

DUQUESNE LIGHT STATEMENT NO. 4-RJ

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**REJOINDER TESTIMONY OF
WILLIAM V. PFROMMER**

Dated: August 21, 2014

1 **Q. Please state your full name and business address.**

2 A. My name is William V. Pfrommer. My business address is Duquesne Light
3 Company, 411 Seventh Avenue, Pittsburgh, PA 15219.

4

5 **Q. What is your position at Duquesne Light Company?**

6 A. I am employed by Duquesne Light Company (“Duquesne Light” or “Company”)
7 as the Senior Manager, Rates and Tariff Services.

8

9 **Q. Did you previously submit direct testimony in this proceeding on behalf of**
10 **the Company?**

11 A. Yes. I submitted my direct testimony, Statement No. 4, on April 24, 2014, with
12 the Company’s initial filing, rebuttal testimony, Statement No. 4-R on August 1,
13 2014, and surrebuttal testimony, Statement No. 4-SR on August 15, 2014.

14

15 **Q. What is the purpose of your rejoinder testimony in this proceeding?**

16 A. The purpose of my rejoinder testimony is to respond to: (1) Standard Offer
17 Program (“SOP”) cost recovery issues raised by the Office of Consumer
18 Advocate (“OCA”) witness Alexander and Retail Energy Supply Association
19 (“RESA”) witness Hudson; (2) Time of Use (“TOU”) cost recovery issues raised
20 by the Bureau of Investigation & Enforcement (“I&E”) witness Hubert; and (3)
21 non-market based cost recovery issues raised by RESA witness Hudson.

22

SOP COST RECOVERY ISSUES

1
2 **Q. In her surrebuttal testimony, Ms. Alexander states that “...if increased**
3 **[SOP] enrollment levels do not occur, the costs imposed on EGSs and default**
4 **service customers are likely to be higher.” OCA St. No. 2-S, p. 11. Do you**
5 **agree with this statement?**

6 A. I do not agree with this statement. Duquesne Light is in the process of conducting
7 a Request for Proposal (“RFP”) for a third-party vendor to explain the SOP to
8 customers and enroll customers with EGSs. The price that the Company is
9 requesting under the RFP is a price per customer for each enrollment. The price
10 per customer will not change based upon the number of SOP enrollments. In
11 addition, as I explained in my rebuttal testimony, the \$4.7 million SOP cost
12 estimate used by Ms. Alexander is a very high end estimate that assumes a total of
13 122,000 customers will enroll in the SOP. In addition, the vast majority of SOP
14 costs will be borne by participating EGSs, not by default service customers under
15 the Company’s proposal. Duquesne Light St. No. 4-R, pp. 6-7.

16
17 **Q. In surrebuttal testimony, Mr. Hudson argues that if the Company’s SOP cost**
18 **recovery proposal is adopted, small commercial customers will pay**
19 **disproportionately more SOP costs than residential customers through the**
20 **POR discount. Do you agree?**

21 A. I do not agree. Mr. Hudson’s analysis is based upon a fundamental
22 misunderstanding of how the POR discount rate will be adjusted to recover SOP
23 costs. As I explained in my rebuttal testimony, the Company will design the POR

1 administrative fee adder specific to each customer class to recover the costs for
2 that customer class. As I explained in my rebuttal testimony, very few Small C&I
3 customers have enrolled in the SOP program; therefore, the costs to be recovered
4 through the POR discount for Small C&I customers will likely be very small.

5 The illustrative cost impact provided by Mr. Hudson on page 17 of his
6 surrebuttal testimony is distorted because it assumes the same EGS price (increase
7 in the POR discount) of \$0.07/kWh for both residential and small commercial
8 customers. Given the anticipated costs to be recovered from each class, it is very
9 unlikely that both the residential and small commercial POR discount prices will
10 be the same.

11
12 **Q. Mr. Hudson also argues that the Commission's approval of the recovery of**
13 **SOP costs through PECO's POR discount is distinguishable because PECO's**
14 **administrative discount was set to expire and was continued to recover SOP**
15 **costs. Do you agree that this is a relevant distinction?**

16 **A.** No, I fail to see any relevant distinction. All of the same issues raised by Mr.
17 Hudson regarding recovering SOP costs through the POR discount are the same
18 whether a POR discount is continued when it was set to expire or whether a POR
19 discount is increased when it was not set to expire. In both cases, SOP costs are
20 recovered through a POR discount. Moreover, I note that Duquesne Light's
21 existing POR administrative discount of 0.1% is half of PECO's POR
22 administrative discount rate of 0.2%.

23

1 TOU COST RECOVERY ISSUES

2 **Q. In surrebuttal testimony, Mr. Hubert continues to propose that the winning**
3 **EGS providing TOU service be required to incur the estimated \$312,500 of**
4 **costs associated with implementing and retaining the TOU program. I&E**
5 **Statement No. 1-SR. Do you agree with this proposal?**

6 A. No. Under the Company’s proposal, there would be one EGS selected to provide
7 TOU service for each year of DSP VII. As I explained in my direct testimony, the
8 Company anticipates having only approximately 10,000 Residential and Small
9 C&I customers with Smart Meters eligible for the TOU program on June 1, 2015
10 and an additional approximate 100,000 Residential and Small C&I customers
11 eligible on June 1, 2016. Duquesne Light St. No. 4, pp. 15-16. In addition, the
12 Company anticipates that a very small percentage of eligible customers will elect
13 the TOU program. It is unlikely that a single EGS would be willing to pay this
14 level of costs in order to serve a small number of TOU customers. Therefore, I
15 believe that the I&E proposal would effectively eliminate EGS interest in the
16 TOU program and require Duquesne Light to provide TOU service, which is
17 contrary to the Commission’s policy.

18
19 NON-MARKET BASED CHARGES

20 **Q. In surrebuttal testimony, Mr. Hudson continues to argue that the Company**
21 **should recover certain non-market based charges for all customers, including**
22 **shopping customers. RESA St. No. 1-SR, p. 20. Do you agree?**

1 A. No. Mr. Hudson claims that the FirstEnergy case supports his proposal. I
2 disagree. While the FirstEnergy Companies are recovering certain of these
3 charges, including generation deactivation costs and unaccounted for energy costs
4 among others, for all customers, this cost recovery methodology was adopted
5 pursuant to a settlement which is not precedential. For the one cost item that was
6 litigated, Network Integration Transmission Service (“NITS”) costs, the
7 Commission denied FirstEnergy’s proposal that it recover NITS charges for all
8 customers.

9

10 **Q. Mr. Hudson argues that if his cost recovery proposal is not adopted, the**
11 **Commission should adopt his alternative proposal whereby Duquesne Light**
12 **would be required to modify its SMA to require default service wholesale**
13 **suppliers to also assume costs for which EGSs are responsible. RESA St. No.**
14 **1-SR, p. 23. Do you agree with this proposal?**

15 A. I do not agree with this proposal. Duquesne Light is proposing that wholesale
16 suppliers assume the same responsibility for costs as under the DSP VI
17 proceeding. This methodology was approved in DSP VI, is working now, and
18 should be approved in DSP VII.

19 Mr. Hudson argues that the non-market based charges are significant and
20 that EGSs must include risk premiums for these costs. I think that Mr. Hudson is
21 overstating the risk associated with non-market based charges. The majority of
22 the costs are NITS costs, and these costs are fixed on a yearly basis from June 1 –

1 May 31 of each year. Further, nothing prevents an EGS from including cost pass
2 through provisions in its contracts, especially for larger customers.

3

4 **Q. Does this conclude your rejoinder testimony at this time?**

5 **A. Yes.**