

DUQUESNE LIGHT STATEMENT NO. 1

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Petition Of Duquesne Light Company
For Approval Of Default Service Plan
For The Period June 1, 2015 Through
May 31, 2017**

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Docket No. P-_____

**DIRECT TESTIMONY OF
DAVID B. BORDO**

Dated: April 24, 2014

1 **I. Introduction**

2 **Q. Please state your full name, business affiliation and address.**

3 A. My name is David B. Bordo. I am the Vice President – Strategy & External Affairs for
4 Duquesne Light Company (“Duquesne Light” or the “Company”). My business address
5 is 411 Seventh Avenue, Pittsburgh, PA 15219.

6

7 **Q. Please describe your professional and educational background.**

8 A. I graduated from West Virginia University with a Bachelor of Arts degree in Accounting
9 in 1984. After graduating, I was employed with Arthur Andersen & Co. for seven years
10 and was a Senior Manager when I left the firm.

11 Prior to joining Duquesne Light, I had more than 20 years of diversified
12 experience in financial and operations management, including positions as the division
13 controller for Mittal Steel USA and the Treasurer of Weirton Steel Corporation. Since
14 joining the Company in 2007, I have had responsibility for accounting and financial
15 reporting, treasury and capital market activities, budgeting, financial analysis and taxes,
16 holding the position of Vice President – Finance & Accounting until late 2012 when I
17 was promoted into my current position.

18 I am a Certified Public Accountant (CPA), and a member of both the
19 Pennsylvania and American Institutes of Certified Public Accountants.

20

21 **Q. Please describe your current responsibilities as the Vice President of Strategy and**
22 **External Affairs.**

1 A. I am responsible for the oversight and direction of the Company's Rates & Tariff
2 Services Department, the Regulatory and Legislative Affairs functions, Strategy, Supply
3 Procurement and RTO Settlement activities, as well as Media & Community Relations.
4 In this role, I am responsible for the planning, development and direction of Duquesne
5 Light's filing in this Default Service proceeding.

6

7 **Q. Have you previously testified before the Pennsylvania Public Utility Commission?**

8 A. Yes, I submitted testimony in Duquesne Light's 2010 base rate proceeding at Docket No.
9 R-2010-2179522. In addition, I submitted testimony in Duquesne Light's 2013 base rate
10 proceeding at Docket No. R-2013-2372129.

11

12 **Q. What is the purpose of your testimony and how is your testimony organized?**

13 A. The purpose of my testimony is to provide an overview of Duquesne Light's plan for
14 default service for the period from June 1, 2015 through May 31, 2017 ("Default Service
15 Plan" "DSP VII" or "Plan"). First, I discuss the policy considerations that serve as the
16 foundation for the Default Service Plan. Next, I describe the Plan at a high level,
17 referring to the Company's witnesses who provide more detail about specific aspects of
18 the plan in their testimony.

19

20 **Q. Please introduce the testimony of Duquesne Light's other witnesses.**

21 A. Duquesne Light is submitting the testimony of four other witnesses. In Duquesne Light
22 St. No. 2, James Habberfield, Duquesne Light's Forecasting and Procurement Supervisor,
23 discusses the power procurement methods and products to be used to supply default

1 service for each customer class. He also evaluates the consistency of the Plan's
2 procurement methods with certain requirements of Act 129. In Duquesne Light St. No. 3,
3 Neil S. Fisher, Principal at The NorthBridge Group, reviews the key accomplishments of
4 Duquesne Light's retail access program, supports the overall design of the Company's
5 proposed procurement plan, and evaluates Duquesne Light's Default Service Plan with
6 respect to Act 129's requirements. William V. Pfrommer, the Company's Senior
7 Manager of Rates and Tariff Services, describes the proposed default service rates and
8 associated tariffs in Duquesne Light St. No. 4. Finally, Michele R. Sandoe, Duquesne
9 Light's Vice President of Customer Care, explains in Duquesne Light St. No. 5 how the
10 Company will implement the proposed retail market initiatives, including the Company's
11 proposed Time of Use program and Standard Offer Customer Referral Program.

12
13 **II. Policy Considerations Driving Duquesne Light's Default Service Plan**

14 **Q. Please describe Duquesne Light's default service obligations.**

15 A. Duquesne Light is obligated to provide electric supply service to all customers within its
16 service territory who do not select an electric generation supplier ("EGS") or who return
17 to default service after being served by an EGS. By law, Duquesne Light is required to
18 file a plan with the Pennsylvania Public Utility Commission (the "Commission") which
19 sets forth how the Company will meet its default service obligations, including a strategy
20 for procuring generation supply, a schedule for implementation, and a rate design to
21 recover the Company's reasonable costs.

1 **Q. What are some of the key policy considerations driving Duquesne Light’s proposed**
2 **Default Service Plan?**

3 A. The key policy considerations driving Duquesne Light’s proposed Default Service Plan
4 include:

- 5 • Act 129’s requirements with respect to default service plans, and the Second
6 Default Service Rulemaking Order which the Commission entered to provide
7 guidance with respect to the interpretation of Act 129’s requirements;
- 8 • The Commission’s direction in its Default Service End-State Order in the
9 Investigation of Pennsylvania’s Retail Electricity Market;¹ and
- 10 • Duquesne Light’s continuing commitment to advance the competitive market in
11 its service territory.

12
13 **Q. Please discuss the requirements of Act 129 with respect to Duquesne Light’s Default**
14 **Service Plan.**

15 A. On October 8, 2008, the General Assembly of the Commonwealth of Pennsylvania
16 adopted House Bill No. 2200 (“HB 2200”), which was subsequently signed into law by
17 the Governor on October 15 as Act 129 of 2008. Act 129 amended Section 2807(e)(3) of
18 the Public Utility Code, 66 Pa. C.S. § 2807(e)(3), with respect to, among other things,
19 power procurement for default service providers. Based upon the advice of counsel, it is
20 my understanding that Act 129 imposes standards for default service procurement plans.
21 Such plans must be designed to ensure “adequate and reliable service” at “the least cost

¹ Investigation of Pennsylvania’s Retail Electricity Market: End State of Default Service, Docket No. I-2011-2237952, Order entered February 15, 2013.

1 to customers over time” and “shall be procured through competitive procurement
2 processes,” (including auctions, requests for proposals, and bilateral agreements) and
3 these procurements are to reflect a “prudent mix” of supplies. 66 Pa.C.S. § 2807(e)(3.1,
4 3.2 and 3.4). As explained by Mr. Fisher in his testimony, on October 4, 2011, the
5 Commission entered its Second Default Service Rulemaking Order,² and in this Order it
6 provided guidance with respect to the interpretation of Act 129’s requirements. Mr.
7 Fisher and Mr. Habberfield explain in their testimony how Duquesne Light’s Plan
8 satisfies the requirements of Act 129.

9
10 **Q. Please discuss the Commission’s direction in its Default Service End-State Order.**

11 A. Pursuant to an Order entered on April 29, 2011, the Commission initiated an
12 investigation into Pennsylvania’s retail electricity market to study how to improve the
13 competitive activity in the current retail electricity market. The investigation was based
14 on a determination that “Pennsylvania’s current retail electricity market requires changes
15 in order to bring about the robust competitive market envisioned by the General
16 Assembly when it passed the Electricity Generation Customer Choice and Competition
17 Act,” 66 Pa. C.S. §§ 2801, et seq., in 1996. December 16 Retail Markets Order, p. 3. In
18 the Default Service End-State Order, the Commission established a set of guiding
19 principles. These principles include the Commonwealth’s legislative policy favoring
20 competition over regulation; a continuation of fundamental consumer protections;
21 structuring the default service model to more closely reflect current market conditions;

² Default Service and Retail Electric Markets, Docket No. L-2009-2095604 (Order entered October 4, 2011) (“Second Default Service Rulemaking Order”).

1 and encouraging investment by EGSs that results in innovative and competitively-priced
2 product offerings for consumers.³ The Default Service End-State Order also outlined
3 some specific aspects of an end-state model for default electric service. In his testimony,
4 Mr. Fisher outlines how Duquesne Light's Default Service Plan reflects specific aspects
5 of the end-state model outlined by the Commission.

6
7 **Q. Please discuss Duquesne Light's continuing commitment to advance the competitive**
8 **market in its service territory.**

9 A. As described in detail by Mr. Fisher in his testimony, Duquesne Light has established one
10 of the most successful retail access programs in the United States. The default service
11 models used by Duquesne Light over time have facilitated and supported substantial
12 growth in the competitive retail market. Mr. Fisher explains how the DSP VII Plan will
13 support the competitive wholesale market by relying on competitive wholesale market
14 purchases to obtain supply for default service. Furthermore, Mr. Fisher explains the
15 many ways that the Plan will support the competitive retail market. Specifically, the Plan
16 will continue pre-established retail market initiatives and begin to adopt new retail market
17 initiatives. It also will support the competitive retail market by including competitive
18 solicitations for fixed-price full requirements default service supply products, which help
19 to provide a more stable and transparent price-to-compare benchmark against which
20 customers can compare competing retail offers and which minimize over- and under-
21 collections to enhance rate transparency for retail supply decisions. Furthermore, under
22 the Plan, EGSs will compete against market-based default service rates, as the default

³ Default Service End-State Order, p. 10.

1 service rates will be based on the prices for supply products obtained through competitive
2 solicitations in which multiple bidders compete to sell the products solely on the basis of
3 price.

4
5 **III. Overview of Duquesne Light's Default Service Plan**

6 **Q. Please provide a summary of Duquesne Light's Default Service Plan.**

7 A. The Default Service Plan is a comprehensive program under which Duquesne Light will
8 provide default service to its customers from June 1, 2015 through May 31, 2017.
9 Duquesne Light has grouped its default service customers into four primary customer
10 classes, which are the same customer class groupings used in its currently effective
11 default service plan: (1) Large Commercial & Industrial ("Large C&I"), which are
12 customers with peak demands greater than or equal to 300 kW; (2) Medium Commercial
13 & Industrial ("Medium C&I"), which are customers with peak demands greater than or
14 equal to 25 kW but less than 300 kW; (3) Small Commercial & Industrial ("Small C&I"),
15 which are customers with peak demands less than 25 kW; and (4) Residential and
16 Lighting (in aggregate referred to as "Residential"). The Plan includes default service
17 offerings tailored to the needs of each customer class, it complies with the requirements
18 of Act 129, and in accordance with the Commission's direction in the Default Service
19 End-State Order, it includes concrete steps to support retail competition. The Default
20 Service Plan also builds upon the advances made in previous Commission-approved
21 plans, which have resulted in Duquesne Light having some of the highest customer
22 switching levels in the Commonwealth and in the country. At the same time, the Plan
23 also reflects important differences from the Company's prior default service plans and

1 represents continued movement to more market responsive rates as the competitive
2 market in the Company's service territory has become more robust.

3 Duquesne Light has shared key features of its default service plan with parties in
4 advance of this filing, and it believes that its plan strikes a reasonable balance with regard
5 to the interests of the various stakeholders.

6
7 **Q. Please provide an overview of the proposed default service supply product**
8 **portfolios, and the general methodology to set supply rates, for each of Duquesne**
9 **Light's customer classes.**

10 A. Mr. Habberfield provides detailed testimony regarding the proposed mix of supply
11 products, the procurement approach, and a schedule for implementation. Mr. Pfrommer
12 provides detailed testimony regarding the methodology to set supply rates. However, a
13 general overview of these aspects of the Plan is as follows:

- 14 • Large C&I default service customers will continue to have supply rates that are
15 based on hourly market prices. Energy purchases will continue to be made
16 directly from PJM Interconnection, LLC ("PJM") for these customers. An
17 administrative fee will continue to be charged for costs associated with operating
18 the procurement process.
- 19 • Medium C&I default service customers will have supply rates that adjust
20 quarterly based on three-month, non-laddered full requirements contracts for
21 100% of the load. The contracts will be procured within three months before the
22 commencement of their delivery periods. Default service supply for these
23 Medium C&I customers will be obtained through competitive solicitations in the

1 form of Requests for Proposals (“RFP”) monitored by a qualified third-party, with
2 winning bidders selected on the basis of lowest price. The rates will continue to
3 include coverage of any administrative costs to operate the RFPs and
4 reconciliation.

- 5 • Small C&I default service customers will have supply rates that adjust every six
6 months based on laddered six and twelve month full requirements contracts. The
7 contracts generally will be procured within three months before the
8 commencement of their delivery periods. Default service supply for these Small
9 C&I customers will be obtained through competitive solicitations in the form of
10 RFPs monitored by a qualified third-party, with winning bidders selected on the
11 basis of lowest price. The rates will continue to include coverage of any
12 administrative costs to operate the RFPs and reconciliation.

- 13 • Residential default service customers will have supply rates that adjust every six
14 months based on laddered six and twelve month full requirements contracts. The
15 contracts generally will be procured within three months before the
16 commencement of their delivery periods. Default service supply for these
17 Residential customers will be obtained through competitive solicitations in the
18 form of RFPs monitored by a qualified third-party, with winning bidders selected
19 on the basis of lowest price. The rates will continue to include coverage of any
20 administrative costs to operate the RFPs and reconciliation.

1 **Q. What key changes is Duquesne Light proposing with respect to the supply product**
2 **portfolios, and the frequency at which supply rates are reset, as compared to the**
3 **Company's existing Plan?**

4 A. There are three primary changes along these lines:

- 5 • The Plan reduces the supply products for the Medium C&I class from six months
6 to three months, and the frequency of the supply rate adjustments also will be
7 adjusted from semiannually to quarterly.
- 8 • The Plan involves supply rates for the Residential class that reflect market price
9 changes twice as frequently as they did in the Company's last Default Service
10 plan. Specifically, the "laddering" of the supply products will allow Residential
11 default service supply rates to change semiannually, rather than annually as they
12 have in the Company's existing default service plan ("DSP VI") which will result
13 in supply rates that are more responsive to market price changes.
- 14 • For the Residential and Small C&I customer classes, the Plan includes some
15 contracts with delivery periods that extend beyond the DSP VII period, in order to
16 avoid the need to replace all of the default service supply for these customer
17 classes in a short period of time at the end of the DSP VII period, a situation
18 which could expose customers to magnified risks and rate instability.
19 Furthermore, it should be noted that the solicitations for these products are not
20 scheduled until September 2016, so there is a significant amount of time before
21 new supply commitments extending beyond the DSP VII period are made should
22 legislative or regulatory developments require changes to the supply product mix.

1 Furthermore, Duquesne Light will utilize the Supply Master Agreement template that was
2 developed by the collaborative working group which was established through the
3 Commission's Default Service End-State Order, with only minor revisions. This Supply
4 Master Agreement is addressed in and attached to the testimony of Mr. Habberfield.

5
6 **Q. Does Duquesne Light's proposal include a contingency plan should a supply product**
7 **solicitation fail to garner a sufficient number of bids, the Commission does not**
8 **approve the submitted bids, or a winning bidder defaults on its obligation?**

9 A. Yes. Mr. Habberfield describes the Company's contingency plan in his testimony.

10
11 **Q. How will Duquesne Light recover its costs related to default service power**
12 **procurement?**

13 A. In his testimony, Mr. Pfrommer explains how all costs associated with default service
14 power procurement will be recovered.

15
16 **Q. What retail market competitive enhancements have been included in the proposed**
17 **default service plan to promote retail competition in Duquesne Light's service**
18 **territory?**

19 A. In the Company's judgment, the proposed Plan balances the interests of customers and
20 their advocates, EGSs, wholesale suppliers and Duquesne Light. Shopping statistics
21 document that robust shopping activity exists in Duquesne Light's territory. As
22 competitive markets have continued to develop, Duquesne Light has built upon the

1 success achieved in promoting competition through its prior default service plans and
2 again proposes advances intended to further promote competition and support the
3 ongoing transition by changing supply rates more frequently in response to market price
4 changes in its service territory. The Plan includes the following specific measures:

- 5 • **Standard Offer Customer Referral Program.** Duquesne Light will continue to
6 advise default service customers that contact the Company that they can receive
7 their supply from participating EGSs at rates that will be 7% below the current
8 PTC. Additionally, the Company has proposed as part of this Plan enhancements
9 to its existing program for enrollment of customers by a third party. These are
10 described in the testimony of Ms. Sandoe.
- 11 • **Time of Use Program.** The Company proposes to offer Time of Use (“TOU”)
12 rates effective June 1, 2015 to certain eligible Residential customers and Small
13 and Medium C&I customers. The Company will issue RFPs soliciting EGSs to
14 provide the TOU service. This program is described in the testimony of Mr.
15 Habberfield and Mr. Pfrommer.
- 16 • **Purchase of Receivables Plan.** Duquesne Light will continue a Purchase of
17 Receivables (“POR”) plan with similar rules and conditions to current plans.
18 Under this Plan, Duquesne Light purchases the account receivables, without
19 recourse, associated with EGS sales of retail electric commodity service to
20 Residential, Small C&I customers, and Medium C&I customers. Duquesne Light
21 purchases the account receivables at a small discount and then reimburses EGSs
22 for their customer billings regardless of whether it receives payment from
23 customers.
- 24 • **Retail Market Enhancement Surcharge.** The Company is proposing to change
25 and expand Rider No. 1, Consumer Education Surcharge, to recover all
26 Commission mandated costs associated with retail market enhancement
27 initiatives, instead of just the Commission mandated consumer education costs as
28 currently written. The Company proposes to change the name Rider No. 1 to
29 “Retail Market Enhancement Surcharge” and re-define the scope of costs eligible
30 to be recovered through the rider. The structure, design and reconciliation process
31 will remain unchanged. This change is described in the testimony of Mr.
32 Pfrommer.

33
34 **Q. What changes are you proposing in your Standard Offer Customer Referral**
35 **Program (“SOP”) from the structure approved under POLR VI?**

1 A. The Company proposes to transition to a program structure similar to the structure
2 adopted by other EDCs, with the introduction and enrollment of customers in the SOP
3 performed by a third party. Ms. Sandoe explains the revised SOP structure, procedures,
4 and expected costs in her testimony. The modified approach is proposed to attempt to
5 enhance the effectiveness of its SOP.

6
7 **Q. Why are you proposing a Time of Use (“TOU”) program as part of this Default**
8 **Service Plan?**

9 A. Duquesne Light filed its original TOU plan on December 28, 2009. That plan involved
10 four phases over the 2011 – 2013 period to implement TOU programs. The four phases
11 can be summarized as follows:

- 12 1. Conduct Market Analysis in 2010 and obtain Commission approval for the
13 proposed pilot projects and schedule;
- 14 2. Establish base line consumption and demand data during 2011 for two residential
15 pilot programs (TOU-1 and TOU-2) and continue customer research and enroll
16 participants;
- 17 3. Implement two TOU-1 and TOU-2 residential pilot programs in 2012 and
18 evaluate customer response; and
- 19 4. Implement a more robust TOU program for smart meter customers beginning
20 with smart meter rollout in 2013 (TOU-3 program).

21 The purpose of these different phases was to use the results of the early pilot programs to
22 establish a fully developed TOU program to be applicable to customers upon the broader
23 deployment of smart meters. The Company was required to file a summary of all three of

1 its TOU programs (TOU-1, TOU-2, and TOU-3) and a description and design of its full
2 TOU program on November 30, 2013. Due to the delay in broad scale deployment of
3 smart meters, the Commission agreed in Docket No. P-2009-2149807 dated August 15,
4 2013 to allow the Company to delay implementation of its TOU-3 program to better align
5 TOU plans with smart meter deployment plans and submit revised plans for its TOU-3
6 program as part of the Company's next default service filing.

7
8 **Q. Which customers will be eligible for TOU service under the proposed program?**

9 A. As described by Mr. Pfrommer in his testimony, Residential, Small C&I, and Medium
10 C&I customers will be eligible for TOU service to the extent the Company has installed
11 the necessary metering and communication systems.

12
13 **Q. How will TOU service be provided under the proposed program?**

14 A. Duquesne Light's proposed TOU program calls for TOU service to be provided by EGSs.
15 The Company proposes to issue two RFPs, one for TOU supply during June 2015 – May
16 2016 (the First TOU program year), and one for TOU supply during June 2016 – May
17 2017 (the Second TOU program year). Each RFP will seek a proposal corresponding to
18 the applicable TOU program year, and a single EGS will be chosen as the winning
19 supplier in each RFP. Customers who elect TOU service will become EGS customers
20 and will be enrolled by the EGS providing the TOU service. Mr. Habberfield describes
21 the RFP process and the obligations of the TOU Suppliers in detail in his testimony.
22 Furthermore, the TOU Program Summary, TOU Supplier Agreement and TOU Supplier

1 Contract and Disclosure Statement are attached to Mr. Habberfield's testimony as Exhibit
2 JH-4.

3
4 **Q. How will the costs of the TOU program be recovered?**

5 A. As described by Mr. Pfrommer in his testimony, the EGS supplying the TOU service will
6 be responsible for recovering its own costs, and any incremental costs incurred by the
7 Company to implement and communicate the TOU program will be borne by default
8 service customers.

9
10 **Q. How will the Company offer and supply TOU service to customers if no EGSs
11 submit a qualifying bid in a given TOU RFP?**

12 A. If a given TOU RFP fails to attract a qualifying bid from any EGS, the Company will
13 offer TOU service to eligible customers for the applicable TOU program year. The plan
14 for this contingency situation is described in greater detail in Mr. Habberfield's
15 testimony.

16
17 **IV. Conclusion**

18 **Q. Does this conclude your direct testimony at this time?**

19 A. Yes.