



House Bill 1294: Removing Obstacles to Greater Investment in Utility Infrastructure

Alternative Ratemaking Mechanisms streamline recovery of costs, create jobs, and help to maintain the reliability and safety of utility services.

What is the purpose of HB 1294?

The legislation authorizes the Public Utility Commission (PUC) to approve alternative ratemaking mechanisms for regulated utilities, including gas, electric, water, and wastewater utilities. These mechanisms would allow utilities to recover their capital investments in a more timely way and enable them to proceed with important Pennsylvania infrastructure improvements.

How do alternative ratemaking approaches differ from current practices?

Traditionally, utilities can only recover greater investments in infrastructure by filing a request with the PUC to increase their base rates. Rate cases are expensive to litigate, and take almost a year to complete. Investments in infrastructure that go into service between rate cases (an average period of three to seven years) can only be recovered upon completion of the next rate case. This “regulatory lag” in recovering the cost of infrastructure improvements is an impediment to securing financing at reasonable rates, particularly when increasing investment levels are necessary. The legislation would allow the PUC to consider alternative ratemaking approaches to address this problem.

Why is it important to facilitate investments in utility infrastructure?

The quality of utility services provided to customers depends on the strength of the infrastructure that is used to deliver the services. While each utility faces different circumstances based on its history and the characteristics of its service territory, much utility infrastructure is aging and ready for replacement. Investments to modernize utility infrastructure will create jobs, maintain and enhance the reliability and safety of utility services, and meet the needs of consumers.

Does House Bill 1294 contain sufficient protections for customers?

Yes. First, it is important to remember that these infrastructure investments are recoverable in rates under current practices; this legislation simply provides new mechanisms that allow more current recovery of the expenditures.

Second, the legislation provides the PUC with ample authority to protect consumers. The Commission may approve, modify, or reject requests to establish alternative ratemaking mechanisms. Also, where a utility requests a mechanism to recover infrastructure expenditures between rate cases, the PUC will monitor quarterly filings and conduct audits to assure that only appropriate costs are recovered, will assure that recovery through the mechanism will not cause the utility to earn more than its authorized rate of return, will ensure that costs are allocated to the appropriate customer class, and will place a cap on the total amount that may be recovered through the mechanism.

Has the General Assembly approved alternative ratemaking mechanisms in the past?

In 1996, the legislature authorized the PUC to approve a “distribution system improvement charge” for water utilities. This mechanism allows water utilities to collect investments to replace aging pipes between traditional rate cases. It is one type of mechanism that the PUC could approve for other types of utilities under H.B. 1294. The DSIC legislation has become a national model in regulation of the water industry, and other states have followed the Pennsylvania lead and authored similar mechanisms.

Like water utilities, electric, natural gas, and wastewater utilities operate critically important and capital-intensive infrastructure.

Similarly, the General Assembly approved alternative ratemaking mechanisms to allow recovery of a utility’s costs related to universal service for low-income customers, energy efficiency and conservation, smart meter deployment, and generation supply procurements (including alternative energy procurements). In each case, the PUC reviews detailed plans before approving the mechanisms and audits the costs recovered through the mechanisms.

Are other states moving toward alternative ratemaking approaches?

Almost half the states have authorized alternative ratemaking approaches to advance important policy objectives. In particular, 50 natural gas utilities that operate in 19 different states now can seek to collect the cost of replacing aging gas mains between traditional rate cases spaced years apart. The Commonwealth should now join the growing list of states that allow alternative ratemaking approaches to provide timely recovery of investments in electric, natural gas, and wastewater infrastructure.

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