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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF DUQUESNE LIGHT)
COMPANY FOR APPROVAL OF)
DEFAULT SERVICE PLAN FOR) DOCKET NO. P-00072247
THE PERIOD JANUARY 1, 2008 TO)
DECEMBER 31, 2010)

**DOCUMENT
FOLDER**

DIRECT TESTIMONY

OF

MATTHEW I. KAHAL

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

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MARCH 29, 2007

EXETER

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1 **I. QUALIFICATIONS**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Matthew I. Kahal. I am employed as an independent consultant retained in
4 this case by Exeter Associates, Inc., an economic consulting firm. My business address is
5 5565 Sterrett Place, Suite 310, Columbia, Maryland 21044.

6 Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND.

7 A. I hold B.A. and M.A. degrees in economics from the University of Maryland and have
8 completed course work and examination requirements for the Ph.D. degree in economics.
9 My areas of academic concentration included industrial organization, economic
10 development and econometrics.

11 Q. WHAT IS YOUR PROFESSIONAL BACKGROUND?

12 A. I have been employed in the area of energy, utility and telecommunications consulting for
13 the past 25 years working on a wide range of topics. Most of my work has focused on
14 electric utility integrated planning, plant licensing, environmental issues, mergers and
15 financial issues. I was a co-founder of Exeter Associates, and from 1981 to 2001 I was
16 employed at that firm as a Senior Economist and Principal. During that time, I took the
17 lead role at Exeter in performing cost of capital and financial studies. In recent years, the
18 focus of much of my professional work has shifted to electric utility restructuring, power
19 supply markets and competition.

20 Prior to entering consulting, I served on the Economics Department faculties at
21 the University of Maryland (College Park) and Montgomery College teaching courses on
22 economic principles, development economics and business.

23 A complete description of my professional background is provided in Appendix
24 A.

1 Q. HAVE YOU PREVIOUSLY TESTIFIED AS AN EXPERT WITNESS BEFORE
2 UTILITY REGULATORY COMMISSIONS?

3 A. Yes. I have testified before approximately two-dozen state and federal utility
4 commissions in approximately 300 separate regulatory cases. My testimony has
5 addressed a variety of subjects including fair rate of return, resource planning, financial
6 assessments, load forecasting, competitive restructuring, rate design, purchased power
7 contracts, merger economics and other regulatory policy issues. These cases have
8 involved electric, gas, water and telephone utilities. In 1989, I testified before the U.S.
9 House of Representatives, Committee on Ways and Means, on proposed federal tax
10 legislation affecting utilities. A list of these cases may be found in Appendix A, with my
11 Statement of Qualifications.

12 Q. WHAT PROFESSIONAL ACTIVITIES HAVE YOU ENGAGED IN SINCE
13 LEAVING EXETER AS A PRINCIPAL IN 2001?

14 A. Since 2001, I have worked on a variety of consulting assignments pertaining to electric
15 restructuring, purchase power contracts, environmental controls, cost of capital and other
16 regulatory issues. Current and recent clients include the U.S. Department of Justice, U.S.
17 Air Force, U.S. Department of Energy, the Federal Energy Regulatory Commission,
18 Connecticut Attorney General, Pennsylvania Office of Consumer Advocate, New Jersey
19 Division of the Rate Counsel, Rhode Island Division of Public Utilities, Louisiana Public
20 Service Commission, Arkansas Public Service Commission, Maryland Department of
21 Natural Resources and Energy Administration, and MCI.

22 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

23 A. Yes, I have testified on a range of issues before this Commission in gas, water, telecom
24 and electric cases during the past 25 years. A listing of those cases is provided in my
25 attached Statement of Qualifications, Appendix A.

1 Q: DO YOU HAVE ANY PAST EXPERIENCE WITH DUQUESNE LIGHT
2 COMPANY (“DLC” OR “THE COMPANY”)?

3 A. Yes. I testified on behalf of the Office of Consumer Advocate (OCA) on the
4 quantification of stranded costs in the DLC restructuring case (Docket No. R-00974104).
5 I also testified in the Duquesne/Allegheny Power proposed merger case in Docket No.
6 A-1101150F0015. That proposed merger was ultimately terminated by the parties and
7 was not completed. More recently, I submitted testimony on behalf of the OCA in
8 Duquesne’s pending merger application involving the Macquarie Consortium (PaPUC
9 Docket Nos. A-110150F0035 and A-311233F0002).

10 As listed in Appendix A, I have testified in numerous electric restructuring and
11 Provider of Last Resort (POLR) cases in Pennsylvania as well as in other jurisdictions.

1 **II. OVERVIEW**

2 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

3 A. I am testifying on behalf of the OCA on the merits of the multi-year Provider of Last
4 Resort (POLR) service proposal filed by DLC on January 25, 2007, referred to as "POLR
5 IV." This is a complex proposal with different POLR arrangements for various customer
6 groups, and my testimony is limited to a review of the residential customer component. I
7 take no position on the various issues pertaining to non-residential customers.

8 Q. AS IT PERTAINS TO RESIDENTIAL CUSTOMERS, WHAT ARE THE
9 MAJOR FEATURES OF POLR IV?

10 A. In many respects, the POLR IV proposal is an extension of the POLR III plan currently in
11 effect. It contains the following major elements for residential customers:

- 12 • The residential generation supply rate shall be 7.16 cents per kWh for
13 2008-2010, which is equivalent to 7.41 cents if ancillary services and PJM
14 administrative charges are included as was the case under POLR III.
- 15 • Residential customers on the Schedule RA or RH heating schedules (about
16 5 percent of residential customers), will phase into "flat" generation rates,
17 eliminating the current declining block rate structure. Consequently, these
18 customers will experience much larger rate increases than the other
19 residential customers.
- 20 • DLC will obtain the wholesale power supply to provide retail POLR
21 service from its affiliate, Duquesne Power LLC. The rates charged by
22 Duquesne Power are based on a detailed analysis of other utility market
23 procurements for POLR wholesale power. This analysis is intended to
24 validate the reasonableness of the proposed fixed residential rate. The
25 proposed residential rate includes a risk adder of 3 mills per kWh

1 primarily as compensation for keeping the pricing offer “open” for a
2 period of months until final Commission approval.

- 3 • In developing the residential generation rate of 7.16 cents, the Company
4 has removed PJM administrative charges and ancillary services. Instead,
5 these items will be recovered on a kWh basis as part of the separate
6 transmission service charge. Had these two items remained as part of
7 generation, the generation charge would be 7.41 cents.
- 8 • Pursuant to a prior settlement agreement, Duquesne has included as part of
9 POLR IV a program whereby it purchases account receivables from
10 competitive generation providers in order to mitigate their risks of
11 uncollectible accounts.
- 12 • DLC has submitted testimony in this proceeding asserting that its cost
13 allocation procedures are proper and do not subsidize competitive
14 operations.

15 The Company states that in developing this plan it consulted extensively with the
16 various stakeholders and reflected the input received in this proposed plan. (Petition,
17 page 2)

18 Q. PLEASE EXPLAIN WHY YOU REFER TO BOTH A 7.16 CENT AND 7.41
19 CENTS PER KWH RESIDENTIAL GENERATION RATE?

20 A. DLC’s proposal in this case is for a POLR generation rate for residential customers of
21 7.16 cents. However, in developing that rate, the Company moved the charges for
22 ancillary services and PJM administration from the generation component (where they
23 currently are recovered under the POLR III plan) to the transmission services charge.
24 Hence, the difference is definitional, with DLC continuing to recover those costs. For

1 consistency, it is the 7.41 cent rate that should be compared with DLC's current
2 generation rate.

3 Q. WHAT ARE YOUR CONCLUSIONS AND RECOMMENDATIONS
4 CONCERNING THE RESIDENTIAL COMPONENT OF POLR IV?

5 A. Based on my review of the filed testimony, exhibits and data responses, I find the plan to
6 be generally reasonable, subject to certain minor modifications, conditions and/or
7 clarifications. In particular, the fixed price of 7.16 cents per kWh (at retail level) appears
8 to be in line with market conditions for the DLC service area and is supported by an
9 analysis conducted by DLC of other POLR power procurements by utilities in the PJM
10 region. The three-year fixed rate will provide DLC customers taking POLR service with
11 rate certainty and stability during the remainder of this decade. Importantly, the upfront
12 rate offer, locked in for three years, avoids the risk associated with conducting a
13 competitive procurement this fall.

14 Q. WILL THE PROPOSED POLR RATE RESULT IN A RATE INCREASE FOR
15 RESIDENTIAL CUSTOMERS?

16 A. Yes, it will. The Company estimates that POLR IV for most residential customers (Rate
17 RS) will result in a generation rate increase of 17.6 percent and a 9.2 percent bundled
18 service rate increase. The increases for heating customers (Rate RH) would be 19.3
19 percent for bundled service and 34.2 percent for generation. While these rate increases
20 clearly are substantial, I would note that they are less severe than the rate increases
21 experienced by many other POLR providers within the past year, and DLC's rates will
22 cover a three-year time period. For these reasons, and in the context of current market
23 conditions, I find the proposed overall POLR rate increase for most residential customers
24 to be acceptable.

1 Q. WHAT MODIFICATIONS OR CONDITIONS SHOULD ACCOMPANY
2 APPROVAL OF THE RESIDENTIAL COMPONENT OF POLR IV?

3 A. At this time, I am suggesting only one specific modification to the Company's rate
4 proposal. The Company proposes moving the heating customers (Schedules RA and RH)
5 to a single, uniform residential rate over three years. In the case of Schedule RA, this
6 transition to the full standard residential generation rate is acceptable. However, for
7 Schedule RH, it would be appropriate to maintain at least a modest rate differential to
8 recognize that a larger percentage of these customers' energy usage is in the lower cost
9 non-summer months, and therefore they should face at least a modestly lower market
10 price for POLR supply. While I support a narrowing of the Rate Schedules RH and RS
11 differential, I recommend maintaining a difference in year three of 0.5 cents per kWh.
12 The appropriateness of eliminating this difference entirely can be revisited as part of the
13 Company's next POLR case.

14 Q. WHAT CONDITIONS OR CLARIFICATIONS DO YOU PROPOSE?

15 A. My recommended conditions or clarifications in order to address the following areas:

16 (1) Security of supply. The commitment to the proposed 7.16 cent rate
17 depends on the ability of Duquesne Power to perform under the contract
18 and Duquesne's willingness to diligently enforce contract terms. Under
19 certain circumstances, DLC states that it would treat a Duquesne Power
20 contract default as a force majeure on its own obligation to supply
21 residential customers at the fixed rate of 7.16 cents per kWh. It is
22 important that the Company provide a clarification regarding how
23 customers are protected and the precise circumstances or standards when
24 DLC proposes that it be permitted to exercise force majeure.

1 (2) Demand response or energy efficiency programs. DLC proposes no
2 expansion of its current very limited demand-side programs. While this
3 expedited proceeding may make it difficult to identify and implement
4 appropriate demand-side strategies, approval of the POLR IV program
5 should not be interpreted as indicating that further consideration or
6 expansion of such programs is unimportant or is not a priority for
7 residential service.

8 (3) POLR IV is a transitional or “bridge” plan. As explained in my testimony,
9 I view the proposed POLR IV program as a transition to a longer-term
10 arrangement or methodology. By the end of this transition at the end of
11 2010, the Commission is expected to have in place final POLR
12 regulations, and Pennsylvania’s other major electric utilities at that time
13 will no longer be providing POLR service under the restructuring rate
14 caps. In this regard, the DLC POLR IV plan operates as a “bridge” until
15 those regulations are implemented and DLC begins to operate under those
16 regulations.

17 Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

18 A. Section III of my testimony discusses the desired attributes of POLR service and my
19 reasons for concurrence with the proposed POLR IV. Section IV discusses the various
20 issues where I find that modifications or clarifications are required.

1 **III. DISCUSSION OF POLR ATTRIBUTES**

2 **A. The Need for a Residential POLR Service**

3 Q. WHAT FUNDAMENTAL CHARACTERISTICS SHOULD BE CONSIDERED
4 IN PROVIDING POLR SERVICE FOR RESIDENTIAL CUSTOMERS?

5 A. The provision of electricity is an essential service for residential customers, and POLR
6 services should be designed to ensure that the service remains stable and affordable.
7 Residential POLR service should be characterized by the lowest reasonable level of rates,
8 stability in rates, a diversified power supply arrangement if needed to facilitate rate
9 stability and mitigate risk, and the potential availability of cost-effective demand-side
10 management and energy efficiency resources to provide residential customers an
11 opportunity to better manage electric power costs.

12 Q. ARE THERE OTHER FACTORS TO BE CONSIDERED WITH RESPECT TO
13 POLR SERVICE TO BE PROVIDED SPECIFICALLY TO PENNSYLVANIA
14 RESIDENTIAL CUSTOMERS?

15 A. Yes. Pennsylvania utilities no longer under capped rates are obligated to provide POLR
16 service by acquiring power at prevailing market prices. Prevailing market prices,
17 however, are not simply spot prices from an organized market; rather, they reflect the
18 term over which the product is provided and the point(s) in time when the power is
19 acquired. Satisfaction of this requirement, however, can be accomplished in the context
20 of the desirable characteristics for residential POLR service identified above.

21 Q. WHY IS IT IMPORTANT THAT POLR SERVICE FOR RESIDENTIAL
22 CUSTOMERS BE PROVIDED AT THE LOWEST REASONABLE COST?

23 A. The provision of electricity is an essential service that must remain available and
24 affordable to residential customers. For most residential customers, electric service is a
25 major household expense. The reality in restructured retail electric power markets,

1 including those in Pennsylvania, is that the proportion of residential customers that have
2 migrated to competitive suppliers has been small. In that regard, Duquesne has had the
3 most active residential retail markets among the Pennsylvania utilities, but even in the
4 case of Duquesne, this amounts to 17 percent of all residential customers. (Response to
5 OCA I-2) This means that the vast majority of the residential class relies on POLR
6 service. I would expect this pattern of heavy reliance on POLR service to persist, at least
7 in the near term.

8 Q. WHY HAVE YOU IDENTIFIED RATE STABILITY AS AN IMPORTANT
9 CHARACTERISTIC OF RESIDENTIAL POLR SERVICE?

10 A. Rate stability has long been recognized as a desirable feature for all electric rates, and it
11 is important for reasons of affordability, budgeting, planning, and making rational
12 decisions regarding appliance and equipment purchases. Even under fixed rates,
13 residential customers experience changes in monthly electric power costs associated with
14 weather-related usage. Given the greater degree of weather sensitivity of residential
15 loads relative to non-residential loads, frequent and large changes in rates exacerbate
16 household budgetary challenges.

17 Price stability, however, does not necessarily mean strictly invariant prices. If a
18 utility provides POLR service using a diversified supply portfolio, then changes in price
19 over time may be needed. However, it is desirable that such changes for residential
20 customers not be too abrupt or too frequent.

21 Q. YOU NOTE THAT A DIVERSIFIED POLR SUPPLY IS AN IMPORTANT
22 CHARACTERISTIC OF POLR ARRANGEMENTS. PLEASE EXPLAIN.

23 A. Supply diversification can be important from several perspectives. First, from a temporal
24 perspective, procurement of POLR supplies to satisfy the full POLR requirement at a
25 single point in time exposes customers to excessive market timing risk. By the term

1 "market timing risk," I mean the risk associated with price at any point in time relative to
2 average price over a longer time period. Wholesale market electricity prices fluctuate
3 unpredictably based on a wide range of factors that affect both short-term and long-term
4 supply and demand conditions, including random external shocks (e.g., the 2005 Gulf
5 Coast hurricanes). Procuring all electric power requirements based on market conditions
6 prevailing on the single day that bids are submitted exacerbates this risk. Such risk could
7 be mitigated through structuring the purchasing arrangements such that portions of the
8 overall load are purchased at different times.

9 Q. YOU HAVE INDICATED THAT THE AVAILABILITY OF DEMAND-SIDE
10 MANAGEMENT PROGRAMS WOULD BE A DESIRABLE
11 CHARACTERISTIC OF RESIDENTIAL POLR SERVICE. PLEASE
12 EXPLAIN.

13 A. Cost-effective and voluntary programs to reduce electric power service costs by reducing
14 loads and/or improving load shapes should be included as an aspect of residential POLR
15 service, as well as for customers taking competitive service. Such programs have not
16 been as readily available from the private sector for individual residential customers as
17 for individual non-residential customers. Energy service companies (ESCOs) have
18 tended to market principally to larger customers, i.e., large commercial and industrial
19 customers and institutional customers (e.g., schools, hospitals, government facilities), and
20 the availability of demand response and energy efficiency programs may be beneficial to
21 residential customers who choose to participate.

22

1 **B. The Duquesne Residential POLR Proposal**

2 Q. DOES THE DUQUESNE PROPOSAL ADDRESS THE OBJECTIVES FOR A
3 RESIDENTIAL POLR SERVICE THAT YOU DISCUSSED IN THE
4 PREVIOUS SECTION?

5 A. I believe it does. The POLR IV plan will provide a locked-in, fixed price for residential
6 customers (with a phase-in for heating customers) through 2010. By the end of POLR
7 IV, the rate caps for other major Pennsylvania electrics will have expired, and it is
8 expected that the Commission regulations governing POLR regulations will then be in
9 effect for all utilities.

10 The POLR IV plan provides for a 9.2 percent bundled rate increase and a 17.6
11 percent generation rate increase, and these increases certainly are significant. However,
12 they are much less than the rate increases experienced by residential customers of other
13 utilities for POLR service that no longer are subject to rate caps. Moreover, the DLC
14 proposed rate increases are for three years and on an annual average basis would be about
15 3 percent and 5 percent annually for bundled service and generation service, respectively.
16 The proposed plan does address rate stability, although a rate increase at this time cannot
17 be avoided due to current wholesale conditions.

18 Q. DO YOU REGARD THE PROPOSED POLR IV PLAN AS BEING MARKET
19 BASED?

20 A. Yes, I do. Duquesne Power must buy all supply in wholesale markets from non-affiliated
21 power suppliers or generation owners. Additionally, the 7.16 cents residential price is
22 equivalent to a grid level cost of about 6 cents per kWh. I believe that Mr. Fisher's
23 detailed analysis demonstrates that the Company's price proposal is a reasonable estimate
24 of what a competitive procurement would produce, based on an analysis of such

1 procurements for residential or small customer POLR conducted by other utilities in the
2 PJM region.

3 It should be noted that the Commission itself has concluded that the utility's price
4 offer can be determined to be consistent with prevailing market prices if there is adequate
5 supporting evidence. In its September 30, 2004 Opinion and Order in the POLR III case
6 (Docket No. P-00032071), the Commission concluded:

7
8 we relied on the record evidence to determine that the proposed
9 rates reflected prevailing market prices for energy for a three-year
10 term ...

11
12 a competitive procurement process is not the exclusive method to
13 arrive at a prevailing market price. (page 26)

14 As in the POLR III case, I believe that the Company has provided sound evidence that its
15 proposed rate is a reasonable estimate of the three-year forward market price.

16 Q. THE COMPANY FILED ITS CASE IN LATE JANUARY. DOES ITS
17 MARKET PRICE ESTIMATE REMAIN VALID TODAY?

18 A. Yes, I believe it does. I have compared the three-year forward price for on-peak energy
19 at the PJM West trading hub as of this writing (i.e., late March) and compared it with
20 prices for that same product in late January. There has been little change in the forward
21 market prices.

22 Q. DLC'S PLAN INCORPORATES A 3 MILL ADDER TO PROVIDE RISK
23 COMPENSATION. IS THIS PART OF THE PREVAILING MARKET
24 PRICES?

25 A. No, not directly. The utility POLR procurement prices analyzed by DLC witness
26 Mr. Fisher already incorporate a supplier risk factor that reflects a range of risks to which
27 any wholesale supplier providing full requirements service would face. This proposed 3
28 mills is an additional risk adder that DLC includes over and above what already is

1 embedded in existing transactions. The Company's rationale for this risk factor is (1) its
2 price offer was submitted in January and will remain open (and therefore vulnerable to
3 market movements) for about six months until the Commission issues a ruling in this
4 case; and (2) DLC has a much larger shopping percentage and is therefore at greater
5 exposure than other utilities to "migration risk". The migration risk imposes an unhedged
6 cost on DLC's supplier (Duquesne Power) if wholesale market prices spike and
7 customers taking competitive service migrate back to POLR service.

8 Q. DO YOU AGREE WITH THIS ADDER?

9 A. I agree that Duquesne Power in this case does face the types of risks described above and
10 therefore some level of risk adder is appropriate.

11 Q. DO YOU OBJECT TO DLC'S PROPOSAL TO MOVE ANCILLARY
12 SERVICES AND PJM CHARGES FROM GENERATION TO THE
13 TRANSMISSION SERVICE CHARGE?

14 A. I do not object to this change because these are actual costs associated with POLR
15 service, and it is my understanding that they cannot be directly hedged. Moving these
16 costs to the Transmission Service Charge therefore will provide DLC with a timely flow-
17 through.

18 It has been my experience that POLR wholesale suppliers normally include these
19 costs as part of their fixed cost bids. Hence, allowing DLC a flow-through of these costs
20 provides the Company (or Duquesne Power) with a risk mitigation benefit.

21

1 **IV. PLAN MODIFICATIONS OR CONDITIONS**

2 **A. Modification to the Schedule RH Rate**

3 Q. WHAT IS THE COMPANY'S RESIDENTIAL POLR RATE DESIGN
4 PROPOSAL?

5 A. DLC serves its residential customers under three rate schedules. Rate RS is the standard
6 residential service and includes about 500,000 customers, with 2006 average annual
7 usage per customer of 7,305 kWh or 608 kWh per month. Rate RH is available to
8 residential customers using electric heating as the primary heating source. There are
9 about 25,000 RH customers (5 percent of the total) with 2006 average usage per customer
10 of 12,649 kWh, or 1,054 kWh per month. Rate RA is for customers with add-on heat
11 pumps, and only about 3,000 customers are served under this schedule, with 2006 annual
12 usage per customer of 13,474 kWh, or 1,122 kWh per month. (Source: Response to
13 OCA I-18)

14 As discussed in the testimony of DLC witness Pfrommer, the principal rate design
15 change would eliminate over time the declining block structure for Rate RH and RA
16 customers, but only for the POLR generation rates. These customers also have declining
17 block rates for distribution service, but this proceeding does not address those rates. It
18 should be noted that the declining block structure is only for the non-summer rates,
19 November through April. DLC is proposing a RS residential generation rate of 7.16
20 cents, and Mr. Pfrommer's proposal would move the RH and RA generation tail block
21 rate (in non-summer months) to the uniform 7.16 cents. To moderate the impact, this
22 change would be phased in over three years. Thus, by 2010 generation declining blocks
23 would be eliminated and all residential POLR usage would pay the 7.16 cent price.

1 Q. WHAT IS THE REASON FOR THE CHANGE?

2 A. While several reasons are cited, it appears that the most important argument is that the
3 present RH/RA tail block rates are far out of line with market prices for generation, even
4 in the non-summer months. For example, the current tail block rate for RH and RA
5 customers is only about 2.7 cents per kWh. DLC believes that this rate must be increased
6 substantially in order for the heating customers to be facing realistic price signals.

7 Q. PLEASE DESCRIBE THE PROPOSED RATE PHASE-IN PROPOSAL.

8 A. Table 1 below shows the proposed bundled rate for the three residential rate schedules for
9 2008-2010, as compared to current rates. Table 2 shows the same information for the
10 generation POLR rates. (To facilitate the comparison with current rates, the ancillary
11 service and PJM charges are included with the generation price, about 0.25 cents per
12 kWh.)
13

	<u>RS</u>	<u>RH</u>	<u>RA</u>
2007 (actual)	12.05¢	9.79¢	9.82¢
2008	13.16	10.40	10.04
2009	13.16	11.04	10.46
2010	13.16	11.68	10.88
2007 to 2010% increase	9.2%	19.3%	10.80%

Source: Exhibit WVP-4

14

15

16

17

18

Table 2			
Proposed Residential Generation Rates			
(cents per kWh)			
	<u>RS</u>	<u>RH</u>	<u>RA</u>
2007 (actual)	6.30¢	5.53¢	6.35¢
2008	7.41	6.13	6.58
2009	7.41	6.77	6.99
2010	7.41	7.41	7.41
2007 to 2010% increase	17.6%	34.2%	16.7%
Source: Exhibit WVP-3			

1 Q. DO YOU AGREE WITH THIS RATE DESIGN CHANGE?

2 A. Not entirely. I agree with the objective of moving gradually to a “flatter” generation rate
3 design (on a phased-in basis) and reducing the average generation rate disparity between
4 RS and the heating customers. Also, I have no objection to the Company’s proposal for
5 Rate RA customers because the “flat rate” proposal produces a percentage rate increase
6 similar to that of Rate RS customers.

7 My difference with Mr. Pfrommer is his proposal to completely equalize the
8 generation rates for Rate RS and RH customers. While the Company proposes a 9.2
9 percent bundled rate increase and a 17.6 percent generation rate increase for RS
10 customers, Mr. Pfrommer identifies a 19.3 percent (phased-in) rate increase for bundled
11 service and a 34.2 percent generation rate increase for RH customers. By any standard,
12 these are extremely large rate increases even though they are being phased in over three
13 years. Moreover, these are the rate increases for the average-size RH customer.
14 Customers with above average usage in non-summer months would experience
15 generation cost increases even larger than the 34 percent (on an annual basis).
16 Undoubtedly, some if not all of these customers would view rate increases this large as
17 constituting severe rate shock.

1 Q. ARE THERE ANY OTHER REASONS YOU OPPOSE THE PROPOSED
2 RATE INCREASE FOR THE RH CUSTOMERS?

3 A. Yes. As mentioned earlier, I believe the primary rationale for the change is the view that
4 today's very low tail block rate is far out of line with market prices for generation, and I
5 do not disagree. However, the Company's proposal fails to recognize that market
6 generation costs are at least somewhat lower for the RH customers as compared to the RS
7 customers.

8 In response to OCA I-20, DLC concedes that market generation costs are lower
9 for the RH customers:

10

11 Duquesne agrees that the load profile for customers in rate
12 class RH has a slightly lower cost to serve than other
13 residential customers.
14

15 However, the response goes on to discount this observation by noting the RS versus RH
16 cost-to-serve difference is not substantial, only about an estimated 0.3 cents per kWh, and
17 the small number of such RH customers (about 25,000) does not warrant the complexity
18 of a separate RH rate.

19 Using data from the response to OCA I-18, I calculate that RS customers consume
20 31 percent of their annual kWh in the three (high cost) summer months (June - August),
21 while the RH customers purchase only 19 percent of their annual energy in those summer
22 months.

23 Q. WHAT DO YOU RECOMMEND?

24 A. I am prepared to accept the 2008 and 2009 proposed rate increases for the Rate RH
25 customers, in order to rectify expeditiously the low tail block rates. However, I would
26 not move the RH generation rate in 2010 all the way to the RS rate of 7.41 cents (with the
27 ancillary services and PJM charges). Rather, I would maintain a 0.5 cent per kWh

1 differential in that final year, both to recognize the lower cost to provide generation to
2 these customers and to address “rate shock” concerns. For the average RH customer, my
3 more moderate proposal produces a bundled rate increase of 14.2 percent (instead of 19.3
4 percent) and for generation service a 25.0 percent rate increase (instead of a 34.2 percent
5 rate increase).

6 The RH rate differential that I am proposing can be addressed again in DLC’s
7 next POLR case.

8 Q. WOULD YOUR PROPOSAL ALLOW FOR A PHASE OUT OF
9 GENERATION DECLINING BLOCK RATES TO SIMPLIFY RATE DESIGN
10 AND IMPROVE PRICE SIGNALS?

11 A. Yes. My rate differential recommendation is fully consistent with a “flat” rate design.

12 B. **Contract Security**

13 Q. WHAT IS YOUR CONCERN REGARDING DLC’S SECURITY OF SUPPLY?

14 A. DLC will obtain the power supply to support residential POLR service under its proposed
15 plan through a full requirements supply contract with its affiliate, Duquesne Power.
16 Apparently, Duquesne Power will be the sole source of the supply. This arrangement is
17 certainly satisfactory as long as we are certain that Duquesne Power fully meets its
18 contractual obligations over the three-year life of the contract. In that case, the market
19 risks are absorbed by Duquesne Power, not by DLC or residential customers, and since
20 this is a voluntary transaction, Duquesne Power is appropriately compensated for those
21 risks.

22 *Under such power supply contracts, utilities typically seek protective conditions*
23 *either to help ensure the counter party’s (i.e., the seller’s) performance or to provide*
24 *appropriate compensation in the event of default by the seller. In some POLR*
25 *procurements, the utility may seek supplier diversity to further mitigate such supply risks.*

1 Protective contract conditions could take the form of a requirement to post collateral that
2 would compensate for the loss of value (if any) in the event the seller defaults.

3 Given this background, OCA I-7 asked DLC to identify the protections and
4 contractual provisions that would protect residential ratepayers in the event of a breach of
5 contract by Duquesne Power.

6 Q. WHAT IS DLC'S RESPONSE TO OCA I-7?

7 A. The response states that DLC "is reserving the right to change the rates during the [POLR
8 IV] default service plan period", but only under very limited circumstances. The
9 response seems to indicate that in the event of a contract default ratepayers are protected
10 by a parental guarantee from Duquesne Light Holdings. Therefore, DLC and POLR
11 customers only would face default risk if Holdings defaults on the parental guarantee.
12 Moreover, the response implies (but does not make fully clear) that DLC would stand
13 behind the approved POLR rates even with a Holdings default unless doing so would
14 threaten its ability to provide reliable service. DLC would only seek to exercise its right
15 to seek a POLR rate increase under what it terms "dire circumstances."

16 I interpret DLC's response to OCA I-7 as stating that there are multiple layers of
17 protection, and as a result it is very unlikely DLC would seek to change the approved
18 POLR rates.

19 Q. DO YOU DISAGREE WITH DLC'S ASSESSMENT OF THE RISK IN ITS
20 RESPONSE TO OCA I-7?

21 A. I do not necessarily disagree. I would note that Duquesne Power has performed
22 successfully under POLR III, which has been a period of volatile markets. Moreover, on
23 its face a parental guarantee would seem to have considerable value as a protection.

24 At this point my concern is that we need better information on the nature and
25 extent of the parental guarantee, and the OCA is presently seeking this information. For

1 example, can the parent default on this guarantee only in the event of its own bankruptcy?
2 Is the guarantee part of a written agreement? It would be very helpful if the Company
3 provided such clarifications in its rebuttal testimony due to the expedited schedule in this
4 case.

5 My other concern is to provide better definition for the “dire circumstances” that
6 would permit DLC to seek authority to increase the POLR rates. The limited description
7 of such circumstances in response to OCA I-7 appears to be both vague and subjective.
8 Again, DLC should clarify its asserted rights to increase the POLR rates in its rebuttal
9 testimony.

10 **C. Demand-Side Programs**

11 Q. WHAT IS DLC’S POSITION IN THIS CASE REGARDING DEMAND-SIDE
12 PROGRAMS?

13 A. As noted in Section F of the Petition, the Company has not included any initiatives for
14 demand-side programs as part of this docket beyond what currently is taking place.
15 The Petition refers to ongoing activities in this area, including those related to last year’s
16 rate case settlement. At that time, DLC agreed to consider proposals from parties
17 concerning demand-side program (and other) initiatives for inclusion as part of this
18 proceeding. However, the Company in this case declines to pursue any of those proposed
19 initiatives due to a lack of “consensus support” at this time, and it states that
20 consideration of such proposals in this proceeding would be “premature.” DLC itself
21 suggests that such programs should be part of “coordinated statewide efforts,” and it is
22 committed to continued participation in the Commission’s Demand-Side Response
23 working group.

1 Q. IS THE COMPANY CURRENTLY CONDUCTING ANY RESIDENTIAL
2 DEMAND-RESPONSE PROGRAMS?

3 A. According to its response to OCA I-9, the Company has a Load Control Pilot with 200
4 customers presently participating. The response indicates no plans to expand that
5 program at this time, but it will continue to work with the Commission to resolve any
6 outstanding issues. The Petition (page 7) also describes current programs that are
7 educational in nature.

8 Q. WHAT IS YOUR RESPONSE?

9 A. As mentioned earlier, cost-effective demand-side programs can have value in assisting
10 residential customers to manage their household energy costs. There is little convincing
11 evidence at this time that the competitive market can effectively provide such programs
12 to residential customers. DLC should make exploring and identifying cost-effective
13 programs for residential customers a key priority.

14 At the same time, I recognize that this highly expedited proceeding that is focused
15 mostly on POLR supply and pricing issues, for an interim period, may make it difficult to
16 identify and implement demand-side strategies.

17 Indeed, residential program initiatives, if pursued, should not be limited to POLR
18 customers, but to the extent feasible, they also should be available to residential
19 customers taking competitive service as well, on a competitively neutral basis.

20 Finally, although I am recommending approval of the residential component of
21 POLR IV, this is not intended to indicate agreement at this time with the Company's
22 position in this proceeding on residential demand-side programs.

23

1 **D. POLR IV Approval as a Transition Program**

2 Q. DO YOU REGARD THE POLR PROGRAM PROPOSED IN THIS CASE AS
3 AN INTERIM PLAN FOR POST-2010 POLR?

4 A. Yes, I am recommending approval of the residential component of POLR as a transition
5 program through 2010. Given the current circumstances discussed in my testimony, I
6 believe that the proposed POLR IV is appropriate for continuing a seamless POLR
7 service for the three-year transition period, and it should be approved on that basis.

8 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

9 A. Yes, it does.

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APPENDIX A

STATEMENT OF QUALIFICATIONS

MATTHEW I. KAHAL

Mr. Kahal is currently an independent consulting economist, specializing in energy economics, public utility regulation and financial analysis. Over the past two decades, his work has encompassed electric utility integrated resource planning (IRP), power plant licensing and a wide range of utility financial issues. In the financial area he has conducted numerous cost of capital studies and addressed other financial issues for electric, gas, telephone and water utilities. Mr. Kahal's work in recent years has shifted to electric utility restructuring, mergers and competition.

Mr. Kahal has provided expert testimony on more than 250 occasions before state and federal regulatory commissions and the U.S. Congress. His testimony has covered need for power, integrated resource planning, cost of capital, purchased power practices and contracts, merger economics, industry restructuring and various other regulatory policy issues.

Education:

B.A. (Economics) - University of Maryland, 1971.

M.A. (Economics) - University of Maryland, 1974.

Ph.D. candidate - University of Maryland, completed all course work
and qualifying examinations.

Previous Employment:

1981-2001 - Exeter Associates, Inc. (founding Principal).

1980-1981 - Member of the Economic Evaluation Directorate, The Aerospace Corporation, Washington, D.C. office.

1977-1980 - Economist, Washington, D.C. consulting firm.

1972-1977 - Research/Teaching Assistant and Instructor, Department of Economics, University of Maryland (College Park).

1975-1977 - Lecturer in Business/Economics, Montgomery College.

Professional Work Experience:

Mr. Kahal has more than twenty years experience managing and conducting consulting assignments relating to public utility economics and regulation. In 1981, he and five colleagues founded the firm of Exeter Associates, Inc. and for the next 20 years he served as a Principal and corporate officer in the firm. During that time, he supervised multi-million dollar support contracts with the State of Maryland and directed the technical work conducted both by Exeter

professional staff and numerous subcontractors. Additionally, Mr. Kahal took the lead role at Exeter in consulting to the firm's other governmental and private clients in the areas of financial analysis, utility mergers, electric restructuring and utility purchase power contracts.

At the Aerospace Corporation, Mr. Kahal served as an economic consultant to the Strategic Petroleum Reserve (SPR). In that capacity he participated in a detailed financial assessment of the SPR, and developed an econometric forecasting model of U.S. petroleum industry inventories. That study has been used to determine the extent to which private sector petroleum stocks can be expected to protect the U.S. from the impacts of oil import interruptions.

Before entering consulting, Mr. Kahal held faculty positions with the Department of Economics at the University of Maryland and with Montgomery College teaching courses on economic principles, business and economic development.

Publications and Consulting Reports:

Projected Electric Power Demands of the Baltimore Gas and Electric Company, Maryland Power Plant Siting Program, 1979.

Projected Electric Power Demands of the Allegheny Power System, Maryland Power Plant Siting Program, January 1980.

An Econometric Forecast of Electric Energy and Peak Demand on the Delmarva Peninsula, Maryland Power Plant Siting Program, March 1980 (with Ralph E. Miller).

A Benefit/Cost Methodology of the Marginal Cost Pricing of Tennessee Valley Authority Electricity, prepared for the Board of Directors of the Tennessee Valley Authority, April 1980.

An Evaluation of the Delmarva Power and Light Company Generating Capacity Profile and Expansion Plan, (Interim Report), prepared for the Delaware Office of the Public Advocate, July 1980, (with Sharon L. Mason).

Rhode Island-DOE Electric Utilities Demonstration Project, Third Interim Report on Preliminary Analysis of the Experimental Results, prepared for the Economic Regulatory Administration, U.S. Department of Energy, July 1980.

Petroleum Inventories and the Strategic Petroleum Reserve, The Aerospace Corporation, prepared for the Strategic Petroleum Reserve Office, U.S. Department of Energy, December 1980.

Alternatives to Central Station Coal and Nuclear Power Generation, prepared for Argonne National Laboratory and the Office of Utility Systems, U.S. Department of Energy, August 1981.

"An Econometric Methodology for Forecasting Power Demands," Conducting Need-for-Power Review for Nuclear Power Plants (D.A. Nash, ed.), U.S. Nuclear Regulatory Commission, NUREG-0942, December 1982.

State Regulatory Attitudes Toward Fuel Expense Issues, prepared for the Electric Power Research Institute, July 1983, (with Dale E. Swan).

"Problems in the Use of Econometric Methods in Load Forecasting," Adjusting to Regulatory, Pricing and Marketing Realities (Harry Trebing, ed.), Institute of Public Utilities, Michigan State University, 1983.

Proceedings of the Maryland Conference on Electric Load Forecasting, (editor and contributing author), Maryland Power Plant Siting Program, PPES-83-4, October 1983.

"The Impacts of Utility-Sponsored Weatherization Programs: The Case of Maryland Utilities," (with others), in Government and Energy Policy (Richard L. Itteilag, ed.), 1983.

Power Plant Cumulative Environmental Impact Report, contributing author, (Paul E. Miller, ed.) Maryland Department of Natural Resources, January 1984.

Projected Electric Power Demands for the Potomac Electric Power Company, three volumes with Steven L. Estomin), prepared for the Maryland Power Plant Siting Program, March 1984.

"An Assessment of the State-of-the-Art of Gas Utility Load Forecasting," (with Thomas Bacon, Jr. and Steven L. Estomin), published in the Proceedings of the Fourth NARUC Biennial Regulatory Information Conference, 1984.

"Nuclear Power and Investor Perceptions of Risk," (with Ralph E. Miller), published in The Energy Industries in Transition: 1985-2000 (John P. Weyant and Dorothy Sheffield, eds.), 1984.

The Financial Impact of Potential Department of Energy Rate Recommendations on the Commonwealth Edison Company, prepared for the U.S. Department of Energy, October 1984.

"Discussion Comments," published in Impact of Deregulation and Market Forces on Public Utilities: The Future of Regulation (Harry Trebing, ed.), Institute of Public Utilities, Michigan State University, 1985.

An Econometric Forecast of the Electric Power Loads of Baltimore Gas and Electric Company, two volumes (with others), prepared for the Maryland Power Plant Siting Program, 1985.

A Survey and Evaluation of Demand Forecast Methods in the Gas Utility Industry, prepared for the Public Utilities Commission of Ohio, Forecasting Division, November 1985, (with Terence Manuel).

A Review and Evaluation of the Load Forecasts of Houston Lighting & Power Company and Central Power & Light Company -- Past and Present, prepared for the Texas Public Utility Commission, December 1985, (with Marvin H. Kahn).

Power Plant Cumulative Environmental Impact Report for Maryland, principal author of three of the eight chapters in the report (Paul E. Miller, ed.), PPSP-CEIR-5, March 1986.

"Potential Emissions Reduction from Conservation, Load Management, and Alternative Power," published in Acid Deposition in Maryland: A Report to the Governor and General Assembly, Maryland Power Plant Research Program, AD-87-1, January 1987.

Determination of Retrofit Costs at the Oyster Creek Nuclear Generating Station, March 1988, prepared for Versar, Inc., New Jersey Department of Environmental Protection.

Excess Deferred Taxes and the Telephone Utility Industry, April 1988, prepared on behalf of the National Association of State Utility Consumer Advocates.

Toward a Proposed Federal Policy for Independent Power Producers, comments prepared on behalf of the Indiana Consumer Counselor, FERC Docket EL87-67-000, November 1987.

Review and Discussion of Regulations Governing Bidding Programs, prepared for the Pennsylvania Office of Consumer Advocate, June 1988.

A Review of the Proposed Revisions to the FERC Administrative Rules on Avoided Costs and Related Issues, prepared for the Pennsylvania Office of Consumer Advocate, April 1988.

Review and Comments on the FERC NOPR Concerning Independent Power Producers, prepared for the Pennsylvania Office of Consumer Advocate, June 1988.

The Costs to Maryland Utilities and Ratepayers of an Acid Rain Control Strategy -- An Updated Analysis, prepared for the Maryland Power Plant Research Program, October 1987, AD-88-4.

"Comments," in New Regulatory and Management Strategies in a Changing Market Environment (Harry M. Trebing and Patrick C. Mann, editors), Proceedings of the Institute of Public Utilities Eighteenth Annual Conference, 1987.

Electric Power Resource Planning for the Potomac Electric Power Company, prepared for the Maryland Power Plant Research Program, July 1988.

Power Plant Cumulative Environmental Impact Report for Maryland (Thomas E. Magette, ed.) authored two chapters, November 1988, PPRP-CEIR-6.

Resource Planning and Competitive Bidding for Delmarva Power & Light Company, October 1990, prepared for the Maryland Department of Natural Resources (with M. Fullenbaum).

Electric Power Rate Increases and the Cleveland Area Economy, prepared for the Northeast Ohio Areawide Coordinating Agency, October 1988.

An Economic and Need for Power Evaluation of Baltimore Gas & Electric Company's Perryman Plant, May 1991, prepared for the Maryland Department of Natural Resources (with M. Fullenbaum).

The Cost of Equity Capital for the Bell Local Exchange Companies in a New Era of Regulation, October 1991, presented at the Atlantic Economic Society 32nd Conference, Washington, D.C.

A Need for Power Review of Delmarva Power & Light Company's Dorchester Unit 1 Power Plant, March 1993, prepared for the Maryland Department of National Resources (with M. Fullenbaum)

The AES Warrior Run Project: Impact on Western Maryland Economic Activity and Electric Rates, February 1993, prepared for the Maryland Power Plant Research Program (with Peter Hall).

An Economic Perspective on Competition and the Electric Utility Industry, November 1994. Prepared for the Electric Consumers' Alliance.

PEPCO's Clean Air Act Compliance Plan: Status Report, prepared for the Maryland Power Plant Research Plan, January 1995 (w/Diane Mountain, Environmental Resources Management, Inc.).

The FERC Open Access Rulemaking: A Review of the Issues, prepared for the Indiana Office of Utility Consumer Counselor and the Pennsylvania Office of Consumer Advocate, June 1995.

A Status Report on Electric Utility Restructuring: Issues for Maryland, prepared for the Maryland Power Plant Research Program, November 1995 (with Daphne Psacharopoulos).

Modeling the Financial Impacts on the Bell Regional Holding Companies from Changes in Access Rates, prepared for MCI Corporation, May 1996.

The CSEF Electric Deregulation Study: Economic Miracle or the Economists' Cold Fusion?, prepared for the Electric Consumers' Alliance, Indianapolis, Indiana, October 1996.

Reducing Rates for Interstate Access Service: Financial Impacts on the Bell Regional Holding Companies, prepared for MCI Corporation, May 1997.

The New Hampshire Retail Competition Pilot Program: A Preliminary Evaluation, July 1997, prepared for the Electric Consumers' Alliance (with Jerome D. Mierzwa).

Electric Restructuring and the Environment: Issue Identification for Maryland, March 1997, prepared for the Maryland Power Plant Research Program (with Environmental Resource Management, Inc.)

An Analysis of Electric Utility Embedded Power Supply Costs, prepared for Power-Gen International Conference, Dallas, Texas, December 1997.

Market Power Outlook for Generation Supply in Louisiana, December 2000, prepared for the Louisiana Public Service Commission (with others).

A Review of Issues Concerning Electric Power Capacity Markets, prepared for the Maryland Power Plant Research Program, December 2001 (with B. Hobbs and J. Inon).

The Economic Feasibility of Air Emissions Controls at the Brandon Shores and Morgantown Coal-fired Power Plants, February 2005, (prepared for the Chesapeake Bay Foundation).

The Economic Feasibility of Power Plant Retirements on the Entergy System, September 2005 with Phil Hayet (prepared for the Louisiana Public Service Commission).

Expert Report on Capital Structure, Equity and Debt Costs, prepared for the Edmonton Regional Water Customers Group, August 30, 2006.

Maryland's Options to Reduce and Stabilize Electric Power Prices Following Restructuring, with Steven L. Estomin, prepared for the Power Plant Research Program, Maryland Department of Natural Resources, September 2006.

Conference and Workshop Presentations:

Workshop on State Load Forecasting Programs, sponsored by the Nuclear Regulatory Commission and Oak Ridge National Laboratory, February 1982 (presentation on forecasting methodology).

Fourteenth Annual Conference of the Michigan State University Institute for Public Utilities, December 1982 (presentation on problems in forecasting).

Conference on Conservation and Load Management, sponsored by the Massachusetts Energy Facilities Siting Council, May 1983 (presentation on cost-benefit criteria).

Maryland Conference on Load Forecasting, sponsored by the Maryland Power Plant Siting Program and the Maryland Public Service Commission, June 1983 (presentation on overforecasting power demands).

The 5th Annual Meetings of the International Association of Energy Economists, June 1983 (presentation on evaluating weatherization programs).

The NARUC Advanced Regulatory Studies Program (presented lectures on capacity planning for electric utilities), February 1984.

The 16th Annual Conference of the Institute of Public Utilities, Michigan State University (discussant on phase-in and excess capacity), December 1984.

U.S. Department of Energy Utilities Conference, Las Vegas, Nevada (presentation of current and future regulatory issues), May 1985.

The 18th Annual Conference of the Institute of Public Utilities, Michigan State University, Williamsburg, Virginia, December 1986 (discussant on cogeneration).

The NRECA Conference on Load Forecasting, sponsored by the National Rural Electric Cooperative Association, New Orleans, Louisiana, December 1987 (presentation on load forecast accuracy).

The Second Rutgers/New Jersey Department of Commerce Annual Conference on Energy Policy in the Middle Atlantic States, Rutgers University, April 1988 (presentation on spot pricing of electricity).

The NASUCA 1988 Mid-Year Meeting, Annapolis, Maryland, June 1988, sponsored by the National Association of State Utility Consumer Advocates (presentation on the FERC electricity avoided cost NOPRs).

The Thirty Second Atlantic Economic Society Conference, Washington, D.C., October 1991 (presentation of a paper on cost of capital issues for the Bell Operating Companies).

The NASUCA 1993 Mid-Year Meeting, St. Louis, Missouri, sponsored by the National Association of State Utility Consumer Advocates, June 1993 (presentation on regulatory issues concerning electric utility mergers).

The NASUCA and NARUC annual meetings in New York City, November 1993 (presentations and panel discussions on the emerging FERC policies on transmission pricing).

The NASUCA annual meetings in Reno, Nevada, November 1994 (presentation concerning the FERC NOPR on stranded cost recovery).

U.S. Department of Energy Utilities/Energy Management Workshop, March 1995 (presentation concerning electric utility competition).

The 1995 NASUCA Mid-Year Meeting, Breckenridge, Colorado, June 1995, (presentation concerning the FERC rulemaking on electric transmission open access).

The 1996 NASUCA Mid-Year Meeting, Chicago, Illinois, June 1996 (presentation concerning electric utility merger issues).

Conference on "Restructuring the Electric Industry," sponsored by the National Consumers League and Electric Consumers Alliance, Washington, D.C., May 1997 (presentation on retail access pilot programs).

The 1997 Mid-Atlantic Conference of Regulatory Utilities Commissioners (MARUC), Hot Springs, Virginia, July 1997 (presentation concerning electric deregulation issues).

Power-Gen '97 International Conference, Dallas, Texas, December 1997 (presentation concerning utility embedded costs of generation supply).

Consumer Summit on Electric Competition, sponsored by the National Consumers League and Electric Consumers' Alliance, Washington, D.C., March 2001 (presentation concerning generation supply and reliability).

National Association of State Utility Consumer Advocates, Mid-Year Meetings, Austin, Texas, June 16-17, 2002 (presenter and panelist on RTO/Standard Market Design issues).

Louisiana State Bar Association, Public Utility Section, October 2, 2002. (Presentation on Performance-Based Ratemaking and panelist on RTO issues). Baton Rouge, Louisiana.

Virginia State Corporation Commission/Virginia State Bar, Twenty Second National Regulatory Conference, May 10, 2004. (Presentation on Electric Transmission System Planning.) Williamsburg, Virginia.

Expert Testimony
of Matthew J. Kahal

	<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
1.	27374 & 27375 October 1978	Long Island Lighting Company	New York Counties	Nassau & Suffolk	Economic impacts of proposed rate increase
2.	6807 January 1978	Generic	Maryland	MD Power Plant Siting Program	Load forecasting
3.	78-676-EL-AIR February 1978	Ohio Power Company	Ohio	Ohio Consumers' Counsel	Test year sales and revenues
4.	17667 May 1979	Alabama Power Company	Alabama	Attorney General	Test year sales, revenues, costs and load forecasts
5.	None April 1980	Tennessee Valley Authority	TVA Board	League of Women Voters	Time-of-use pricing
6.	R-80021082	West Penn Power Company	Pennsylvania	Office of Consumer Advocate	Load forecasting, marginal cost pricing
7.	7259 (Phase I) October 1980	Potomac Edison Company	Maryland	MD Power Plant Siting Program	Load forecasting
8.	7222 December 1980	Delmarva Power & Light Company	Maryland	MD Power Plant Siting Program	Need for plant, load forecasting
9.	7441 June 1981	Potomac Electric Power Company	Maryland	Commission Staff	PURPA standards
10.	7159 May 1980	Baltimore Gas & Electric	Maryland	Commission Staff	Time-of-use pricing
11.	81-044-E-42T	Monongahela Power	West Virginia	Commission Staff	Time-of-use rates
12.	7259 (Phase II) November 1981	Potomac Edison Company	Maryland	MD Power Plant Siting Program	Load forecasting, load management
13.	1606 September 1981	Blackstone Valley Electric and Narragansett	Rhode Island	Division of Public Utilities	PURPA standards
14.	RID 1819 April 1982	Pennsylvania Bell	Pennsylvania	Office of Consumer Advocate	Rate of return
15.	82-0152 July 1982	Illinois Power Company	Illinois	U.S. Department of Defense	Rate of return, CWIP
16.	7559 September 1982	Potomac Edison Company	Maryland	Commission Staff	Cogeneration

Expert Testimony
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	<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
17.	820150-EU September 1982	Gulf Power Company	Florida	Federal Executive Agencies	Rate of return, CWIP
18.	82-057-15 January 1983	Mountain Fuel Supply Company	Utah	Federal Executive Agencies	Rate of return, capital structure
19.	5200 August 1983	Texas Electric Service Company	Texas	Federal Executive Agencies	Cost of equity
20.	28069 August 1983	Oklahoma Natural Gas	Oklahoma	Federal Executive Agencies	Rate of return, deferred taxes, capital structure, attrition
21.	83-0537 February 1984	Commonwealth Edison Company	Illinois	U.S. Department of Energy	Rate of return, capital structure, financial capability
22.	84-035-01 June 1984	Utah Power & Light Company	Utah	Federal Executive Agencies	Rate of return
23.	U-1009-137 July 1984	Utah Power & Light Company	Idaho	U.S. Department of Energy	Rate of return, financial condition
24.	R-842590 August 1984	Philadelphia Electric Company	Pennsylvania	Office of Consumer Advocate	Rate of return
25.	840086-EI August 1984	Gulf Power Company	Florida	Federal Executive Agencies	Rate of return, CWIP
26.	84-122-E August 1984	Carolina Power & Light Company	South Carolina	South Carolina Consumer Advocate	Rate of return, CWIP, load forecasting
27.	CGC-83-G & CGC-84-G October 1984	Columbia Gas of Ohio	Ohio	Ohio Division of Energy	Load forecasting
28.	R-842621 October 1984	Western Pennsylvania Water Company	Pennsylvania	Office of Consumer Advocate	Test year sales
29.	R-842710 January 1985	ALLTEL Pennsylvania Inc.	Pennsylvania	Office of Consumer Advocate	Rate of return
30.	ER-504 February 1985	Allegheny Generating Company	FERC	Office of Consumer Advocate	Rate of return
31.	R-842632 March 1985	West Penn Power Company	Pennsylvania	Office of Consumer Advocate	Rate of return, conservation, time-of-use rates

Expert Testimony
of Matthew I. Kahal

	<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
32.	83-0537 & 84-0555 April 1985	Commonwealth Edison Company	Illinois	U.S. Department of Energy	Rate of return, incentive rates, rate base
33.	Rulemaking Docket No. 11, May 1985	Generic	Delaware	Delaware Commission Staff	Interest rates on refunds
34.	29450 July 1985	Oklahoma Gas & Electric Company	Oklahoma	Oklahoma Attorney General	Rate of return, CWIP in rate base
35.	1811 August 1985	Bristol County Water Company	Rhode Island	Division of Public Utilities	Rate of return, capital structure
36.	R-850044 & R-850045 August 1985	Quaker State & Continental Telephone Companies	Pennsylvania	Office of Consumer Advocate	Rate of return
37.	R-850174 November 1985	Philadelphia Suburban Water Company	Pennsylvania	Office of Consumer Advocate	Rate of return, financial conditions
38.	U-1006-265 March 1986	Idaho Power Company	Idaho	U.S. Department of Energy	Power supply costs and models
39.	EL-86-37 & EL-86-38 September 1986	Allegheny Generating Company	FERC	PA Office of Consumer Advocate	Rate of return
40.	R-850287 June 1986	National Fuel Gas Distribution Corp.	Pennsylvania	Office of Consumer Advocate	Rate of return
41.	1849 August 1986	Blackstone Valley Electric	Rhode Island	Division of Public Utilities	Rate of return, financial condition
42.	86-297-GA-AIR November 1986	East Ohio Gas Company	Ohio	Ohio Consumers' Counsel	Rate of return
43.	U-16945 December 1986	Louisiana Power & Light Company	Louisiana	Public Service Commission	Rate of return, rate phase-in plan
44.	Case No. 7972 February 1987	Potomac Electric Power Company	Maryland	Commission Staff	Generation capacity planning, purchased power contract
45.	EL-86-58 & EL-86-59 March 1987	System Energy Resources and Middle South Services	FERC	Louisiana PSC	Rate of return
46.	ER-87-72-001 April 1987	Orange & Rockland	FERC	PA Office of Consumer Advocate	Rate of return
47.	U-16945 April 1987	Louisiana Power & Light Company	Louisiana	Commission Staff	Revenue requirement update phase-in plan

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of Matthew I. Kahal

	<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
48.	P-870196 May 1987	Pennsylvania Electric Company	Pennsylvania	Office of Consumer Advocate	Cogeneration contract
49.	86-2025-EL-AIR June 1987	Cleveland Electric Illuminating Company	Ohio	Ohio Consumers' Counsel	Rate of return
50.	86-2026-EL-AIR June 1987	Toledo Edison Company	Ohio	Ohio Consumers' Counsel	Rate of return
51.	87-4 June 1987	Delmarva Power & Light Company	Delaware	Commission Staff	Cogeneration/small power
52.	1872 July 1987	Newport Electric Company	Rhode Island	Commission Staff	Rate of return
53.	WO 8606654 July 1987	Atlantic City Sewerage Company	New Jersey	Resorts International	Financial condition
54.	7510 August 1987	West Texas Utilities Company	Texas	Federal Executive Agencies	Rate of return, phase-in
55.	8063 Phase I October 1987	Potomac Electric Power Company	Maryland	Power Plant Research Program	Economics of power plant site selection
56.	00439 November 1987	Oklahoma Gas & Electric Company	Oklahoma	Smith Cogeneration	Cogeneration economics
57.	RP-87-103 February 1988	Panhandle Eastern Pipe Line Company	FERC	Indiana Utility Consumer Counselor	Rate of return
58.	EC-88-2-000 February 1988	Utah Power & Light Co. PacifiCorp	FERC	Nucor Steel	<i>Merger economics</i>
59.	87-0427 February 1988	Commonwealth Edison Company	Illinois	Federal Executive Agencies	Financial projections
60.	870840 February 1988	Philadelphia Suburban Water Company	Pennsylvania	Office of Consumer Advocate	Rate of return
61.	870832 March 1988	Columbia Gas of Pennsylvania	Pennsylvania	Office of Consumer Advocate	Rate of return
62.	8063 Phase II July 1988	Potomac Electric Power Company	Maryland	Power Plant Research Program	Power supply study

Expert Testimony
of Matthew I. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
63. 8102 July 1988	Southern Maryland Electric Cooperative	Maryland	Power Plant Research Program	Power supply study
64. 10105 August 1988	South Central Bell Telephone Co.	Kentucky	Attorney General	Rate of return, incentive regulation
65. 00345 August 1988	Oklahoma Gas & Electric Company	Oklahoma	Smith Cogeneration	Need for power
66. U-17906 September 1988	Louisiana Power & Light Company	Louisiana	Commission Staff	Rate of return, nuclear power costs Industrial contracts
67. 88-170-EL-AIR October 1988	Cleveland Electric Illuminating Co.	Ohio	Northeast-Ohio Areawide Coordinating Agency	Economic impact study
68. 1914 December 1988	Providence Gas Company	Rhode Island	Commission Staff	Rate of return
69. U-12636 & U-17649 February 1989	Louisiana Power & Light Company	Louisiana	Commission Staff	Disposition of litigation proceeds
70. 00345 February 1989	Oklahoma Gas & Electric Company	Oklahoma	Smith Cogeneration	Load forecasting
71. RP88-209 March 1989	Natural Gas Pipeline of America	FERC	Indiana Utility Consumer Counselor	Rate of return
72. 8425 March 1989	Houston Lighting & Power Company	Texas	U.S. Department of Energy	Rate of return
73. EL89-30-000 April 1989	Central Illinois Public Service Company	FERC	Soyland Power Coop, Inc.	Rate of return
74. R-891208 May 1989	Pennsylvania American Water Company	Pennsylvania	Office of Consumer Advocate	Rate of return
75. 89-0033 May 1989	Illinois Bell Telephone Company	Illinois	Citizens Utility Board	Rate of return
76. 881167-EI May 1989	Gulf Power Company	Florida	Federal Executive Agencies	Rate of return
77. R-891218 July 1989	National Fuel Gas Distribution Company	Pennsylvania	Office of Consumer Advocate	Sales forecasting

Expert Testimony
of Matthew I. Kahal

<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
78. 8063, Phase III Sept. 1989	Potomac Electric Power Company	Maryland	Depart. Natural Resources	Emissions Controls
79. 37414-S2 October 1989	Public Service Company of Indiana	Indiana	Utility Consumer Counselor	Rate of return, DSM, off- system sales, incentive regulation
80. October 1989	Generic	U.S. House of Reps. Comm. on Ways & Means	NA	Excess deferred income tax
81. 38728 November 1989	Indiana Michigan Power Company	Indiana	Utility Consumer Counselor	Rate of return
82. RP89-49-000 December 1989	National Fuel Gas Supply Corporation	FERC	PA Office of Consumer Advocate	Rate of return
83. R-891364 December 1989	Philadelphia Electric Company	Pennsylvania	PA Office of Consumer Advocate	Financial impacts (surrebuttal only)
84. RP89-160-000 January 1990	Trunkline Gas Company	FERC	Indiana Utility Consumer Counselor	Rate of return
85. EL90-16-000 November 1990	System Energy Resources, Inc.	FERC	Louisiana Public Service Commission	Rate of return
86. 89-624 March 1990	Bell Atlantic	FCC	PA Office of Consumer Advocate	Rate of return
87. 8245 March 1990	Potomac Edison Company	Maryland	Depart. Natural Resources	Avoided Cost
88. 000586 March 1990	Public Service Company of Oklahoma	Oklahoma	Smith Cogeneration Mgmt.	Need for Power
89. 38868 March 1990	Indianapolis Water Company	Indiana	Utility Consumer Counselor	Rate of return
90. 1946 March 1990	Blackstone Valley Electric Company	Rhode Island	Division of Public Utilities	Rate of return
91. 000776 April 1990	Oklahoma Gas & Electric Company	Oklahoma	Smith Cogeneration Mgmt.	Need for Power
92. 890366 May 1990, December 1990	Metropolitan Edison Company	Pennsylvania	Office of Consumer Advocate	Competitive Bidding Program Avoided Costs

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<u>Docket Number</u>	<u>Utility</u>	<u>Jurisdiction</u>	<u>Client</u>	<u>Subject</u>
93. EC-90-10-000 May 1990	Northeast Utilities	FERC	Maine PUC. <u>et. al.</u>	Merger, Market Power, Transmission Access
94. ER-891109125 July 1990	Jersey Central Power & Light	New Jersey	Rate Counsel	Rate of return
95. R-901670 July 1990	National Fuel Gas Distribution Corp.	Pennsylvania	Office of Consumer Advocate	Rate of return Test year sales
96. 8201 October 1990	Delmarva Power & Light Company	Maryland	Depart. Natural Resources	Competitive Bidding, Resource Planning
97. EL90-45-000 April 1991	Entergy Services, Inc.	FERC	Louisiana PSC	Rate of return
98. GR90080786J January 1991	New Jersey Natural Gas	New Jersey	Rate Counsel	Rate of return
99. 90-256 January 1991	South Central Bell Telephone Company	Kentucky	Attorney General	Rate of return
100. U-17949A February 1991	South Central Bell Telephone Company	Louisiana	Louisiana PSC	Rate of return
101. ER90091090J April 1991	Atlantic City Electric Company	New Jersey	Rate Counsel	Rate of return
102. 8241, Phase I April 1991	Baltimore Gas & Electric Company	Maryland	Dept. of Natural Resources	Environmental controls
103. 8241, Phase II May 1991	Baltimore Gas & Electric Company	Maryland	Dept. of Natural Resources	Need for Power, Resource Planning
104. 39128 May 1991	Indianapolis Water Company	Indiana	Utility Consumer Counselor	Rate of return, rate base, financial planning
105. P-900485 May 1991	Duquesne Light Company	Pennsylvania	Office of Consumer Advocate	Purchased power contract and related ratemaking
106. G900240 P910502 May 1991	Metropolitan Edison Company Pennsylvania Electric Company	Pennsylvania	Office of Consumer Advocate	Purchased power contract and related ratemaking
107. GR901213915 May 1991	Elizabethtown Gas Company	New Jersey	Rate Counsel	Rate of return

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108.	91-5032 August 1991	Nevada Power Company	Nevada	U.S. Dept. of Energy	Rate of return
109.	EL90-48-000 November 1991	Entergy Services	FERC	Louisiana PSC	Capacity transfer
110.	000662 September 1991	Southwestern Bell Telephone	Oklahoma	Attorney General	Rate of return
111.	U-19236 October 1991	Arkansas Louisiana Gas Company	Louisiana	Louisiana PSC Staff	Rate of return
112.	U-19237 December 1991	Louisiana Gas Service Company	Louisiana	Louisiana PSC Staff	Rate of return
113.	ER91030356J October 1991	Rockland Electric Company	New Jersey	Rate Counsel	Rate of return
114.	GR91071243J February 1992	South Jersey Gas Company	New Jersey	Rate Counsel	Rate of return
115.	GR91081393J March 1992	New Jersey Natural Gas Company	New Jersey	Rate Counsel	Rate of return
116.	P-870235 <i>et al.</i> March 1992	Pennsylvania Electric Company	Pennsylvania	Office of Consumer Advocate	Cogeneration contracts
117.	8413 March 1992	Potomac Electric Power Company	Maryland	Dept. of Natural Resources	IPP purchased power contracts
118.	39236 March 1992	Indianapolis Power & Light Company	Indiana	Utility Consumer Counselor	Least-cost planning Need for power
119.	R-912164 April 1992	Equitable Gas Company	Pennsylvania	Office of Consumer Advocate	Rate of return
120.	ER-91111698J May 1992	Public Service Electric & Gas Company	New Jersey	Rate Counsel	Rate of return
121.	U-19631 June 1992	Trans Louisiana Gas Company	Louisiana	PSC Staff	Rate of return
122.	ER-91121820J July 1992	Jersey Central Power & Light Company	New Jersey	Rate Counsel	Rate of return
123.	R-00922314 August 1992	Metropolitan Edison Company	Pennsylvania	Office of Consumer Advocate	Rate of return

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124.	92-049-05 September 1992	US West Communications	Utah	Committee of Consumer Services	Rate of return
125.	92PUF0037 September 1992	Commonwealth Gas Company	Virginia	Attorney General	Rate of return
126.	EC92-21-000 September 1992	Entergy Services, Inc.	FERC	Louisiana PSC	Merger Impacts (Affidavit)
127.	ER92-341-000 December 1992	System Energy Resources	FERC	Louisiana PSC	Rate of return
128.	U-19904 November 1992	Louisiana Power & Light Company	Louisiana	Staff	Merger analysis, competition competition issues
129.	8473 November 1992	Baltimore Gas & Electric Company	Maryland	Dept. of Natural Resources	QF contract evaluation
130.	IPC-E-92-25 January 1993	Idaho Power Company	Idaho	Federal Executive Agencies	Power supply clause
131.	E002/GR-92-1185 February 1993	Northern States Power Company	Minnesota	Attorney General	Rate of return
132.	92-102, Phase II March 1992	Central Maine Power Company	Maine	Staff	QF contracts prudence and procurements practices
133.	EC92-21-000 March 1993	Entergy Corporation	FERC	Louisiana PSC	Merger issues
134.	8489 March 1993	Delmarva Power & Light Company	Maryland	Dept. of Natural Resources	Power plant certification
135.	11735 April 1993	Texas Electric Utilities Company	Texas	Federal Executives Agencies	Rate of return
136.	2082 May 1993	Providence Gas Company	Rhode Island	Division of Public Utilities	Rate of return
137.	P-00930715 December 1993	Bell Telephone Co. of Pennsylvania	Pennsylvania	Office of Consumer Advocate	Rate of return, financial projections, Bell/TCI merger
138.	R-00932670 February 1994	Pennsylvania-American Water Company	Pennsylvania	Office of Consumer Advocate	Rate of return

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139.	8583 February 1994	Conowingo Power Co.	Maryland	Dept. of Natural Resources	Competitive bidding for power supplies
140.	E-015/GR-94-001 April 1994	Minnesota Power & Light Co.	Minnesota	Attorney General	Rate of return
141.	CC Docket No. 94-1 May 1994	Generic Telephone	FCC	MCI Comm. Corp.	Rate of return
142.	92-345, Phase II June 1994	Central Maine Power Co.	Maine	Advocacy Staff	Price Cap Regulation Fuel Costs
143.	93-11065 April 1994	Nevada Power Co.	Nevada	Federal Executive Agencies	Rate of return
144.	94-0065 May 1994	Commonwealth Edison Co.	Illinois	Federal Executive Agencies	Rate of return
145.	GR94010002J June 1994	South Jersey Gas Co.	New Jersey	Rate Counsel	Rate of return
146.	WR94030059 July 1994	New Jersey-American Water Co.	New Jersey	Rate Counsel	Rate of return
147.	RP91-203-000 June 1994	Tennessee Gas Pipeline Company	FERC	Customer Group	Environmental Externalities (oral testimony only)
148.	ER94-998-000 July 1994	Ocean State Power	FERC	Boston Edison Co.	Rate of return
149.	R-00942986 July 1994	West Penn Power Co.	Pennsylvania	Office of Consumer Advocate	Rate of return. emission allowances
150.	94-121 August 1994	South Central Bell Telephone Co.	Kentucky	Attorney General	Rate of return
151.	35854-S2 November 1994	PSI Energy, Inc.	Indiana	Utility Consumer Counsel	Merger savings and allocations
152.	IPC-E-94-5 November 1994	Idaho Power Co.	Idaho	Federal Executive Agencies	Rate of return
153.	November 1994	Edmonton Water	Alberta, Canada	Regional Customer Group	Rate of return (rebuttal only)

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154. 90-256 December 1994	South Central Bell Telephone Co.	Kentucky	Attorney General	Incentive Plan True-Ups
155. U-20925 February 1995	Louisiana Power & Light Company	Louisiana	PSC Staff	Rate of return Industrial contracts Trust fund earnings
156. R-00943231 February 1995	Pennsylvania-American Water Company	Pennsylvania	Consumer Advocate	Rate of return
157. 8678 March 1995	Generic	Maryland	Dept. Natural Resources	Electric Competition Incentive Regulation (oral only)
158. R-000943271 April 1995	Pennsylvania Power & Light Company	Pennsylvania	Consumer Advocate	Rate of return Nuclear decommissioning Capacity Issues
159. U-20925 May 1995	Louisiana Power & Light Company	Louisiana	Commission Staff	Class cost of service issues
160. 2290 June 1995	Narragansett Electric Company	Rhode Island	Division Staff	Rate of return
161. U-17949E June 1995	South Central Bell Telephone Company	Louisiana	Commission Staff	Rate of return
162. 2304 July 1995	Providence Water Supply Board	Rhode Island	Division Staff	Cost recovery of capital spending program
163. ER95-625-000 <u>et al.</u> August 1995	PSI Energy, Inc.	FERC	Office of Utility Consumer Counselor	Rate of return
164. P-00950915 <u>et al.</u> September 1995	Paxton Creek Cogeneration Assoc.	Pennsylvania	Office of Consumer Advocate	Cogeneration contract amendment
165. 8702 September 1995	Potomac Edison Company	Maryland	Dept. of Natural Resources	Allocation of DSM Costs (oral only)
166. ER95-533-001 September 1995	Ocean State Power	FERC	Boston Edison Co.	Cost of equity
167. 40003 November 1995	PSI Energy, Inc.	Indiana	Utility Consumer Counselor	Rate of return Retail wheeling
168. P-55, SUB 1013 January 1996	BellSouth	North Carolina	AT&T	Rate of return

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169. P-7, SUB 825 January 1996	Carolina Tel.	North Carolina	AT&T	Rate of return
170. February 1996	Generic Telephone	FCC	MCI	Cost of capital
171. 95A-531EG April 1996	Public Service Company of Colorado	Colorado	Federal Executive Agencies	Merger issues
172. ER96-399-000 May 1996	Northern Indiana Public Service Company	FERC	Indiana Office of Utility Consumer Counselor	Cost of capital
173. 8716 June 1996	Delmarva Power & Light Company	Maryland	Dept. of Natural Resources	DSM programs
174. 8725 July 1996	BGE/PEPCO	Maryland	Md. Energy Admin.	Merger Issues
175. U-20925 August 1996	Entergy Louisiana, Inc.	Louisiana	PSC Staff	Rate of return Allocations Fuel Clause
176. EC96-10-000 September 1996	BGE/PEPCO	FERC	Md. Energy Admin.	Merger issues competition
177. EL95-53-000 November 1996	Entergy Services, Inc.	FERC	Louisiana PSC	Nuclear Decommissioning
178. WR96100768 March 1997	Consumers NJ Water Company	New Jersey	Ratepayer Advocate	Cost of Capital
179. WR96110818 April 1997	Middlesex Water Co.	New Jersey	Ratepayer Advocate	Cost of Capital
180. U-11366 April 1997	Ameritech Michigan	Michigan	MCI	Access charge reform/financial condition
181. 97-074 May 1997	BellSouth	Kentucky	MCI	Rate Rebalancing financial condition
182. 2540 June 1997	New England Power	Rhode Island	PUC Staff	Divestiture Plan
183. 96-336-TP-CSS June 1997	Ameritech Ohio	Ohio	MCI	Access Charge reform Economic impacts

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184.	WR97010052 July 1997	Maxim Sewerage Corp.	New Jersey	Ratepayer Advocate	Rate of Return
185.	97-300 August 1997	LG&E/KU	Kentucky	Attorney General	Merger Plan
186.	Case No. 8738 August 1997	Generic (oral testimony only)	Maryland	Dept. of Natural Resources	Electric Restructuring Policy
187.	Docket No. 2592 September 1997	Eastern Utilities	Rhode Island	PUC Staff	Generation Divestiture
188.	Case No.97-247 September 1997	Cincinnati Bell Telephone	Kentucky	MCI	Financial Condition
189.	Docket No. U-20925 November 1997	Entergy Louisiana	Louisiana	PSC Staff	Rate of Return
190.	Docket No. D97.7.90 November 1997	Montana Power Co.	Montana	Montana Consumers Counsel	Stranded Cost
191.	Docket No. EO97070459 November 1997	Jersey Central Power & Light Co.	New Jersey	Ratepayer Advocate	Stranded Cost
192.	Docket No. R-00974104 November 1997	Duquesne Light Co.	Pennsylvania	Office of Consumer Advocate	Stranded Cost
193.	Docket No. R-00973981 November 1997	West Penn Power Co.	Pennsylvania	Office of Consumer Advocate	Stranded Cost
194.	Docket No. A-1101150F0015 November 1997	Allegheny Power System DQE, Inc.	Pennsylvania	Office of Consumer Advocate	Merger Issues
195.	Docket No. WR97080615 January 1998	Consumers NJ Water Company	New Jersey	Ratepayer Advocate	Rate of Return
196.	Docket No. R-00974149 January 1998	Pennsylvania Power Company	Pennsylvania	Office of Consumer Advocate	Stranded Cost
197.	Case No. 8774 January 1998	Allegheny Power System DQE, Inc.	Maryland	Dept. of Natural Resources MD Energy Administration	Merger Issues
198.	Docket No. U-20925 (SC) March 1998	Entergy Louisiana, Inc.	Louisiana	Commission Staff	Restructuring, Stranded Costs, Market Prices
199.	Docket No. U-22092 (SC) March 1998	Entergy Gulf States, Inc.	Louisiana	Commission Staff	Restructuring, Stranded Costs, Market Prices

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200.	Docket Nos. U-22092 (SC) and U-20925(SC) May 1998	Entergy Gulf States and Entergy Louisiana	Louisiana	Commission Staff	Standby Rates
201.	Docket No. WR98010015 May 1998	NJ American Water Co.	New Jersey	Ratepayer Advocate	Rate of Return
202.	Case No. 8794 December 1998	Baltimore Gas & Electric Co.	Maryland	MD Energy Admin./Dept. Of Natural Resources	Stranded Cost/ Transition Plan
203.	Case No. 8795 December 1998	Delmarva Power & Light Co.	Maryland	MD Energy Admin./Dept. Of Natural Resources	Stranded Cost/ Transition Plan
204.	Case No. 8797 January 1998	Potomac Edison Co.	Maryland	MD Energy Admin./Dept. Of Natural Resources	Stranded Cost/ Transition Plan
205.	Docket No. WR98090795 March 1999	Middlesex Water Co.	New Jersey	Ratepayer Advocate	Rate of Return
206.	Docket No. 99-02-05 April 1999	Connecticut Light & Power	Connecticut	Attorney General	Stranded Costs
207.	Docket No. 99-03-04 May 1999	United Illuminating Company	Connecticut	Attorney General	Stranded Costs
208.	Docket No. U-20925 (FRP) June 1999	Entergy Louisiana, Inc.	Louisiana	Staff	Capital Structure
209.	Docket No. EC-98-40-000 et. al. May 1999	American Electric Power/ Central & Southwest	FERC	Arkansas PSC	Market Power Mitigation
210.	Docket No. 99-03-35 July 1999	United Illuminating Company	Connecticut	Attorney General	Restructuring
211.	Docket No. 99-03-36 July 1999	Connecticut Light & Power Co.	Connecticut	Attorney General	Restructuring
212.	WR99040249 Oct. 1999	Environmental Disposal Corp.	New Jersey	Ratepayer Advocate	Rate of Return
213.	2930 Nov. 1999	NEES/EUA	Rhode Island	Division Staff	Merger/Cost of Capital
214.	DE99-099 Nov. 1999	Public Service New Hampshire	New Hampshire	Consumer Advocate	Cost of Capital Issues

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215.	00-01-11 Feb. 2000	Con.Ed/NU	Connecticut	Attorney General	Merger Issues
216.	Case No. 8821 May 2000	Reliant/ODEC	Maryland	Dept. of Natural Resources	Need for Power/Plant Operations
217.	Case No. 8738 July 2000	Generic	Maryland	Dept. of Natural Resources	DSM Funding
218.	Case No. U-23356 June 2000	Entergy Louisiana, Inc.	Louisiana	PSC Staff	Fuel Prudence Issues Purchased Power
219.	Case No. 21453 <u>et. al</u> July 2000	SWEPSCO	Louisiana	PSC Staff	Stranded Costs
220.	Case No. 20925 (B) July 2000	Entergy Louisiana	Louisiana	PSC Staff	Purchase Power Contracts
221.	Case No. 24889 August 2000	Entergy Louisiana	Louisiana	PSC Staff	Purchase Power Contracts
222.	Case No. 21453 <u>et. al.</u> February 2001	CLECO	Louisiana	PSC Staff	Stranded Costs
223.	P-00001860 and P-0000181 March 2001	GPU Companies	Pennsylvania	Office of Consumer Advocate	Rate of Return
224.	CVOL-0505662-S March 2001	ConEd/NU	Connecticut Superior Court	Attorney General	Merger (Affidavit)
225.	U-20925 (SC) March 2001	Entergy Louisiana	Louisiana	PSC Staff	Stranded Costs
226.	U-22092 (SC) March 2001	Entergy Gulf States	Louisiana	PSC Staff	Stranded Costs
227.	U-25533 May 2001	Entergy Louisiana/ Gulf States	Louisiana Interruptible Service	PSC Staff	Purchase Power
228.	P-00011872 May 2001	Pike County Pike	Pennsylvania	Office of Consumer Advocate	Rate of Return
229.	8893 July 2001	Baltimore Gas & Electric Co.	Maryland	MD Energy Administration	Corporate Restructuring

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230. 8890 September 2001	Potomac Electric/Connectivity	Maryland	MD Energy Administration	Merger Issues
231. U-25533 August 2001	Entergy Louisiana / Gulf States	Louisiana	Staff	Purchase Power Contracts
232. U-25965 November 2001	Generic	Louisiana	Staff	RTO Issues
233. 3401 March 2002	New England Gas Co.	Rhode Island	Division of Public Utilities	Rate of Return
234. 99-833-MJR April 2002	Illinois Power Co.	U.S. District Court	U.S. Department of Justice	New Source Review
235. U-25533 March 2002	Entergy Louisiana/ Gulf States	Louisiana	PSC Staff	Nuclear Upgrades Purchase Power
236. P-00011872 May 2002	Pike County Power & Light	Pennsylvania	Consumer Advocate	POLR Service Costs
237. U-26361, Phase I May 2002	Entergy Louisiana/ Gulf States	Louisiana	PSC Staff	Purchase Power Cost Allocations
238. R-00016849C001 et al. June 2002	Generic	Pennsylvania	Pennsylvania OCA	Rate of Return
239. U-26361, Phase II July 2002	Entergy Louisiana/ Entergy Gulf States	Louisiana	PSC Staff	Purchase Power Contracts
240. U-20925(B) August 2002	Entergy Louisiana	Louisiana	PSC Staff	Tax Issues
241. U-26531 October 2002	SWEPSCO	Louisiana	PSC Staff	Purchase Power Contract
242. 8936 October 2002	Delmarva Power & Light	Maryland	Energy Administration Dept. Natural Resources	Standard Offer Service
243. U-25965 November 2002	SWEPSCO/AEP	Louisiana	PSC Staff	RTO Cost/Benefit
244. 8908 Phase I November 2002	Generic	Maryland	Energy Administration Dept. Natural Resources	Standard Offer Service
245. 02S-315EG November 2002	Public Service Co. of Colorado	Colorado	Fed. Executive Agencies	Rate of Return

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246.	EL02-111-000 December 2002	PJM/MISO	FERC	MD PSC	Transmission Ratemaking
247.	02-0479 February 2003	Commonwealth Edison	Illinois	Dept. of Energy	POLR Service
248.	PL03-1-000 March 2003	Generic	FERC	NASUCA	Transmission Pricing (Affidavit)
249.	U-27136 April 2003	Entergy Louisiana	Louisiana	Staff	Purchase Power Contracts
250.	8908 Phase II July 2003	Generic	Maryland	Energy Admin. Dept. of Natural Resources	Standard Offer Service
251.	U-27192 June 2003	Entergy Louisiana and Gulf States	Louisiana	LPSC Staff	Purchase Power Contract Cost Recovery
252.	C2-99-1181 October 2003	Ohio Edison Co.	U.S. District Court	U.S. Department of Justice <i>et al.</i>	Clean Air Act Compliance Economic Impact (Report)
253.	RP03-398-000 December 2003	Northern Natural Gas Co.	FERC	Municipal Distributors Group/Gas Task Force	Rate of Return
254.	8738 December 2003	Generic	Maryland	Energy Admin Department of Natural Resources	Environmental Disclosure (oral only)
255.	U-27136 December 2003	Entergy Louisiana, Inc.	Louisiana	PSC Staff	Purchase Power Contracts
256.	U-27192, Phase II October/December 2003	Entergy Louisiana & Entergy Gulf States	Louisiana	PSC Staff	Purchase Power Contracts
257.	WC Docket 03-173 December 2003	Generic	FCC	MCI	Cost of Capital (TELRIC)
258.	ER 030 20110 January 2004	Atlantic City Electric	New Jersey	Ratepayer Advocate	Rate of Return
259.	E-01345A-03-0437 January 2004	Arizona Public Service Company	Arizona	Federal Executive Agencies	Rate of Return
260.	03-10001 January 2004	Nevada Power Company	Nevada	U.S. Dept. of Energy	Rate of Return

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261.	R-00049255 June 2004	PPL Elec. Utility	Pennsylvania	Office of Consumer Advocate	Rate of Return
262.	U-20925 July 2004	Entergy Louisiana, Inc.	Louisiana	PSC Staff	Rate of Return Capacity Resources
263.	U-27866 September 2004	Southwest Electric Power Co.	Louisiana	PSC Staff	Purchase Power Contract
264.	U-27980 September 2004	Cleco Power	Louisiana	PSC Staff	Purchase Power Contract
265.	U-27865 October 2004	Entergy Louisiana, Inc. Entergy Gulf States	Louisiana	PSC Staff	Purchase Power Contract
266.	RP04-155 December 2004	Northern Natural Gas Company	FERC	Municipal Distributors Group/Gas Task Force	Rate of Return
267.	U-27836 January 2005	Entergy Louisiana/ Gulf States	Louisiana	PSC Staff	Power plant purchase and cost recovery
268.	U-199040 et al. February 2005	Entergy Gulf States/ Louisiana	Louisiana	PSC Staff	Global Settlement, Multiple rate proceedings
269.	EF03070532 March 2005	Public Service Electric & Gas	New Jersey	Ratepayers Advocate Deferred Costs	Securitization of
270.	05-0159 June 2005	Commonwealth Edison	Illinois	Department of Energy	POLR Service
271.	U-28804 June 2005	Entergy Louisiana	Louisiana	LPSC Staff	QF Contract
272.	U-28805 June 2005	Entergy Gulf States	Louisiana	LPSC Staff	QF Contract
273.	05-0045-EI June 2005	Florida Power & Lt.	Florida	Federal Executive Agencies	Rate of Return
274.	9037 July 2005	Generic	Maryland	MD. Energy Administration	POLR Service
275.	U-28155 August 2005	Entergy Louisiana Entergy Gulf States	Louisiana	LPSC Staff	Independent Coordinator of Transmission Plan

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276.	U-27866-A September 2005	Southwestern Electric Power Co.	Louisiana	LPSC Staff	Purchase Power Contract
277.	U-28765 October 2005	Cleco Power LLC	Louisiana	LPSC Staff	Purchase Power Contract
278.	U-27469 October 2005	Entergy Louisiana Entergy Gulf States	Louisiana	LPSC Staff	Avoided Cost Methodology
279.	A-313200F007 October 2005	Sprint (United of PA)	Pennsylvania	Office of Consumer Advocate	Corporate Restructuring
280.	EM05020106 November 2005	Public Service Electric & Gas Company	New Jersey	Ratepayer Advocate	Merger Issues
281.	U-28765 December 2005	Cleco Power LLC	Louisiana	LPSC Staff	Power plant certification, financing, rateplan
282.	U-29157 February 2006	Cleco Power LLC	Louisiana	LPSC Staff	Storm Damage Financing
283.	U-29204 March 2006	Entergy Louisiana Entergy Gulf States	Louisiana	LPSC Staff	Purchase power contracts
284.	A-310325F006 March 2006	Alltel	Pennsylvania	Office of Consumer Advocate	Merger, Corporate Restructuring
285.	9056 March 2006	Generic	Maryland	Maryland Energy Administration	Standard Offer Service Structure
286.	C2-99-1182 April 2006	American Electric Power Utilities	U. S. District Court Southern District, Ohio	U. S. Department of Justice	New Source Review Enforcement (expert report)
287.	EM05121058 April 2006	Atlantic City Electric	New Jersey	Ratepayer Advocate	Power plant sale
288.	ER05121018 June 2006	Jersey Central Power & Light Company	New Jersey	Ratepayer Advocate	NUG contracts cost recovery
289.	U-21496, Subdocket C June 2006	Cleco Power LLC	Louisiana	Commission Staff	Rate stabilization plan
290.	GR0510085 June 2006	Public Service Electric & Gas Company	New Jersey	Ratepayer Advocate	Rate of return (gas services)

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291.	R-000061366 July 2006	Metropolitan Ed. Company Penn. Electric Company	Pennsylvania	Office of Consumer Advocate	Rate of return
292.	9064 September 2006	Generic	Maryland	Energy Administration	Standard Offer Service
293.	U-29599 September 2006	Cleco Power LLC	Louisiana	Commission Staff	Purchase Power Contracts
294.	WR06030257 September 2006	New Jersey American Water Company	New Jersey	Rate Counsel	Rate of return
295.	U-27866/U-29702 October 2006	Southwestern Electric Power Company	Louisiana	Commission Staff	Purchase Power/Power Plant Certification
296.	9063 October 2006	Generic	Maryland	Energy Administration Department of Natural Resources	Generation Supply Policies
297.	EM06090638 November 2006	Atlantic City Electric	New Jersey	Rate Counsel	Power plant sale
298.	C-2000065942 November 2006	Pike County Light & Power	Pennsylvania	Consumer Advocate	Generation Supply Service
299.	ER06060483 November 2006	Rockland Electric Company	New Jersey	Rate Counsel	Rate of Return
300.	A-110150F0035 December 2006	Duquesne Light Company	Pennsylvania	Consumer Advocate	Merger Issues
301.	U-29203 January 2007	Entergy Gulf States Entergy Louisiana	Louisiana	Commission Staff	Storm Damage Cost Allocation
302.	06-11022 February 2007	Nevada Power Company	Nevada	U.S. Dept. of Energy	Rate of Return
303.	U-29526 March 2007	Cleco Power	Louisiana	Commission Staff	Affiliate Transactions
304.	P-00072245 March 2007	Pike County Light & Power	Pennsylvania	Consumer Advocate	Provider of Last Resort Service
305.	P-00072247 March 2007	Duquesne Light Company	Pennsylvania	Consumer Advocate	Provider of Last Resort Service

APR 26 2007

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF DUQUESNE LIGHT)
COMPANY FOR APPROVAL OF)
DEFAULT SERVICE PLAN FOR) DOCKET NO. P-00072247
THE PERIOD JANUARY 1, 2008 TO)
DECEMBER 31, 2010)

**DOCUMENT
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REBUTTAL TESTIMONY

OF

MATTHEW I. KAHAL

DOCKETED
MAY 08 2007

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

APRIL 13, 2007

EXETER

ASSOCIATES, INC.

5565 Sterrett Place

Suite 310

Columbia, Maryland 21044

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Matthew I. Kahal. I am employed as an independent consultant retained in
3 this case by Exeter Associates, Inc., an economic consulting firm. My business address is
4 5565 Sterrett Place, Suite 310, Columbia, Maryland 21044.

5 Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?

6 A. Yes. On March 29, 2007, I submitted Direct Testimony on behalf of the Office of
7 Consumer Advocate (OCA) addressing the proposed 2008 to 2010 Provider of Last
8 Resort (POLR) service plan proposed by Duquesne Light Company (DLC or the
9 Company). This has been referred to in this proceeding as "POLR IV." My testimony is
10 generally supportive of the residential customer portion of that plan. I find the overall
11 residential rate and the overall residential plan to be generally reasonable and recommend
12 its approval, with one modification to the proposed rate design.

13 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

14 A. I respond at this time to the Direct Testimony of Mr. Frank Lacey on behalf of Direct
15 Energy Services, LLC and the Retail Energy Supply Associates (RESA) (Direct/RESA
16 Statement No. 1) but only as it relates to residential service. Please note that the OCA is
17 also sponsoring the Rebuttal Testimony of Ms. Barbara Alexander concerning Mr.
18 Lacey's recommendations for residential POLR.

19 Q. MR. LACEY TESTIFIES FOR A COMPETITIVE SUPPLIER. DID OTHER
20 PARTIES REPRESENTING COMPETITIVE SUPPLIERS SUBMIT
21 TESTIMONY?

22 A. Yes. Other suppliers submitted testimony including Dominion Retail, Inc., Strategic
23 Energy, LLC, Constellation New Energy, Inc. and Reliant Energy, Inc. The only other
24 witness to challenge the residential portion of POLR IV is Richard J. Hudson on behalf of
25 Strategic and RESA. However, he relies on Mr. Lacey for his residential critique and

1 provides no analysis independent of Mr. Lacey. For that reason, I am limiting my
2 response to Mr. Lacey.

3 Q. DO ANY WITNESSES CHALLENGE THE VALIDITY OF THE DLC RETAIL
4 POLR RATE AS BEING REASONABLY REPRESENTATIVE OF CURRENT
5 MARKET CONDITIONS?

6 A. No. Dominion witness Mr. Butler states at page 3 that the proposed rate is within the
7 reasonable range, albeit toward the lower end of the range. Mr. Lacey concedes “that the
8 prices Duquesne proposed represent a fair proxy for where market prices are today in the
9 Duquesne service territory.” (Page 9, emphasis in original) Mr. Lacey goes on to state
10 that the market prices can and probably will change over time in ways that cannot be
11 reliably predicted.

12 Q. WHAT DOES MR. LACEY RECOMMEND?

13 A. For residential service, he recommends rejecting Duquesne’s three-year, fixed price offer
14 in favor of quarterly pricing which would be based on a quarterly wholesale competitive
15 procurement. (Id., page 12-13) Mr. Lacey also mentions a monthly-priced POLR model
16 as a possible future arrangement, but I do not read his testimony as recommending it at
17 this time for residential customers.

18 Q. WHY DOES HE REJECT DLC’S PROPOSAL IN FAVOR OF QUARTERLY
19 PROCUREMENT AND PRICING FOR RESIDENTIAL CUSTOMERS?

20 A. Setting aside his legal arguments, Mr. Lacey advocates his quarterly model from two
21 perspectives. First, he argues that a fixed-price POLR structure cannot support retail
22 competition, even when retail suppliers are in a position to offer customers a fixed-price
23 service well below the utility’s POLR price. In essence, he argues that retail suppliers will
24 simply refuse to operate in such a market. Second, he argues that residential customers
25 will benefit from what he calls “short-term POLR pricing” (or “market-reflect POLR”)

1 even if they do not choose competitive service. In other words, short-term pricing is
2 inherently less expensive than DLC's fixed-price service, and the DLC POLR IV plan is
3 denying residential customers those savings.

4 Q. DOES HE PROVIDE ANY TANGIBLE EVIDENCE SUPPORTING HIS
5 SAVINGS ASSERTIONS?

6 A. He attaches a study to his testimony as Exhibit FPL-3, prepared by Intelometry, Inc. This
7 study estimates that residential customers would have saved \$77 million during 2005 and
8 2006 had POLR been priced purely at hourly spot prices (the PJM day-ahead and real-
9 time markets) rather than the DLC fixed price established under POLR III.¹ This study
10 appears to be the basis for his assertion that residential customers would be better off
11 under his recommended approach.

12 Q. ARE THE RESULTS FROM THE INTELOMETRY, INC. STUDY
13 ACCURATE?

14 A. The \$77 million appears to be grossly overstated and should be disregarded. This
15 estimate seems to be based on an inflated estimate of DLC residential kWh sales rather
16 than the actual level of sales, which thereby would overstate the savings. Moreover, the
17 analysis seems to assume that 100 percent of the DLC residential load is on POLR
18 service, when in reality a substantial portion during 2005 and 2006 was on competitive
19 service. For these reasons, the total dollar savings quantification should not be taken
20 seriously.

21 Of much greater interest, is the study's estimate of savings per kWh from spot
22 pricing -- about 0.7 cents (i.e., 7 mills). While I have not validated the calculations, it is
23 entirely plausible that spot prices may be available at a discount to a multi-year fixed

¹ The study also incorporates costs for capacity, ancillary services, losses and taxes to obtain a retail equivalent.

1 price for full requirements generation service. Fixed prices must reflect supplier risk
2 premiums and hedging costs, and such costs are reflected in normal market transactions.

3 In addition, it is important to understand that the study is a comparison of a
4 before-the-fact market estimate (the POLR fixed price) and after-the-fact actuals (the spot
5 prices). This “apples and oranges” aspect is a limitation of the study and must be kept in
6 mind when reviewing the results.

7 Q. WITH THESE LIMITATIONS IN MIND, DOES EXHIBIT FPL-3 SUPPORT
8 MR. LACEY’S POSITION?

9 A. No, because it has nothing to do with his recommendation. Mr. Lacey recommends a
10 wholesale competitive procurement that would be conducted quarterly, presumably
11 several months before the quarterly wholesale supply contracts (and corresponding retail
12 pricing) actually take effect. This has nothing to do with the pure LMP spot prices vs.
13 fixed prices shown in the Intelometry study. The quarterly wholesale bids will reflect the
14 hedging costs, risk premiums, supplier profit requirements, etc. that are part of the
15 present approach. They bear no resemblance to the theoretical LMP-based prices
16 employed in the study. In fact, quarterly procurement will substantially increase
17 transactions and administrative costs both for DLC and wholesale suppliers, may
18 discourage bidding participation and therefore may increase the ultimate POLR price to
19 residential consumers relative to DLC’s proposal, not reduce it.

20 Q. YOU ARGUE THAT THE INTELOMETRY STUDY IS NOT RELEVANT IN
21 ANY WAY TO MR. LACEY’S QUARTERLY MODEL. WHY NOT GO ALL
22 THE WAY TO A PURE HOURLY POLR, AS MODELED IN THE STUDY?

23 A. While on its face the hourly pricing in the past might have been below the Duquesne
24 POLR price on an aggregate basis, such might not be the case in the future. It is this
25 uncertainty that the long-term, hedged price addresses. Additionally, as can be seen from

1 the study, the price changes month to month can be very large, thus greatly affecting
2 customer bills in an unpredictable manner and introducing the need for large
3 reconciliation since the POLR price must be set in advance of service and then reconciled
4 to the actual LMPs.

5 The plain fact is that customers do not want LMP-based or monthly pricing and
6 are willing to pay a premium to obtain price hedging and rate certainty to avoid the
7 volatility that wreaks havoc with household budgets. This is not just an attribute of
8 residential preferences but is normal market behavior for businesses as well. The use of
9 hedging, risk premiums and forward contracting are typical (and necessary) attributes of
10 rational market and business behavior, not some sort of inefficiency to be eliminated
11 through regulation.

12 Q. CAN YOU PROVIDE AN EXAMPLE OF BUSINESS HEDGING ACTIVITY?

13 A. Certainly. Consider how businesses finance their operations, with DLC itself as a prime
14 example. In financing capital expansion, DLC must choose among a range of debt
15 instruments. Short-term debt typically (though not always) is the least expensive,
16 historically 100 to 200 basis points (or more) below the cost of long-term debt. DLC
17 (correctly in my opinion) mostly selects long-term debt to “hedge” its capital costs over
18 time, and it thereby avoids both the uncertainty and volatility of extraordinarily large
19 short-term borrowings. Obviously, there is a role for short-term debt, just as there is for
20 spot power purchases, but it is a specialized and limited one, with DLC properly hedging
21 most of its debt capital costs through long-term instruments.

1 Q. HOW DO YOU KNOW THAT RESIDENTIAL CUSTOMERS PREFER FIXED
2 PRICE GENERATION SERVICE OVER A SPOT PRICE SERVICE THAT IS
3 SHORN OF HEDGING COSTS?

4 A. This can be determined directly by observing market behavior. Competitive retail
5 suppliers presumably offer customers (residential and non-residential) the products that
6 they want at prices that can attract customers. It is my understanding that retail suppliers
7 typically do not provide or offer residential customers contracts based on LMP, quarterly
8 pricing or monthly pricing. My understanding is that the retail contracts typically are
9 fixed priced for periods of at least one year.

10 What this means is that the Intelometry study is merely a theoretical construct and
11 does not reflect any real world market reality. Customers (and businesses) want stability
12 and fixed prices and are willing to pay the hedging premiums to obtain it. This is true
13 both for POLR service and competitive retail service. This is analogous to DLC and
14 other major corporations issuing long-term debt to hedge capital costs, accepting the cost
15 premia in doing so rather than financing mostly with short-term debt.

16 Q. MR. LACEY'S OTHER ARGUMENT IS THAT FIXED-PRICE POLR IS
17 INCOMPATIBLE WITH A RETAIL MARKET. IS THIS ASSERTION
18 CORRECT?

19 A. No, it is not. DLC has provided fixed-price POLR throughout this decade and residential
20 retail competition has developed, as discussed by DLC witnesses. If Mr. Lacey's
21 assertions were accurate, there would have been no retail suppliers or retail shopping
22 activity during this period in DLC's service area. That said, it may be unreasonable at
23 this juncture to assume that all or even most residential customers will actively seek and
24 obtain competitive service irrespective of POLR prices. This is true even with an active

1 retail market and competitive retail suppliers having the ability to profitably undercut the
2 POLR fixed prices.

3 Q. DO YOU AGREE WITH MR. LACEY'S CONTENTION THAT
4 QUARTERLY-PRICED SERVICE PROVIDES CUSTOMERS WITH MORE
5 ACCURATE PRICE SIGNALS?

6 A. No. Quarterly priced service provides customers with no meaningful price signals at all
7 relative to retail service. Under DLC's POLR IV plan, residential customers will have a
8 transparent and easily understandable "price to compare." They can easily judge whether
9 a competitive offer can provide savings (and how much), and suppliers, in turn, have a
10 well-defined POLR price target. The shopping price signals are clear to both sides of the
11 retail market.

12 Under quarterly pricing, there is no POLR price signal that customers can use to
13 evaluate competitive offers because the customer is only told the POLR price for the next
14 quarter. There is no rational way to compare this to an annual offer. Customer confusion
15 will be the inevitable result. This confusion could either paralyze customers or panic
16 them into taking competitive service in order to avoid the unacceptable risks of POLR
17 prices that can change unpredictably every quarter.

18 In my opinion fear and confusion are the wrong reasons for promoting retail
19 competition and the wrong reasons for customers to select competitive supply.

20 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

21 A. Yes, it does.
22
23

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BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF DUQUESNE LIGHT)
 COMPANY FOR APPROVAL OF)
 DEFAULT SERVICE PLAN FOR) DOCKET NO. P-00072247
 THE PERIOD JANUARY 1, 2008 TO)
 DECEMBER 31, 2010)

DOCUMENT FOLDER

SURREBUTTAL TESTIMONY

OF

MATTHEW I. KAHAL

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

DOCKETED
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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

APRIL 20, 2007

EXETER

ASSOCIATES, INC.

5565 Sterrett Place
Suite 310
Columbia, Maryland 21044

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3 this case by Exeter Associates, Inc., an economic consulting firm. My business address is
4 5565 Sterrett Place, Suite 310, Columbia, Maryland 21044.

5 Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?

6 A. Yes. On March 29, 2007, I submitted Direct Testimony on behalf of the Office of
7 Consumer Advocate (OCA) addressing the proposed 2008 to 2010 Provider of Last
8 Resort (POLR) service plan proposed by Duquesne Light Company (DLC or the
9 Company). This has been referred to in this proceeding as "POLR IV." On April 13,
10 2007, I submitted Rebuttal Testimony. My testimony is generally supportive of the
11 residential customer portion of the POLR IV plan.

12 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

13 A. My Surrebuttal Testimony responds to Company witness Pfrommer's Rebuttal
14 Testimony concerning the design of the Schedule RH rate for one year--2010; Direct
15 Energy Services, LLC and Retail Energy Supply Associations (Direct Energy/RESA)
16 witness Lacey concerning the appropriateness of a fixed-price POLR rate for residential
17 customers; and Reliant witness Ajello concerning residential demand-side programs.

18 A. **Reply to Mr. Pfrommer**

19 Q. BASED ON THE COMPANY'S REBUTTAL TESTIMONY, WHAT ARE THE
20 AREAS OF DISAGREEMENT?

21 A. As Mr. Pfrommer correctly states, my testimony generally supports the residential
22 portion of POLR IV, including the rate design changes, with one small exception. I
23 recommend a somewhat lower rate for Rate RH, for one year -- 2010. Specifically, I am
24 recommending that the Company's proposed rate in 2010 be reduced by 0.5 cents per
25 kWh.

1 Q. WHY DO YOU DESCRIBE THIS AS A SMALL ISSUE?

2 A. This is a relatively small issue because the Rate RH customers are only 5 percent of
3 residential customers and my proposed rate change is only for one year of the three-year
4 POLR IV term. I am not contesting the Company's rate structure change, i.e.,
5 elimination of declining block rates, nor am I contesting the proposed 2008 or 2009 rates.
6 Moreover, the dollars involved in this change are relatively small. The revenue reduction
7 would be only about \$1.3 million as compared to about \$700 million in total residential
8 POLR revenue for this three-year period.¹

9 Q. WHY DID YOU PROPOSE THIS MODIFICATION?

10 A. As explained in some detail in my Direct Testimony, there are two important reasons for
11 doing so. First, available evidence indicates that the market cost to serve the Rate RH
12 customers is somewhat less than the cost to serve the standard residential customers (Rate
13 RS), although this difference is not large. The Company's own analysis would indicate a
14 cost reduction for the Rate RH customers of about 5 percent, suggesting that the proposed
15 2010 rate is above estimated market cost. Second, the Company is proposing a
16 dramatically larger POLR rate increase for Rate RH customers, 34.2 percent phased-in
17 over three years. While my proposed change is fairly modest, it does provide some
18 mitigation of this large rate increase for these customers.

19 It is important to amplify why this rate mitigation is important. The existing
20 (winter season) declining block rates for Rate RH customers are a legacy from the pre-
21 restructuring rate design when the Company may have been encouraging the addition of
22 new loads and the installation of household electric heating. In response to this price
23 signal, these customers elected to install electric heating systems and thereby have made

¹ Mr. Pfrommer suggests the revenue loss would be about \$1.6 million. My calculations assumed that 17 percent of the RH load would take competitive service and that may explain the \$0.3 million difference. However, I cannot confirm that, and for simplicity I refer to the revenue difference as \$1.6 million.

1 a capital commitment to this service. I agree fully with the Company that it is now
2 appropriate to phase-out this legacy rate design, but it should be done in a manner that
3 eases the transition to flat rates and full market costs. To its credit, the Company has
4 attempted to do so through its phase-in, but in doing so, it over shoots the mark by a
5 small amount in 2010. Given the circumstances that these heating customers face of very
6 large rate increases, I believe that it is desirable in the third year of POLR IV to recognize
7 the lower-than-average market cost for serving these customers to ease the transition (if
8 only modestly) and to moderate the rate shock.

9 Q. DOES THE COMPANY CONCEDE THE LOWER COST TO SERVE THESE
10 CUSTOMERS?

11 A. Yes. Mr. Pfrommer suggests that the market cost differential is 0.26 cents per kWh (i.e.,
12 $7.156 - 6.895 = 0.261$). However, load shaping and market cost data supplied by the
13 Company in response to OCA II-7 indicate an estimated wholesale cost of serving Rate
14 RS of \$49.88 per MWh compared to \$47.38 for Rate RH. This is a 5.4 percent cost
15 premium. The wholesale rates, of course, must be grossed up to retail to account for
16 GRT taxes, losses, hedging costs, profit requirements, etc. Applying this differential of
17 about 5 percent to the “fully loaded” retail rate of 7.156 cents implies a retail-level cost
18 reduction for Rate RH of about 0.36 cents.² This is somewhat larger than Mr.
19 Pfrommer’s market cost differential, although I employ the Company’s own load shaping
20 and costing data.

21 While my 0.5 cents is larger than the calculated cost difference of 0.36 cents, I
22 believe this is reasonable to provide some modest rate mitigation to these “locked in”
23 heating customers.

² I provided this calculation to the Company in response to Company request I-4. Mr. Fisher cites to my discussion of OCA I-18, but that response was used only to obtain an understanding of load patterns, not to calculate market costs.

1 Q. WHAT OBJECTIONS DOES MR. PFROMMER RAISE CONCERNING
2 YOUR PROPOSED CHANGE TO THE 2010 RH RATE?

3 A. Mr. Pfrommer opposes my alleged “further reduction” to the RH rate arguing that it
4 could create confusion and is contrary to the Company’s proposal to simplify rate design.
5 He further comments that it will result in a total revenue loss of about \$1.6 million (for
6 the three-year life of the program), and therefore if a market cost-based rate is adopted for
7 Rate RH in 2010, then the RS and RA rates should be slightly increased. In fact, in that
8 case he recommends increases to the filed RS and RA rates for all three years, 2008, 2009
9 and 2010.

10 Q. ARE YOU RECOMMENDING A RATE REDUCTION FOR RATE RH
11 CUSTOMERS?

12 A. No, I am recommending a very substantial phased-in rate increase for these customers as
13 discussed in my Direct Testimony. I have adopted the Company’s filed rate increases for
14 2008 and 2009. I further increase the RH rate in 2010, as compared to the 2009 rate, but
15 it is a smaller increase than proposed by the Company.

16 Q. DOES YOUR RECOMMENDATION CREATE “CONFUSION” OR WORK
17 AGAINST THE GOAL OF SIMPLIFICATION?

18 A. No, it does not. Both Mr. Pfrommer and I recognize the practical necessity of phasing
19 out the declining block structure and below market rates (in the winter tail block) for the
20 RH customers. Both of us change the overall RH rate in each of the three years of POLR
21 IV, and we both fully phase in flat rates. The only difference is that I arrive at a different
22 flat rate in 2010 than he does (a 0.5 cent per kWh difference). The RH customers in 2010
23 presumably will be given a simple cents-per-kWh “price to compare” that they can use to
24 evaluate the merits of competitive supplier offers, without factoring in the complexities
25 of declining block rates. This will be true under both Mr. Pfrommer’s proposal and mine.

1 While our 2010 “prices to compare” will be different values, the process that the RH
2 customer uses (if the customer wishes to shop) will be exactly the same. My 2010 “price
3 to compare” is no more “complex” than Mr. Pfrommer’s.

4 Q. DO YOU AGREE THAT THE RS AND RA RATES MUST BE INCREASED
5 TO COVER THE ASSERTED \$1.6 MILLION REVENUE LOSS?

6 A. In the context of the filed POLR IV, I do not believe that the revamping of the filed rates,
7 as shown in Mr. Pfrommer’s Rebuttal Testimony, is necessary or appropriate. His point
8 would be much more persuasive in the case of full requirements POLR supply being
9 obtained through an arms-length competitive auction or RFP process. In that case, the
10 prices would not be precisely known until the competitive procurement is completed, and
11 at that point rates would be computed to recover the full contract costs.

12 *The context for POLR IV is different, with the financial arrangements for supply*
13 *being a negotiated contract. The Company (based on Mr. Fisher’s analysis) has*
14 *estimated going-forward market prices that would be obtained from conducting a*
15 *competitive procurement, relying on and adapting results from recent competitive*
16 *procurements conducted by other utilities. It is clear from the evidence in this case that*
17 *such a price reflects the wholesale cost of power, hedging costs, seller transactions costs,*
18 *seller risk premiums and the profit requirements associated with and embedded in those*
19 *RFP results. On top of those actual risk premium and profit requirements, the Company*
20 *seeks to add another 3 mills per kWh for risks asserted to be unique to POLR IV.*

21 As I stated in my Direct Testimony, I do not contest Mr. Fisher’s POLR cost
22 estimates or the concept of having some reasonable level of additional risk premium over
23 and above risk premium/profit requirements embedded in other POLR supply contracts.
24 But the 3 mill figure is clearly a subjective amount that Duquesne is seeking, rather than
25 being a precisely measurable cost. Quite obviously, the \$1.6 million (or \$1.3 million)

1 2010 revenue loss is very small compared to the additional revenue that will be generated
2 from residential customers under the POLR IV Plan.

3 I might add that there are certain aspects of the POLR IV proposal that appear to
4 provide risk protection for Duquesne Power that are not normally available to other
5 wholesale POLR suppliers. For example, Duquesne Power is not at risk for cost changes
6 in ancillary services or PJM charges. These items, which are typically part of wholesale
7 POLR supply, instead will be recovered in the DLC transmission charges at actual cost.
8 (My testimony supports that arrangement as reasonable.)

9 For all of these reasons, I do not believe that it is appropriate to raise the RA and
10 RS rates to levels above those in the Company's original filing. The proposed overall
11 level of residential rates and revenues are sufficient to absorb this relatively minor \$1.3 or
12 \$1.6 million revenue reduction from adjusting the 2010 RH rate to estimated market cost.

13 **B. Reply to Mr. Lacey**

14 Q. WHAT CRITICISMS OF YOUR TESTIMONY DOES MR. LACEY SET
15 FORTH IN HIS REBUTTAL TESTIMONY?

16 A. His criticisms are quite basic. He objects to my support of the residential portion of
17 POLR IV on the basis of my stated standards or objectives for a reasonable residential
18 POLR service. He describes my position that residential rates should be affordable and
19 stable, to the extent practicable, but claims that my position demonstrates a fundamental
20 misunderstanding of the "path of deregulation". Mr. Lacey claims that DLC's pre-
21 restructuring rates "were amongst the highest in the country" (page 2).

22 Q. WHAT ARE THE STANDARDS IN YOUR TESTIMONY THAT MR. LACEY
23 CONTESTS?

24 A. As noted by Mr. Lacey, my testimony states that POLR service should:

- 25 • be at lowest reasonable cost;

- 1 • provide for rate stability;
- 2 • allow for supply or resource diversity if needed to promote stability;
- 3 • provide potential opportunities for cost-effective energy efficiency and
- 4 demand management.

5 As best I can tell, Mr. Lacey's objection seems to be limited to the rate stability inherent
6 in residential POLR IV since he expresses no particular opinion on the level of POLR
7 rates. This dovetails with Mr. Lacey's proposal for quarterly procured and priced
8 residential default service in his Direct Testimony. Both OCA witness Alexander and I
9 already have responded to that proposal.

10 Q. MR. LACEY REFERS TO THE GENERATION SERVICE OF PRE-
11 RESTRUCTURED DLC. WHAT DOES THAT HAVE TO DO WITH POLR IV
12 AND YOUR CONCURRENCE WITH THAT PROGRAM?

13 A. Absolutely nothing. The DLC pre-restructuring rates were based on unique factors that
14 existed at that time including high nuclear costs and the health of the local service area
15 economy. POLR IV rates are completely unrelated to those factors -- or any other aspect
16 of regulated generation service. POLR IV rates are based on the prices derived from the
17 competitive wholesale market, adjusted up to retail levels. Moreover, Duquesne Power
18 will be acquiring its power supply to serve POLR IV loads from the complete
19 wholesale market. There is no relevance to his comparisons with regulated generation,
20 nor is there any reference to that in my testimony.

1 Q. MR. LACEY CITES PENNSYLVANIA LEGISLATIVE LANGUAGE
2 STATING THAT RETAIL CUSTOMERS SHOULD HAVE DIRECT ACCESS
3 TO THE COMPETITIVE MARKET (PAGES 2-3). IS THIS CONSISTENT
4 WITH POLR IV?

5 A. Yes. Customers will have access to unregulated, competitive generation in one of two
6 ways. They are free to select a competitive retail supplier (and many have done so under
7 POLR I, II and III). Or, they may take POLR service, which fully reflects the prices and
8 supplies from a competitive wholesale generation market.

9 Q. MR. LACEY DISCUSSES THE ATTRIBUTES OF DEREGULATED
10 GENERATION. HAS DEREGULATION CHANGED THE NEEDS OF
11 RESIDENTIAL CUSTOMERS?

12 A. No. Regulated generation supply and a deregulated market are different methods or
13 frameworks for providing electric service and have different attributes. But residential
14 customer needs have not changed. Pennsylvania customers continue to regard electric
15 supply as a vital service and, because of constraints on household budgets, this service
16 should be affordable and stable in cost. Deregulation is a means to an end -- safe,
17 efficient, affordable and stable electric service. It does not change the underlying needs
18 of residential customers.

19 Q. AT PAGE 3, MR. LACEY DESCRIBES POLR IV AS PRODUCING A "COST
20 OF SERVICE", NOT A "PREVAILING MARKET PRICE". IS HE CORRECT?

21 A. No, he is incorrect, and he provides no evidence in support of his position. While I agree
22 that the contract payments that DLC will make to Duquesne Power are part of its cost of
23 service, the same would be true under his quarterly or monthly POLR proposals. The
24 POLR IV prices reflect a reasonable estimate today of the forward "prevailing market

1 prices". It is unimportant whether he believes it to be "opaque". Rather, the issue is
2 whether it is in line with market requirements.

3 Q. AT PAGES 3 AND 4, MR. LACEY CONTENDS THAT POLR IV IS "ANTI-
4 COMPETITIVE". DO YOU AGREE?

5 A. No. To the contrary, the POLR IV prices are based on the results of competitive auctions
6 and RFPs (plus risk adders discussed above). In this context, "lowest reasonable price"
7 refers to the lowest reasonable price obtainable from a competitive market using an
8 efficient and effective procurement process. This objective must be balanced with
9 customer price stability needs.

10 Competition is favored precisely because it can produce lower prices than do
11 uncompetitive markets. Perhaps it is Mr. Lacey's point that artificially low prices can
12 inhibit competition, but he has presented no evidence that the POLR IV prices are
13 artificially low. Indeed, DLC has no incentive to charge POLR prices that are artificially
14 low or below market.

15 Q. MR. LACEY INSISTS THAT A "CONTRACT PRICE" DERIVED FROM AN
16 AUCTION IS NOT A PREVAILING MARKET PRICE. IS HE CORRECT?

17 A. No, he is completely incorrect. Generation supply comes in many forms or "products"
18 such as block energy, capacity, load following, etc., and over many different time
19 periods. A properly conducted auction in a well-functioning market will elicit or obtain
20 the "prevailing market prices" for the generation product being sought. Mr. Lacey
21 mistakenly focuses narrowly on one type of product -- spot energy and capacity.

22 Ironically, if only spot or very short term supply could meet his definition of
23 prevailing market price, then Direct Energy and other retail suppliers also could not meet
24 his standard. This is because they typically sell power to retail customers at fixed
25 contract prices for an extended period of time -- i.e., one year or several years. Is it Mr.

1 Lacey's position that retail suppliers do not sell generation at "prevailing market prices"?
2 If so, then his use of the term has no practical meaning.

3 **C. Reply to Mr. Ajello**

4 Q. WHAT ISSUE DOES MR. AJELLO RAISE?

5 A. Mr. Ajello takes issue with the statement on page 22 of my Direct Testimony that there is
6 little evidence that the competitive retail market will provide demand-side programs for
7 residential customers. Consequently, I recommended that DLC should explore the
8 development of cost-effective programs, although it need not be done in this proceeding.
9 Moreover, given the lack of demand-side program initiatives from competitive suppliers
10 to date, I urged that DLC program offerings should be available to all residential
11 customers, not just POLR customers, on a competitively neutral basis.

12 Mr. Ajello argues that competitive suppliers can offer such programs to
13 residential customers and his firm, Reliant Energy, intends to do just that. In fact, he
14 states that Reliant presently offers such services in the Texas retail market.

15 Q. WHAT IS YOUR RESPONSE?

16 A. *Efforts by retail suppliers to provide demand-side programs and energy efficiency*
17 *measures for residential customers would be both welcome and commendable. However,*
18 *at this time Mr. Ajello identifies no specific initiatives and, to my knowledge, no such*
19 *programs have been offered by competitive suppliers for DLC's residential customers*
20 *since restructuring began. Hence, as DLC identifies cost-effective initiatives, I believe*
21 *that they should be made available to all residential customers, not just POLR customers.*
22 *If and when retail suppliers begin to provide demand-side measures, DLC's programs can*
23 *be modified or coordinated, as appropriate, with retail supplier programs to avoid*
24 *unwarranted duplication.*

25 At this time, I see no need to modify my position on this issue.

1 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

2 A. Yes, it does.

00093646

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF DUQUESNE LIGHT)
COMPANY FOR APPROVAL OF)
DEFAULT SERVICE PLAN FOR THE)
PERIOD JANUARY 1, 2008 TO)
DECEMBER 31, 2010)

DOCKET NO. P-00072247

**DOCUMENT
FOLDER**

REBUTTAL TESTIMONY

OF

BARBARA R. ALEXANDER

CONSUMER AFFAIRS CONSULTANT

DOCKETED
MAY 08 2007

ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

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SECRETARY'S BUREAU

APRIL 13, 2007

1 Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

2 A. My name is Barbara R. Alexander. I use the title of Consumer Affairs Consultant. My
3 address is 83 Wedgewood Dr., Winthrop, ME 04364. I appear in this case as a witness
4 on behalf of the Office of Consumer Advocate (OCA).

5 Q. PLEASE STATE YOUR BACKGROUND AND QUALIFICATIONS.

6 A. I opened my consulting practice in March 1996, after nearly ten years as the Director of
7 the Consumer Assistance Division of the Maine Public Utilities Commission. While
8 there, I testified as an expert witness on consumer protection, customer service and low-
9 income issues in rate cases and other investigations before the Commission. My
10 consulting practice is directed to consumer protection, customer service and low-income
11 programs and policies relating to the regulation of the telephone, electric and gas
12 industries. In particular, I have focused on the changes in policies and procedures
13 required by state regulation in the transition to retail competition. My recent clients
14 include the Pennsylvania Office of Consumer Advocate, New Jersey Division of
15 Ratepayer Advocate, Maryland Office of People's Counsel, Maine Office of Public
16 Advocate, Illinois Citizens Utility Board, and AARP (in Montana, Illinois, New Jersey,
17 Maine, and the District of Columbia). Among my publications are: Retail Electric
18 Competition: A Blueprint for Consumer Protection, (U.S. Department of Energy, Office
19 of Energy Efficiency and Renewable Energy, October, 1998). Most recently, I have
20 focused attention on Default Service issues relating to the transition to retail competition
21 for both electric and natural gas industries. I have published several papers on Default

1 Electric Service,¹ and have recently published a paper on state regulatory policies to
2 dampen price volatility in the provision of natural gas supply service.² I have filed
3 testimony on default service issues in Maine, Montana, Maryland, District of Columbia,
4 Pennsylvania, and made numerous presentations on this issue before state regulatory
5 commissions and at national conferences.

6 I am also an attorney, and a graduate of the University of Michigan (1968) and the
7 University of Maine School of Law (1976).

8 I have been involved in the implementation of retail electric and natural gas
9 competition in Pennsylvania on behalf of the OCA for several years. I filed testimony on
10 consumer education, consumer protection, supplier licensing, customer enrollment, default
11 service, and Code of Conduct issues for the OCA in the Commission's electric
12 restructuring proceedings in 1997 and 1998 and on these same issues in the natural gas
13 restructuring cases in 1999 and with regard to the PGW gas restructuring proceeding in
14 2003. I have provided testimony submitted on behalf of the OCA on service quality and
15 low income program issues associated with recent electric and natural gas distribution
16 company mergers. With respect to POLR issues, I filed testimony on behalf of the OCA
17 in the Duquesne Light POLR III plan case, Docket No. P-00032071, the Penn Power
18 POLR case, Docket No. P-00052188, and, most recently, the PPL Competitive Bridge
19 POLR proposal, Docket P-00062227.

¹ My April 2002 paper is available at <http://www.ncat.org/liheap/pubs/barbadefault3.doc>. My most recent publication on Default Electric Service, "Managing Default Service to Provide Consumer Benefits in Restructured States: Avoiding Short Term Price Volatility" (2003), is also available at http://www.neaap.ncat.org_experts_index.

² "Natural Gas Price Volatility: Regulatory Policies to Assure Affordable and Stable Gas Supply Prices for Residential Customers," (2004), available at <http://www.ncat.org/liheap/news/Feb04/gaspricevol.htm>

1 Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS PROCEEDING?

2 A. No.

3 Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

4 A. I am filing Rebuttal Testimony in response to the testimony of Frank Lacey on behalf of
5 Direct Energy Services, LLC and the Retail Energy Supply Association (RESA). My
6 testimony is directed to his proposals concerning POLR or default service for residential
7 customers. Since Mr. Richard Hudson's Direct Testimony, also on behalf of RESA,
8 endorses Mr. Lacey's approach and relies on Mr. Lacey's testimony for his
9 recommendations concerning POLR service for residential customers, it is not necessary
10 to address Mr. Hudson's testimony separately.

11 Q. PLEASE SUMMARIZE MR. LACEY'S RECOMMENDATIONS.

12 A. Mr. Lacey makes four basic recommendations:

- 13 • DLC should purchase 100% of the POLR service for residential and small
14 commercial customers at least four times per year, but preferably every month;
- 15 • Residential and small commercial customers should experience quarterly or
16 preferably monthly price changes that reflect these short-term wholesale market
17 purchases;
- 18 • DLC should operate a customer education and referral program to stimulate customer
19 awareness of and potentially encourage a higher level of migration to competitive
20 energy suppliers; and
- 21 • DLC should offer both consolidated rate-ready and bill-ready billing options to all
22 competitive energy suppliers.

1 Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

2 A. My Rebuttal testimony is based on the assumption that the purpose of this proceeding is
3 to decide how Duquesne Light Co. (DLC) should acquire the necessary generation
4 resources to provide POLR service for between January 1, 2008 and December 31, 2010
5 and that this proceeding does not address a longer term POLR policy or POLR plan. I
6 recommend that the Commission reject Mr. Lacey's recommendation for monthly or
7 quarterly purchases of DLC's entire POLR portfolio for residential customers, with the
8 attendant price changes that such an approach would require. In rejecting Mr. Lacey's
9 approach, I respond to his interpretation of the Commission's recently proposed draft
10 POLR rules (Advanced Notice of Final Rulemaking or ANFOR Order (February 9, 2007,
11 Docket No. L-00040169) and Proposed Policy Statement Order on Default Service
12 (February 9, 2007, Docket No. M-00072009), even though these proceedings are not
13 completed and the rules are not yet in effect. I also respond to his statements concerning
14 the alleged benefits for consumers with quarterly or monthly acquisitions and price
15 changes. I have some concerns about his proposal for DLC to operate an education and
16 referral program for customers to be directed to competitive energy suppliers. I do not
17 comment on the proposal that DLC offer both rate-ready and bill-ready consolidated
18 billing options to suppliers.

1 Q. OVERALL, DO YOU AGREE WITH THE BASIS FOR THE PROPOSALS BY THE
2 MR. LACEY ON BEHALF OF DIRECT ENERGY AND RESA CONCERNING POLR
3 SERVICE AND ITS ROLE FOR PENNSYLVANIA RESIDENTIAL ELECTRIC
4 CUSTOMERS?

5 A. No. Mr. Lacey's primary basis for seeking this dramatic change in the method of
6 acquiring and pricing essential electricity service for residential customers appears to
7 reflect his view that such a method of providing POLR will stimulate customers to
8 participate in a competitive retail market. Mr. Lacey argues that competitive suppliers
9 cannot compete against a stable POLR price. While DLC has created a POLR portfolio
10 and offered a fixed price for a three-year period, evidently Direct Energy and other RESA
11 members are unable to do so. Mr. Lacey argues that the competitive supplier is
12 disadvantaged and is unable to establish a long-term viable business because of the risk
13 that the POLR price would be above or below the current market price, appearing to
14 suggest that an EGS is unable to create a portfolio of generation supply products and
15 offer a comparable service to DLC's customers. However, this assertion is surely
16 incorrect since any EGS has the same ability as DLC's generation supply provider to
17 create a portfolio, assume risk, and offer a price based on the three-year portfolio
18 acquired in the wholesale market. An EGS is not limited to offering generation supply
19 services based only on short-term wholesale market trends.

1 Q. WHAT IS YOUR VIEW OF MR. LACEY'S STATEMENTS THAT DLC'S POLR
2 PROPOSAL IN THIS PROCEEDING IS ANTITHETICAL TO THE COMMISSION'S
3 RECENT ANOFR AND DEFAULT SERVICE POLICY STATEMENT?

4 A. Mr. Lacey has pointed out some differences between the POLR proposal put forth by
5 DLC as an interim POLR plan and the Commission's AFOFR and Policy Statement, but
6 he has not fully reflected the Commission's statements. While it is not particularly useful
7 to point to draft or proposed regulatory statements to justify a decision in a proceeding
8 that is only intended to be an interim resolution and not establish precedent, it is
9 important to note that the Commission's proposed regulations allow each EDC to propose
10 its own POLR or default service plan. These statements do not require the EDC to
11 acquire 100% of the POLR portfolio at any one point in time, let alone on a quarterly or
12 monthly basis. The proposal for quarterly pricing that does appear in the Commission's
13 statements is far different from a proposal for quarterly (or monthly as ideally preferred
14 by RESA) *acquisition* of the entire POLR portfolio. With regard to price stability, the
15 Commission clearly stated its preference for price stability, particularly for residential
16 customers. The Commission's proposed regulations and policy statement appear to
17 encourage the development of a portfolio of purchases designed to provide "the lowest
18 reasonable long-term costs." Proposed §54.186. The Commission has not suggested that
19 Default Service must rely entirely on wholesale spot market practices and appears to have
20 recognized that "prevailing market prices" can reflect the competitively acquired price
21 for a variety of contract types and contract lengths. Proposed §54.182, Definitions, and
22 §54.186.

1 It should be noted that the Administrative Law Judge recently denied a Motion
2 filed by the Duquesne Industrial Intervenors who sought to sever DLC's large
3 commercial and industrial proposal for POLR service from this proceeding pending the
4 resolution of these issues in the pending ANOFR and policy statement. Among the
5 reasons for denying DII's motion was that the Commission's proposed POLR regulations
6 were proposals and not final, and so they had no effect on the current proceeding, stating,
7 "The proposed regulations, therefore, cannot be used as a benchmark against which to
8 judge the reasonableness of Duquesne Light's proposed Plan."³ The ALJ also pointed
9 out that the proposed regulations were subject to change prior to being finalized.

10 Q. MR. LACEY STATES THAT THE USE OF HIS PROPOSED POLR ACQUISITION
11 METHOD WOULD HAVE RESULTED IN LOWER BILLS FOR RESIDENTIAL
12 CUSTOMERS HAD IT BEEN IN EFFECT DURING THE POLR III PERIOD. WHAT
13 IS YOUR OPINION OF THIS SUGGESTION?

14 A. My testimony does not address the validity of the study conducted for RESA and on
15 which Mr. Lacey relies for his comparisons between residential customer bills and the
16 fixed DLC POLR price during the POLR III plan. However, my key observation is that
17 if this study is correct and customers would have had lower monthly bills in most months
18 during this period compared to the DLC POLR price, many marketers should have sought
19 to make offers to these customers. In fact, no new marketer was entering DLC's service
20 territory to make offers to residential customers during this period. This result suggests
21 either that something is amiss with the study and its results, or that something else is

³ First Interim Order Denying Motion to Sever (April 4, 2007), at 3.

1 driving the determination by most marketers to enter the residential market. In either
2 case, if residential customers would benefit from monthly price changes and would find
3 such a pricing mechanism for their electric service desirable, one would assume that one
4 or more energy suppliers would market such a product when they know that DLC is
5 unable to change the POLR price during the three-year period.

6 Q. PLEASE SET FORTH ADDITIONAL REASONS WHY BUYING 100% OF THE
7 POLR OBLIGATION EACH QUARTER OR EACH MONTH SHOULD BE
8 REJECTED.

9 A. There are many reasons why the Commission should reject this proposal. First, this case
10 concerns the interim POLR obligation that DLC must provide for a three-year period.
11 DLC's proposal mirrors its prior proposals for interim POLR plans that have been
12 approved and implemented. It would be unwise to set in motion a dramatic change in the
13 way POLR service has been provided for such a short term period. None of the other
14 interim POLR cases in Pennsylvania have adopted this proposal even though it has
15 previously been proposed. Furthermore, both Maryland⁴ and Delaware⁵ regulators have
16 recently rejected the same proposal made by Mr. Lacey in this proceeding for upcoming
17 default service solicitations for 2007.

⁴ The Maryland PSC rejected the proposal for monthly price changes as proposed by the RESA for the SOS solicitation for 2007, citing a need for greater price stability for residential customers. The Commission did order twice annual solicitations and price changes, but the portfolio will continue to consist of multi-year laddered contracts with a maximum term of two years for residential and small commercial customers. Case 9064, Order 81102, October 31, 2006, pages 40-41. The Order is available at: http://webapp.psc.state.md.us/Intranet/CaseNum/NewIndex3_VOpenFile.cfm?ServerFilePath=C%3A%5CCasenum%5C9000%2D9099%5C9064%5C092%2Epdf

⁵ The Delaware PSC rejected the proposal for monthly price changes as proposed by the RESA for its forthcoming SOS solicitations, citing a need for greater price stability for residential customers. Docket 04-391, Order No. 7053, October 3, 2006, page 21. The order is available at: <http://www.state.de.us/delpsc/orders/7053.pdf>

1 Second, retail competition states are generally moving away from short-term POLR
2 portfolio plans and adopting longer term “thinking” about POLR. Since retail
3 competition has not developed for residential customers in any State (other than Texas,
4 which has a unique market structure and set of statutory policies not applicable to
5 Pennsylvania), and short-term wholesale market contracts reflect volatile prices that are
6 driven by natural gas prices, regulators and policymakers are adopting default service
7 policies that require a more diverse array of contracts and contract terms to assure an
8 affordable and stable electricity product for customers who may not have a significant
9 number of options available from retail marketers. This is not a move away from
10 “competition,” but recognition that the default service portfolio can reflect a diverse
11 variety of competitively priced contract types and contract terms rather than relying
12 entirely on short-term and more volatile all-requirements contracts of three years or less.

13 Q. PLEASE PROVIDE SOME EXAMPLES OF RECENT CHANGES IN STATE
14 DEFAULT OR POLR SERVICE POLICIES THAT EMPHASIZE LONGER TERM
15 PROCUREMENT PLANS AND MORE STABLE PRICES FOR RESIDENTIAL
16 CUSTOMERS.

17 A. States that have recently adopted longer term procurement planning and emphasized
18 more stable prices for residential customers in Maine, Delaware, Rhode Island, and
19 Maryland.

- 20 • In response to higher SOS prices and concerns about the impending installed
21 capacity program adopted by the regional ISO, **An Act to Enhance Maine's**
22 **Energy Independence and Security** (Acts of 2005 Chapter 677) was recently
23 adopted. The Maine legislation adopted two different amendments and approaches
24 for electricity prices. First, the Standard Offer section of Maine's restructuring
25 law is amended to specifically authorize the PUC to design energy efficiency

1 programs⁶ and include their cost in the SOS price. This approach will allow the
2 PUC to initiate a competitive bidding process for energy efficiency programs and
3 link the achievement of actual usage reductions to contract payments as part of its
4 SOS portfolio. In addition, the statute has been amended to add an explicit policy
5 that should guide the Maine Commission's planning and implementation of
6 SOS—"... over a reasonable time period the lowest price for standard-offer
7 service to residential and small commercial customers..." To implement this
8 policy the PUC can consider various contract lengths and contract terms. The
9 second new initiative authorizes the Maine Commission to take certain steps to
10 increase capacity resources and long term reliability of service for Maine's
11 electricity supply. Under this approach, the PUC may negotiate long term capacity
12 contracts (with a priority given for renewable resources) and order the distribution
13 utilities to sign and recover the costs of such contracts through distribution rates.
14

- 15 • After the results of the 2006 competitive acquisition of Standard Offer Service for
16 residential customers resulted in a 56% average total bill increase, Delaware
17 enacted **The Electric Utility Retail Customer Supply Act of 2006** (75 Del. Laws
18 242 (2005)). The law now explicitly states that Standard Offer Service "shall be
19 treated as a public utility service or function," but the right to shop and select a
20 competitive electricity provider is expressly continued. The only investor-owned
21 electric utility (Delmarva, a subsidiary of Pepco Holdings, Inc.) is required to
22 create and file an Integrated Resource Plan with a 10-year planning period by
23 December 1, 2006. The required Integrated Resource Plan must "evaluate all
24 available supply options during a ten (10) year planning period in order to acquire
25 sufficient, efficient and reliable resources over time to meet its customers' needs at
26 a minimal cost." The Integrated Resource Plan must also investigate all potential
27 options, including demand side management, wholesale market contracts obtained
28 via bid or auction, long-term purchased power contracts, self generation, as well as
29 short term or spot market purchases where appropriate. In addition, as a
30 preliminary move to a more diversified portfolio, the utility is required to
31 specifically solicit long term contracts in late 2006 with a term not to exceed 25
32 years "for the construction of new generation resources within Delaware for the
33 purpose of serving its customers taking Standard Offer Service."
34
- 35 • Faced with rising electricity prices and in reaction to short term wholesale market
36 contracts used for default service, Rhode Island enacted **The Comprehensive**
37 **Energy Conservation, Efficiency and Affordability Act of 2006** (2006 General
38 Assembly, S. 2903, signed June 30, 2006). Under the Rhode Island electric
39 restructuring model, the electric utilities remained responsible for acquiring
40 Standard Offer Service for non-shopping customers which had been done under a
41 series of relatively short term wholesale market contracts. After proposed rate

⁶ Similar to its role in the implementation of SOS, the Maine PUC is responsible for the planning and implementation of energy efficiency programs with public benefits funding. This program is marketed under the name, Efficiency Maine.

1 increases of up to 25% by the largest electric utilities due to the impact of SOS
2 prices, the Rhode Island General Assembly enacted a comprehensive bill that
3 addresses reforms for SOS policies and procurement, new low income bill
4 payment assistance programs, and a significant increase in funding and
5 implementation of energy efficiency and demand response programs. The
6 obligation of the electric utilities to arrange for Standard Offer Service was
7 extended from 2009 through 2020 and the obligation to plan and acquire the
8 necessary resources is now governed by "least cost procurement." This term is
9 defined to include system reliability, energy efficiency and conservation
10 procurement, and supply procurement. The electric utilities are responsible for
11 procurement plans, which must be approved by the PUC.
12

- 13 • **Maryland** has adopted statutory reforms to its Standard Offer Service in Senate
14 Bill 1, effective July 1, 2006. The obligation to provide SOS is extended
15 indefinitely after the initial statutory end date of July 2003. This service must be
16 structured to "obtain the best price for residential and small commercial customers
17 in light of market conditions at the time of procurement and the need to protect
18 these customers from excessive price increases." The contracts may include those
19 acquired through a competitive process, as well as one or more bilateral contracts
20 outside the competitive process. The contracts must result in a "portfolio of
21 blended wholesale supply contracts of short, medium or long terms, and other
22 appropriate electricity products and strategies, as need to meet demand in a cost
23 effective manner." In addition, the procurement may include "cost effective
24 energy efficiency and conservation measures and services."
25

26 Q. WOULD RESIDENTIAL CUSTOMERS IN GENERAL BENEFIT FROM MONTHLY
27 OR QUARTERLY PRICE CHANGES FOR A SIGNIFICANT PORTION OF THEIR
28 ELECTRIC BILL?

29 A. No. Changing POLR prices for such a significant portion of the bill every three months
30 (or even more frequently) for residential customers would be harmful to many customers,
31 particularly those with modest or fixed incomes. This type of pricing proposal for the
32 generation portion of the bill would essentially prevent the EDC from offering budget
33 payment plans because of the unknown and unpredictable nature of future POLR prices
34 during a 12-month period. Another adverse impact of such an approach would be to
35 threaten the affordability of basic electricity service for those residential customers on

1 payment plans and those enrolled in Customer Assistance Programs where the underlying
2 bill must be stable and predictable to assure regular monthly payment. Such an approach
3 may also complicate and potentially prevent the calculation of an accurate CAP benefit or
4 monthly bill. Even if such an approach does not create an insurmountable barrier for the
5 calculation of CAP payment plans and budget payment plans, monthly price changes and
6 unpredictable POLR prices will result in increased universal service administrative and
7 operational costs.

8 Q. DO YOU AGREE WITH MR. LACEY'S CONTENTION THAT CUSTOMERS
9 UNDERSTAND AND WANT MORE FREQUENT PRICE CHANGES?

10 A. No. Contrary to the implications of Mr. Lacey's citation to a customer survey that
11 reflects the views of larger commercial customers, there is no basis for asserting that
12 residential customers want volatile bill and price changes as a "price" for the option to
13 buy a more stable electricity product from a competitive marketer. The Maine PUC
14 conducted a survey several years ago and found that the vast majority of customers would
15 rather have lower standard offer (the Maine equivalent of POLR is Standard Offer) prices
16 than have a greater number of competitive suppliers from which to choose.⁷ A
17 statistically valid survey conducted for AARP in Connecticut residents age 50 and older
18 in early 2003 also documented customer preference for price stability and less frequent
19 price changes for essential energy services. The vast majority of respondents said they
20 want the state to set stable and affordable rates for electricity even if it meant less

⁷ Nearly ¾ of all respondents preferred the lower prices to the option of having more choices in the competitive market for electricity and two-thirds opposed the notion of raising the standard offer price to encourage entry by competitive suppliers. This was true across all demographic and usage profiles. The survey is available on the Maine PUC website: http://www.state.me.us/mpuc/industries/electricity/standard_offer/standard_offer_study.html.

1 opportunity to choose an electricity provider. Nearly nine in ten residents surveyed felt
2 that it was very important or somewhat important that their electricity rates do not change
3 a lot from month to month.⁸

4 Q. IS THERE ANY EVIDENCE THAT SUPPORTS MR. LACEY'S CONTENTION
5 THAT MORE FREQUENT PRICE CHANGES AND RELYING ON MORE
6 VOLATILE SPOT MARKET PRICES WILL RESULT IN A HIGHER LEVEL OF
7 RETAIL COMPETITION?

8 A. Again, I disagree. There is no basis for concluding that adopting Mr. Lacey's
9 recommendation, particularly in this case which addresses Duquesne's POLR obligation
10 for three years, will in fact result in robust retail competition for residential customers. In
11 general, little sustainable or robust market for the retail sale of electricity to residential
12 customers has developed. This is true whether the state has adopted more volatile or
13 frequent price changes for generation supply or relied on a laddered approach with short
14 term wholesale market contracts for default or SOS. In some New York jurisdictions, the
15 New York Public Service Commission has promoted monthly price changes for default
16 electric service for exactly the reasons put forth by Mr. Lacey. The change in default
17 service procurement and pricing was also accompanied by enrollment programs
18 sponsored by the EDC with discounts that were funded in part by utility ratepayers. The
19 results to date have been modest. The vast majority of residential customers have
20 remained with their utility. The overall state migration rate for residential customers is
21 about 11%, but this average masks significant differences among the electric utilities.

⁸ Connecticut adopted retail electric competition in 1998. The AARP survey is available at:
<http://www.aarp.org/research/reference/publicopinions/aresearch-import-134.html>.

1 The range of residential customer migration ranges from 1.1% to 27%, the latter a
2 reflection of the “incentives” program in effect at Orange and Rockland Utilities.⁹ Even
3 though the price for default service varies monthly for all Consolidated Edison customers
4 in New York, only 11% of the residential customers have migrated to alternative energy
5 suppliers. In Massachusetts where default service prices have changed every six months,
6 the level of marketer activity and residential shopping is negligible. As of July 2006, 9%
7 of residential customers were served by a competitive supplier on a statewide basis, but
8 less than 1% of Boston Edison’s residential customers had migrated to another supplier.¹⁰
9 Almost two-thirds of the total 9% residential migration percentage is composed of
10 customers in a municipal aggregation program that serves several small towns called
11 Cape Light Compact Project. Therefore, only 3% of Massachusetts’ residential
12 customers have migrated to an alternative energy supplier on their own. In jurisdictions
13 that have relied on annual price changes for default service—e.g., Maryland, Connecticut,
14 District of Columbia, Maine—there are almost no marketers seeking residential
15 customers.

16 Q. PLEASE DISCUSS THE INTERRELATIONSHIP BETWEEN POLR POLICY AND
17 RETAIL ELECTRIC COMPETITION.

18 A. The goal of restructuring was to provide customer benefits. There is no basis for
19 interpreting the Pennsylvania restructuring statute as suggesting that residential
20 customers must be given an “ugly” service just to create more retail shopping for

⁹ New York PSC, Electric Retail Access Migration Reports, available at: http://www.dps.state.ny.us/Electric_RA_Migration.htm. The most recent report was issued in February 2007.

¹⁰ Massachusetts electric migration statistics are published monthly by the Massachusetts Division of Energy Resources: <http://www.mass.gov/Eoca/docs/doer/2006migrate.pdf>.

1 residential customers. This is particularly true when there is no factual basis for
2 concluding that such an approach would work in any case. The goal of restructuring was
3 not to achieve a certain level of customer switching or migration. Nor was the goal to
4 prop up competitive entrants who are not able to assemble a portfolio of electricity
5 contracts or products to “beat” a stable POLR price or who are unable to offer value to
6 residential customers beyond POLR service. The goal of restructuring was to create the
7 potential for using competitive market forces to achieve the ultimate goal of long term
8 lower costs for electricity.

9 If marketers can offer services that are lower priced or that reflect attributes that
10 customers may want, e.g., green power, more volatile prices, alternative metering or
11 DSM services, they should be free to make such offers pursuant to licensing and
12 consumer protection rules.

13 Q. WILL THE USE OF FREQUENT PRICE CHANGES FOR THE POLR PORTION OF
14 THE ELECTRIC BILL REQUIRE AN EXTENSIVE AND EXPENSIVE CUSTOMER
15 EDUCATION PROGRAM AND INCREASE UTILITY EXPENSES?

16 A. Yes. If the POLR price changes every three months or every month and cannot be
17 predicted in advance, customers will not have a “price to compare” against which to shop
18 and consider offers made by EGSs. This problem is evident in the natural gas
19 restructuring programs where natural gas supply prices change frequently. These
20 frequent price changes for the gas supply portion of the bill confuse and make more
21 difficult a customer’s ability to shop and compare offers from competitive natural gas
22 suppliers. Furthermore, since residential customers have not previously experienced
23 significant monthly price changes for electricity, the obligation to educate customers and

1 prepare for such a dramatic change will naturally fall on the EDC, increasing its
2 operations expenses associated with additional education materials, call center talk time,
3 and changes to the utility's ability to offer budget payment plans and other payment plans
4 designed to stabilize customer bills to make them affordable and more likely to be paid
5 on a regular basis.

6 Q. PLEASE PROVIDE YOUR RECOMMENDATIONS WITH RESPECT TO MR.
7 LACEY'S PROPOSAL THAT DLC CONDUCT A CONSUMER EDUCATION AND
8 REFERRAL PROGRAM FOR RESIDENTIAL AND COMMERCIAL CUSTOMERS.

9 A. Mr. Lacey wants DLC to "educate" the customer about competitive market options when
10 the customer calls the DLC call center to discuss a bill or seek new service. Customers
11 would be referred directly to an EGS who would "be able to accept customers on the
12 spot." [Lacey Direct at 17] Based on Mr. Eichenmiller's testimony on behalf of DLC, the
13 EDC already offers information to consumers about the existence of the competitive
14 energy market and how a customer can choose an EGS for the generation portion of the
15 bill through a number of publications. Both the Commission¹¹ and the OCA¹² maintain
16 websites with customer education and shopping information for residential customers.
17 DLC already has the highest rate of residential shopping for electricity among any
18 Pennsylvania EDC. It does not appear reasonable to require DLC to take additional steps
19 at additional costs at this time.

¹¹ <http://www.puc.state.pa.us/utilitychoice/home.aspx>

¹² <http://www.oca.state.pa.us/Industry/Electric/elecomp/pricecharts.html>

1 Q. DOES THIS COMPLETE YOUR TESTIMONY?

2 A. Yes, at this time.

BEFORE THE
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PETITION OF DUQUESNE LIGHT)
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REBUTTAL TESTIMONY
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BARBARA R. ALEXANDER
CONSUMER AFFAIRS CONSULTANT
(CUSTOMER SERVICE, SERVICE QUALITY, AND UNIVERSAL SERVICE)

ON BEHALF OF THE
PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

APRIL 13, 2007

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Vermont Department of Public Service
Delaware Division of the Public Advocate
The Utility Reform Network (TURN) (California)
Oak Ridge National Laboratory, DOE
Regulatory Assistance Project
Citizens' Utility Board (Wisconsin)

Areas of Expertise:

- Default Service, Consumer Protection, Service Quality, and Universal Service policies and programs associated with the move to competition in the electric, natural gas, and telecommunications industries;
- Consumer Protection and Service Quality policies and programs associated with the regulation of competitive energy and telecommunications providers;
- The regulatory policies associated with the regulation of Credit, Collection, Consumer Protection, and Service Quality programs and policies for public utilities; and
- Code of Conduct and affiliated interest rules applicable to regulated utilities and their affiliates.

Prior Employment

DIRECTOR

Consumer Assistance Division 1986-96
Maine Public Utilities Commission *Augusta,*
Maine

One of five division directors appointed by a three-member regulatory commission and part of commission management team. Direct supervision of 10 employees, oversight of public utility consumer complaint function, appearance as an expert witness on customer services, consumer protection, service quality and low income policy issues before the PUC. Chair, NARUC Staff Subcommittee on Consumer Affairs.

SUPERINTENDENT

Bureau of Consumer Credit Protection 1979-83
Department of Professional and Financial Regulation *Augusta, Maine*

Director of an independent regulatory agency charged with the implementation of Maine Consumer Credit Code and Truth in Lending Act. Investigations and audits of financial institutions and retail creditors, enforcement activities, testimony before Maine Legislature and U.S. Congress.

Education

JURIS DOCTOR

University of Maine School of Law 1973-76
Portland, Maine

Admitted to the Bar of the State of Maine, September 1976.

B.A. (WITH DISTINCTION) IN POLITICAL SCIENCE 1964-68
University of Michigan *Ann Arbor, Michigan*

Publications and Testimony

“How to Construct a Service Quality Index in Performance-Based Ratemaking”, The Electricity Journal, April, 1996

“The Consumer Protection Agenda in the Electric Restructuring Debate”, William A. Spratley & Associates, May, 1996

Direct Testimony on behalf of the Telecommunications Workers Union, Telecom Public Notice 96-8, Price Cap Regulation and Related Issues, Canadian Radio-Television and Telecommunications Commission, September, 1996. [Analysis of and recommendations concerning the need to regulate service quality in move to price cap regulation]

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Direct Testimony on behalf of the Maryland Office of People’s Counsel, Universal Service Issues, Case No. 8745, before the Maryland Public Service Commission, November 20, 1998.

“Cramming is the Last Straw: A Proposal to Prevent and Discourage the Use of the Local Telephone Bill to Commit Fraud,” NRRI Quarterly Bulletin, Fall, 1998.

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Electricity Advisory Panel,” on behalf of the Colorado Office of Consumer Counsel, February, 1999.

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Direct Testimony on behalf of AARP, West Virginia PUC Investigation into Retail Electric Competition (consumer protection, universal service, Code of Conduct), June 15, 1999.

Direct and Surrebuttal Testimony on behalf of the Pennsylvania OCA, Gas Restructuring proceedings (8 natural gas utilities): consumer protection; consumer education; code of conduct, before the Pennsylvania PUC, October, 1999-April, 2000.

Comments on Draft Rules addressing slamming and cramming (Docket No. RMU-99-7) on behalf of the Iowa Office of Consumer Advocate, before the Iowa Utilities Board, October, 1999.

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Direct Testimony on behalf of AARP, Universal Service Programs and Funding of low-income programs for electric and natural gas service, before the New Jersey Board of Public Utilities, Docket No. EX000200091, July, 2000.

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Direct and Rebuttal Testimony on behalf of the Citizens Utility Board, Nicor Gas Customer Select Pilot Program, on consumer protection and regulation of competitive natural gas suppliers [Docket Nos. 00-0620 and 00-0621] before the Illinois Commerce Commission, December, 2000 and February, 2001.

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Direct and Surrebuttal Testimony on behalf of the New Jersey Division of Ratepayer Advocate on service quality, consumer protection, and universal service issues associated with the pending merger between Conectiv and Pepco, before the New Jersey Board of Public Utilities, BPU Docket No. EM101050308 (September and November 2001).
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Alexander, Barbara, An Analysis of Residential Energy Markets in Georgia, Massachusetts, Ohio, New York, and Texas, prepared for the National Energy Affordability and Accessibility Project, National Center for Appropriate Technology, September 2002. Available at www.ncat.org/neaap

Direct and Surrebuttal Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania PUC on Philadelphia Gas Works' Gas Restructuring Filing, Docket No. M-00021612, September 2002 and November 2002.

Direct Testimony on behalf of Consumer Groups before the Texas PUC on Notice and Request of Mutual Energy CPL and Mutual Energy WTU for Approval of Changes in Ownership and Affiliation, Docket No. 25957, October 15, 2002.

Comments on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania PUC, Advanced Notice of Proposed Rulemaking for Revision of Chapter 54 Pertaining to Electric Generation Supplier Licensing, Docket No. L-00020158, March 5, 2003.

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Direct, Rebuttal, and Supplemental Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania PUC, Petition of Duquesne Light Co. for Approval of Plan for Post-Transition Period POLR Services, Docket No. P-00032071 (February-April 2004).

Comments on behalf of AARP before the California PUC, Order Instituting Rulemaking on the Commission's Own Motion to Establish Consumer Rights and Consumer Protection Rules Applicable to All Telecommunications Utilities, R. 00-02-004 (March 2004).

Comments and Reply Comments on behalf of AARP before the Maine PUC, Inquiry into Standard Offer Supply Procurement for Residential and Small Commercial Customers, Docket No. 2004-147 (April 2004).

Comments on behalf of Wisconsin Citizens' Utility Board before the Wisconsin Public Service Commission's Gas Service Standards, Docket No. 1-AC-210 (July 2004).

Comments on behalf of the Colorado Office of Consumer Counsel before the Public Utilities Commission of Colorado, In the Matter of the Proposed Repeal and Reenactment of all Rules Regulating Telephone Utilities and Providers (Docket No. 03R-524T) (September 2004).

Direct Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania PUC, Investigation of Metropolitan Edison Co., Pennsylvania Electric Co. and Pennsylvania Power Co. Reliability Performance, Docket no. 1-00040102, [customer service and reliability performance] (June 2004).

Direct and Surrebuttal Testimony on behalf of the Vermont Department of Public Service before the Vermont Board of Public Utilities, Investigation into Successor Alternative Regulatory Plan for Verizon Vermont, Docket 6959 [Service Quality] (November 2004 and March 2005).

Alexander, Barbara, "Vermont Energy Programs for Low-Income Electric And Gas Customers: Filling The Gap" (November 2004), Prepared for AARP Vermont.

Direct and Surrebuttal Testimony on behalf of Wisconsin Citizens' Utility Board before the Wisconsin Public Service Commission, Application of Wisconsin Power and Light Co. for Authority to Increase Retail Electric, Natural Gas and Ripon Water Rates, Docket No. 6680-UR-114 [customer service, credit and collection programs and expenses, low income programs, fixed bill program] (April 2005).

Comments on behalf of the Maine Office of Public Advocate before the Maine Public Utilities Commission, Inquiry into Revisions to Chapter 81, Residential Utility Service Standards for Credit and Collection Programs, and Chapter 86, Disconnection and Deposit Regulations for Nonresidential Utility Service, Docket No. 2005-005 (April and May 2005).

Direct and Rebuttal Testimony on behalf of AARP Montana before the Montana Public Service Commission, Northwestern Energy Electric Cost Tracker, Docket No. D2004.6.90 [Default Service cost recovery policies and integration with low income programs] (December 2004 and July 2005).

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Rebuttal and Surrebuttal Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania PUC, In the Matter of the Petition of the Pennsylvania Power Co. for Approval of an Interim Provider of Last Resort Supply Plan, Docket No. P-00052188 [Default or POLR Electric Service policies] (December 2005 and January 2006).

Direct and Rebuttal Testimony on behalf of the Maine Office of Public Advocate before the Maine PUC, Investigation into Verizon Maine's Alternative Form of Regulation, Docket No. 2005-155 [Retail Service Quality] (January and May 2006).

Alexander, Barbara, "State Developments Changing for Default/Standard Retail Electric Service," Natural Gas & Electricity, September 2006.

Direct and Rebuttal Testimony on behalf of the Government and Consumer Parties (CUB, Attorney General of Illinois) before the Illinois Commerce Commission, Petition to Initiate Rulemaking with Notice and Comment for Approval of Certain Amendments to Illinois Administrative Code Part 280, Docket No. 06-0379 (May and September 2006). [Consumer Protection rules]

Direct Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania PUC, In Re Application of UGI Utilities, Inc., UGI Utilities Newco, Inc., and Southern Union Co., Docket Nos. A-120011F2000, A-125146, A-125146F5000 (June 2006). [Customer Service, Service Quality, and Universal Services]

Direct and Rebuttal Testimony on behalf of the Maryland Office of People's Counsel before the Maryland PSC, In The Competitive Selection of Electricity Supplier/Standard Offer or Default Service for Investor-Owned Utility Small Commercial Customers and, Delmarva Power and Light and Potomac Electric Power Residential Customers, Case No. 9064 (August and September 2006). [Default Service policies]

Direct and Rebuttal Testimony on behalf of the Maryland Office of People's Counsel before the Maryland PSC, In The Matter of the Optimal Structure of the Electric Industry of Maryland, Case No. 9063 (October and November 2006). [Default service policies]

Comments on behalf of AARP Maine before the Maine PUC on various dockets and notices concerning the implementation of Standard Offer Service for residential customers, Docket Nos. 2006-314, 2006-557, and 2006-411 (July-November 2006). [Default service policies]

Comments on behalf of AARP District of Columbia before the District of Columbia PSC, In the Matter of the Development and Designation of Standard Offer Service in the District of Columbia, Case No. 1017 (2006). [Default service policies]

Comments on behalf of AARP New Jersey before the New Jersey Board of Public Utilities, In the Matter of the Establishment of A Universal Service Fund Pursuant to Section 12 of the Electric Discount and Energy Competition Act of 1999, Docket No. EX00020091 (August 2006) [Recommendations for USF program changes]

Direct and Rebuttal Testimony on behalf of the Pennsylvania Office of Consumer Advocate before the Pennsylvania PUC, Joint Application of Equitable Resources, Inc. and the People's Natural Gas Co., d/b/a Dominion Peoples, for Approval of the Transfer of All Stock Rights of the Latter to the Former and for the Approval of the Transfer of All Stock of Hope Gas, Inc., d/b/a/ Dominion Hope to Equitable Resources, Inc., Docket No. A-122250F5000 (September and October 2006). [Customer Service, Service Quality, and Universal Service issues]

Direct Testimony on behalf of Pennsylvania Office of Consumer Advocate before the Pennsylvania PUC, Pennsylvania PUC v. Natural Fuel Gas Distribution Corp., Docket No. R-00061493 (September 2006) [Supplier Purchase of Receivables Program]

Presentations and Training Programs:

- National Low Income Energy Consortium (NLIEC) Annual Conference
- NARUC
- NASUCA
- State Legislatures: New Jersey, Texas, Kentucky, and Maine
- Commissions: Pennsylvania, Georgia, Kentucky, Illinois, New Jersey
- DOE-NARUC National Electricity Forum
- AIC Conference on Reliability of Electric Service
- Institute of Public Utilities, MSU (Camp NARUC) [Instructor since 1996]
- Training Programs on customer service and service quality regulation for international regulators (India and Brazil) on behalf of Regulatory Assistance Project
- Georgia Natural Gas Deregulation Task Force [December 2001]
- Mid Atlantic Assoc. of Regulatory Utility Commissioners [July 2003]
- Illinois Commerce Commission's Post 2006 Initiative [April 2004]
- Delaware Public Service Commission's Workshop on Standard Offer Service [August 2004]

APR 26 2007 *1/16/07*

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF DUQUESNE LIGHT)
COMPANY FOR APPROVAL OF)
DEFAULT SERVICE PLAN FOR THE)
PERIOD JANUARY 1, 2008 TO)
DECEMBER 31, 2010)

DOCKET NO. P-00072247

**DOCUMENT
FOLDER**

REBUTTAL TESTIMONY
OF

BARBARA R. ALEXANDER

CONSUMER AFFAIRS CONSULTANT

RECEIVED
MAY - 3 2007
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

DOCKETED
MAY 08 2007

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

APRIL 20, 2007

1 Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

2 A. My name is Barbara R. Alexander. I use the title of Consumer Affairs Consultant. My
3 address is 83 Wedgewood Dr., Winthrop, ME 04364. I appear in this case as a witness
4 on behalf of the Office of Consumer Advocate (OCA).

5 Q. HAVE YOU TESTIFIED PREVIOUSLY IN THIS PROCEEDING?

6 A. Yes. I filed Rebuttal testimony on behalf of the OCA on April 13, 2007.

7 Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

8 A. I am filing Surrebuttal Testimony in response to the Rebuttal testimony of Frank Lacey
9 dated April 12, 2007 on behalf of Direct Energy Services, LLC and the Retail Energy
10 Supply Association (RESA).

11 Q. PLEASE SUMMARIZE MR. LACEY'S REBUTTAL TESTIMONY.

12 A. Mr. Lacey's Rebuttal testimony is directed to OCA Witness Matthew Kahal. He opposes
13 Mr. Kahal's statements concerning the policies that should govern POLR service
14 generally, as well as Duquesne Light's proposal for a three-year POLR service in this
15 proceeding. Since many of Mr. Lacey's statements concern the POLR policies that I
16 discussed in my Rebuttal testimony in response to Mr. Lacey's Direct testimony, I offer
17 this Surrebuttal in response. Mr. Lacey continues his opposition to the management of
18 POLR service to provide benefits to residential customers and suggests that the
19 customer's right to choose an alternative supplier conflicts with the pursuit of a POLR
20 policy or a POLR service proposal that relies on a portfolio of contracts that is designed
21 to assure price stability and the lowest price that might be available given the wholesale
22 market options that are evaluated as part of the portfolio planning process. In fact,
23 Mr. Lacey opposes any goal to manage POLR service to assure that the resulting price is

1 as low as possible. Rather, he states that "...it is the "objective" of low prices that
2 eliminates competition." [Lacey Rebuttal at 3, lines 22-23]

3 Q. WHAT APPEARS TO BE MR. LACEY'S UNDERLYING CONCERN WHEN A
4 POLR PRICE IS DESIGNED TO PROVIDE A STABLE PRICE THAT IS AS LOW AS
5 POSSIBLE?

6 A. Mr. Lacey's approach is governed by a false choice. It is evidently his contention that a
7 competitive retail market ("customer choice") cannot thrive when a POLR provider
8 attempts to provide as low a price as possible for residential customers with reasonable
9 price stability. That is patently incorrect. Customer choice is not repealed by the POLR
10 price proposed by Duquesne Light or any other EDC in Pennsylvania. An EGS has the
11 right to offer customers a more volatile price for electricity than any POLR provider's
12 fixed price service. An EGS has the right to offer customers an even lower priced
13 electricity service if they are able to manage a portfolio more efficiently than Duquesne
14 has proposed in this proceeding. Neither of these options is evidently palatable to Mr.
15 Lacey and the business model that Direct Energy and RESA prefer. However, that
16 distinction should be carefully evaluated in the context of the decision that should be
17 reached in this proceeding.

18 Q. MR. LACEY OPPOSES A "GOVERNMENT'S OBJECTIVE TO KEEP THE
19 MONOPOLY SUPPLIER'S COST OF THAT PRODUCT AS LOW AS POSSIBLE."
20 IS THERE A MONOPOLY SUPPLIER INVOLVED IN THIS PROCEEDING?

21 A. No. Duquesne Light is not a monopoly provider. This utility has by far the highest rate
22 of residential customer participation in the retail competitive electricity market of any
23 EDC in Pennsylvania. Mr. Lacey's attempt to suggest that Duquesne Light's proposed

1 POLR price for this proceeding reflects a monopoly status is wrong and misleading.
2 Customers can leave and have left Duquesne's POLR prices at any time when an EGS
3 offers them an electricity supply service that is preferable (for whatever reason)
4 compared to the Duquesne price. The approval of Duquesne's POLR price in this interim
5 POLR proceeding will not affect that right. What Mr. Lacey appears to be suggesting is
6 that Direct Energy or RESA members that he represents cannot beat this price, but that is
7 not a fair criticism of Duquesne's proposal. Rather, another reasonable conclusion is that
8 Direct Energy and RESA are unable to construct a POLR price that is lower than or that
9 offers attributes that customers would want or value other than the POLR proposal made
10 by Duquesne in this proceeding.

11 Q. DOES MR. LACEY PROPERLY INTERPRET THE PENNSYLVANIA
12 COMPETITION ACT TO SUPPORT HIS SUGGESTION THAT POLR POLICY
13 SHOULD NOT CARE ABOUT LOW PRICES BUT SHOULD BE ENTIRELY
14 FOCUSED ON WHAT WOULD BENEFIT RETAIL MARKETERS?

15 A. No. We all agree that the Competition Act requires the Commission to implement retail
16 customer choice. Innumerable orders, rules, and many years of activity by this
17 Commission have been diligently directed to this task. We also all agree that POLR
18 service must be acquired in a manner that reflects prevailing market prices while we may
19 disagree as to what this means. We are now nearing the end of the rate cap era and the
20 Act clearly contemplated that a service would need to be available to customers who
21 were not served by an alternative generation supplier. We can debate whether the authors
22 of the Competition Act thought that the level of marketer interest in residential customers
23 would be so low or the level of customer migration in general would be as low as it is at

1 this time, but that does not erase the obligation by this Commission to adopt a POLR
2 policy that answers several fundamental questions: How should the service that will
3 likely provide the majority of residential customer needs for essential electricity service
4 be provided? What does “prevailing market prices” mean in the context of the retail and
5 wholesale market that has developed in Pennsylvania and other states? These
6 fundamental questions will be resolved by the Commission in its pending POLR rule and
7 POLR Policy Statement and not in this proceeding.

8 Q. IS THERE ANY BASIS FOR MR. LACEY’S SUGGESTION THAT IF ONLY A POLR
9 PRICING POLICY WAS ADOPTED TO MATCH HIS BUSINESS MODEL’S
10 PREFERENCE, CUSTOMER CHOICE WILL BLOOM AND THE COMPETITIVE
11 MARKET WILL ASSURE “BETTER PRICES AND PRODUCTS.” [Lacey Rebuttal at
12 4, line 1]

13 A. While every reasonable effort has been made by the Pennsylvania Commission to set up
14 the policies and operating systems to allow and even encourage customer choice, the
15 actual level of interest by marketers and resulting switching activity by residential
16 customers has been very low or nonexistent, with the obvious exception of Duquesne
17 Light.¹ While it may be reasonable for marketers to allege that the length of the rate caps
18 has hindered their ability to make offers that would interest or attract residential
19 customers, a connection I do not necessarily agree with, the fact is that rate caps have
20 been eliminated in almost every other state and in some of the Pennsylvania EDC

¹ It is not clear why Mr. Lacey appears to ignore Duquesne Light’s high level of customer shopping and migration from POLR service in his testimony. In fact, Mr. Lacey also appears to ignore that the most stable POLR price model whereby Duquesne Light offers a fixed price to residential customers, has resulted in the highest level of customer migration of any utility in Pennsylvania.

1 territories including Duquesne Light, but the level of residential customer migration
2 generally remains low or nonexistent outside of the Duquesne Light service area. My
3 Rebuttal testimony summarized some of these trends and pointed out that even in those
4 states, such as New York and Massachusetts, which have adopted more volatile POLR
5 price policies, the level of residential shopping is still quite low. So, clearly something
6 “else” is at work in explaining residential customer migration trends. It is not possible to
7 point to any robust retail “market” in the PJM, New York, or New England states for
8 residential customers, whether POLR policies rely on short term wholesale contracts that
9 vary by month, every six months, or every year. It is not the purpose of my testimony to
10 evaluate these trends beyond pointing out that the connection that Mr. Lacey attempts to
11 make between POLR pricing policies and the development of a retail market for
12 residential customers is not based on evidence, but vague promises. I do not recommend
13 that this Commission rely on such vague promises and unproven benefits in evaluating
14 the proposal at issue in this proceeding for all the reasons I set forth in my Rebuttal
15 testimony.

16 Q. DOES THIS COMPLETE YOUR TESTIMONY?

17 A. Yes, at this time.