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Via Electronic Filing

Rosemary Chiavetta, Secretary
PA Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street
Harrisburg PA

RE: Reply Comments of the Keystone Energy Efficiency Alliance on Proposed Policy Statement, Alternative Ratemaking Methodologies Docket No. M-2015-2518883

Dear Secretary Chiavetta:

Please find attached the Comments of the Keystone Energy Efficiency Alliance (KEEA) for the above referenced proceeding.

Respectfully Submitted,

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Alternative Ratemaking

**Methodologies, Proposed Policy
Statement**

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:
:

Docket No. M-2015-2518883

COMMENTS OF THE
KEYSTONE ENERGY
EFFICIENCY ALLIANCE

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Dated: October 22, 2018

I. INTRODUCTION

The Keystone Energy Efficiency Alliance (“KEEA”) appreciates the opportunity to submit comments to the Public Utility Commission (“Commission”) on the important topic of alternative ratemaking. KEEA has participated fully in every stage of this docket since 2015, and believes the Proposed Policy Statement Order (“Order”) will set a course for utility business model reform in Pennsylvania that will provide significant new opportunities for the deployment of advanced energy technologies in the Commonwealth.

KEEA is a 501(c)(6) trade association with more than 50 business members across the state. KEEA’s members range from small engineering firms to large multinational corporations. Our membership is diverse, and collectively the energy efficiency industry employees more than 65,000 Pennsylvanians in a variety of professions. Moreover, most of our members operate in several jurisdictions that already employ alternative ratemaking mechanisms and rate design in a manner that benefits the ratepayers and utilities of those jurisdictions, all while achieving greater efficiency savings that make energy more affordable for everyone.

II. BACKGROUND

On May 3, 2018, the Commission entered an Order, noticed in the PA Bulletin June 23, 2018, requesting comment on factors the Commission will consider in determining “just and reasonable distribution rates that promote the efficient use of electricity, natural gas, or water, the use of distributed energy resources, and reduce disincentives for such efficient use and resources to ensure adequate revenue to maintain the safe and reliable operation of fixed utility distribution systems.”¹ The Order is the culmination of more than three years of work around alternative ratemaking in Pennsylvania that received significant input from a multitude of stakeholders. KEEA has submitted comprehensive testimony, comments, and reply comments during all stages of this docket and associated legislative proposals, and incorporate those comments by reference.²

¹ See Proposed Policy Statement Order, 48 Pa.Bull. No. 25 (June 23, 2018).

² See Comments of KEEA, NRDC, & CAC, *En Banc* Hearing on Alternative Ratemaking Methodologies, Docket No. M-2015-2518883 (Mar. 16 2016); Testimony of KEEA, NRDC, & CAC, *En Banc* Hearing on Alternative Ratemaking Methodologies Docket No. M-2015-2518883 (Feb. 25 2016); Comments of KEEA on Alternative Ratemaking Methodologies Docket No. M-2015-2518883 (May 31 2017); Reply Comments of KEEA on Alternative Ratemaking Methodologies Docket No. M-2015-251888 (Jul 31, 2017).

The current discussion about alternative ratemaking methodologies began on March 3, 2016, when the Commission invited interested parties to provide testimony on three topics: (1) Whether revenue decoupling or other similar rate mechanisms encourage energy utilities to better implement energy efficiency and conservation programs; (2) whether such rate mechanisms are just and reasonable and in the public interest, and; (3) whether the benefits of implementing such rate mechanisms outweigh any associated costs.³ In that proceeding, KEEA and other stakeholders expressed strong support for full revenue decoupling and performance incentive mechanisms to increase the incentives for utilities to deploy energy efficiency measures, while simultaneously reducing the need for regressive rate designs such as increased customer charges.⁴ Next, in March 2017, the Commission issued a Tentative Order seeking additional comments on, “and potential processes to advance, alternative rate methodologies that address issues each utility industry is facing.”⁵ Finally, on May 3, 2018, the Commission took “its next step in deliberating the future of utility rates,” by issuing this Order on alternative ratemaking that would set forth the Commission’s policy, criteria, and examples of alternative ratemaking methodologies in Pennsylvania.⁶ Alongside the Commission’s docket on alternative ratemaking, the General Assembly passed, and the Governor signed, Act 58 of 2018.

Signed into law by Governor Wolf on June 28, 2018, Act 58 amends Chapter 13 of the Pennsylvania Public Utility Code (“Code”) 66 Pa. C.S. § 1301, adding Section 1330, which permits the Commission to approve an application by a regulated utility to establish alternative ratemaking mechanisms.⁷ On August 23, 2018, the Commission issued a Tentative Implementation Order (“TIO”) seeking comment on its proposed interpretation and implementation of Section 1330.⁸ Importantly, subsection 1330(b)(1) resolves potential conflicts of law between this subsection and other subsections of the Code. As interpreted by the Commission, subsection 1330(b)(1) conclusively settles the important question of whether

³ Public Utility Commission, *En Banc* Hearing on Alternative Ratemaking Methodologies, Docket No. M-2015-2518883 (Dec. 31, 2015).

⁴ *Id.*

⁵ Alternative Ratemaking Methodologies, Tentative Order, Docket No. M-2015-2518883, at 2 (Mar. 2, 2017).

⁶ Statement of Chairman Gladys Brown, Docket No. M-2015-2518883 (May 3, 2018); *see also* Proposed Policy Statement Order, 48 Pa.Bull. No. 25 (June 23, 2018).

⁷ Act of Jun. 28, 2018, P.L., No. 58, codified at 66 Pa.C.S.A. §1330, *available at* <http://www.legis.state.pa.us/cfdocs/legis/li/uconsCheck.cfm?yr=2018&sessInd=0&act=58>.

⁸ Public Utility Commission, Tentative Implementation Order, Implementation of Act 58 of 2018 Alternative Ratemaking for Utilities, Docket No. M-2018-3003269 (Aug. 23 2018). [*hereinafter* TIO].

alternative ratemaking mechanisms that rely on Section 1307 automatic adjustment mechanisms are prohibited for EDCs by sections 2806.1(k)(2) and section 2807(f)(4) of the Code. KEEA and several other stakeholders submitted comments in support of such an interpretation of Act 58.⁹

III. COMMENTS

KEEA broadly supports the Commission's Proposed Policy Statement and believes that, if properly constructed, the criteria set forth by the Commission will aid all Pennsylvania stakeholders in evaluating utility applications for alternative ratemaking and rate design mechanisms that better support the public policy goals of the Commonwealth, provide ratepayers with greater control over their energy bills, and lay the groundwork necessary for a 21st century utility model that makes regulated utilities partners in the deployment of advanced energy resources by their customers. Despite KEEA's broad support for the Commission's proposed policy statement and reasons outlined in its Order, KEEA recommends several changes to the proposed policy statement that will better align it with utility ratemaking and rate design principles, and the public policy goals of the Commonwealth.

First, KEEA recommends the Commission explicitly identify those policy initiatives it alludes to in its Order's proposed purpose and scope, while clarifying the Order's relationship with the policy goals articulated in Act 58. Next, the Commission should articulate the difference between utility *ratemaking* and *rate design*, which has become increasingly conflated as this docket has continued. Finally, KEEA recommends several additions and revisions to the Commission's proposed distributed rate considerations that will better align utility and ratepayer incentives, while including adequate consumer protections and retaining safe and reliable utility service. Taken together, KEEA believes its recommendations will lead to a regulatory environment that balances utility and ratepayer interests, while fostering increased investments in energy efficiency and other advanced energy resources that promote the clean energy goals of the Commonwealth.

⁹ Keystone Energy Efficiency Alliance et. al, Comments on Tentative Implementation Order, Implementation of Act 58 of 2018 Alternative Ratemaking for Utilities, (Oct. 8 2018). Docket No. M-2018-3003269.

a. Statement of Purpose and Scope

KEEA strongly supports the Commission’s proposed statement of purpose and scope. However, KEEA recommends two changes to clarify the statement and make it consistent with Act 58. First, KEEA recommends the Commission explicitly identify those state and federal policy initiatives driving change in Pennsylvania’s utility industry to avoid any confusion related to the goals of alternative ratemaking and rate design methodologies. Second, KEEA recommends the Commission clarify the relationship between the statement of purpose and scope contained in the Order with the “declaration of policy” contained in Act 58 of 2018.

KEEA believes that the Commission should include what specific policies it would like to address with its Order to avoid any confusion around the purpose of the alternative ratemaking and rate design methodologies in Pennsylvania. In § 69.3301, Purpose and Scope, the Commission states that the purpose of this Order is to invite proposals by fixed utilities for policies that would further support federal and state policy objectives aimed at promoting the efficient use of electricity, natural gas and water, as well as policy initiatives to promote distributed energy.¹⁰ In addition to promoting these state and federal policy initiatives, the Commission states that “fixed utility distribution rate designs” should:

Reduce fixed utility disincentives for promoting these objectives, provide incentives to improve system economic efficiency, avoid future capital investments, and ensure that fixed utilities receive adequate revenue to maintain the safe and reliable operation of their distribution systems. At the same time, an alternative rate design methodology should reflect the sound application of cost of service principles, establish a rate structure that is just and reasonable, and consider customer impacts.¹¹

KEEA agrees with these principles, and believes the statement of purpose and scope echoes the original purpose of this docket, which asked whether revenue decoupling or other similar rate mechanisms encourage energy utilities to better implement energy efficiency and conservation

¹⁰ Proposed Policy Statement Order, 48 Pa.Bull. No. 25, § 69.3301. Purpose and Scope (June 23, 2018).

¹¹ *Id.*

programs.¹² Based on this language, KEEA respectfully requests that the Commission explicitly identify that Pennsylvania’s Act 129 Energy Efficiency and Conservation Programs are one of the state programs that alternative ratemaking methodologies should promote. Similarly, given the inclusion of distributed energy resources, KEEA recommends the Commission include Pennsylvania’s Alternative Energy Portfolio Standards and behind the meter generation as a specific policy objective of alternative ratemaking methodologies. KEEA believes that the inclusion of these two Commonwealth policies in the purpose and scope section would prevent confusion surrounding what specific policies alternative ratemaking proposals by utilities should support and promote.

Next, KEEA recommends the Commission clarify the relationship between the statement of purpose and scope contained in the Order with the “declaration of policy” contained in Act 58 of 2018. Act 58, passed by the general assembly within days of the Order, includes the following declaration of policy:

(1) Innovations in utility operations and information technologies are creating new opportunities for all customers, and it is in the public interest for the commission to approve just and reasonable rates and rate mechanisms to facilitate customer access to these new opportunities while ensuring that utility infrastructure costs are reasonably allocated to and recovered from customers and market participants consistent with the use of the infrastructure.

(2) It is the policy of the Commonwealth that utility ratemaking should encourage and sustain investment through appropriate cost recovery mechanisms to enhance the safety, security, reliability or availability of utility infrastructure and be consistent with the efficient consumption of utility service.

The declaration of policy in section 1330(a) notes that new utility operations and information technologies create new opportunities for customers, and that “it is in the public interest for the

¹² Public Utility Commission, *En Banc* Hearing on Alternative Ratemaking Methodologies, Docket No. M-2015-2518883 (Dec. 31, 2015).

Commission to approve just and reasonable rate and rate mechanisms to facilitate customer access to these new opportunities . . .”¹³

On August 23, 2018, the Commission issued its TIO seeking comment on its proposed interpretation and implementation of Section 1330. The TIO acknowledges the General Assembly’s declaration of policy in Section 1330(a) of the Act while: (1) Observing that the Commission has articulated similar policy goals in its proposed *Fixed Utility Policy Statement*,¹⁴ and; (2) noting that other policy goals concerning utility rates have been previously established by other statutes, regulations, and case law. Considering these policy prescriptions, the TIO states that when the Commission reviews utility base rate proposals, it will consider both the policy goals set forth in section 1330(a) and “other applicable policy goals” established by law.

KEEA agrees with the Commission that it has articulated similar policy goals the Order, but believes the Order is more descriptive than Act 58. Thus, KEEA recommends the Commission indicate that its statement of purpose and scope in the Order will also serve as guidance for the implementation of Act 58.

b. Ratemaking vs. Rate Design

KEEA strongly recommends that the Commission clarify its institutional definition of the terms “ratemaking” and “rate design.” While the two terms have been used interchangeably as this docket progressed, the Order specifically identifies “fixed utility distribution rate designs,”¹⁵ while Act 58 only discusses alternative ratemaking mechanisms.

The Commission should define ratemaking and rate design within the order. Ratemaking and rate design are two distinct, but closely related topics, that need to be considered in tandem when it comes to policy decisions and the Commission’s own legal authority to approve such rates. Ratemaking can best be defined as the process by which a utility’s revenue requirement is

¹³ Implementation of Act 58 of 2018 Alternative Ratemaking for Utilities, Tentative Implementation Order, at 2 (Aug. 28, 2018).

¹⁴ *Fixed Utility Distribution Rates Policy Statement*, Proposed Policy Statement Order at Docket No. M-2015-2518883, at 26-27 (May 23, 2018).

¹⁵ *Id.*

determined. In the Order and Act 58, this includes full revenue decoupling, performance-based-ratemaking, and formula rates, among others. Alternatively, rate design best describes the method by which the revenue requirement is recovered from a utility's ratepayers *via* a ratepayer's bill. These would include designs such as time-varying-rates, critical peak pricing, and inclining block rates. Simply stated, ratemaking concerns the incentives that drive utility decision making, while rate design concerns incentives that drive ratepayer decision making

KEEA recommends the Commission use the Order to provide guidance for both alternative ratemaking and rate design mechanisms. Good ratemaking mechanisms can obviate the need for regressive rate designs while ensuring that utilities receive adequate revenue for providing safe and reliable service. Indeed, KEEA proposed revenue decoupling specifically as a ratemaking tool to allow utilities to recover their revenue requirement without increasing customer charges or straight/fixed-variable ("SFV"); rate designs that negatively impact the ability of ratepayers to avail themselves of energy efficiency and distributed energy resources.¹⁶ Therefore, the Commission should indicate that it intends to use the Order as guidance for both rate design, and ratemaking policies discussed in Act 58.

Finally, the distinction between rate design and ratemaking is important regarding the Commission's legal authority to approve such rates. It was the Commission's legal authority to approve *ratemaking* mechanisms that rely on automatic adjustments under 1307 that were legally controversial prior to the enactment of Act 58, not rate design mechanisms, which did not have the same legal concerns, and are not explicitly addressed by Act 58 in any form. KEEA strongly agrees with the Commission's proposed interpretation of the language contained in subsection 1330(b)(1) of Act 58, which describes the types of alternative ratemaking mechanisms the Commission may approve and resolves potential conflicts of law between this subsection and other sections of the Code. KEEA believes that, as interpreted by the Commission, subsection 1330(b)(1) conclusively settles an important question of whether alternative ratemaking mechanisms that rely on 1307 automatic adjustment mechanisms are prohibited for EDCs by

¹⁶ KEEA, NRDC, CAC *En Banc* Testimony, at 4. KEEA proposal for revenue decoupling first occurred in a PPL and PECO base rate cases where KEEA advocated for revenue decoupling to prevent increased fixed charges for customers.

sections 2806.1(k)(2) and section 2807(f)(4) of the Code. KEEA recommends the Commission make the same conclusion of law regarding Act 58 in the Order.

c. Distribution Rate Considerations

KEEA generally supports the Commission’s proposed distribution rate considerations, but has several recommendations that it believes will better align those criteria with the Commission’s statement of policy and scope, as well as the Commission’s reasoning outlined in its Order.

Further, because many of the rate considerations appear to contemplate rate design, rather than ratemaking, KEEA has used three rate design principles previously articulated to help guide its recommendations.

KEEA has articulated rate design principles in the past to help guide its policy recommendations. KEEA believes that these rate design principles, developed by the American Council for an Energy-Efficiency Economy (“ACEEE”) comport with those policy goals identified by the Commission in its statement of purpose and scope and include:

- **Promoting Efficiency and Conservation:** Rates should send price signals to customers to discourage wasteful use of electricity. This principle underscores that rates should be cost-based, and send accurate price signals to customers related to the long-run marginal cost of service. In addition to price signals being accurate, they must also be actionable, meaning customers can modify their energy usage to respond the price signals they receive.
- **Rate Simplicity:** Rates should be easy for customers to understand and respond to accordingly. This principle is important to the present conversation, because customers cannot respond to a price signal unless they understand it. However, rate simplicity should not be pursued in a vacuum, and instead should work to achieve efficiency and utility revenue stability.
- **Utility Revenue Stability:** Rates should allow utilities the ability to earn commission-

authorized revenues to maintain financial health.¹⁷

1) How rates align revenues with cost causation principles as to both fixed and variable costs

KEEA supports the Commission’s focus on cost causation principles as it relates to both fixed and variable costs. However, KEEA believes the Commission should include language from its Order that places an emphasis on long-term cost causation, while acknowledging that parties have reasonable differences as it relates to cost-causation principles, some of which may be contrary to the broader policy goals of this docket. To the extent that the Commission wishes to include cost-causation as a rate consideration, KEEA recommends the Commission couch it as “long-term” cost causation.

In its Order, the Commission properly articulates that “the changing energy landscape, in particular, necessitates rate designs that address a few first-order principles.”¹⁸ The Commission goes on to include in its list of principles that “policies must encourage least-cost solutions, with recovery based on *long-term* cost causation.”¹⁹ The Commission echoes this sentiment in its fifth “first-order principle” when it states “it may be appropriate for energy utilities to design rates in a manner that minimizes the long-term costs of serving existing and new loads.”²⁰ In its current form, the proposed rate considerations does not highlight the importance of long-term cost causation.

KEEA is concerned that the omission of long-term cost causation will embolden some Pennsylvania utilities to propose ratemaking and rate-design methodologies that display a preference to recover “fixed” distribution costs on an individual customer basis. Instead, KEEA believes that only the costs directly related to serving thus customer should be included as a customer cost and included in the monthly customer charge. Customer costs are defined in Bonebright’s Principals of Utility Rates as those operating and capital costs found to vary with

¹⁷ Brendon Baatz, *Rate Design Matters: The Intersection of Residential Rate Design and Energy Efficiency*, AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY, at v (Mar. 2017), available at: <http://aceee.org/research-report/ul703>.

¹⁸ Order at 29.

¹⁹ *Id.* (emphasis in original)

²⁰ *Id.*

the number of customers regardless, or almost regardless of power consumption.²¹ These costs include those related to metering, accounting, billing, and other customer service costs.

Therefore, KEEA recommends that the Commissions revise its first rate consideration to say “how the rates align utility charges with cost causation principles and encourage customer energy usage that minimizes both long-term fixed and variable costs.”

2) How the rates impact a utility’s capacity utilization

KEEA respectfully requests that the commission clarify whether the term “capacity utilization” is the same, or similar to, the concept of “peak demand reduction.” The latter is a central tenant of Act 129, and has been discussed at length in KEEA’s and others comments throughout the course of this docket, while the former appears to be newly introduced in the Order and the Statement of Chairman Brown.²² Chairman Brown states that she is interested in capacity utilization in consideration of rates that can “foster system efficiency, and insulate customers from rate increases.” To the extent that “capacity utilization” refers to shifting load off-peak hours, or increasing the use of clean energy technologies such as residential demand response, battery storage, electric vehicles, and strategic electrification, KEEA would be supportive of this rate consideration. However, KEEA recommends that Commission elaborate on what exactly it deems “capacity utilization” to mean.

3) Whether the rate reflects the level of demand associated with the customer’s anticipated consumption level

To the extent this rate consideration contemplates demand-like charges for residential customers, KEEA disagrees with its inclusion. KEEA has commented at length that it feels a demand element for small C&I and residential customers is improper. Although weighing associated levels of demand may be appropriate for large customers, the benefits of doing so are not easily transferrable to residential and small commercial sectors. This is due to the unique characteristics of the residential sector which include bill transparency, the extent of customer control, equity issues, and usage diversity. Residential demand charges, both coincident and non-coincident, have not been implemented in any notable scale across the country. Indeed, a recent study by ACEEE notes that demand charges “have yet to undergo rigorous pilots or

²¹ See Bonbright, James C. 1961. Principals of Public Utility Rates, page 347.

²² Statement of Chairman Brown, *available at* <http://www.puc.state.pa.us/pdocs/1565053.pdf>

pricing studies.”²³ Moreover, the limited information that does exist is dated and does not consider modern technologies, such as AMI deployment. This lack of empirical data led ACEEE to warn that demand charges for residential customers “should be approached with caution,” mainly because so little evidence exists on the “implications of demand charges for overall customer consumption.”²⁴

4) How the rates limit or eliminate inter-class and intra-class cost shifting

KEEA recommends the Commission separate inter-class and intra-class cost shifting considerations into separate considerations because inter-class cost shifting is largely a product of ratemaking, while intra-class cost shifting its product of rate design. KEEA believes inter-class cost shifting is largely due to a utility’s cost-of-service study, which is the proper venue to allocate a utility’s revenue requirement across its customer classes. Within this space, cost-shifting may occur based on the methodology used to classify customer costs. Given that there are multiple methods by which to allocate customer costs, KEEA believes the choice of those mechanism are best determined through base rate cases.

With respect to intra-class cost shifting, KEEA supports evaluating how a utility proposal will limit or eliminate intra-class cost shifting, specifically how any particular rate design will allocate costs within rate classes. However, KEEA warns that no single rate design is a silver bullet for eliminating *all* cost-shifting, and that any rate design proposal must be considered in the context of the larger policies goals of the Commonwealth. For example, higher customer charges improperly allocate costs to uses who consume a less than average amount of electricity. Moreover, across geographic areas and building types, the fixed costs to serve a customer differ significantly. As noted by ACEEE, “this method of cost recovery through fixed customer charges will substantially over collect costs from some users, and under collect costs from others.”²⁵ Thus, KEEA recommends the Commission separate the two concepts, in indicate that intra-class cost shifting be considered along with the primary policy goals of this docket

²³ Brendon Baatz, *Rate Design Matters: The Intersection of Residential Rate Design and Energy Efficiency*, AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY, (Mar. 2017), available at: <http://aceee.org/research-report/u1703>.

²⁴ *Id.*

²⁵ *Id.*

5) How rates limit or eliminate disincentives for the promotion of efficiency programs

KEEA strongly supports evaluating how ratemaking or rate design proposals would impact the incentives around the promotion of the Commonwealth's Act 129 energy efficiency programs, in addition to ratepayers' independent actions to become more energy efficient. However, KEEA would include that caveat that rate proposals that limit or eliminate the disincentive for utility promotion of efficiency programs should not add additional disincentives for customer deployment of energy efficiency programs. KEEA believes that the ratemaking mechanisms with the best potential to achieve this consideration are full revenue decoupling and performance incentives, while the rate designs mostly likely to hamper this consideration are SFV rate design and increased customer charges, spoken about in more length *supra* (c) (6).

First, KEEA recommends the Commission pursue full decoupling as a method to remove any disincentive that may exist for utilities to pursue demand-side reduction to its full cost-effective potential. KEEA has already commented extensively on revenue decoupling in this proceeding and incorporates those comments by reference.²⁶ Such a decoupling mechanism would address the throughput incentive, whereby utilities recover increasing costs by increasing their volumetric sale of electricity to each customer. By decoupling volumetric electricity sales from utility revenues, EDC's would no longer face revenue erosion when customers decrease electricity consumption and sales decline. Revenue decoupling varies little from current cost-of-service ratemaking. The chief difference is that revenue decoupling includes a target revenue requirement set for each year between rate cases, and an adjustment mechanism that adjusts rates up or down to reflect differences between a utility's target revenues and actual revenues. Between 2009 and 2015 the number of electric utilities with revenue decoupling doubled from 12 to 25, with 16 states having adopted some form of revenue decoupling.²⁷

Revenue decoupling would reduce the pressure on all utilities to seek increased fixed charges to cover rising costs. To the extent that a customer's bill is a fixed charge, it increases the payback

²⁶ See Testimony of KEEA, NRDC, & CAC, *En Banc* Hearing on Alternative Ratemaking Methodologies Docket No. M-2015-2518883 (Feb. 25 2016); see also Comments of KEEA, NRDC, & CAC, *En Banc* Hearing on Alternative Ratemaking Methodologies, Docket No. M-2015-2518883, (Mar. 16 2016).

²⁷ Berg *et al.*, ACEEE, THE 2016 STATE ENERGY EFFICIENCY SCORECARD, at 45 (Sept. 2016), available at: <http://aceee.org/sites/default/files/publications/researchreports/u1606.pdf>

period for demand-side efficiency measures and reduces customer control over bills. Therefore, keeping rates largely volumetric using revenue decoupling would keep control in the hands of customers, and stop the trend of increasing customer charges.

Next, KEEA strongly supports Performance Incentive Mechanisms (PIMs) as one of the most useful tools the Commission has to incent utilities to meet and exceed public policy goals, specifically increasing the deployment of energy efficiency measures. KEEA has already commented extensively on PIMs in this proceeding and incorporates its previous comments and testimony by reference.²⁸ PIMs are financial incentives that aim to reward utilities for reaching or exceeding program goals, regardless of whether they are related to efficiency. PIMs can be used for a multitude of desired policy goals, such as energy efficiency, advanced metering, peak load reduction, and reliability, among others. By rewarding utilities for performance, not investment, the Commonwealth could better meet its public policy goals and adapt to the changes underway in the regulated utility industry.

Many jurisdictions already use the type of PIMs proposed by KEEA. In its 2016 State Score Card, ACEEE found that 28 states offer a performance incentive for at least one major electric utility.²⁹ The type of compensation a utility receives under a PIM takes several forms. For instance, compensation could be based on shared savings, and would grant the utility a share of the estimated net benefits that result from their EE&C programs. Alternatively, the PIM could provide EDCs with a bonus at a set rate for each MWh of load savings beyond their savings target. Of the different types of PIMs, KEEA supports a multi-factor incentive based on performance, and urges the Commission to explore the incentives currently in place in states like Rhode Island and Massachusetts. Many potential performance incentives for Pennsylvania are discussed in an in-depth report published by the Advanced Energy Economy Institute (AEEI) titled Performance-Based Regulation for Pennsylvania.³⁰

²⁸See Testimony of KEEA, NRDC, & CAC, *En Banc* Hearing on Alternative Ratemaking Methodologies Docket No. M-2015-2518883 (Feb. 25 2016); *see also* Comments of KEEA, NRDC, & CAC, *En Banc* Hearing on Alternative Ratemaking Methodologies, Docket No. M-2015-2518883, (Mar. 16 2016).

²⁹ Berg *et al.*, ACEEE, THE 2016 STATE ENERGY EFFICIENCY SCORECARD, at 45 (Sept. 2016), *available at*: <http://aceee.org/sites/default/files/publications/researchreports/u1606.pdf>

³⁰ AEEI, PERFORMANCE-BASED REGULATION FOR PENNSYLVANIA: AN OPPORTUNITY FOR PENNSYLVANIA TO DRIVE INNOVATION IN THE UTILITY SECTOR (Mar. 27 2017), *available at*: <http://info.aee.net/hubfs/PDF/PBR-in-PA.pdf?t=1496186156245>

Finally, KEEA has serious concerns regarding any rate design methodology that would purportedly have the same impact as revenue decoupling and performance incentives, while making price signals less actionable. These are discussed in more detail below.

6) How the rates impact customer incentives to employ efficiency measures and distributed energy resources

KEEA strongly supports considering how proposed rate design and ratemaking mechanisms may impact customer incentives to employ efficiency measures and distributed energy resources.

Many forms of rate design were discussed in the initial comments to this docket, including SFV rate design, increased fixed charges, demand charges, and time-of-use rates. Of those options, KEEA believes that time-of-use rates send the best price signals to customers that provide a strong incentive to employ energy efficiency measures and distributed energy resources.

Alternatively, any rate designs that make price signals less actionable, such as SFV rate design, or increased fixed charges should be avoided.

KEEA maintains that rate design is an important tool to send customers accurate price signals while allowing for utility cost recovery. As already mentioned, KEEA believes that a customer's incentive to employ efficiency measures and distributed energy resources is primarily the product of rate design, rather than ratemaking. However, KEEA calls on the Commission to explicitly disallow those rate designs that are contrary to the policy goals of this docket, namely SFV.

KEEA opposes any shift towards increased fixed charges or SFV rate design. Over the past three years of activity on this docket, the large majority of stakeholders have opposed any move toward SFV. Indeed, it was increasing fixed charges that led many commenters, including KEEA, to get involved in alternative ratemaking in the first place.³¹ Specifically, KEEA opposes SFV because it: (1) Weakens the price signal to customers, reducing the incentive to become more efficient; (2) improperly allocates costs within rate classes, adversely impacting low-usage

³¹ KEEA first proposed revenue decoupling in 2015 as an alternative for two EDC's requests for increased fixed-charges as part of their base-rate case.

customers, and; (3) harms low-income ratepayers. Simply stated, it is an unsophisticated solution to meet the challenges of an increasingly sophisticated grid.

SFV would weaken the price signal to customers to become more efficient. To the extent that SFV reduces customers' volumetric charge, it hampers their ability to control their bills and increases payback periods for efficiency measures. Unfortunately, some utilities propose wrongly propose this exact type of rate design.³² For example, the FirstEnergy utilities stated in an early round of comments to this proceeding that SFV would create only "slightly less incentive to participate in EE&C programs. . . ."³³ Further, Duquesne Light stated SFV would "not diminish the value or opportunity for efficiency gains."³⁴ This position is demonstrably false.

For example, a recent ACEEE report examined several different rate designs with varying degrees of fixed charges ranging from \$10, \$25, and \$50. The report found that moving from a \$5 to \$25 monthly customer charge produced payback periods that were 31% longer, and more than doubled when moving from \$5 to \$50.³⁵ This strongly contrasts with the positions of the FirstEnergy utilities and Duquesne Light. Therefore, even if SFV did insulate utilities from declining revenue due to energy efficiency efforts, it would provide a serious disincentive for all types of customers to become more efficient. High-usage customers would see bill decreases under SFV, decreasing the incentive to use less energy, while low-usage customers would have a large portion of their bills consist of unavoidable fixed charges. This occurs because SFV does not follow a reasonable concept of cost-causation.

In addition to increasing payback periods for efficiency measures, SFV would improperly allocate cost to users who a less than average amount of electricity. As stated by FirstEnergy, under SFV, "Those who use the least amount [of electricity] will see the largest effect on their

³² Comments of Met Ed *et. al.*, at 9.

³³ *Id.*, at 10.

³⁴ Comments of Duquesne Light Company, at 13.

³⁵ Brendon Baatz, *Rate Design Matters: The Intersection of Residential Rate Design and Energy Efficiency*, AMERICAN COUNCIL FOR AN ENERGY-EFFICIENT ECONOMY, at 25 (Mar. 2017), available at: <http://aceee.org/research-report/u1703>.

bills, and will also be picking up a higher percentage of costs allocated to the class.”³⁶ Contrary to the position of FirstEnergy, such intra-class cost-shifting is not consistent with cost causation principles. Based on the forgoing, KEEA supports the inclusion of this rate consideration by the Commission.

IV. CONCLUSION

KEEA again thanks the Commission for its commitment to this long docket, which has seen the involvement of numerous stakeholders, and discussions around several ratemaking and rate design policies for the Commonwealth. With this Policy Statement, KEEA believes the Commission is laying important groundwork for the implementation of alternative ratemaking and rate design methodologies in Pennsylvania. If the Commission adheres to its principles articulated in the statement of purpose and scope, KEEA believes the Commonwealth with experience increased deployment of energy efficiency and other advanced energy measures to the benefit of Pennsylvania’s ratepayers, businesses, and utilities.

³⁶ Comments of Met Ed *et. al.*, at 6.