



COMMONWEALTH OF PENNSYLVANIA  
OFFICE OF THE GOVERNOR  
HARRISBURG

THE GOVERNOR

June 28, 2018

Gladys Brown, Chair  
Pennsylvania Utility Commission  
400 North Street  
Keystone Bldg.  
Harrisburg, PA 17120

Dear Chairman, Vice Chairman and Commissioners:

As you know, House Bill 1782 was approved by the General Assembly and presented to me for signature on June 22, 2018. This bill confirms the Commission's authority to approve a proposal from a regulated water, electric or natural gas utility to utilize alternative ratemaking mechanisms including decoupling, performance-based rates, formula rates, multiyear plans, as part of a base rate proceeding.

I support this legislation because I believe it offers the Commission new tools to encourage innovation, ensure grid reliability, and promote energy efficiency and renewable energy. These new mechanisms will allow Pennsylvania's utilities to propose rate structures that provide value to consumers and complement and enhance the success of Pennsylvania's Act 129 energy efficiency and conservation program. I believe the Commission is well positioned to drive this innovation and continue the commonwealth's position of leadership in restructured energy markets.

Even as we pursue these important goals, it is critical that the Commission closely scrutinize any alternative ratemaking proposal to ensure that existing consumer protections continue to apply. I note that the bill contains a number of provisions to ensure that the Commission's role in balancing the interests of consumers and utilities will be preserved.


Most importantly, the bill requires that all capital costs and expenses authorized under alternative rate mechanisms must be "reasonably and prudently incurred and used and useful in providing service." These familiar ratemaking terms have been litigated and defined over the years and give the Commission significant authority to review and ensure that rates are appropriate.

I understand that the Commission fully intends to require such mechanisms—including annual reconciliation, hearings, and subsequent audits—where automatic adjustments are authorized. This oversight is critical, and the Commission's legal opinion that they will apply gives me confidence to support this legislation becoming law.

I further understand that the Commission intends to conduct a robust public comment process and formally adopt appropriate requirements prior to considering any rate proceeding proposing alternative rate mechanisms. This process will allow the Commission to further clarify the consumer protections—such as periodic review and oversight of any automatic adjustments—that it will require in this new context, and will allow stakeholders to weigh in with concerns, and provide greater certainty to utilities about new mechanisms that will be considered. I believe that formalizing the consumer protections that will apply in the context of alternative ratemaking is in the best interest of the Commonwealth and urge the Commission to move forward expeditiously.

If my office can be of any assistance as this process moves forward please do not hesitate to be in contact and thank you as always for your work on behalf of Pennsylvania residents.

Sincerely,

  
TOM WOLF  
Governor

Cc: Vice Chairman Andrew G. Place  
Commissioner Norman J. Kennard  
Commissioner David W. Sweet  
Commissioner John F. Coleman, Jr.