

**Testimony of
Duquesne Light Company
Before the
Pennsylvania House Consumer Affairs Committee**

**Public Hearing on HB 1294
April 20, 2011**

Good Afternoon Chairman Godshall, Chairman Preston and members of the Committee. I am Fred Eichenmiller, Director of External Affairs, for Duquesne Light Company. I thank you for the opportunity to appear before you today to discuss HB 1294 and Duquesne Light's support of this proposed bill.

Given the dynamic times we currently operate under and the need to continue investing in the distribution infrastructure, Duquesne Light supports the concept of the alternative regulatory processes being advanced in this legislation. Simply put, this bill would give the Public Utility Commission additional authority to consider utilizing alternative regulatory mechanisms in support of their mission and responsibility to balance the needs of consumers and utilities to ensure safe and reliable service at reasonable rates.

Importantly, the bill before you does not require the Commission to adopt additional regulatory mechanisms. Rather it provides authority to the Commission to consider and approve requests by utilities for new mechanisms.

While the current regulatory rate case process does work, it is a legacy model that to some degree inhibits the utilities' interests to make necessary infrastructure investments. Currently, base rate cases result in significant

regulatory lag time, are unnecessarily costly in terms of expenses, time and resources for many parties, and can occasionally focus on a few contentious issues requiring litigation. The proposal before you today provides an alternative to mitigate inefficiencies and related costs on all parties. It provides the Commission an opportunity to adopt efficient mechanisms that can put Pennsylvania in a progressive regulatory framework which could attract business and potential investors and create jobs in our State.

Two mechanisms which the PUC does not currently have at its disposal and are provided for in the bill include using a “fully projected future test year” for setting rates and using an “adjustment clause” to recover new capital outlays and related operating costs.

The fully projected future test year solves a weakness with the existing base rate proceeding process. Today, a utility seeks a base rate increase for its current year projected budget including infrastructure investments (rate base). Following a rigorous 9 month regulatory process, the utility’s rate increase becomes effective the day after its budget year ends. This means that the rates that go into effect are based on the previous year, and may be insufficient to recover investment and cost increases the year in which the rates actually take effect. Duquesne believes that using a fully projected future test year will significantly mitigate this issue. By permitting a utility to submit a fully projected year budget in its filing, rates that go into effect would be synchronized with the year in which the costs are incurred, rather than on a one year lag.

The adjustment clause proposed in HB 1294 is not a new concept and similar rate adjustment mechanisms are used today by the Commission for specific utility costs. For example, when passing Act 129 legislation in 2008, this

Legislature implemented language for recovery of both Smart Meters and Energy Efficiency and Conservation costs using a reconcilable adjustment clauses or surcharges. Currently, Duquesne Light and other utilities have surcharges and they are reconciled to assure that only actual dollars expended are recovered from customers. Mechanisms like this, and those proposed in HB 1294 help utilities alleviate prioritization of capital projects constrained by availability of funds.

Many utilities in Pennsylvania are facing aging infrastructure that needs replaced to provide reliable and safe utility service. The proposed regulatory mechanisms, which could be enabled by this bill, will assist in these investments being made and also in timely recovery of those costs. These rate mechanisms would help reduce or eliminate the regulatory lag between when expenditures are made and recovery in utility rates occurs. The major rating agencies, which rate corporate debt, currently view Pennsylvania as a generally credit supportive regulatory environment. These alternative rate mechanisms would likely further strengthen the rating agencies' view of the Pennsylvania regulatory climate. This, in turn, could result in a more favorable view of a utility's creditworthiness, which could provide lower financing costs. Ultimately, lower financing costs would result in lower costs for the ratepayers.

So, what's in this proposal for the customer? In addition to the potential lower financing and related lower rates, Duquesne Light and employees pride themselves in providing quality customer satisfaction and for consistently exceeding Commission system reliability standards and achieving some of the highest electric reliability performance in the Commonwealth. Customers expect high reliability and we believe these expectations will only increase as

emerging electronic technologies take hold. Duquesne will continue to make investments to ensure this reliability, but we cannot predict the infrastructure demands of the future technologies. HB 1294 before you today provides the Commission with the regulatory flexibility and authority needed to ensure Pennsylvania utilities can effectively meet the ongoing infrastructure replacement requirements and future needs of our customers.

In summary, Duquesne supports HB 1294 and believes it is in the public interest for the following reasons.

- It encourages utility infrastructure investment that maintains and enhances system reliability.**
- Pennsylvania would be viewed more favorably by rating agencies potentially leading to lower financing costs.**
- Provides the Commission tools to implement more efficient regulatory processes by reducing time, resources and costs associated with traditional rate case processes for infrastructure work that needs to be done.**
- Provides more certainty for financing and more timely recovery of costs**

Duquesne Light thanks you for this opportunity to speak with you today in favor of passage of House Bill 1294.