



November 20, 2018

**VIA ELECTRONIC FILING**

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

Re: Docket M-2015-2518883, *En Banc Hearing Re Alternative Ratemaking Methodologies*

Dear Secretary Chiavetta:

In the above-referenced alternative ratemaking docket ("Docket"), Advanced Energy Economy Institute (AEE Institute) respectfully submits these Reply Comments in response to the Commission's May 3, 2018, *Proposed Policy Statement Order* on Fixed Utility Distribution Rates. These reply comments also respond to the Commission's August 14, 2018, order extending the time to file comments. In particular, in its August 14 order, the Commission agreed with AEE Institute and other parties that the passage of Act 58 earlier this year, which concerns the ability of regulated utilities to file alternative ratemaking proposals, has important implications for the Proposed Policy Statement Order, and more generally for the broader investigation of the Commission in the above-referenced Docket.

In opening this Docket, the Commission recognized that the utility business model is evolving, and we commend the Commission for continuing this investigation. We view the issuance of guidance to utilities on ratemaking and rate design as the natural next step after investigating the issues, and one that can be beneficial prior to utilities making specific proposals in base rate proceedings. With these Reply Comments, we continue to urge the Commission to proceed with finalizing its Proposed Policy Statement, and to continue to work with all stakeholders in a collaborative manner to further define the regulatory framework that will best serve utilities, their customers, and the state as a whole in this rapidly evolving industry.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ryan Katofsky", with a stylized flourish at the end.

Ryan Katofsky  
Vice President, Industry Analysis

## General Comments

At the outset, we wish to voice our broad agreement with the initial comments filed by the Keystone Energy Efficiency Alliance (KEEA). We also reiterate an important distinction that we made in our Initial Comments between “ratemaking” and “rate design”. We do so because we believe that some parties may be drawing conclusions about the apparent conflict between the Proposed Policy Statement in this Docket and the Tentative Implementation Order (TIO) in Docket M-2018-3003269, where no conflict exists. Although the narrative of the Proposed Policy Statement Order addresses both topics, the Proposed Policy Statement itself (Annex A of the Proposed Policy Statement Order) is concerned with “distribution rates”, i.e., the distribution utility tariffs applicable to specific customers and customer classes. By comparison, the TIO, and indeed Act 58 itself, covers “ratemaking”, i.e., the underlying utility business model and the financial incentives that drive utility decision-making. Although the two issues of “ratemaking” and “rate design” are related in important ways, they are different. In initial comments, KEEA recognized this important distinction between ratemaking and distribution rate design, as did PPL Electric, when it parsed the various topics covered in the narrative of the Proposed Policy Statement Order into “alternative ratemaking mechanisms”, such as revenue decoupling, lost revenue adjustments, multi-year rate plans, and DSM incentives, and “rate designs” such as straight-fixed-variable pricing, demand charges, standby charges and backup charges. (PPL Electric Initial Comments at page 4). This distinction is important and relevant to comments provided by several parties, as described below.

In initial comments, several parties provided comments on the connections between the above-referenced Docket and Docket M-2018-3003269, specifically, the Commission’s TIO regarding the implementation of Act 58. The Energy Association of Pennsylvania and FirstEnergy asserted that the passage of Act 58 effectively supersedes the current Docket and the Commission’s Proposed Policy Statement, and that the Commission should forestall finalizing its Proposed Policy Statement until after concluding its work on the TIO in Docket M-2018-3003269. As we have commented in this Docket and in Docket M-2018-3003269, we view this current Docket (M-2015-2518883) as the ideal venue to further explore the development of a framework that will complement the TIO. To the extent that there is overlapping work, we would agree in principle that the Commission should concentrate its efforts on a single proceeding and ensure that the two proceeding are consistent with each other. That said, as we and other parties have noted, the record is already extensive in this Docket, whereas the TIO is largely procedural in nature. Said another way, the Commission appears to be using the TIO to clarify its legal and procedural role with respect to Act 58 implementation, whereas this Docket has begun to address the substance of the evolving utility business model and regulatory framework. We view the Proposed Policy



Statement on distribution rate design as a first step in this process that will provide important guidance to utilities as they consider what types of distribution rate designs to propose, whether part of proposals on alternative ratemaking mechanisms or not.

AEE Institute continues to assert that there is significant benefit to the Commission in developing guidance on what it would expect from utility alternative ratemaking and rate design proposals. To be clear, we do not view the development of such a framework as being prescriptive or as trying to apply a “one size fits all” approach to ratemaking or rate design. We recognize that each utility has unique circumstances with respect to its customer base, infrastructure and other factors. Rather, in opening this Docket, we believe that the Commission has recognized that a proactive approach will be beneficial. Act 58 places the onus on utilities to come forward, on a voluntary basis with specific ratemaking proposals, and the TIO seeks to clarify how Act 58 will be implemented, but offers no policy guidance on the subject matter concerning utility ratemaking. In comparison, the Proposed Policy Statement sets some level of expectations for what information the Commission would deem essential for it to evaluate any rate design proposals. Given the breadth of possible alternative ratemaking and rate designs that could be proposed, this Docket can be used to further define what the Commission wants to achieve for the state of Pennsylvania with any alternative ratemaking mechanisms and new rate designs. It is common practice for state utility regulatory commissions to issue such guidance, particularly on new issues. Docket M-2015-2518883 facilitates broad participation by parties in a single, collaborative proceeding to discuss foundational and emerging issues, rather than being litigated in individual utility rate cases, which would be the case if the only guidance on this issue were to be the TIO.

Furthermore, as noted above, the TIO and the Proposed Policy Statement cover different, but related, issues. Changes to distribution rate designs (e.g., implementing time varying rates) as contemplated by the Commission in the Proposed Policy Statement do not necessarily require alternative ratemaking mechanisms to be adopted. The reverse is also true. Thus, AEE Institute sees no need to hold up the finalization of the current Proposed Policy Statement in light of the passage of Act 58 and the pending TIO. Rather, taken in combination, the TIO and the Proposed Policy Statement, present the Commission with an excellent opportunity to continue to develop and refine a modern regulatory framework for utilities in Pennsylvania.

## **Clarifications to the Proposed Policy Statement to make it more consistent with the TIO**

In addition to the general issues covered above, numerous parties provided specific feedback on the Proposed Policy Statement. We address some of those here.



## **Avoidance of future capital investments**

Several parties, primarily the state’s utilities, took issue with the Commission’s statement that one goal of using alternative rate designs is to “avoid future capital investments.” We understand their concern, given that capital investment is a primary driver of utility revenues and profits. We fully expect that capital investments will continue to be needed, but we also agree with the Commission that well-designed distribution rates can indeed avoid or defer certain capital investments, especially if used in conjunction with new ratemaking approaches that incentivize utilities to seek out non-traditional solutions to distribution system needs, such as non-wires alternatives. This can benefit customers when non-capital approaches offer a more cost-effective solution. We believe this was the intent of the Commission’s statement, and not that utilities would stop making capital investments altogether. We would thus support modifications to the Proposed Policy Statement that clarified this distinction. Moreover, we believe that such a clarification would underscore that an overarching goal of alternative ratemaking and rate design is to create appropriate incentives for utilities to seek out the most cost-effective solutions, regardless of whether they are utility capital investments, changes to operating procedures, or procurement of services from customers or third parties – services enabled by a modern grid. While the TIO pertains mainly to utility financial incentives in this regard, the Proposed Policy Statement also addresses customer incentives via the use of new rate designs.

## **Consistency between the TIO and the Proposed Policy Statement**

Give the foregoing discussion, AEE Institute would assert that the TIO and the Proposed Policy Statement are not in conflict with each other, and are in fact, complementary. Nevertheless, we are sympathetic to comments that suggested ways to harmonize some of the language between the two, particularly around the Scope and Purpose of the Proposed Policy Statement and the Declaration of Policy section of Act 58. That said, we support the continued inclusion of the specific objectives as articulated in the Purpose and Scope of the Proposed Policy Statement.

## **Conclusion**

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

