

**PENNSYLVANIA PUBLIC UTILITY COMMISSION
HARRISBURG, PENNSYLVANIA 17105**

**Fixed Service Utilities
Distribution Rates Proposed
Policy Statement**

**Public Meeting: May 3, 2018
2518883-LAW
Docket No. M-2015-2518883**

MOTION OF VICE CHAIRMAN ANDREW G. PLACE

Before the Commission is an extensive record of comments and reply comments regarding what future ratemaking policy should provide in support of an evolving utility economic landscape – driven by technological change, declining consumption, evolving policy and the need for utility resilience in light of physical and cyber threats.

I appreciate staff's efforts to set forth a broad policy statement that reflects the consensus of comments that the Commission should avoid a one-size-fits all approach, and I agree, with minor modifications, with their proposed Sections 69.3301 and 69.3302, that set forth the purpose and scope of the policy statement and the distribution rate considerations we will expect parties to address with any specific proposal. Particularly with respect to energy, however, I believe our policy should leave the door open to a significantly broad range of possibilities while raising for consideration, without any predetermination of their suitability for approval, a few rate design options.

I argue that the changing energy landscape, in particular, necessitates rate designs that address a few first-order principles:

1. Policies must support the continued efficient use of all energy resources.
2. The evolution of a distributed energy environment requires substantial and well-targeted investment in distribution infrastructure.
3. Policies must encourage least-cost solutions, with cost recovery based on *long-term* cost causation.
4. Rate design should embrace, where feasible, the additional capabilities enabled by smart meter deployment.
5. As noted by the Office of Consumer Advocate (OCA), “costs are variable in the long run.”¹ Therefore, it may be appropriate for energy utilities to design rates in a manner that minimizes the long-term costs of serving existing and new loads. Given the substantial and ongoing Long-Term Infrastructure Improvement Plan (LTIIP) spending by the electric and natural gas utilities, a long-term approach to rate design may be appropriate.

Given these principles, a number of new approaches in the electric industry could be advanced. These include, but are not limited to, performance-based incentive (PBI) rate designs, performance incentive mechanisms (PIMs), various

¹ See Alternative Ratemaking Methodologies, Docket No. M-2015-2518883, Reply Comments of Office Consumer Advocate at 12.

levels of decoupling, and variations of demand-based and Time of Use (TOU) pricing options, such as critical peak pricing (CPP).

Given current advanced metering constraints in the natural gas industry, models such as a weather normalization adjustment (WNA)² or a revenue per customer adjustment (RCA),³ if proposed and implemented with care, could balance utility and consumer needs by just and reasonable means that better ensure utility revenue recovery and system use. Similarly, on the electric side, CPP and demand-based programs that use average usage over critical peak periods as demand-based billing determinants may offer a proper balance of these interests.

For these reasons, I propose the addition of a new subsection (69.3303) to articulate, for illustrative purposes, these principles for consideration.

The inclusion of this subsection does not signal, nor should it be interpreted as signaling, any predilection by the Commission to favor one proposal over another or any predetermination by the Commission that the proposal of one of these examples comes with any presumption of approval. As evidenced in this proceeding, there are a variety of rate designs that address the needs of a changing utility landscape. I believe it is important to note options that are grounded in ratemaking principles and may help customers and utilities move forward to minimize future long-term costs, allocate capital more efficiently, and achieve important policy objectives.

THEREFORE, I MOVE THAT:

1. The Fixed Service Utilities Proposed Policy Statement be modified consistent with this Motion.
2. The Law Bureau prepare an Order consistent with this Motion.

DATE: May 3, 2018


Andrew G. Place, Vice Chairman

² Weather normalization adjustments were implemented by both Columbia Gas of Pennsylvania, Inc. since 2012 and Philadelphia Gas Works since 2002. *See* Alternative Ratemaking Methodologies, Docket No. M-2015-2518883, Reply Comments of Columbia Gas of Pennsylvania, Inc. at 3-4. *See* Alternative Ratemaking Methodologies, Docket No. M-2015-2518883, Comments of Philadelphia Gas Works at 4.

³ Revenue per customer adjustments have already been implemented in other states such as Ohio, Maryland, Massachusetts and Virginia, therefore there is a history of experience from which to draw if proposing effective RCAs to benefit both customers and utilities. *See* Alternative Ratemaking Methodologies, Docket No. M-2015-2518883, Comments of Columbia Gas of Pennsylvania, Inc. at 6.

ANNEX A

TITLE 52. PUBLIC UTILITIES

PART I. PUBLIC UTILITY COMMISSION

Subpart C. FIXED SERVICE UTILITIES

CHAPTER 69. GENERAL ORDERS, POLICY STATEMENTS

AND GUIDELINES ON FIXED UTILITIES

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DISTRIBUTION RATES

§ 69.3301. Purpose and scope.

Due to Federal and State policy initiatives to promote the efficient use of electricity, natural gas and water, as well as policy initiatives to promote distributed energy, the fixed utilities within this Commonwealth have seen minimal, flat or even declining load growth. The purpose of this policy statement is to invite the proposal, within a utility's base rate proceeding, of fixed utility distribution rate designs that further promote these Federal and State policy objectives, reduce fixed utility disincentives for promoting these objectives, provide incentives to improve system economic efficiency, avoid future capital investments, and ensure that fixed utilities receive adequate revenue to maintain the safe and reliable operation of their distribution systems. At the same time, an alternative rate design methodology should reflect the sound application of cost of service principles, establish a rate structure that is just and reasonable, and consider customer impacts.

§ 69.3302. Industry-wide distribution rate considerations.

(a) In determining just and reasonable distribution rates that promote the efficient use of electricity, natural gas or water, as well as the use of distributed energy resources, the Commission will consider, among other relevant factors:

- _____ (1) How the rates align revenues with cost causation principles as to both fixed and variable costs.
- _____ (2) How the rates impact the fixed utility's capacity utilization.
- _____ (3) Whether the rates reflect the level of demand associated with the customer's anticipated consumption levels.
- _____ (4) How the rates limit or eliminate inter-class and intra-class cost shifting.
- _____ (5) How the rates limit or eliminate disincentives for the promotion of efficiency programs.

(6) How the rates impact customer incentives to employ efficiency measures and distributed energy resources.

(7) How the rates impact low-income customers and support consumer assistance programs.

(8) How the rates impact customer rate stability principles.

(9) How weather impacts utility revenue under these rates.

(10) How the rates impact the frequency of rate case filings and affect regulatory lag.

(11) If or how the rates interact with other revenue sources, such as Section 1307 automatic adjustment surcharges, 66 Pa. C.S. § 1307 (relating to sliding scale of rates; adjustments), riders such as 66 Pa. C.S. § 2804(9) (relating to universal service and energy conservation policies) or system improvement charges, 66 Pa. C.S. § 1353 (relating to distribution system improvement charge).

(12) Whether the alternative rate mechanism includes appropriate consumer protections.

(13) Whether the alternative rate mechanism is understandable and acceptable to consumers and comports with Pennsylvania law.

(b) In any distribution rate filing by a fixed utility under 66 Pa. C.S. § 1308 (relating to voluntary changes in rates), the fixed utility shall explain how these factors impact the distribution rates for each customer class.

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

(a) In a base rate proceeding, energy utilities may propose, among others, alternative rate designs and methodologies identified in this subsection that will be subject to Commission approval or modification. Identification of these proposals is for illustration only. It does not propose the adoption, nor preclude the consideration, of any particular design or methodology, and it does not signal, nor should it be interpreted as signaling, any predilection by the Commission for one proposal over another or any predetermination of approval by the Commission of one proposal over another.

(b) A natural gas distribution company may propose a weather normalization adjustment and/or revenue per customer ratemaking proposal. Any proposal under this subsection:

(1) Must address consumer protection issues including, but not limited to, revenue adjustment deadbands, seasonal adjustment limitations, adjustment timelines, and any just and reasonable cost of capital adjustments.

(2) Must describe which rate classes are subject to the ratemaking proposal.

(c) An 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. A critical peak pricing proposal should be

composed of:

(1) A fixed customer charge component reflecting metering, final line transformer and service drop cost recovery.

(2) A critical peak volumetric price or average demand component, which reflects usage over the local or nodal substations, feeders, and other related distribution system components during localized peak usage periods.

(3) A volumetric on-peak, off-peak, or other rate for recovery of other distribution costs.

(d) Optional rate designs under this subsection may be applicable to certain customer rate classes or services or designed for specific geographic locations within a service territory where such focus better serves the goals of eliminating the need for future capital investments, maximizing system utilization, or providing incentives for other Commission policies.