

Testimony Before the  
Pennsylvania Public Utility Commission  
En Banc Hearing on Alternative  
Ratemaking Methodologies

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1 Chairman Brown, Vice Chairman Place and Commissioners, my name is Scott  
2 Koch and I am a Financial Analyst with PPL Electric Utilities Corporation (“PPL  
3 Electric”). I would like to thank you for providing PPL Electric with an opportunity to  
4 testify today and share its views on alternative ratemaking methodologies.

5 The topic of today's en banc hearing is alternative ratemaking mechanisms,  
6 which is an extremely broad topic. Rather than try to touch on all of the issues raised by  
7 alternative ratemaking, I will focus my comments on three specific items – automatic  
8 adjustment clauses, proper rate design and related issues.

9 Pennsylvania has made tremendous strides in providing utilities with progressive  
10 ratemaking methods. Utilities in the state currently have the ability to utilize several rate  
11 recovery mechanisms that can be considered alternative ratemaking including cost  
12 trackers, the distribution system improvement charge (“DSIC”) and the use of a fully  
13 projected future test year (“FPFTY”).

14 Pennsylvania utilities currently use a cost tracker to recover expenses associated  
15 with the conservation initiatives and programs required by Act 129. The cost tracker  
16 has allowed Pennsylvania utilities to implement numerous programs to reduce electricity  
17 demand and energy usage. To date, most Pennsylvania utilities have successfully met  
18 Act 129 compliance targets. PPL Electric has consistently exceeded its energy  
19 efficiency and conservation (“EE&C”) targets since the implementation of Act 129.  
20 Updating the current statute to allow for increased spending and recovery on the EE&C  
21 programs could promote more conservation. Another option could be to allow utilities to  
22 receive an incentive on EE&C programs if targets are met or exceeded. Additionally,

1 PPL Electric believes that legislative changes to remove the disincentives that exist in  
2 Act 129 (such as prohibition of recovery of lost revenue) could be an effective way to  
3 promote energy efficiency.

4 PPL Electric fully supports appropriate energy conservation measures to  
5 encourage customers to use less energy but believes that it is critical to consider more  
6 than just EE&C when designing rates and evaluating alternative ratemaking.

7 Rate design driven solely by EE&C objectives could be inconsistent with  
8 fundamental cost causation principles. Costs of providing service for distribution  
9 operations are customer-based or demand-based. Despite this, a large portion of  
10 residential distribution revenue is collected through a usage charge. PPL Electric  
11 believes proper recovery of costs is necessary to provide the proper price signals.  
12 These price signals allow customers to make educated, properly-informed decisions  
13 when investing time and money into EE&C programs which are fundamental functions  
14 of usage. Additionally, proper rate design may reduce cross-subsidization both within  
15 and across customer classes.

16 PPL Electric has and will continue to work towards a rate structure that is fair and  
17 provides proper recovery and price signals for our customers. We are interested in  
18 continuing to work with the PUC and other stakeholders as demonstrated in our  
19 decoupling collaborative, which was held last week. PPL Electric will continue to use a  
20 variety of mechanisms such as reconcilable riders, DSIC and a FPFTY to provide full  
21 and timely recovery of our costs.

1           A combination of mechanisms and policies are needed to provide fair recovery of  
2 prudent costs and investments in distribution infrastructure. Currently, PPL Electric's  
3 residential fixed charges are lower than the cost to service a customer. Under PPL  
4 Electric's current residential rate structure approximately 90% of the Company's  
5 revenue is variable. Rate design needs to be updated for residential customers to  
6 lessen the reliance upon usage based charges to recover fixed costs which can create  
7 a cost shift between different customers. In this case, the gain for one customer is a  
8 loss for another. Updating rates to recover the true fixed cost through fixed charges  
9 reduces the risk of cost shifting.

10           With regards to PPL Electric's commercial and industrial customers, we currently  
11 collect distribution charges by using demand and fixed rates. This approach provides  
12 proper price signals for these customers while at the same time providing clear energy  
13 efficiency savings from Act 129 programs through demand reduction as well as lower  
14 generation charges on the customers' bills.

15           Although PPL Electric believes revenue decoupling can reduce the lost revenue  
16 disincentive by making utilities whole for those revenues, it does not necessarily  
17 incentivize the utility or customers to invest in or adopt EE&C plans. To properly  
18 incentivize utilities, incentive programs can be implemented to reward performance if  
19 targets are met or exceeded.

20           Alternative ratemaking methods such as revenue decoupling and performance  
21 based rates require additional utility resources as well as increased oversight by the  
22 regulators. These methods require more data and additional scrutiny to verify the

1 numbers provided. Even with alternative ratemaking methods, utilities will most likely  
2 continue to file periodic base rate cases to recover additional capital investments and  
3 increases in costs. Any alternative method that is proposed would have to be studied  
4 and implemented carefully to avoid conflict of recovery incentives with current  
5 mechanisms in place.

6 PPL Electric believes a uniform alternative rate mechanism for all Pennsylvania  
7 utilities may not be optimal. There are many variations and options of alternative  
8 ratemaking and it's crucial to set up the mechanism correctly based on unique  
9 characteristics of both the customers and the company. The alternatives can include  
10 performance based ratemaking, additional automatic adjustment clauses and many  
11 variations of revenue decoupling. A combination of mechanisms would be  
12 recommended for different recovery streams.

13 Having outlined the three topics discussed above, I would like to quickly respond  
14 to the three questions raised in the Commission's December 31, 2015 secretarial letter.  
15 The answer to each of these questions depends upon the design and implementation of  
16 the specific ratemaking mechanism. If such a mechanism is properly designed and  
17 implemented, it will encourage utilities to better implement EE&C programs; it will be  
18 just and reasonable and in the public interest; and its benefits will outweigh its costs.

19 Additionally the secretarial letter asked stakeholders to consider the impacts of  
20 decoupling on storm restoration. Decoupling or any other ratemaking method would not  
21 diminish a utility's incentive to restore service after a storm. Utilities are obligated to

1 provide safe and reliable service to their customers and storm restoration would not be  
2 impacted based on cost recovery.

3 In conclusion, all stakeholders should continue to evaluate and research options  
4 to correctly establish the best ratemaking mechanism for both customers and the  
5 utilities. Rate design preferences will vary by utility based on the company's unique  
6 financial and operating characteristics. Customer rates need to be fair, reasonable and  
7 easy to understand. Proper ratemaking should avoid rate volatility and mitigate any  
8 large cost shifts between customers and provide accurate price signals to customers.

9 PPL Electric is looking forward to working with other stakeholders to help shape  
10 successful ratemaking methods that are fair and reasonable and believes Pennsylvania  
11 utilities should continue to investigate options for optimal ratemaking approaches.  
12 Further evaluation and education is needed by all stakeholders on current ratemaking  
13 practices as well as new alternative ratemaking options.

14 Thank you again for the opportunity to present testimony on this important issue.

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