



June 20, 2011

RE: Support for HB 1294

Dear Representative:

We are writing to ask you to support House Bill 1294. This bill would authorize the Public Utility Commission to approve alternative ratemaking mechanisms for utilities to encourage accelerated improvements to utility infrastructure.

The quality of utility services to customers depends on the quality of the infrastructure over which those services are provided. While each utility faces different circumstances, much utility infrastructure is aged and ready for replacement. Investments to modernize this infrastructure will create jobs, maintain and enhance the reliability and safety of utility services, and meet the needs of customers.

Currently, electric, natural gas, and wastewater utilities can only recover their investments in infrastructure by filing a base rate case at the PUC. This process can cost \$1 to \$2 million, and take nearly a year to complete. The "regulatory lag" in recovering costs that accompanies this process discourages investment. Alternative ratemaking mechanisms remove this disincentive by providing more timely recovery of these infrastructure investments.

Pennsylvania already has adopted a form of alternative ratemaking for improvements to water utility infrastructure. In 1996, the General Assembly authorized water utilities to implement a "distribution system improvement charge" that allows them to recover the cost of replacing water mains between rate cases. This statutory change has spurred increased investment in water infrastructure and is now regarded as a national model. It is good public policy to extend tools such as this to increase investment in other types of critical utility infrastructure.

Other states are moving toward alternative ratemaking mechanisms to encourage infrastructure investment. For example, the American Gas Association reports that 19 states now allow gas utilities to use special rate mechanisms to recover the cost of replacing gas mains incurred between rate cases.¹

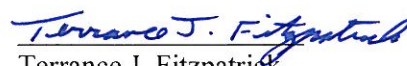
House Bill 1294 contains ample protections for customers. It empowers the PUC to approve, modify, or reject requests for alternative ratemaking mechanisms. Also, where a utility seeks a mechanism to recover infrastructure costs between rate cases, the PUC will review filings and conduct audits to ensure that the investments are appropriate, that the utility is not earning more than its authorized rate of return and that costs are properly allocated among customer classes. The PUC also will cap the amount that can be recovered through the mechanism.

If you have any questions about this legislation, feel free to contact Terry Fitzpatrick (EAP) at 717-901-3912 or tfitzpatrick@energypa.org or Erik Ross (NAWC) at 717-919-3534 or eross@ggrgov.com.

Respectfully,



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¹ American Gas Association, *Natural Gas Rate Report*, April 2011.