



PENNSYLVANIA PUBLIC UTILITY COMMISSION

CHP Working Group Meeting

- PUC's Proposed Policy on Alternative
Ratemaking – Overview and Opportunity

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May 30, 2018



General Reference Information

- Motion by Vice Chairman Andrew Place Issued at the public meeting of May 3, 2018
- Supported by 5-0 vote
- Docket M-2015-2518883
- Form: Proposed Policy Statement on alternative rate methodologies
- Order issued May 23, 2018



Order Summary – Major Points

- Distribution rate considerations – lists factors the PAPUC will consider when evaluating alternative rate methodologies
- Includes illustrations of possible distribution ratemaking and rate design options for electric distribution and natural gas distribution companies.
- Any proposal would be filed concurrent with a base rate case.



List of Distribution Rate Considerations

1. How the rates align revenues with cost causation principles as to both fixed and variable costs.
2. How the rates impact the fixed utility's capacity utilization.
3. Whether the rates reflect the level of demand associated with the customer's anticipated consumption levels.
4. How the rates limit or eliminate inter-class and intra-class cost shifting.
5. How the rates limit or eliminate disincentives for the promotion of efficiency programs.
6. How the rates impact customer incentives to employ efficiency measures and distributed energy resources.



List of Distribution Rate Considerations

7. How the rates impact low-income customers and support consumer assistance programs.
8. How the rates impact customer rate stability principles.
9. How weather impacts utility revenue under these rates.
10. How the rates impact the frequency of rate case filings and affect regulatory lag.
11. If or how the rates interact with other revenue sources, such as Section 1307 automatic adjustment surcharges, riders such universal service and energy conservation policies or distribution system improvement charges.
12. Whether the alternative rate mechanism includes appropriate consumer protections.
13. Whether the alternative rate mechanism is understandable and acceptable to consumers and comports with PA law.



Illustrative Alternative Rate methodologies: Natural Gas

A natural gas distribution company may propose a weather normalization adjustment and/or revenue per customer ratemaking proposal.

- Must address consumer protection issues including, but not limited to, revenue adjustment dead bands, seasonal adjustment limitations, adjustment timelines, and any just and reasonable cost of capital adjustments.



Illustrative Alternative Rate Methodologies: (Electric)

An electric distribution company may propose critical peak pricing or similar demand based programs that use average usage over critical peak periods as demand based billing determinants. A critical peak pricing proposal should be composed of:

- A fixed customer charge component reflecting metering, final line transformer and service drop cost recovery.
- A critical peak volumetric price or average demand component, which reflects usage over the local or nodal substations, feeders, and other related distribution system components during localized peak usage periods.
- A volumetric on peak, off peak, or other rate for recovery of other distribution costs.



Where Do We Go From Here?

- Order will be posted for publication in the Pennsylvania Bulletin.
- Interested parties shall have 60 days from the date of publication of this proposed policy statement in the Pennsylvania Bulletin to file written comments and 90 days of the date of publication for written reply comments.
- Commission will likely issue a Final Policy Statement after reviewing the comments.



Parting Thoughts

- CHP generally has a high capacity utilization rate and may benefit from CPP or demand-type rates.
- CHP may help relieve the need for future transmission or electric distribution investments – long term view of cost causation can help the PUPUC achieve it's goal of higher capacity utilization of state energy systems.
- CHP systems can help the PUPUC achieve goals associated with using energy efficiently.