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October 22, 2018

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

**Re: Fixed Utility Distribution Rates Policy Statement
Docket No. M-2015-2518883**

Dear Secretary Chiavetta:

Pursuant to the Commission's Proposed Policy Statement Order entered May 23, 2018 in the above-referenced proceeding, enclosed herewith for filing are the Comments of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company.

Please contact me if you have any questions regarding this matter.

Very truly yours,


Tori L. Giesler

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Enclosures

c: As Per Certificate of Service

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Fixed Utility Distribution Rates Policy
Statement**

: Docket No. M-2015-2518883

**COMMENTS OF METROPOLITAN EDISON COMPANY,
PENNSYLVANIA ELECTRIC COMPANY, PENNSYLVANIA POWER
COMPANY AND WEST PENN POWER COMPANY**

I. INTRODUCTION

On December 31, 2015, the Pennsylvania Public Utility Commission (“Commission”) issued a secretarial letter opening the above-captioned docket (“December 2015 Secretarial Letter”) to begin evaluating alternative ratemaking methodologies that remove disincentives that might presently exist for energy utilities to pursue aggressive energy conservation and efficiency initiatives. December 2015 Secretarial Letter at 1.

On March 2, 2017, the Commission issued a Tentative Order at this docket, soliciting further input in order to continue its investigation into this topic, in particular related to the types of alternative rate methodologies that would address industry-specific needs, the effects of those various types of methodologies, and proposed next steps for Commission action on this topic more generally.

On May 23, 2018, the Commission issued a Proposed Policy Statement Order (“Policy Statement Order”) designed to provide guidelines to utilities and stakeholders for use in future rate proceedings in order to identify and implement appropriate rate structures.

On June 28, 2018, Governor Tom Wolf signed into law Act 58 of 2018 (“Act 58”) authorizing public utilities to implement alternative rates and rate mechanisms in base rate proceedings before the Commission.¹

On August 23, 2018, the Commission issued a Tentative Implementation Order at Docket No. M-2018-3003269 for the Implementation of Act 58 of 2018 Alternative Ratemaking for Utilities, seeking feedback regarding its proposed interpretation and implementation of Act 58.

Metropolitan Edison Company (“Met-Ed”), Pennsylvania Electric Company (“Penelec”), Pennsylvania Power Company (“Penn Power”) and West Penn Power Company (“West Penn”) (collectively, the “Companies”) submit these comments in response to the Commission’s proposed policy statement on Fixed Utility Distribution Rates published on June 23, 2018.

II. COMMENTS

The Companies support the Commission’s intention, in proposing its policy statement, to provide broad flexibility to utilities so as to not recommend a specific alternative rate methodology, giving utilities the latitude to determine which alternative rate mechanism, if any, is appropriate for their individual circumstances. From an electric distribution company’s (“EDC’s”) perspective, this approach makes sense given continual changes being experienced by the electric industry in the areas of technology, energy efficiency and conservation (“EE&C”), and distributed energy resources (“DER”), amongst others, which require a flexible and individual utility approach to the selection and utilization of alternative ratemaking mechanisms.

¹ House Bill 1782, codified at 66 Pa.C.S. § 1330.

That said, Act 58 of 2018, signed into law by Governor Tom Wolfe on June 22, 2018 and effective on August 27, 2018, clearly confirms the Commission's authority to evaluate and approve a public utility's proposal to utilize alternative rate mechanisms including, but not limited to, decoupling mechanisms, performance-based rates, formula rates, multiyear rate plans or rates based on a combination of these mechanisms or other ratemaking mechanism. That new law, passed directly after the Commission issued its Policy Statement Order, obviates the need for a non-binding policy statement such as the one proposed now that there is a policy supportive of such mechanisms codified by statute in the Pennsylvania Public Utility Code. It would be more effective for the Commission to focus on the implementation of the new statutory provisions and any new or revised regulations required by the passage of Act 58.

Even if the Commission were to continue moving forward with the implementation of a policy statement, the policy statement as proposed should be revised in order to provide the same degree of flexibility offered to utilities in proposing new mechanisms permitted by the new statutory provisions. The Companies outline their recommendations on this point below in more detail.

§ 69.3301. Purpose and scope.

The Companies generally support the Commission's description of the purpose and scope of the proposed policy statement. A base rate proceeding provides the Commission and interested parties with the ability to fully evaluate, on a case-by-case basis, a utility's alternative ratemaking proposal, to the extent it elects to propose one. Where proposed, this mechanism should be considered an integral part of a base rate proceeding that establishes a rate structure based on cost of service principles, is just and reasonable, and takes into account estimated impacts to customer bills, including those to low income customers.

However, the statement that such alternative ratemaking mechanisms will “avoid future capital investments” is neither realistic nor consistent with Act 58. While future capital investments may be reduced by the utilization of such rate mechanisms, they simply cannot be avoided in totality. In fact, the statement of policy that Act 58 begins with states 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,”² making it clear that future capital investments are to be encouraged, not avoided as the proposed policy statement suggests.

§ 69.3302. Distribution rate considerations.

The Companies agree that certain factors must be considered by the Commission in its evaluation of a utility’s proposal of an alternative rate mechanism. Some of the thirteen factors listed are already considered by the Commission in a utility’s base rate proceeding. However, other factors are new and would apply solely to the Commission’s consideration of alternative rate mechanisms. Listing these factors in the proposed policy statement as being relevant to alternative rate mechanisms may lead to misinterpretation or confusion on the part of utilities as to the requirements for proposing alternative rate mechanisms as compared to more traditional rate designs. This could discourage the proposal of alternative rates by requiring burdensome requirements that a utility cannot reasonably address and are simply not necessary given, in the Commission’s own words, the “extensive examination of a utility’s total revenues, expenses, taxes, capital costs and rate structure” that occurs in a base rate proceeding.” In fact, on page 9 of the Tentative Order, the Commission itself recognizes that its own regulations at 52 Pa. Code § 53.53 (relating to information to be furnished with proposed Section 1308(d) general rate increase filings

² 66 Pa.C.S. § 1330(a) (emphasis added).

in excess of \$1 million) establish what a utility must provide when seeking a general rate increase within the meaning of 66 Pa.C.S. § 1308(d). The Commission specifically notes that “[t]he information to be furnished in accordance with 52 Pa. Code § 53.53 is quite comprehensive and far-reaching such that the Commission presumes that it encompasses what is required for any base rate proposal, including any alternative rate or rate mechanism.” As such, Section 69.3302 in the proposed policy statement is not necessary and duplicative.

Apart from the redundancy of proposed Section 69.3302, it also conflicts with traditional ratemaking principles with respect to analysis of cost allocation. Alternative ratemaking mechanisms should continue to ensure that each customer is charged based on cost causation principles by aligning distribution system costs with customers who cause or have caused the incurrence of these costs. When a customer requests distribution service from an electric distribution company, the distribution service installed is sized to meet the specific needs of that customer at their maximum, or peak, capacity. This concept conflicts with item (3) in Section 69.3302, which calls for consideration of “[w]hether the rates reflect the level of demand associated with the customer’s *anticipated consumption levels*” (emphasis added). The National Association of Regulatory Utility Commissioners’ (“NARUC”) cost of service manual (“NARUC manual”), which has been historically recognized as guidance upon which cost of service has been modeled in Pennsylvania and many other jurisdictions, states that an EDC’s distribution-related facility is, from a design and operational perspective, sized to meet the maximum kilowatt load (demand) requirements of its customers. Therefore, the NARUC manual concludes that all distribution costs should be classified as either customer or demand-related. For the Companies, almost all commercial and industrial class rate schedules employ rate designs which include both a customer charge and a demand charge. Conservation measures may lower a customer’s overall

energy needs, but do not negate the fact that the original size of the customer's service has not changed. Therefore, a properly designed alternative rate mechanism will align the customer's share of the distribution cost with the cost of service of the facilities as originally designed to serve that customer, regardless of implementation of EE&C or DER measures adopted by the customer. A properly designed alternative rate mechanism that aligns the customer's share of the distribution cost with the cost of service would serve to send the appropriate price signals to customers to improve distribution system capacity utilization and increase system efficiency. This higher rate stemming from a higher cost of service could incentivize customers to optimize their energy usage, resulting in more efficient usage of the distribution system. This may, in turn, also lead to increased distribution system capacity utilization - potentially delaying the need for additional infrastructure investment and ultimately helping to insulate customers from rate increases. Further, aligning rates with the cost of service sends accurate price signals to customers pursuing DER and EE&C measures, enabling more informed decisions when pursuing these measures and greater sustainability over the life of these measures.

§ 69.3303. Illustration of possible distribution ratemaking and rate design options for the energy industry.

Section § 69.3303 of the proposed policy statement is both inappropriate and unnecessary for inclusion in the policy statement, as it appears to encourage only a narrow subset of alternative ratemaking methodologies and mandate prescriptive components of an alternative rate proposal, suggesting a preconceived preference for particular models to the exclusion of others. Additionally, the variety of alternative rate mechanisms contemplated by the proposed policy statement is much more narrow than the flexibility to utilities to make various proposals contemplated by Act 58. The alternative rate mechanisms listed in Act 58 include "(i) decoupling

mechanisms; (ii) performance based rates; (iii) formula rates; (iv) multiyear rate plans; or (v) rates based on a combination of more than one of the mechanisms in subparagraphs (i), (ii), (iii) and (iv) or other ratemaking mechanisms as provided under this chapter.” The proposed policy statement, on the other hand, states in subsection (c) that “[a]n 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”, and is silent with regard to the various other types of alternative mechanisms contemplated by Act 58. In so doing, the Commission is suggesting that it has already chosen “winners” and “losers” when it comes to the types of mechanisms it is interested in seeing proposed, without affording utilities the opportunity for a fair process to propose and have alternatives considered.

Also, the proposed policy statement lists the specific components that must be included in an electric utility’s critical peak pricing proposal, such as a fixed customer charge component, a critical peak volumetric price or average demand component and a volumetric on peak, off peak, or other rate for recovery of other distribution costs. The limiting and prescriptive nature of this section of the proposed policy statement is concerning as the Commission has specifically endorsed a specific alternative rate mechanism and described, in some cases incorrectly, the components of such a proposal. To explain, the fixed customer charge component of a critical peak pricing proposal is defined in the proposed policy statement as metering, final line transformer and service drop cost recovery. This limited definition ignores the Commission’s own decision in PPL Electric Utility Corporation’s (“PPL”) 2012 base rate case where the Commission affirmed and adopted the alternative customer cost analysis that PPL performed. In that analysis, PPL listed the cost of customer equipment, meters, and service line maintenance as well as an allocated portion of employee benefit costs, local taxes and other general and administrative

expenses as costs that should be recovered in a customer charge. Each of these costs are directly attributed to serving new customers and vary in proportion to the number of customers served; thus, the fixed customer charge should continue to include each of these costs.

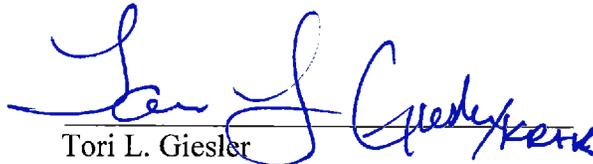
The prescriptive nature of this section of the proposed policy statement reduces innovation of new alternative rate proposals; creates confusion when the components required for an alternative rate proposal are defined in such a way as to conflict with previous Commission decisions and are not necessary given the protective ratemaking guidelines the Commission will consider in any base rate case proceeding, regardless of whether an alternative ratemaking mechanism is proposed. It is important that any policy statement adopted on this topic be flexible enough to encourage and promote innovation by utilities in their alternative rate proposals. The decision as to whether to select and implement an alternative rate mechanism and, if so, which one and how it proposes to structure it, is unique to each utility. A policy statement that provides restrictive guidelines for implementation of an alternative rate mechanism does not offer utilities the flexibility needed to develop and support their proposals for such mechanisms as appropriate to address those unique considerations. For these reasons, the Companies recommend the elimination of Section 69.3303.

III. CONCLUSION

Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company appreciate the Commission's effort to support alternative ratemaking methodologies, as well as the opportunity to provide comments in response

to the Commission's May 23, 2018 Proposed Policy Statement Order. The Companies look forward to further collaboration and discussion with the Commission and interested stakeholders on this important topic.

Respectfully submitted,



Dated: October 22, 2018

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Fixed Utility Distribution Rates Policy Statement : **Docket No. M-2015-2518883**

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and correct copy of the foregoing document upon the individuals listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

Service by first class mail, as follows:

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