



An Exelon Company

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VIA eFILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

Re: Alternative Ratemaking Methodologies
Docket No. M-2015-2518883

Dear Secretary Chiavetta:

Please find the **Reply Comments of PECO Energy Company** for filing in the above-referenced proceeding.

If you have any questions, please contact me directly at 215-841-5974.

Very truly yours,

A handwritten signature in black ink, appearing to read "Craig Williams", written over a horizontal line.

W. Craig Williams

Enclosure

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

ALTERNATIVE RATEMAKING :
METHODOLOGIES : **DOCKET NO. M-2015-2518883**
:

REPLY COMMENTS OF PECO ENERGY COMPANY

I. INTRODUCTION

On October 22, 2018, PECO Energy Company (“PECO” or the “Company”) filed Comments (the “Initial Comments”) in the above-captioned docket in response to the Pennsylvania Public Utility Commission’s (“Commission’s”) May 23, 2018 Order (the “May 23 Order”) inviting comments on the Proposed Policy Statement (the “Proposed Policy Statement” or “Statement”) on fixed utility distribution rates and alternative rate methodologies.

In its Initial Comments, PECO responded to each of the sections in the Proposed Policy Statement and provided suggested revisions. These revisions reflected PECO’s views that (i) the Statement should align with Act 58’s framework for Commission approval of alternative rates and rate mechanisms in fixed utility base rate proceedings;¹ and (ii) there is no one-size-fits-all approach when it comes to alternative ratemaking methodologies and rate design, which should reflect a utility’s unique circumstances. PECO provided the Commission with a redline version of the Statement reflecting its proposed revisions.²

Twenty-three other comments were filed with the Commission in response to the Proposed Policy Statement. These comments provided the Commission with perspectives from, among others, the Office of Consumer Advocate (“OCA”), the Office of Small Business

¹ Act 58 of 2018, P.L. 417 (June 28, 2018).

² See Initial Comments of PECO Energy Company (October 22, 2018) (“PECO Comments”), Ex. A.

Administration (“OSBA”), electric and gas utilities, large industrial customers, low-income advocates, and energy policy organizations.

Some commenters recommended that the Commission adopt more prescriptive alternative rate requirements and Commission considerations.³ Certain commenters also asked the Commission to revise the Statement to mandate specific rate design elements, and/or require the Commission to evaluate rate design proposals based on identified components.⁴

As described further in these Reply Comments, PECO is opposed to these recommendations and the associated restrictions on alternative rates. The Legislature intended the Commission, utilities, and other stakeholders to address alternative ratemaking under Act 58 in utility-specific, individual base rate cases, and adoption of these recommendations would undermine the ratemaking flexibility embedded within Act 58. The application of specific alternative ratemaking methodologies and rate designs should be examined by the Commission in a utility’s individual base rate case.

Certain commenters also suggested that the enactment of Act 58 obviates the need for a final Statement on alternative ratemaking, while others observed that the Commission could first focus on its separate proceeding dedicated to Act 58 implementation and then finalize the Statement, if necessary.⁵ PECO agrees that it may be appropriate to pause this proceeding while the Commission develops a final Act 58 implementation order, as parallel proceedings run the risk of creating confusion and inconsistency with regard to the Commission’s policy regarding alternative ratemaking.

³ See Section II.A, *infra*.

⁴ See Section II.B, *infra*.

⁵ See Section II.C, *infra*.

II. REPLY COMMENTS

A. The Commission’s Approach Should Continue to Preserve the Flexible, Individualized Process for Alternative Ratemaking Expressed in Act 58

As discussed by the Commission in the Proposed Policy Statement, Act 58 specifically preserves the flexibility of utilities to consider and implement alternative ratemaking mechanisms and rate designs on an individualized utility-specific basis.⁶ The Commission must preserve this flexibility.

A wide range of commenters joined PECO in emphasizing that the Commission must ensure that any final Statement is consistent with Act 58.⁷ Many commenters also urged the Commission to preserve a flexible approach to alternative ratemaking. For example, Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company (collectively, the “FirstEnergy Utilities”) stated that if the Commission moves forward toward issuance of a final Statement, the final Statement should “provide the same degree of flexibility offered to utilities in proposing new mechanisms” as permitted under Act 58.⁸ Pennsylvania-American Water Company (“PAWC”) likewise noted that any final Statement “should not attempt to restrict the scope and flexibility that Act 58 grants to utilities to propose alternative ratemaking methodologies tailored to the specific needs and challenges faced by different segments of the utility industry and to different companies within

⁶ The May 23 Order specifically stated that the Proposed Policy Statement was not intended to prescribe a specific rate methodology, but rather was intended only to provide guidelines in the context of a rate proceeding. *See* May 23 Order, pp. 5, 11, 19, 23, 25.

⁷ *See, e.g.*, Comments of Duquesne Light Company (“Duquesne”) (October 22, 2018) (“Duquesne Comments”), pp. 4-6); Comments of Keystone Energy Efficiency Alliance (October 23, 2018), p. 6 (stating the Commission should make the Statement consistent with Act 58); Comments of Natural Resources Defense Council, Sierra Club, and Clean Air Council (“NRDC et al.”) (October 22, 2018) (“NRDC et al. Comments”), pp. 7-8 (urging the Commission to “harmonize” the final Statement with Act 58 and its Act 58 Implementation Order); PECO Comments, p. 2.

⁸ Comments of the FirstEnergy Utilities (October 22, 2018) (the “FirstEnergy Utilities Comments”), p. 3.

those segments.”⁹ Columbia Gas of Pennsylvania, Inc. (“Columbia”) recommended that the Statement utilize the policy objectives of Act 58 and expressed particular concern about the Statement’s discussion of avoiding future capital investments as a mandatory feature of alternative ratemaking methodologies.¹⁰ PECO agrees with these comments.

Some commenters expressed support for the more prescriptive elements of the Statement, such as mandatory alternative rate considerations, and even urged the Commission to adopt additional considerations or prescriptive alternative ratemaking requirements. For example, the OCA urged the Commission to adopt seven additional mandatory elements in Section 69.3302 of the Statement,¹¹ and The Pennsylvania State University (“PSU”) commented that the Commission should require utilities to submit cost-of-service studies that include specific information to justify cost allocation under any alternative ratemaking mechanism.¹² The Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania, et al. (“CAUSE-PA”) further suggested that any party seeking an alternative rate structure or design be required to address, in filed testimony, any considerations adopted in the final Policy Statement, and recommended that Section 69.3302 be modified to require a proponent of an alternative rate design to show how the design will encourage and incentivize energy efficiency programs.¹³

⁹ Comments of PAWC (October 22, 2018) (“PAWC Comments”), p. 9; *see also* Comments of Energy Association of Pennsylvania (“EAP”) (October 22, 2018) (“EAP Comments”), pp. 8-9 (sections 69.3301 and 69.3302, as proposed by the Commission, improperly restrict the inherent flexibility of Act 58); Comments of PPL Electric Utilities Corporation (“PPL Electric”) (October 22, 2018) (“PPL Comments”), pp. 5-6 (noting that “[t]o attempt to codify particular methods lends itself to narrowly defined conditions that will become quickly outdated in a rapidly changing industry”).

¹⁰ Comments of Columbia (October 22, 2018), pp. 4-5; *see also* Duquesne Comments, pp. 4-5; FirstEnergy Utilities Comments, pp. 3-4 (expressing concern about the Statement’s avoided capital cost language).

¹¹ Comments of OCA (October 22, 2018) (“OCA Comments”), p. 21.

¹² Comments of PSU (October 22, 2018), pp. 5, 8-9.

¹³ Comments of CAUSE-PA (October 22, 2018) (“CAUSE-PA Comments”), pp. 10-11.

The NRDC et al. and the Consumer Advocacy Council (“CAC”) also recommended that the Commission take prescriptive measures to safeguard low-income and other customers.¹⁴

PECO opposes the proposed restrictions in the formulation and evaluation of alternative ratemaking mechanisms because they are inconsistent with the flexibility afforded by Act 58. The burdensome nature of many of these proposals underscores the Company’s concern that some stakeholders view the Statement as an opportunity to transform their particular interests into universally-applied restrictions on alternative ratemaking. The existing comprehensive base rate proceeding process will provide the Commission and interested parties with the ability to request and review information that is relevant to a particular proposed alternative rate methodology, and the Statement should not impose additional requirements.

B. Questions of Rate Design Should Be Addressed in Utility-Specific Rate Cases

Several commenters asked the Commission to revise the Statement to encourage or incorporate specific rate design types or elements. For example, the OSBA pressed the Commission to consider a “material” reduction to return on equity (“ROE”) for any alternative rate design with perceived less risk to a utility.¹⁵ Pennsylvania Energy Consumers Alliance et al. (the “Industrial Users Groups”) similarly recommended that the Commission require an earnings-sharing mechanism and reduction to ROE when approving an alternative rate mechanism.¹⁶ Advanced Energy Economy (“AEE”) and Greenlots requested that the

¹⁴ NRDC et al. Comments, p. 16; Comments of CAC (October 2, 2018) (“CAC Comments”), p. 6.

¹⁵ Comments of OSBA (October 22, 2018) (“OSBA Comments”), p. 3.

¹⁶ Joint Comments of the Industrial Users Groups (October 22, 2018) (“Industrial Users Groups’ Comments”), pp. 3-4.

Commission address rate design for electric vehicles.¹⁷ Finally, CAC sought to impose a requirement that alternative rate designs improve affordability for low-income customers.¹⁸

PECO believes that the Statement should not be used to dictate rate design matters that have been reserved for utility base rate proceedings under Act 58.¹⁹ PECO agrees with EAP that the “information and evidence needed to support a proposal under Act 58 are best developed in the rate proceeding.”²⁰

This is also not the forum to address the reasonableness of rates and rate designs currently in effect. The Alliance for Industrial Efficiency (“AIE”) asked the Commission to create a Standby Rate Subcommittee to explore whether the existing rates of utilities are fair and reasonable, and to develop new standby rates that are more transparent to customers.²¹ A utility’s standby rates should be evaluated by the Commission on an individual basis in a base rate proceeding, not by a subcommittee in the context of a generic proceeding.

The Commission should continue to afford each utility the latitude to propose a rate design that meets that specific utility’s operational and financial needs. Similarly, the Commission should not limit its own flexibility in considering and approving rate design proposals.

¹⁷ See, e.g., Comments of AEE (October 22, 2018), pp. 5-7; Comments of Greenlots (October 22, 2018), p. 2.

¹⁸ CAC Comments, p. 6; see also, e.g., CAUSE-PA Comments, pp. 10-11 (recommending that any party seeking to impose an alternative rate design be required to address any considerations adopted in a final Statement, in filed testimony, and show how the design encourages and incentivizes energy efficiency programs).

¹⁹ See 66 Pa. C.S. § 1330(b).

²⁰ EAP Comments, pp. 8-9.

²¹ Comments of AIE (October 22, 2018), p. 2.

C. The Commission Might Consider Delaying This Proceeding Until Implementation of Act 58 Is Complete

Duquesne and the FirstEnergy Utilities suggested that a final Statement is unnecessary given the enactment of Act 58 and the Commission's corresponding proceeding²² to consider the implementation of Act 58.²³ Others suggested the Commission pause this proceeding while it develops an implementation order for Act 58, and return at a later time, if necessary.²⁴

PECO supports the Commission's determination to continue its investigation of the appropriateness of the Proposed Policy Statement, which could be helpful in developing alternative ratemaking methodologies. However, PECO agrees with commenters who noted the challenges posed by simultaneously pursuing an implementation order in the Act 58 proceeding and a final statement in this proceeding. In order to avoid the duplicative effort and potential confusion of two parallel proceedings addressing the same issues, the Commission may consider delaying this proceeding while it focuses on the implementation of Act 58.²⁵

²² See Tentative Implementation Order, *Implementation of Act 58 of 2018 as Alternative Ratemaking for Utilities*, Docket No. M-2018-3003269 (August 23, 2018).

²³ Duquesne Comments, pp. 4, 8; FirstEnergy Utilities Comments, p. 3.

²⁴ See, e.g., EAP Comments, pp. 4-7 (Commission should focus its current efforts on implementation of Act 58 and defer further consideration of the Policy Statement); PAWC Comments, pp. 6-9 (Commission should proceed cautiously in issuing a final Statement in light of Act 58); PPL Comments, pp. 3-4 (suggesting the Commission should proceed in favor of the path set forth by Act 58 and the tentative implementation order, allowing stakeholders to focus on implementing Act 58).

²⁵ If the Commission chooses to proceed toward a final Policy Statement, PECO notes that certain comments offered to the Commission were beyond the scope of the Proposed Policy Statement and should not be included in any final Policy Statement. See, e.g., Comments of Environmental Defense Fund (October 19, 2018), pp. 1-2, 6-7, 12-13 (stating the Commission should initiate a separate grid modernization proceeding).

III. CONCLUSION

PECO appreciates the opportunity to provide these Reply Comments on the Proposed Policy Statement and looks forward to continuing to work with the Commission and interested stakeholders on this important initiative.

Respectfully submitted,



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