



# Industrial Energy Consumers of Pennsylvania

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April 8, 2018

The Honorable Robert Godshall  
Majority Chair Consumer Affairs  
Pennsylvania House of Representatives  
Harrisburg, PA 17120

Dear Representative Godshall and Members of the Consumer Affairs Committee:

The Industrial Energy Consumers of Pennsylvania (IECPA) is a non-profit organization of the largest energy consumers in Pennsylvania. IECPA was formed in 1982 to address energy issues before appropriate government bodies and interested organizations. IECPA represents companies operating at more than 25 locations in Pennsylvania providing over 30,000 family-sustaining jobs. Our member representatives hold senior leadership positions within their companies.

We are writing to express our serious concerns with House Bill 1782 which we understand the Consumers Affairs Committee will likely be voting on this week. Even with the proposed amendment which has been circulated (attached), the major issues as outlined by the Consumer Advocate in the testimony by Tanya J. McCloskey on October 23, 2017 have not been addressed. For example:

“...guaranteed revenue recovery mechanisms that would be permitted under House Bill 1782 tend to promote the inefficient utilization of scarce resources, reduce the incentive for regulated monopoly public utilities to operate as efficiently as possible, shift unmanageable risks to ratepayers, and restrict the full review of a utility's operations that is necessary in setting just and reasonable rates. To give up the essential protections and efficiencies of the traditional ratemaking process would require clear and measurable goals beyond the statutory obligation to provide safe, adequate, reliable and continuous service, clear benefits to consumers, and necessary consumer protections.”

“...the General Assembly has provided for some alternative ratemaking mechanisms to achieve targeted objectives that improve utility service and has included consumer protections with these mechanisms. When I look at the stated purposes of House Bill 1782, I believe that these purposes are already being achieved in Pennsylvania. Some are supported by alternative ratemaking mechanisms that have been approved for the specific purpose and others are fully supported by current base rates. For example, one purpose identified in House Bill 1782 is to facilitate customer access to new energy options. Customers in Pennsylvania already have access to a wide array of energy options through retail choice in the electric and natural gas industries as well as through the Alternative Energy Portfolio Standards Act. 66 Pa.C.S. §§ 2801 et seq., 2201 et seq.; 73 P.S. § 1648.1 et seq.” “Another stated purpose in House Bill 1782 is to sustain investment in infrastructure. In 2012, the General Assembly provided for the DSIC mechanism with the specific purpose of repairing, improving and replacing our utility infrastructure.” “A third purpose identified in House Bill 1782 is to reasonably allocate infrastructure costs to customers and market participants. Allocation of costs is exactly the type of complex issue that is handled through a base rate proceeding. Alternative ratemaking mechanisms do not allow for the detailed analysis necessary for such allocations, typically



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spread costs to all customers on a formula basis, and adjust automatically without consideration of changing factors. I would also note that alternative ratemaking methodologies do not assign costs to "market participants," only to customers."

"House Bill 1782 is expansive in its authority, allowing the Commission to identify and implement any form of alternative ratemaking mechanism without standards, clear policy objectives, measurable outcomes, or consumer protections. Without guidance to the Commission as to what is to be achieved, it is not at all clear how the Bill would be implemented or would benefit consumers."

"House Bill 1782 also allows the utility to choose the mechanism, or mechanisms, that it wants to implement. Allowing the utility to choose the alternative ratemaking mechanism raises significant concerns. To use an example, some types of programs will benefit the shareholders of utilities whose sales are growing between rate cases, while other types of programs will benefit shareholders whose sales are declining. If left to the sole discretion of the utility, each utility will understandably select the type of program that most benefits shareholders, even if that program is not necessarily the most cost-effective or beneficial to customers."

We ask that you please oppose this bill! However in case this bill does move forward, at a minimum, the customer protections as outlined in the Appendix to Testimony of Tanya McCloskey (attached and copied below for convenience) need to be added. Please contact me if you would like to discuss things further.

### Appendix to Testimony of Tanya McCloskey

RE: House Bill 1782

Should the General Assembly determine to make changes to the current regulatory model to accommodate various forms of alternative ratemaking, the following consumer protections should accompany any change in the regulatory model:

- Any adjustment permitted between base rate cases should contain a hard cap, i.e., with no exception to increase the cap.
- The utility should be required to achieve specific objectives, implement programs, or achieve specific metrics set forth in the legislation that are over and above the obligations already in place for regulated utilities in Pennsylvania.
- The utility must be able to demonstrate that the alternative ratemaking mechanism will result in clear, specific measures of success for incremental benefits to consumers that exceed the additional costs.
- The return on equity must be reduced to reflect the reduced risk to the utility from the alternative ratemaking mechanism.
- The utility should be required to submit periodic base rate filings such as every three to five years so that a complete review can be undertaken.
- Alternative ratemaking mechanisms should only be implemented as part of the completion of a full base rate proceeding.
- The underlying rate structures in base rates should be required to be aligned with the rate structures and rate designs of any alternative ratemaking mechanism before implementation.
- The alternative ratemaking mechanism should not include capital costs and should not be allowed to recover a profit margin for shareholders.
- The alternative ratemaking mechanism should apply to all customer classes.
- Alternative ratemaking that is intended to address changes within an industry should be applied as a comprehensive policy to all utilities within the industry.



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- The utility should not be permitted to make the sole selection of the alternative ratemaking methodology that would be applied.
- The Commission should retain the authority to impose additional consumer protections as the Commission determines are necessary when reviewing any proposal.

Sincerely,

Rod E. Williamson  
IECPA Executive Director  
Cell: 910-444-8883

Cc: Rep. Caltagirone, Rep. Bizzarro, Rep. Burns, Rep. Davidson, Rep. Davis, Rep. DiGirolamo, Rep. Ellis, Rep. Emrick, Rep. Farry, Rep. Flynn, Rep. Heffley, Rep. Kampf, Rep. Kauffman, Rep. Matzie, Rep. Metzgar, Rep. Miccarelli, Rep. Neilson; Rep. Nelson, Rep. Neuman, Rep. Pickett, Rep. Quigley, Rep. Reese, Rep. Schweyer, Rep. Snyder, Rep. Stephens, Rep. White