supra*. SFV and high customer charges also inhibit the ability of customers to manage their water bills. As such, the OCA does not recommend the use of SFV or high customer charges.

## **3. Cost Trackers**

Cost trackers, also known as surcharges or riders, allow for recovery of specific expenses outside of a general base rate case. Pennsylvania water utilities currently utilize a variety of cost tracking mechanisms, including the Distribution System Improvement Charge (DSIC), the Purchased Water Adjustment Clause, and the State Tax Adjustment Surcharge. In its Comments, Aqua states that it had proposed a Purchased Water Adjustment and an Energy Cost Adjustment in prior base rate cases. Aqua Comments 6. I&E also addressed cost trackers in its Comments, stating: “Today, reconcilable riders predominate, utility revenues are stable, and the opportunity

to earn a return is more assured. As such, I&E does not believe that it would be necessary or proper to expand the use of riders and surcharges at this time.” I&E Comments at 6.

The OCA agrees with I&E that expanding the use of riders and surcharges for Pennsylvania water utilities is not necessary, particularly in light of the available cost tracking mechanisms already being employed by Pennsylvania water utilities. The OCA further submits that it would not be advantageous to expand the existing trackers because the existing trackers have allowed Aqua to maintain reliable service, while at the same time balancing utility benefits and consumer protections. There is no demonstration that further alternative ratemaking will provide any additional advantages.

### **III. REPLY COMMENTS ON DIRECTED QUESTIONS OF VICE CHAIRMAN ANDREW G. PLACE.**

As part of the Commission’s issuance of its Tentative Order in this matter, Vice Chairman Andrew G. Place issued a Statement, wherein he sought additional Comments on specific, advanced rate design and decoupling methodologies for EDCs and NGDCs. On the electric side, Vice Chairman Place proposed a three-part rate structure, which included a customer charge, a coincident peak (“CP”) based demand charge, and a volumetric energy charge. On the natural gas side, Vice Chairman Place proposed a revenue per customer model. In his Statement, Vice Chairman Place encouraged interested parties to provide comments on his proposals.

Numerous parties filed Comments related to the proposals of Vice Chairman Place. See e.g. AARP Comments at 2-4; see also AEE Institute Comments at 12-13. On the electric side, while some parties supported the model proposed by Vice Chairman Place, a majority of parties that commented on Vice Chairman Place’s Statement raised concerns with his proposal. For example, in its Comments, AARP pointed out:

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. [...] Instead of providing 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.

AARP Comments at 2-3. Similarly, PULP stated:

PULP respectfully asserts low income and income-challenged consumers would be disproportionately harmed by residential demand charges. Indeed, [...] there is little evidence that residential consumers can appropriately respond to residential demand charge price signals – even with extensive education – and the relationship between individual residential peak demand and cost causation is tenuous at best.

PULP Comments at 3.

As discussed by the OCA at length in its May 31, 2017 Comments, the OCA also does not support mandatory demand charges for residential customers. See OCA May 31, 2017 Comments at 39-51. The OCA submits that residential customers are generally without sufficient information to identify peak demand and have limited ability to respond to such demand charges. The existing residential rate structure, comprised of a reasonably low fixed monthly customer charge and a volumetrically-based energy charge, has worked well for investors and ratepayers. This accepted residential rate structure has provided utilities with the ability to recover their costs and earn reasonable returns and, at the same time, has provided adequate price signals to enable residential consumers the ability to control the total cost of their energy bills through their rational decisions on how to use energy.

In their respective Comments, several parties suggested alternatives to the demand charge proposed by Vice Chairman Place. For example, NRDC et. al. proposed that the Commission take actions to increase EDCs' implementation of Time of Use (TOU) rates, whereby customers'

volumetric fee for electricity varies depending on the season or time of day. NRDC et. al. Comments at 14-17. KEEA also stated, “Instead [of demand charges], KEEA strongly believes that TOU rates would better conform to the principles of cost causation, bill simplicity, and energy efficiency and conservation.” KEEA Comments at 20. KEEA also recommended a peak-time rebate mechanism as an alternative to increased customer charges and demand charges. KEEA Comments at 13. The OCA notes that many Pennsylvania EDCs currently offer voluntary TOU rates for residential customers. The OCA does not oppose TOU rates, so long as they are offered on a voluntary basis and are properly designed. The OCA also supports further consideration of the implementation of peak-time rebates. Peak time rebates for residential customers have worked well in Maryland.

On the natural gas side, the OCA discussed at length its strong opposition to any form of revenue decoupling for NGDCs in its May 31, 2017 Comments. See OCA May 31, 2017 Comments at 51-60. While many utilities supported some form of revenue decoupling in their respective Comments, the OCA notes that nothing in the Comments of the other parties has caused the OCA to reconsider or deviate from the positions set out in its May 31, 2017 Comments. While decoupling mechanisms, such as required revenues per customer, provide revenue stability to the utilities, these plans quite often introduce additional volatility to customers’ bills that are not tied to individual customer’s usages or demands within a billing period. As an example, most revenue per customer decoupling plans are structured on a lagged basis. That is, if for example there is a so-called revenue shortfall (excess) in November, the surcharge (credit) will not be implemented until a later billing period such as January or February. In the instance of an abnormally mild November in which there is a so-called revenue shortfall coupled with a severe January or February requiring consumers to use more electricity

or natural gas, a customer's decoupled January or February bill will be even higher due to the so-called revenue shortfall that occurred several months earlier. Clearly, such mechanisms provide an inefficient, if not confusing, price signal to customers as it relates to their efficient utilization of energy.

#### **IV. REPLY COMMENTS ON STATEMENT OF COMMISSIONER DAVID W. SWEET.**

As part of the Commission's issuance of its Tentative Order in this matter, Commissioner David W. Sweet issued a Statement wherein he highlighted the need for further discussion and feedback on two important issues. The first issue identified by Commissioner Sweet is the potential impacts to ratepayers from the implementation of any of the potential alternative ratemaking mechanisms being evaluated as part of this proceeding. Commissioner Sweet also placed special emphasis on the need for any potential ratemaking mechanism to deliver real benefits to ratepayers, while at the same time ensuring that more vulnerable customer segments would not suffer harm from the implementation of same.

The second issue identified by Commissioner Sweet relates to the interaction between the needed replacements of infrastructure, existing DSIC mechanisms, rate case filings and the potential implementation of any alternative ratemaking mechanisms that are being evaluated in this matter.

In accord with the Tentative Order, on May 31, 2017 numerous parties filed comments. Some of the parties directly addressed the specific questions posed by Commissioner Sweet.<sup>22</sup> Other parties provided general comments that touched on the specific questions raised by Commissioner Sweet. From the utility comments submitted, the utilities commented that: (1) the potential impacts to individual ratepayers or classes of ratepayers from the implementation of

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<sup>22</sup> See e.g., Comments of PGW, and UGI.

additional alternative ratemaking mechanisms is uncertain; (2) ratepayers participating in customer assistance programs (CAP) would likely see little or no adverse impacts; and (3) existing DSIC mechanisms would be unaffected by any change in ratemaking mechanisms. The OCA does not fully agree with these conclusions.

The OCA appreciates this opportunity to submit these Reply Comments. At the outset, the OCA notes that nothing in the Comments of the other parties has caused the OCA to reconsider or deviate from the positions set out in its May 31, 2017 Comments. Accordingly, these Reply Comments will briefly respond to some of the positions of the other parties as they specifically addressed the important issues identified by Commissioner Sweet.

It is clear from the comments of the other parties that Pennsylvania utilities already have a substantial number of alternative ratemaking mechanisms in place or the ability to employ same, such as the DSIC, the use of a fully projected future test year, automatic reconcilable surcharges for energy efficiency and conservation costs, universal service cost recovery, smart meter cost recovery and many more. It is equally clear from the comments that the alternative ratemaking mechanisms being discussed have the propensity to benefit utilities by guaranteeing more revenue, reducing their risk profiles, reducing utilities' incentives and need to operate in the most efficient manner possible, yet, ensuring a more robust bottom line to shareholders. Conversely, there does not appear to be any commensurate benefits that would flow in the direction of ratepayers. Based on the stated uncertain impacts to ratepayers generally, and the lack of any discernible benefits to ratepayers, the OCA must question any real need to advance additional alternative ratemaking mechanisms at this time when it does not appear that such mechanisms are indeed needed and, alternatively, have the propensity to cause negative impacts especially to low and moderate income ratepayers.

A majority of the utility commentators appear to argue that the implementation of alternative ratemaking mechanisms would have little to no negative impacts to ratepayers participating in CAP. The OCA does not agree with this general assertion. The OCA would note that CAP mechanisms vary widely across utilities and the exact impacts for individual utility CAP participants are not easily discernible. Not all CAPs, however, are based solely on a customer paying a specific percentage of income with a bill that never varies based on usage or price. Many CAP payment amount will reflect, to a certain degree, changes in a CAP customer's total bill or usage. Additionally, most CAP customers are also subject to CAP credit limits that can be impacted by higher overall bills resulting from the alternative ratemaking methodologies. It is also important to remember that CAP customers move on and off the programs based on a number of factors which can subject them to higher bills and possibly higher arrearages.

It must also be remembered that many confirmed low-income customers do not participate in the utilities' customer assistance programs. This is true for a variety of reasons, including the inability of some customers to certify or recertify, and the fact that under certain percent-of-income customer assistance programs, low-use customers choose non-participation as they attempt to achieve lower total bills through reduced consumption. In addition, many ratepayers who are low to moderate income fall just above the necessary income levels to participate in such programs, but must pay the costs of the program through the CAP credit. This CAP credit (shortfall) is billed to other ratepayers not participating in CAP, many of whom are either low or moderate income. As such, the OCA submits that the notion that CAP can "protect" low income customers from the detrimental impacts of alternative ratemaking is simply unsupportable.



As to Commissioner Sweet's second issue regarding the interaction of any additional alternative ratemaking mechanisms with existing infrastructure replacements and DSIC mechanisms, the OCA offers the following response.

As stated above, the general consensus from the utility commentators is that the DSIC mechanisms currently in place would be unaffected by the implementation of additional alternative ratemaking mechanisms. The OCA notes, however, that some of the ratemaking proposals advocated for would seem to obviate the need for a DSIC. Specifically, PPL advocates for the use of a multi-year rate plan.<sup>23</sup> Duquesne Light advances the use of formula rates, much like the method used by the Federal Energy Regulatory Commission to set transmission rates.<sup>24</sup> As the OCA understands these proposals, actual and/or projected capital additions could be added to rate base and start earning a return without the need for a base rate filing. The OCA submits that either of these proposals would signify a sharp break from the traditional ratemaking methods currently in place, and would likely require extensive vetting and analysis before any potential implementation could be seriously considered. Each of these proposals would appear to necessitate the elimination of the DSIC and all other cost trackers.

The OCA again thanks Commissioner Sweet for raising these important topics. The OCA submits that the alternative ratemaking mechanisms under review here could prove beneficial for the utilities' bottom line and their corresponding shareholder interests. Conversely, the OCA sees no discernible benefits for ratepayers, and the real possibility of harm, by moving away from the current ratemaking environment.

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<sup>23</sup> See PPL Comments at 17-23.

<sup>24</sup> See Duquesne Light Comments at 14-15.

**V. CONCLUSION**

The OCA appreciates this opportunity to provide the Commission with these Reply Comments. The OCA submits that further alternative ratemaking is not necessary at this time. Pennsylvania currently has a multitude of robust and comprehensive methodologies and mechanisms in place that properly align and balance consumers' and utilities' needs with cost-effective and efficient practices.

Respectfully Submitted,

  
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