

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Duquesne Light :  
Company for Approval of Default : Docket No. P-00072247  
Service Plan for the Period :  
January 1, 2008 Through :  
December 31, 2010 :

DOCUMENT  
FOLDER

Direct Testimony of  
James A. Ajello

On Behalf of

Reliant Energy, Inc.

DOCKETED  
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PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Issues addressed:  
POLR IV Plan Design  
POLR IV Plan for Large C&I Customers

Date Served: March 29, 2007

Date Submitted for the Record: APR 26 2007 Hbj dx

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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is James A. Ajello. My business address is 1000 Main, Houston, Texas,  
4 77002.

5  
6 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

7 A. I am testifying on behalf of Reliant Energy, Inc. ("Reliant").  
8

9 **Q. PLEASE SUMMARIZE YOUR EDUCATION AND PROFESSIONAL**  
10 **BACKGROUND.**

11 A. I hold a bachelor's degree from the State University of New York and a master's  
12 degree from Syracuse University. In addition, I am a graduate of the Advanced  
13 Management Program of the European Institute of Business Administration in  
14 Fountainebleau, France. I also currently serve as the chairman of the U.S.  
15 Department of Energy's Environmental Management Advisory Board.

16 I joined Reliant in 2000 and have been responsible for managing Reliant's  
17 *retail electric marketing business for mid-sized and large commercial and*  
18 *industrial ("Large C&I") customers.* I am currently the Senior Vice President of  
19 C&I Business Development. Before joining Reliant, I was vice president of  
20 Enron North America, based in Houston, where I was responsible for a team  
21 originating business with large industrial clients. Previously, I was based in New  
22 York as managing director of the Energy & Natural Resources Group of UBS  
23 Warburg. My client base included oil and gas exploration and production

1 companies, pipelines and mining companies in North America. Prior to this  
2 assignment, I was managing director and manager of UBS Chicago for four years  
3 and before that I was head of the UBS North American project finance team.  
4 Including previous work at U.S. Synthetic Fuels Corporation in Washington D.C.,  
5 I have over 25 years of finance and management experience in the chemicals,  
6 refining, energy and natural resources sectors. A *Curriculum Vitae* is being  
7 submitted with my testimony as Exhibit JAA-1.

8  
9 **Q. WHAT ARE YOUR RESPONSIBILITIES AS SENIOR VICE PRESIDENT**  
10 **OF C&I BUSINESS DEVELOPMENT?**

11 A. As Senior Vice President of C&I Business Development, I manage Reliant's  
12 efforts to grow its retail business in markets in which Reliant is not currently  
13 active. My responsibilities include advocating regulatory and commercial  
14 policies in numerous jurisdictions to promote robust and sustainable retail  
15 competition.

16  
17 **Q. PLEASE PROVIDE THE SCOPE OF RELIANT'S RETAIL PRESENCE**  
18 **IN PENNSYLVANIA AND THE SURROUNDING AREAS.**

19 A. Reliant Energy Solutions East, LLC ("RESE") is a licensed Electric Generation  
20 Supplier ("EGS") in Pennsylvania. Through its subsidiaries, Reliant provides  
21 electricity and energy services to retail and wholesale customers in the  
22 Commonwealth of Pennsylvania as well as in other states. Reliant provides retail  
23 service to approximately 1.9 million customers nationwide, with sales of

1 approximately 68,000 GWhs. RESE is an active participant in the Large C&I  
2 market in the Duquesne Light service territory in Pennsylvania, as well as in New  
3 Jersey and Maryland.<sup>1</sup>  
4

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

6 A. The purpose of my testimony is to explain why Duquesne Light Company's  
7 ("Duquesne") proposed Default Service Plan for the Period January 1, 2008  
8 through December 31, 2010 ("POLR IV") is appropriate as a transition plan. I  
9 conclude with a discussion on why hourly only default service is appropriate for  
10 Large C&I customers.  
11

12 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

13 A. Yes. I am sponsoring Exhibit JAA-1 *Curriculum Vitae* which is being submitted  
14 with my testimony.  
15

16 **II. DUQUESNE'S POLR IV PLAN**

17 **Q. PLEASE PROVIDE A BRIEF SUMMARY OF THE DUQUESNE POLR IV**  
18 **PLAN.**

19 A. Duquesne's POLR IV Plan outlines three specific plans for three customer  
20 classes. For Large C&I customers, Duquesne will offer a real time hourly only  
21 market price as the default service option. With respect to small commercial and

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<sup>1</sup> In addition to Reliant's retail presence, Reliant employs over 1, 300 individuals in Pennsylvania and is the third largest generator in the Commonwealth with approximately 5,300 MW of capacity (summer/winter average) in Pennsylvania. Also, through its subsidiaries, Reliant has more than 16,000 megawatts of power generation capacity in operation in the United States.

1 industrial (“Small C&I”) customers, Duquesne explains the average rates that will  
2 be provided to this customer class and provides for an annual index adjustment  
3 based on formulaic changes in NYMEX-based electric prices. Duquesne also  
4 identifies its proposed rates for residential customers during the POLR IV Plan.  
5 Per the Petition, the wholesale supply for default customers will be procured by  
6 Duquesne’s affiliate, Duquesne Power, and Duquesne Power will procure  
7 necessary power through purchases in the wholesale market. Finally, among  
8 other things, Duquesne has committed to holding two meetings per year with  
9 interested suppliers to discuss market issues relating to market development and  
10 competition as well as support for a purchase of receivables program.

11  
12 **Q. HAS RELIANT ENTERED INTO A SPECIFIC AGREEMENT WITH**  
13 **DUQUESNE REGARDING THIS POLR IV PLAN?**

14 A. Yes. As noted in the Direct testimony Duquesne filed in conjunction with its  
15 POLR IV Plan, prior to Duquesne filing the POLR IV Plan, Reliant participated  
16 in several meetings and had discussions with Duquesne. As a result of these  
17 negotiations, Reliant (as well as Dominion Retail) reached an agreement with  
18 Duquesne regarding the basic structure of its POLR IV Plan.<sup>2</sup> Pursuant to that  
19 agreement, Reliant supports or does not oppose the basic structure of the POLR  
20 IV Plan. Critical to Reliant’s support of Duquesne’s POLR IV filing is its  
21 commitment to offer hourly only default service to customers 300 kW and above.  
22 Reliant and Duquesne are aware of the Commission’s policy to encourage  
23 settlements and recognized interests were better served by attempting to reach

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<sup>2</sup> Direct Testimony of Frederick J. Eichenmiller p. 15 lines 20-22.

1 settlement rather than engage in unnecessary and protracted litigation. Reliant  
2 appreciates Duquesne's willingness to work together to reach agreement on an  
3 outcome that supports the interest of all parties and allows for the continued  
4 development of electric competition. So, while both Reliant and Duquesne may  
5 have departed from their desired optimal "end state" goals, Reliant believes that  
6 the POLR IV Plan is reasonable as a transition plan for Duquesne's service  
7 territory.

8  
9 **Q. SHOULD THE COMMISSION GRANT DUQUESNE'S REQUEST FOR**  
10 **EXPEDITED APPROVAL OF ITS POLR IV PLAN?**

11 A. Yes. As noted in its Petition, Duquesne seeks approval of this plan by July 1,  
12 2007 to enable the company to complete wholesale purchases associated with the  
13 POLR IV Plan.

14  
15 **Q. SHOULD THE COMMISSION WAIT TO APPROVE DUQUESNE'S**  
16 **POLR IV PLAN UNTIL AFTER A FINAL ORDER IN THE POLR**  
17 **RULEMAKING AND PROPOSED POLICY STATEMENT DOCKETS**  
18 **HAS BEEN ISSUED?**<sup>3</sup>

19 A. No. While Reliant recognizes that this Commission recently issued its ANOFR  
20 and PPS, final orders have not been issued in either of those dockets.  
21 Furthermore, the Commission's deadline for entering a final order in the POLR  
22 Rulemaking is after July 1, 2007, which is the date by which Duquesne has asked

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<sup>3</sup> Advance Notice of Final Rulemaking Order, Docket No L-00040169; Proposed Policy Statement, Docket No. L-00070183.

1 the Commission to approval its POLR IV plan in order to allow Duquesne to meet  
2 its wholesale requirements, as detailed in the plan.<sup>4</sup>

3  
4 **Q. PLEASE ADDRESS DUQUESNE INDUSTRIAL INTERVENORS' ("DII")**  
5 **MOTION TO SEVER AND POSTPONE.**

6 A. On March 12, 2007, DII filed a Motion to Sever and Postpone the portion of  
7 Duquesne's POLR IV plan relating to Large C&I customers. Reliant is filing a  
8 separate Answer in Opposition to that Motion. Since DII may also submit  
9 testimony in support of some of the contentions raised in its Motion but has not  
10 yet submitted testimony in this proceeding, Reliant reserves the right to submit  
11 additional evidence in opposition to any postponement.

12  
13 **III. LARGE C&I PROPOSAL**

14 **Q. WHY IS IT APPROPRIATE FOR DUQUESNE'S LARGE C&I**  
15 **CUSTOMERS TO HAVE HOURLY ONLY DEFAULT SERVICE?**

16 A. In the Commission's decision in the Duquesne Light POLR III case, the  
17 Commission noted that hourly priced service ("HPS") provides the most freedom  
18 for customers to move into the market, in accordance with the mandates of the  
19 Choice Act.<sup>5</sup> Reliant believes that more robust competition will develop if the

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<sup>4</sup> As Reliant noted in its Advance Notice of Final Rulemaking Reply Comments, if the utility is the default provider, the Commission should retain the ability to review and approve default service providers entering into bi-lateral procurement contracts with affiliated and non-affiliated entities; however, these contractual procurement arrangements should not be used in setting default prices. *Advanced Notice of Final Rulemaking Reply Comments of Reliant Energy, Inc.*, Docket No. L-00040169.

<sup>5</sup> *Petition of Duquesne Light Company for Approval of Plan for Post-Transition Period Provider of Last Resort Service*, Pa. P.U.C. Docket No. P-00032071 (Order entered Aug. 23, 2004), pages 39-40.

1 default price is consistently a market price and there is no utility-offered fixed  
2 price option for Large C&I customers.

3  
4 **Q. HAS HOURLY DEFAULT PRICING RESULTED IN ROBUST**  
5 **COMPETITION FOR LARGE C&I CUSTOMERS IN DUQUESNE'S**  
6 **SERVICE TERRITORY?**

7 A. Yes. In the Duquesne Light POLR III decision, Large C&I customers with peak  
8 demand of 300 kW and above have hourly-based pricing as their default service  
9 price.<sup>6</sup> As a result of this hourly default service structure, competitive electric  
10 suppliers were serving 92.8% load as of December 31, 2005.<sup>7</sup> Duquesne provides  
11 clear evidence that large C&I customers are able to utilize the many advantages of  
12 competitive offers when given the appropriate price signals. The POLR III order  
13 properly recognized that a fixed price option should only be available to large  
14 C&I customers for a limited time. The Commission should continue to build  
15 upon the success seen in the Duquesne service territory of hourly default service  
16 pricing for large C&I customers.

17  
18 **Q. HAS HOURLY DEFAULT PRICING BEEN SUCCESSFUL IN**  
19 **PROMOTING COMPETITION IN OTHER VENUES?**

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<sup>6</sup> For POLR III, Duquesne's large customers with peak demand 300 kW and above have an hourly default service structure and a limited fixed price optional service that is to be offered through May 31, 2007. *Petition of Duquesne Light Company for Approval of Plan for Post-Transition Period Provider of Last Resort Service*, Pa. P.U.C. Docket No. P-00032071, Order entered Aug. 23, 2004, at 39-40, Opinion and Order on Reconsideration entered Oct. 5, 2004, at 24.

<sup>7</sup> See *Petition of Duquesne Light Company for Approval of Its Plan for Post-Transition Period POLR Service*, Pa. PUC Docket No. P-00032071, Fourth Compliance Filing (filed Jan. 9, 2006), page 34. The January 2007, OCA Electric Shopping Statistics show 86.34% of Duquesne's Industrial load is served by an alternative supplier. OCA statistics do not differentiate switching at the 300 kW and above level. <http://www.oca.state.pa.us/Industry/Electric/elecstats/Stat0107.pdf>

1 A. Yes. Maryland has similar experience to Duquesne. The January 2007 Electric  
2 Choice Enrollment Report shows that 93.9% of the large commercial and  
3 industrial load in Maryland is served by competitive electric suppliers.<sup>8</sup> Other  
4 jurisdictions provide similar examples. In the commercial and industrial energy  
5 pricing (“CIEP”) class in New Jersey, which employs hourly priced default  
6 service, 85% of the load was being served by competitive electric suppliers as of  
7 December 31, 2006.<sup>9</sup>

8 Furthermore, experience in PJM and the Electric Reliability Council of Texas  
9 (“ERCOT”) indicates the following trends where default service is hourly-priced  
10 or where there is no price regulated default service:

- 11 • there are an increasing number of competitive electric suppliers,  
12 brokers, and consultants in these particular market segments;
- 13 • increasing competition over time;
- 14 • customers have a wide range of offers from multiple suppliers who  
15 promote many different products and service options; and
- 16 • a continuing desire to have the market structure further opened so  
17 that an increasing number of products previously only available to  
18 the largest customers can be made available to smaller customers

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<sup>8</sup> The hourly threshold in MD is 600 kW. See <http://www.psc.state.md.us/psc/electric/enrollmentrpt.htm>.

<sup>9</sup> The CIEP class in New Jersey currently consists of commercial and industrial customers with peak load obligations of 1,250 kW or greater. On June 1, 2007, the CIEP class and, by extension, hourly priced default service, will be expanded to customers with peak load obligations of 1,000 kW and higher. See New Jersey Board of Public Utilities Docket No. EO05040317, *I/M/O the Provision of Basic Generation Service For The Period Beginning June 1, 2006*, Decision and Order (Dec. 18, 2005) at 15-16.

1 on a sustained basis so that both consumers and suppliers can look  
2 forward to an expansion of choice.<sup>10</sup>

3 Each of these trends benefits consumers as they seek choices that meet their own  
4 individual needs by opening up competition and allowing EGSs to compete  
5 amongst themselves for consumers by providing them the products and services  
6 they desire. However, customers will be denied the benefits of a competitive  
7 market if the default product is designed in a manner that hinders competition.  
8 Customers are then left with one provider and one product. This is not the  
9 scenario that the Choice Act envisioned.

10  
11 **Q. WILL HOURLY ONLY DEFAULT SERVICE FOR LARGE C&I**  
12 **CUSTOMERS PROVIDE OPPORTUNITES FOR THESE CUSTOMERS**  
13 **TO SHOP FOR RETAIL ELECTRIC SERVICE OTHER THAN HOURLY**  
14 **PRICED DEFAULT SERVICE?**

15 A. Absolutely. In my experience, where the default price is market responsive, such  
16 as an hourly default price, competitive electric suppliers will enter the market and  
17 offer customers numerous alternatives frequently at savings or with value added  
18 services. Reliant, as are many other suppliers, is continually searching for new  
19 opportunities to expand its customer base. When marketing to a large C&I  
20 customer, it is not unusual for such a customer to have as many as six or more  
21 competing offers from EGSs. Reliant offers five distinctly different products  
22 ranging from variable to fixed priced and combinations thereof, over varying

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<sup>10</sup> Competitive areas in ERCOT have fully transitioned to competition; therefore, continuing to further open those markets is not applicable.

1 terms, as well as a “green” product. Reliant has recently begun to offer “energy  
2 buy back” products that provide customers financial incentives to conserve  
3 energy. The variety of products and services that Reliant offers today were not  
4 available in the regulated market of years ago.

5 To be successful, suppliers must offer services that meet the customer’s  
6 needs. For example, some customers want service where the price changes as the  
7 market changes in its most granular form. For these customers, hourly priced  
8 service is attractive. Some customers prefer to have a portion of their usage  
9 served at a fixed price with the remainder floating with changes in market prices,  
10 as granular as hourly or in some cases monthly or quarterly. Other customers  
11 may want more stability and prefer to have a fixed price service for varying terms,  
12 including multi-year contract durations. Successful competitive electric suppliers  
13 will only win or retain customers by offering products and services that the  
14 customer wants. Therefore, there is a great deal of product design and innovation  
15 that takes place. In addition, it is not unusual for a customer to engage in  
16 discussions with many competitive suppliers over a one to three month process  
17 prior to selecting a supplier. During this period, customers auction their load  
18 requirements and suppliers respond with their competitive products and service  
19 offers. Typically, several rounds of pricing as well as a variety of contract terms  
20 are discussed with a customer. Before the customer chooses a competitive  
21 supplier it will have seen dozens of prices, products, and other services (renewal  
22 and payment options, etc.). The end result is that the customer has an ample  
23 choice of electric suppliers and electric supply products and services.

1 **Q. IN YOUR EXPERIENCE, CAN LARGE C&I CUSTOMERS HANDLE AN**  
2 **HOURLY PRICED SERVICE?**

3 A. Yes. In my experience, a wide variety of customers have selected hourly priced  
4 service. Reliant has a number of customers within PJM who requested and are  
5 served on hourly priced service. The average load per meter for these customers  
6 ranges from 110 kW to 30 MW or more, representing a wide variety of  
7 customers. I have known customers as small as 100 kW to have requested and  
8 received hourly priced service. In addition, some customers will prefer HPS as  
9 they desire market responsive pricing and HPS is, by definition, a real-time  
10 market price. Still, other customers will use HPS as a transitional service while  
11 they shop for a new competitive electric supplier, are negotiating with their  
12 current provider for a new contract, or when business conditions warrant they not  
13 lock in prices (e.g., retail store closings, retail store expansions, or when  
14 customers believe that prices will recede over time and thus not wish to lock in  
15 what is perceived to be a higher price at the time).

16 If customers do not desire HPS, the competitive market provides alternatives to  
17 HPS. This allows competitive electric suppliers the opportunity to enter the  
18 market and provide electric service alternatives with the knowledge that the  
19 POLR rate will not vary from the prevailing market price. To my knowledge  
20 large customers in Pennsylvania have received fixed price offers. Customers are  
21 free to choose the services and suppliers that best meet their needs.

22

1 **Q. DOES RELIANT OFFER LARGE CUSTOMERS IN DUQUESNE'S**  
2 **SERVICE TERRITORY A FIXED PRICE PRODUCT?**

3 A. Yes. Furthermore, Reliant has a history of offering a variety of products  
4 including fixed, variable, and indexed products to non-residential customers in the  
5 Duquesne Light service territory as a result of the HPS default structure.

6

7

#### IV. CONCLUSION

8 **Q. DO YOU HAVE ANY CONCLUDING REMARKS?**

9 A. Yes. As explained in my testimony, Duquesne's POLR IV plan should be  
10 approved. Furthermore, continuing a service with market-responsive pricing such  
11 as HPS as the only default POLR service for Large C&I customers is essential to  
12 allowing robust competitive electric markets to continue to exist, delivering to  
13 customers the benefits of competition promised by the Choice Act, and helping  
14 the Commission fulfill its statutory obligation to continue to move Duquesne's  
15 service territory forward toward further competition. The Duquesne POLR IV  
16 plan attempts to balance the needs of a variety of parties and is a reasonable  
17 interim plan.

18

19 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

20 A. Yes.

**James A. Ajello**

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**EXPERIENCE****2000-Present, Reliant Energy (NYSE:RRI)****Houston, Texas**

**Senior Vice President and General Manager, Commercial & Industrial Marketing.** Responsible for developing, operating and growing Reliant Energy's C&I business. This business has over \$2.5 billion in annual revenues, over 200 staff and provides customized, integrated energy solutions, including commodity, consulting, e-commerce and risk management, as well as energy and demand side management services, to large and mid-sized commercial, industrial and institutional clients in Texas, New Jersey, Maryland, D.C. and Pennsylvania. Member of the RRI Leadership Forum, and Chairman of the Reliant Benefits Committee.

**1998-2000, Enron Corporation (North America)****Houston, Texas**

**Vice President, Downstream Origination.** Responsible for business development in the chemicals/plastics, refining, fertilizers, industrial gases and metals sectors in North America. As Group Head, duties included managing the integrated delivery of products in risk management, finance and energy asset development (outsourcing). Supervised a team of 35.

**1995-1998, UBS Warburg /UBS Securities LLC****New York, NY**

**Managing Director, Energy & Natural Resources Group.** Responsible for corporate finance, advisory products, equity and debt issuance, underwriting products, and relationship management. Primary origination and execution responsibility for selected oil and gas exploration and production companies, pipelines and mining companies in North America. Co-manager and developer of 20-person Group.

**1993-1995, UBS Securities, Inc.****New York, NY**

**Senior Banker/Managing Director, Business Development/Corporate Finance Group.** Responsible for corporate finance, advisory and underwriting products for UBS' most important client base in the Midwest. Relationship manager coordinating all UBS products.

**1989-1993, Union Bank of Switzerland****Chicago, IL**

**Branch Manager & Managing Director.** Responsible for all UBS business in 16 states in the Midwest, managed staff of 50 people and maintained core banking relationships providing corporate finance, advisory and underwriting products. Developed the most profitable (per capita) office of UBS in North America.

**1984-1989, Union Bank of Switzerland****New York, NY**

**Managing Director and Head – Project Finance.** Responsible for managing a staff of 15 professionals, advising clients on and arranging capital for large infrastructure projects in mining, power, oil and gas, chemicals, refining and pipelines. Successful at migrating the business to a leadership position, focusing on advisory and capital markets products.

James A. Ajello

**1980-1984, U.S. Synthetic Fuels Corporation****Washington, D.C.**

**Project Manager.** Responsible for managing a team (finance, legal, engineering, environmental) providing financial incentives to accelerate the development of alternative fuels to lessen dependence on imported sources of petroleum. Successfully completed world scale projects negotiating financial incentives exceeding \$3 billion with Exxon, Tosco, Unocal, Texaco, Tenneco, Panhandle, et al.

**1976-1980, U.S. Department of Energy****Washington, D.C.**

Various duties and assignments including: (a) Presidentially-directed study of the 1000 megawatt Davis Hydroelectric Project; (b) one year assignment at the Strategic Petroleum Reserve in New Orleans to negotiate oil acquisitions from industry majors and Mexico; (c) negotiated oil supply and operating arrangements for the Elk Hills, CA Naval Petroleum Reserve; (d) management intern to Admiral Hyman Rickover (father of the Nuclear Navy) in finance and contracts working with GE on the Trident submarine program.

**EDUCATION**

1991	<b>Advanced Management Program of the European Institute of Business Administration (INSEAD)</b>	<b>Fontainebleau, France</b>
1975-1976	<b>Syracuse University, Maxwell School</b> MPA/MBA, Summa cum laude	<b>Syracuse, NY</b>
1971-1975	<b>State University of New York</b> BA, cum laude	<b>Oneonta, NY</b>

**PERSONAL**

Married, two children. Interests include reading biographies of famous people, opera and classical music, tennis, bicycling, and curling.

**OTHER**

Chairman of the U.S. Department of Energy's Environmental Management Advisory Board;  
Board Member, Junior Achievement (Southeast Texas)

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1 **I. INTRODUCTION**

2

3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is James A. Ajello. My business address is 1000 Main, Houston, Texas,  
5 77002.

6

7 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

8 A. I am testifying on behalf of Reliant Energy, Inc. ("Reliant").

9

10 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS**  
11 **PROCEEDING?**

12 A. Yes. I filed Direct Testimony on behalf of Reliant Energy, Inc. on March 29,  
13 2007 in this proceeding.

14

15 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

16 A. My testimony will respond to the direct testimony filed in this proceeding by the  
17 Office of Consumer Advocate ("OCA") witness Matthew Kahal; Office of Small  
18 Business Advocate ("OSBA") witness Brian Kalcic and the Retail Energy Supply  
19 Association ("RESA") and Strategic Energy ("Strategic") witness Richard  
20 Hudson.

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**II. DEMAND SIDE MANAGEMENT AND ENERGY EFFICIENCY**

**Q. DO YOU AGREE WITH MR. KAHAL THAT THE COMPETITIVE MARKET CANNOT EFFECTIVELY PROVIDE DEMAND SIDE MANAGEMENT PROGRAMS TO RESIDENTIAL CUSTOMERS?<sup>1</sup>**

A. No. Mr. Kahal’s assertions that the competitive market cannot provide demand side management (“DSM”) and energy efficiency (“EE”) tools to residential customers is unfounded. Competitive retailers can offer DSM and EE programs to residential customers and Reliant embraces the competitive opportunities associated with offering these programs. In fact, Reliant has competitive DSM offerings in the Texas residential market today.

**Q. DOES RELIANT BELIEVE THAT PACKAGING DSM AND EE PROGRAMS WITH ELECTRIC SERVICE PROVIDES INCREASED OPPORTUNITIES FOR RETAILERS TO MEET CUSTOMERS’ NEEDS?**

A. Yes. Reliant is positioning itself to be a retail leader and has a core belief that focusing on conservation initiatives will help in building our success. Reliant intends to provide its customers, including residential customers, superior customer value by leading the development of smart energy to reshape customer load. Reliant intends to partner with all customer classes to meet their electric service needs, including smart energy solutions. Reliant is actively evaluating

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<sup>1</sup> Direct Testimony of Matthew Kahal p. 22, lines 10-13.

1 opportunities to enable customers to realize the benefits associated with EE and  
2 DSM.

3  
4 **Q. PLEASE DESCRIBE RELIANT'S COMMITMENT TO PROVIDE THE**  
5 **BENEFITS OF DSM AND EE TO RESIDENTIAL CUSTOMERS.**

6 A. Reliant is committed to helping customers reduce and reshape their consumption  
7 to help themselves and help the environment. From our perspective as a  
8 competitive retailer serving residential customers outside Pennsylvania, DSM and  
9 EE present opportunities to strengthen customer relationships. Furthermore,  
10 Reliant recognizes that if we do not meet this customer need, some other retailer  
11 will. For example, Reliant has made a commitment to further expand its smart  
12 energy offerings to reduce and/or reshape the demand of a substantial number of  
13 residential customers in Texas by year end. These offerings will encompass  
14 traditional EE offers to reduce demand as well as new technology offers that may  
15 reduce and/or reshape demand. In fact, Reliant has recently created a new  
16 executive position, Senior Vice President of Smart Energy, whose primary role is  
17 to evaluate DSM and EE and provide end use customers in competitive retail  
18 markets with benefits associated with these activities. In Texas, where we serve  
19 over 1.6 million residential customers as a competitive retailer, we are looking to  
20 offer a suite of products to empower the customer including traditional EE offers  
21 as well as new usage/bill monitoring, demand response, and various time-  
22 differentiated pricing options including time of use, real-time, and critical peak.  
23 Reliant strongly believes that these new offers will build a core platform for

1 driving a new level of energy efficient behavior and investment by consumers.  
2 Furthermore, it is Reliant's opinion that the regulated, local distribution  
3 companies should be allowed to invest in infrastructure such as smart or advanced  
4 meters and such infrastructure should be available in a competitively neutral  
5 manner for customers to take advantage of no matter whom they choose for  
6 competitive supply. Reliant believes that consumer-driven EE is a service best  
7 provided by the competitive market.

8  
9 **Q. EXPLAIN THE IMPACT THAT A ROBUST COMPETITIVE MARKET**  
10 **CAN HAVE ON DSM AND EE.**

11 A. Competitive retail markets and DSM and EE improvements go hand in hand. For  
12 a consumer to actively participate in an ongoing, proactive manner, competitive  
13 retail markets are necessary to achieve results superior to what economic  
14 regulation alone can provide. In a well-designed competitive retail market, DSM  
15 and EE products and services will be driven by consumer demand and active  
16 marketing by competitive retail and energy services companies (i.e., it is a natural  
17 outcome of competition). Reliant is confident that if DSM and EE initiatives are  
18 implemented in large scale and to all customer classes, they can have the  
19 following benefits:

- 20 • reduced or delayed need for high cost, new generation;
- 21 • reduced environmental emissions including greenhouse gases; and
- 22 • lowered cost of power for consumers.

1 **III. MARKET PRICE MULTIPLIER**

2

3 **Q. DO YOU AGREE WITH OSBA WITNESS KALCIC'S CLAIM THAT**  
4 **DUQUESNE'S ("DQE") MARKET PRICE MULTIPLIER ("MPM") IS**  
5 **FATALLY FLAWED?<sup>2</sup>**

6 A. No. Other than making collateral attacks on the merit of indexing and noting that  
7 residential customers currently do not have an MPM adjustment mechanism, Mr.  
8 Kalcic does not demonstrate harm to the market associated with implementation  
9 of DQE's MPM. In fact, he never asserts that it will not work.

10

11 **Q. MR. KALCIC ARGUES THAT USING THE NIHUB IN THE MPM**  
12 **WOULD PRODUCE INAPPROPRIATE, ARBITRARY RESULTS.<sup>3</sup> DO**  
13 **YOU AGREE?**

14 A. No. Nowhere does Mr. Kalcic refute the evidence presented by DQE witness  
15 Fisher regarding the appropriateness of NiHub.<sup>4</sup> While it would be inappropriate  
16 to use, for example, the ISO New England Futures Prices in the MPM because  
17 that ISO is not in PJM, the NiHub is in PJM.

18

19

20

21

22

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2 Direct Testimony of Brian Kalcic p. 2, lines 3-5.

3 Direct Testimony of Brian Kalcic pp. 7-8.

4 Direct Testimony of Neil Fisher p. 66, lines 11-14.

1 **IV. CODE OF CONDUCT**

2  
3 **Q. PLEASE RESPOND TO STRATEGIC/RESA WITNESS HUDSON'S**  
4 **REQUEST THAT DQE'S CODE OF CONDUCT BE REVIEWED.<sup>5</sup>**

5 A. Reliant believes that the statewide code of conduct should be reviewed, with input  
6 from all stakeholders. However, Reliant suggests that the review should be  
7 conducted in a generic statewide proceeding and not be limited to DQE.

8  
9 **Q. WHY DOES RELIANT SUGGEST A STATEWIDE CODE OF CONDUCT**  
10 **REVIEW?**

11 A. It is my understanding that DQE's Code of Conduct Policy adheres to all of the  
12 guidelines detailed in the statewide Pennsylvania Code.<sup>6</sup> Rather than addressing  
13 code of conduct issues in this POLR filing, Reliant would support code of conduct  
14 reviews in a broader statewide venue. Reliant agrees that code of conduct issues  
15 are important, and a proceeding to examine the existing rules should be initiated  
16 prior to 2011.

17  
18 **V. CONCLUSION**

19  
20 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

21 A. Encouraging residential customers to participate in DSM and conservation  
22 measures brings many environmental and energy benefits to consumers.

---

5 Direct Testimony of Richard Hudson p. 11, lines 15-16.

6 Pennsylvania Code at 52 Pa. Code § 54.122.

1 Competitive retail suppliers are willing, and best positioned, to bring consumer-  
2 oriented DSM and EE benefits. Not only can DSM and EE give customers  
3 immediate benefits related to lower and/or less expensive consumption but they  
4 also provide long lasting environmental benefits. Reliant also recommends that a  
5 statewide review of the existing Code of Conduct guidelines should be initiated  
6 prior to the expiration of the rate cap period.

7

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A. Yes.**

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Duquesne Light :  
Company for Approval of Default : Docket No. P-00072247  
Service Plan for the Period :  
January 1, 2008 Through :  
December 31, 2010 :

Surrebuttal Testimony of  
James A. Ajello

DOCUMENT  
FOLDER

On Behalf of

Reliant Energy, Inc.

**DOCKETED**  
MAY 08 2007

Issues addressed:  
DQE's Default Service Plan is a Transition Plan  
Products for Small Commercial and Residential Customers

Date Served: April 19, 2007

Date Submitted for the Record: \_\_\_\_\_

APR 26 2007

*Hog TX*

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PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

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1 **I. INTRODUCTION**

2  
3 **Q. ARE YOU THE SAME JAMES A. AJELLO WHO PREVIOUSLY**  
4 **PROVIDED DIRECT AND REBUTTAL TESTIMONY IN THIS**  
5 **DOCKET?**

6 **A. Yes.**

7  
8 **Q. AFTER REVIEWING THE PARTIES' REBUTTAL TESTIMONY, WHAT**  
9 **ASPECTS OF THIS CASE NEED FURTHER DISCUSSION?**

10 **A. First, I will discuss Reliant Energy, Inc.'s ("Reliant") view that Duquesne Light**  
11 **Company's ("DQE") default service plan is an interim plan designed to transition**  
12 **customers to a more competitive market in 2011. I will next respond to the Office**  
13 **of Small Business Advocate ("OSBA") witness Kalcic's request for small**  
14 **commercial customers below 25 kW to have a three year fixed price default**  
15 **product. I conclude by addressing DQE witness Fisher's assertion that electric**  
16 **generation suppliers ("EGSs") do not offer small commercial and residential**  
17 **customers fixed price products.**

18  
19 **II. DQE'S DEFAULT SERVICE PLAN IS A TRANSITION PLAN**

20  
21 **Q. DO YOU AGREE WITH DQE WITNESS EICHENMILLER'S**  
22 **TESTIMONY THAT THE DEFAULT SERVICE PLAN IS AN "INTERIM**  
23 **PLAN"?**

1 A. Yes. Witness Eichenmiller characterizes the default service plan best when he  
2 notes that this default service plan is “an interim plan that is designed to transition  
3 customers to a more competitive market in 2011 when rate caps for all  
4 Pennsylvania customers will expire.”<sup>1</sup> I agree that the basic structure of the  
5 default service plan, particularly the plan for small C&I and residential customers,  
6 is interim in nature and a transition to a more competitive market — not the end  
7 state in default service design. I envision more robust competition for customers  
8 after this transition plan ends in 2010.

9  
10 **III. DEFAULT PRICING FOR SMALL COMMERCIAL**  
11 **AND RESIDENTIAL CUSTOMERS**

12  
13 **Q. DO YOU AGREE WITH OSBA WITNESS KALCIC THAT DQE SHOULD**  
14 **OFFER SMALL C&I CUSTOMERS 25 kW AND BELOW A THREE**  
15 **YEAR FIXED PRICE DEFAULT PRODUCT?<sup>2</sup>**

16 A. No. Mr. Kalcic has suggested that the default service for small C&I customers  
17 (those below the 25 kW threshold) should be a 3-year fixed price service.<sup>3</sup> I  
18 believe that DQE’s default service plan provides a better transition to a  
19 competitive framework than the proposal Mr. Kalcic puts forth. Mr. Kalcic’s  
20 recommendation to not make any progress for small C&I customers below 25 kW  
21 by maintaining a 3-year fixed price default service should be rejected.

22  

---

<sup>1</sup> Rebuttal Testimony of Frederick J. Eichenmiller, Duquesne Statement No. 2-R, page 7, lines 19-21.

<sup>2</sup> Rebuttal Testimony of Brian Kalcic, OSBA Statement No. 2, page 3, lines 7-10.

<sup>3</sup> See *id.*, page 3, lines 1-10.

1 Q. PLEASE RESPOND TO MR. FISHER'S TESTIMONY THAT  
2 RESIDENTIAL AND SMALL COMMERCIAL CUSTOMERS REQUIRE  
3 A STABLE DEFAULT RATE BECAUSE EGSs CANNOT BE RELIED ON  
4 TO PROVIDE FIXED PRICE PROTECTION.<sup>4</sup>

5 A. Mr. Fisher suggests that EGSs cannot be relied upon to provide residential and  
6 small commercial customers with fixed price options. While Reliant has agreed  
7 not to oppose the interim default service design proposed by DQE in this  
8 proceeding for small C&I and residential customers, I would like to address Mr.  
9 Fisher's suggestion, which is not accurate. Reliant does in fact offer fixed price  
10 products to smaller commercial and residential customers in Texas where the  
11 market rules allow for robust competition. Other retailers also offer fixed priced  
12 products to small commercial and residential customers in Texas and New York.<sup>5</sup>  
13 It is not the size of the customer that prohibits retailers from providing the product  
14 offerings they desire, but rather default service structures which deny smaller  
15 customers the ability to seek electric service from someone other than the utility.  
16 In the Texas market there are around twenty retailers providing numerous  
17 products to residential customers including 100% renewable, flex plans, fixed  
18 price (1 to 3 years) and variable price offers.<sup>6</sup>

<sup>4</sup> Rebuttal Testimony of Neil S. Fisher, Duquesne Statement No. 3-R, page 13, lines 15-22.

<sup>5</sup> See the competitive choice websites for Texas and New York respectively: [www.powertochoose.com](http://www.powertochoose.com) and [www.powertochooseny.com](http://www.powertochooseny.com).

<sup>6</sup> See [www.powertochoose.com](http://www.powertochoose.com).

1 **IV. CONCLUSION**

2

3 **Q. DO YOU HAVE ANY CONCLUDING REMARKS?**

4 A. Yes. I believe, along with DQE's witness Eichenmiller, that DQE's default  
5 service plan is an interim plan that will transition customers to a more competitive  
6 market after 2010. I am confident that the Commission will enact default service  
7 rules that will enable robust, sustainable competition for all customer classes in  
8 2011 and beyond. With appropriately crafted default service rules for each  
9 customer class, I am confident that EGSs will be able to meet the electric service  
10 needs of all customers, including those that desire fixed price products.

11

12 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

13 A. Yes.