



October 9, 2018

**VIA ELECTRONIC FILING**

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

Re: Docket M-2018-3003269, *Implementation of Act 58 of Alternative Ratemaking for Utilities*

Dear Secretary Chiavetta:

In response to the Tentative Implementation Order, dated August 23, 2018, and filed in the above-referenced docket (“Docket”), Advanced Energy Economy Institute (AEE Institute) respectfully submits these comments on the Pennsylvania Public Utility Commission’s (“Commission”) proposed interpretation and implementation of Section 1330 of the Public Utility Code 66 Pa. C.S. § 1330.

**Section 1330(a) – Declaration of Policy**

AEE Institute supports the views expressed in Section 1330(a) and the Commission’s intent to include it in its consideration of requests by utilities to adopt ratemaking mechanisms under section 1330. We agree with the Commission that the policy goals are similar to what the Commission has considered in its ongoing investigation into alternative ratemaking in Docket M-2015-2518883 (*Fixed Utility Distribution Rates Policy Statement*). That said, we encourage the Commission to be more explicit in articulating what exactly those policy goals are. The more detail the Commission can provide in its guidance to utilities, consistent with the broad policy goals articulated in Section 1330(a), the more likely the Commission will be to receive utility proposals that will further the achievement of said policy goals. For example, using some of the language from Section 1330(a), many of the “new opportunities for all customers...” are driven not only by “innovations in utility operations and information technologies”, but in large part by the deployment and use of distributed energy resources (DER).<sup>1</sup> DERs are typically customer-owned or third-party-owned (e.g.,

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<sup>1</sup> We define DER broadly to include energy efficiency, demand response, distributed generation of all types, energy storage, electric vehicles and microgrids. DER thus includes options for both generating and managing energy use.

as with leased rooftop solar power installations). The growth of DER markets has important implications for the types of alternative ratemaking mechanisms utilities may file, as well as the types of utility investments that will be made under any future rate plans approved by the Commission. Simply put, utilities should be making investments that facilitate customer use of DERs that benefit not only those customers but the system as a whole. Thus, ratemaking mechanisms should align utility financial incentives with customer benefits and customer opportunities to manage their energy usage, energy costs, and energy sources.

Given the extensive record on these and related issues in the ongoing Docket M-2015-2518883, AEE Institute believes that it remains the best venue for the Commission to articulate these policy goals in greater detail.

### **Section 1330(b) – Alternative Rate Mechanisms**

AEE Institute agrees with the Commission’s proposed interpretation of the language contained in subsection 1330(b), and we believe it removes any limitations that may have existed as a result of existing statute. Indeed, we believe that the intent of Act 58 is to provide utilities with greater flexibility to propose alternative ratemaking mechanisms that will allow them to successfully adapt to the changing electricity power sector landscape in a manner that will also benefit customers. Of note in the text of Section 1330(b) is the inclusion of examples of alternative ratemaking mechanisms, including: decoupling mechanisms, performance-based rates, formula rates, multiyear rate plans, as well as rates based on a combination of more than one of these options. AEE Institute notes that this list is not exhaustive, and that there are other complementary ratemaking mechanisms that can and should be considered by the Commission as well, including shared-savings mechanisms, and the regulatory treatment of certain operating expenses that can substitute for traditional utility capital investments, such as cloud computing services and non-wires alternatives projects. Utilities should be encouraged to explore the full range of regulatory options that can further align their financial interests with the interests of their customers and with state policy objectives, while making the most out of the technology and service innovations coming from the advanced energy industry.

### **Use of Base Rate Proceedings**

We agree that base rate proceedings will be the appropriate venue to consider specific utility proposals. Nevertheless, given that participation in such proceedings can pose challenges for stakeholders with limited resources, we strongly encourage the Commission to use its existing proceeding on alternative



ratemaking and rate design (Docket M-2015-2518883) to develop as much detailed guidance as possible to the utilities. This will allow a broad range of stakeholders to provide meaningful input that will then guide utilities in their development of specific proposals. This will also have the benefit of providing more consistency across utility service territories, which can help drive down costs for DER technologies and services. We note that the Proposed Policy Statement Order, dated May 3, 2018, in Docket M-2015-2518883 is a good example of such guidance, but is limited mainly to rate design. Developing similar guidance on *ratemaking*, beyond the content of this Tentative Implementation Order on Act 58, would be highly valuable prior to utilities coming forward with specific proposals under Section 1330.

### **Section 1330c – Customer Notice**

With respect to customer notice, we note that there is a distinction between “rate design” and “ratemaking”. The former describes the electricity rates and tariffs that apply to specific retail customers and customer classes, whereas the latter describes the general process for setting utility revenue requirements and the methods by which regulated utilities earn profits. Using these definitions, we view Section 1330 as primarily applying to “ratemaking”. One outcome of a utility application under Section 1330 may indeed be new or modified retail customer tariffs, but this is not a necessary outcome. For example, the use of multi-year rate plans or performance incentive mechanisms does not necessarily require utilities to modify retail customer tariffs. While customers must clearly be notified of tariff changes, we encourage the Commission to apply customer notice guidelines in a way that avoids creating customer confusion, given the potentially confusing terminology of “rate design”, “ratemaking” and “rate mechanisms”.

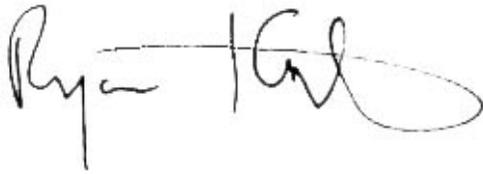
We also note that the current and proposed notice language appears to assume that rates are necessarily increasing, but one outcome of a utility filing under Section 1330 could be modified rates that give customers opportunities to reduce costs, or rates that may not change average costs but that could provide more granular pricing. As such, notice language should be flexible enough to describe the full range of possible rate designs that may be implemented. Such notices should also include information about tools, services and other information that might be available for helping customers manage their energy usage and costs, when applied to the new tariffs. The ability to offer such tariffs, tools and information would be a direct outcome of the innovations in technologies and services referenced in Section 1330(a) - Declaration of Policy.



**Conclusion**

AEE Institute appreciates the opportunity to submit these comments and commends the Commission for its continued leadership on alternative ratemaking. We look forward to our continued participation in this important proceeding and the related proceeding on Alternative Ratemaking.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ryan Katofsky". The signature is fluid and cursive, with a large loop at the end.

Ryan Katofsky  
Vice President, Industry Analysis