

DUQUESNE LIGHT STATEMENT NO. 2-RJ

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition Of Duquesne Light Company :
For Approval Of Default Service Plan :
For The Period June 1, 2015 Through : **Docket No. P-2014-2418242**
May 31, 2017 :

**REJOINDER TESTIMONY OF
JAMES HABBERFIELD**

Dated: August 21, 2014

1 **I. INTRODUCTION**

2 **Q. Are you the same James Habberfield who sponsored direct, rebuttal, and**
3 **surrebuttal testimony in this proceeding?**

4 A. Yes. I submitted my direct testimony, Statement No. 2, on April 24, 2014, with the
5 Company's initial filing, my rebuttal testimony, Statement No. 2R, on August 1, 2014,
6 and my surrebuttal testimony, Statement No. 2-SR, on August 15, 2014.

7
8 **Q. What is the purpose of your rejoinder testimony?**

9 A. My rejoinder testimony is divided into two main sections. The first section responds to
10 surrebuttal arguments made by Mr. Michael Speerschneider, on behalf of Citizens for
11 Pennsylvania's Future ("PennFuture"), that relate to the purchase of alternative energy
12 credits ("AECs") for default service customers. The second section responds to
13 surrebuttal arguments made by Mr. Sean Cheslock on behalf of NextEra Energy Power
14 Marketing, LLC ("NextEra"), regarding the proposed Supplier Master Agreement
15 ("SMA") for default service solicitations..

16
17 **II. LONG-TERM CONTRACTS FOR ALTERNATIVE ENERGY CREDITS**

18 **Q. PennFuture states that Duquesne Light (the "Company") did not consider**
19 **procuring AECs through long-term contracts in this proposed default service plan.**
20 **Do you wish to respond to that statement?**

21 A. Yes. In the interrogatory response cited by Mr. Speerschneider, I stated that considering
22 that the Company would only be proposing to procure AECs for the Large Commercial &

1 Industrial (“Large C&I”) customer class, which is a relatively small amount of load and
2 corresponding AEPS obligation, and due to the variable nature of the load, and the
3 unknown nature of future default service periods, the Company at that point did not
4 consider long-term contracts for AECs. However, previous to that point, that Company
5 had made considerations and decisions related to the portfolio of default service products
6 to serve each customer class. The Company feels that most customers are best served by
7 load following full requirements contracts. The Public Utility Commission (the
8 “Commission”) has supported the Company’s use of these products for default service
9 supply in the past, and the Company believes they have been successful. The Company
10 made the determination that load following full requirements contracts should be once
11 again proposed for the Residential & Lighting, Small Commercial & Industrial (“Small
12 C&I”), and Medium Commercial & Industrial (“Medium C&I”) classes. The
13 Commission has also made it known that it prefers shorter-term supply contracts for
14 default service as opposed to longer-term. Therefore the Company proposed full
15 requirements contracts that were all either short or medium-term in length, depending on
16 the customer class. Because the Company made the decision that no long-term full
17 requirements contracts would be proposed, it was therefore consistent that no long-term
18 AEC purchases would be made for these customer classes. It is after that point when the
19 Company began evaluating the best method for procuring AECs solely for the Large C&I
20 class, and the Company made the decision that long-term contracts would not be
21 appropriate for the Large C&I class.

22

1 **Q. Please explain why the Company has not proposed to enter into long term contracts**
2 **for AECs.**

3 A. The Company did not choose to propose to use long term (4 years or more) contracts to
4 acquire AECs for many reasons. The primary reason is that the Company believes that
5 the procurement of AECs should match the terms of the proposed full requirements
6 capacity and energy contracts. These products are designed to balance the goals of
7 producing market responsive rates and rate stability. The Company does not believe that
8 long term contracts should be entered into to try to support the development of renewable
9 energy or to try to hedge against future increases in costs. Mr. Fisher will address these
10 matters further in his rejoinder testimony.

11
12 **Q. PennFuture claims that the legislature would take into account long-term stranded**
13 **AEC contracts if there were to be a change in the construct of default service**
14 **supply. Do you think this is certain to be true?**

15 A. I do not. I have been advised by counsel that there is no legislative action needed to
16 remove the EDC from the default service role. An EGS would merely need to petition
17 the Commission to take over this role from the EDC. It is unclear that the legislative
18 process that PennFuture describes would be the only way in which the Company could be
19 removed from the default service role.

20
21 **Q. Does the Commission believe that long-term contracts for AECs are required for**
22 **default service plans?**

1 A. No, the Commission in the “Investigation of Pennsylvania’s Retail Electricity Market:
2 End State of Default Service” Final Order did not adopt a prescriptive AEC procurement
3 methodology. Rather, the Commission stated that they believe the issue would be more
4 appropriately addressed by the legislature. It is my understanding that the legislature has
5 not acted to require long-term contracts for AECs.

6
7 **Q. Does the Company consider future price forecasts when proposing a procurement
8 strategy for energy, AECs, or any other related supply cost?**

9 A. No, the Company does not forecast energy prices, AEC prices, capacity prices, ancillary
10 service prices, or any other component of default service supply cost. Nor does the
11 Company review forecasts produced by any other entity. The Company firmly believes
12 that it is not in the business of forecasting these costs and that its default service
13 procurement plans should be designed to provide low-risk supply and price stability to
14 customers in any market condition. The Company does not believe it is appropriate to
15 alter procurement plans based upon speculation that the market is in either an
16 advantageous or disadvantageous position at the current time. Therefore the Company
17 rejects all of PennFuture’s arguments that the Company should enter into long-term AEC
18 contracts at the present time because they believe that AEC prices are more likely to rise
19 in the future.

20
21 **Q. Does PennFuture make a proposal for the amount of AECs that they desire the
22 Company to purchase, or the length of these potential contracts, or the mechanism**

for how these contracts would be worked into default service pricing, reconciled with the PTC, and assigned to default service wholesale suppliers?

A. No, PennFuture makes no proposal of any substance in its testimony. The Company is left to hypothesize the variety of problems that would be presented and debate with itself whether there are any potential solutions. PennFuture makes no proposal for how the long-term AEC contracts would be aligned with full requirements, load-following contracts proposed in the Company's default service plan. Various methods of assigning the long-term AECs to wholesale suppliers would cause issues for bidding into the default service Request for Proposals ("RFPs") and would affect the risk premiums that wholesale suppliers would build into their bids, potentially creating higher prices for default service customers. Significant problems would be presented if the Company were to assign a fixed number of long-term AEC purchases to each wholesale supplier, because suppliers are serving a variable load and are required to bid into the RFPs on a per Megawatt-hour basis. It is possible that costs for customers would increase because of the risk premiums that wholesale suppliers would have to add to their bids to protect themselves against the scenario where load increases and the amount of fixed long-term AECs being provided by the Company then covers a smaller proportion of load than forecasted. In this scenario the long-term AECs being provided by the Company would need to be supplemented by additional AECs purchased by the wholesale supplier. Due to this possibility, wholesale suppliers would be likely to value the long-term AECs very little, and would be forced to build into their bid the cost of additional AECs by representing their projected AEC supply cost at close to the full AEC market price per Megawatt-hour. The result would increase the costs for customers, who would then be

1 paying for AECs through the RFP bid results in addition to paying for long-term AEC
2 purchases made by the Company.

3
4 **Q. Does PennFuture make any proposal on how long-term AEC purchases would be**
5 **reconciled with the Price to Compare (“PTC”)?**

6 A. No, they do not. If the Company were to make long-term AEC purchases, the costs for
7 paying for these contracts would need to be reconciled with the PTC throughout the year.
8 Due to the fact that the costs for the long-term AEC contracts would be fixed, and default
9 service load is variable, a projection would need to be made for the costs per Kilowatt-
10 hour to pay for the AEC contracts. When default service load varied significantly from
11 forecast, due to weather, increased or decreased customer shopping, or any other reason,
12 the costs would need to be reconciled to the PTC. This could lead to the PTC varying
13 significantly from reflective market conditions. In a scenario where the Duquesne
14 service territory sees vastly increased retail shopping, the long-term AEC contract costs
15 would be forced onto fewer and fewer default service customers, which could result in a
16 “death spiral”-like scenario where the PTC is far above retail market prices. PennFuture
17 does not propose any solution to this problem.

18
19 **Q. Does the proposal by PennFuture aid in the development of renewable energy**
20 **resources in Pennsylvania or across PJM, the Regional Transmission Organization?**

21 A. No, I do not believe that long-term AEC contracts would aid in the development of
22 renewable energy resources in either Pennsylvania or PJM. Entering into long-term
23 contracts would not increase the amount of AECs being purchased in either the

1 Commonwealth or PJM. It would only shift the mechanism for purchasing AECs from
2 short- and medium-term to long-term. It would not create any new demand for
3 renewable energy. Therefore I do not see how it would aid in the demand for new
4 renewable energy projects. Further, if the Company were to enter into long-term
5 contracts for AECs, it would be looking for delivery of these AECs in the upcoming
6 compliance year. Therefore the long-term contract would need to go to a facility that was
7 already in operation, not a project that was still in development. The Company and its
8 customers could not take the credit risk of entering into a long-term contract with a
9 renewable generator that had no certainty of ever entering production. Once again the
10 long-term contracts for AECs would merely support existing renewable energy resources,
11 not create demand for new projects.

12
13 **Q. If the Company were required to procure long term AEC contracts how would the**
14 **Company recover any costs?**

15 A. Any costs would be recovered from customers.

16
17 **III. SUPPLIER MASTER AGREEMENT**

18 **Q. Does the Company agree with NextEra that wholesale suppliers will be negatively**
19 **impacted by the change in the credit rating?**

20 A. No, the Company does not agree. The claim by NextEra that costs would be reduced for
21 customers by lowering the credit rating because wholesale suppliers would have more
22 access to credit institutions and therefore have the ability to bid lower supply costs into
23 the default service RFPs is merely speculative. Moreover, the Company believes that the

1 credit costs associated with obtaining a Letter of Credit for default service supply are not
2 significant enough to cause the level of concern that NextEra seems to indicate.

3

4 **IV. CONCLUSION**

5 **Q. Does this conclude your rejoinder testimony?**

6 **A. Yes, it does.**

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