



COMMONWEALTH OF PENNSYLVANIA

September 17, 2020

**E-FILED**

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

**Re: Petition of PPL Electric Utilities Corporation for Approval of its Default Service Plan for the Period June 1, 2021 Through May 31, 2025 / Docket No. P-2020-3019356**

Dear Secretary Chiavetta:

Enclosed please find the Statement in Support of the Joint Petition for Approval of Partial Settlement, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-captioned proceeding.

Copies will be served on all known parties in this proceeding, as indicated on the attached Certificate of Service.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Steven C. Gray

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Attorney I.D. No. 77538

*Enclosures*

cc: Robert D. Knecht  
Parties of Record

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>Petition of PPL Electric Utilities</b>	:	
<b>Corporation for Approval of its Default</b>	:	
<b>Service Plan for the Period June 1, 2021</b>	:	<b>Docket No. P-2020-3019356</b>
<b>Through May 31, 2025</b>	:	
	:	

**STATEMENT OF  
THE OFFICE OF SMALL BUSINESS ADVOCATE  
IN SUPPORT OF THE  
JOINT PETITION FOR APPROVAL OF PARTIAL SETTLEMENT**

**Introduction**

The Small Business Advocate is authorized and directed to represent the interests of the small business consumers of utility services in the Commonwealth of Pennsylvania under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. Pursuant to that statutory authority, the Office of Small Business Advocate (“OSBA”) filed a Notice of Intervention in the above-captioned proceeding, which was initiated by PPL Electric Utilities Corporation (“PPL” or the “Company”) on March 25, 2020.

The OSBA actively participated in the negotiations that led to the proposed partial settlement and is a signatory to the Joint Petition for Approval of Partial Settlement (“*Partial Settlement*”). The OSBA submits this statement in support of the *Partial Settlement*.

## **The Partial Settlement**

The *Partial Settlement* sets forth a list of issues that were resolved through the negotiation process. The following issues were of particular significance to the OSBA when it concluded that the *Partial Settlement* was in the best interests of PPL's small business customers.

### **1. Small Business Customer Procurement**

The *Partial Settlement* addresses the procurement of electric supply for the Company's Small Commercial & Industrial ("Small C&I") customers. The *Partial Settlement* states, as follows:

[T]he Signatory Parties agree that the proposals set forth in PPL Electric's Petition . . . including the . . . Program Product Procurement Schedule, and Tariff provisions for the Generation Supply Charge-1 ('GSC-1'), the Generation Supply Charge-2 ('GSC-2') and the Transmission Service Charge ('TSC'), are acceptable and should be adopted by the Pennsylvania Public Utility Commission.

*Partial Settlement*, at Paragraph 18. OSBA witness Robert D. Knecht testified that the proposed small business procurement methodology, as originally proposed by the Company, was acceptable:

[T]here is no reason to modify the current approach. Consistent with overall market price patterns, the Small C&I default service rate has declined. The rate remains consistent and modestly below the residential rate, which is procured with some block products. Mr. Cavicchi's analyses demonstrate that the risk premium required by the FRLF [Full Requirements Load Following] suppliers is relatively modest, and has been modestly lower in DSP IV than in earlier procurements. Finally, PPL Electric's timing for the procurements is reasonable, in that there is a relatively short period between the auction and when the contracted supplies begin to flow. Longer delays between the auction and the supply period increase the risk for the wholesale supplier, which would tend to increase the required risk premium.

OSBA Statement No. 1, at 8.

The OSBA has long been a proponent of fixed-price, full requirements contracts for service to Small C&I customers. Furthermore, the Company's proposal in this proceeding for Small C&I procurement is essentially identical to that agreed-upon by the parties in the settlement of PPL's last default service proceeding. In this proceeding, the OSBA found the Company's evidence that this mechanism is functioning reasonably well to be credible and saw no reason to contest it in direct testimony.

Therefore, for the reasons set forth above, the OSBA supports the proposed Small C&I procurement schedule as a just and reasonable approach for PPL's Small C&I customers.

## **2. NITS Non-Bypassable Charge**

Mr. Christopher H Kallaher, witness for Interstate Gas Supply, Inc., Shipley Choice LLC, NRG Energy, Inc., Vistra Energy Corp., Engie Resources LLC, WGL Energy Services, Inc., and Direct Energy Services, LLC (collectively, the "EGS Parties"), proposed a different methodology for the recovery of default service transmission costs. Mr. Knecht explained the EGS Parties' proposal, as follows:

Mr. Kallaher's proposal [is] that PPL Electric be required to incur the PJM Network Integrated Transmission Service ('NITS') costs for both shopping and non-shopping customers and recover those costs in a non-bypassable charge.

OSBA Statement No. 1-R, at 7 (footnote omitted).

Mr. Knecht testified, in detail, that there are both advantages and disadvantages to Mr. Kallaher's proposal. *See id.*, at 7-9. Ultimately, Mr. Knecht recommended that this proposal be rejected:

Thus, while I understand the competitive concerns raised by Mr. Kallaher, his proposed solution fails to address the double-payment concerns of larger shopping customers voiced in earlier PPL Electric DSP proceedings, and it has twice been explicitly rejected by the Commission.

OSBA Statement No. 1-R, at 9.

The *Partial Settlement* proposes to withdraw the EGS Parties' proposal for a change in methodology. This is in accordance with the testimony of Mr. Knecht, and the OSBA supports this resolution of the issue.

### 3. GSC-1 Reconciliation

Mr. Knecht explained the Company's original proposal addressing GSC-1 reconciliation, as follows:

In its filing, the Company proposed to retain its 6-month reconciliation approach for GSC-1. In that approach, the balance of over- or under-recovered costs is determined every six months, and a modified reconciliation charge is applied after a two-month lag. The reconciliation charge is designed to recover the variance (with interest) over a six-month period.

OSBA Statement No. 1-S, at 6. However, Office of Consumer Advocate ("OCA") witness Dr. Steven L. Estomin proposed a change to this methodology. Mr. Knecht explained this change, as follows:

Dr. Estomin opined that rate variability could be reduced by using a twelve-month recovery period rather than a six-month recovery period.

*Id.* Partially adopting Dr. Estomin's recommendation, and further modifying the Company's original methodology, PPL witness James M. Rouland proposed the following:

In rebuttal . . . Mr. Rouland now proposes to modify the GSC-1 reconciliation to occur only once every twelve months (with the two-month lag), and to adopt Dr. Estomin's proposal for a twelve-month recovery period.

OSBA Statement No. 1-S, at 6.

Mr. Knecht did not object to Dr. Estomin's original proposal:

[S]hopping rates have been relatively stable and a longer recovery period could serve to stabilize rates without adding undue risk related to shopping swings. As such, I do not disagree with Dr. Estomin's proposal if it were to apply to all GSC-1 customers.

*Id.*, at 6 (footnote omitted). However, Mr. Knecht expressed concerns about Mr. Rouland's further modifications:

However, I respectfully disagree with Mr. Rouland's alternative in his rebuttal testimony. In Dr. Estomin's proposal, the variances would be recalculated every six months, thereby limiting the potential for large variances to accumulate. With a 12-month recovery period, the reconciliation charge/credit at any time would reflect the effects of the past two variance evaluations. Under PPL Electric's proposal, ***large variances could potentially accumulate over a twelve-month period***, and would then all be reflected in rates at one time.

*Id.* (emphasis added).

Mr. Knecht's concern arises from long experience with PPL default service reconciliation mechanisms, particularly as they apply to Small C&I customers. Despite having flat volumetric rates and flat per-MWh purchase costs, the Company has, on several occasions, managed to show significant variances resulting in large E-Factor charges and credits. While the OSBA hopes that this problem will not recur, the PPL historical record is cause for concern.

To address the OSBA's concerns, the *Partial Settlement* proposes the following:

Specifically, the Company will reconcile 12 months of over/under collections over a 12-month period consistent with its other Section 1307 surcharges. In the event the GSC-1 E-factor exceeds 10 percent of the Price-to-Compare for Small C&I GSC-1 customers, the Company agrees to consult with the OSBA regarding the causes for this variance and steps being taken to reduce GSC-1 variances.

*Partial Settlement*, at Paragraph 21.

This proposal in the *Partial Settlement* directly address the OSBA's concern that large variances could accumulate when using a 12-month reconciliation period, particularly for the

Small C&I rate class group, and at least provides an opportunity to address the issue if and when it does occur. Therefore, the OSBA supports the *Partial Settlement's* proposal as a just and reasonable solution to the issue.

#### **4. Renewable Energy Rider**

Mr. Knecht summarized PPL's proposed renewable energy rider, as follows:

The Company proposes to offer a Renewable Energy Rate ('RER') 'default' service rate option, which will allow default service ratepayers to purchase their entire energy requirements from Tier I and Tier II renewable resources.

OSBA Statement No. 1, at 5.

Mr. Knecht testified extensively in opposition to the Company's RER proposal. *See* OSBA Statement No. 1, at 16-17; OSBA Statement No. 1-R, at 2-3; OSBA Statement No. 1-S, at 4-5.

The *Partial Settlement* proposes to withdraw the Company's RER proposal in its entirety. *Partial Settlement*, at 22. This is in accordance with the testimony of Mr. Knecht, and the OSBA fully supports the proposed resolution of this issue.

#### **5. AEC Auction**

Mr. Knecht summarized PPL's proposed alternative energy credit procurement proposal, as follows:

At present, both wholesale default service suppliers and retail EGSs are obligated to meet their alternative energy requirements required by the Alternative Energy Portfolio Standards Act ('AEPSA'), by independently procuring the necessary Tier I, Tier II and Solar alternative energy credits ('AECs'). PPL Electric proposes that it separately purchase the AEC requirements for default service customers and recover the costs through the reconcilable GSC charges.

OSBA Statement No. 1, at 4-5. Mr. Knecht continued:

The Company proposes to conduct bi-annual auctions for procuring AECs. These auctions would be used to purchase the AEC requirements for all default service supplies for both GSC-1 and GSC-2 default service, as well as the AEC requirements for the RER option (discussed below). Regarding the GSC purchases, the major change of this proposal is to shift both the costs and the risks for AECs from the wholesale supplier FRLF contracts to the Company and ultimately to the ratepayers.

*Id.*, at 11 (footnote omitted).

Mr. Knecht, again, testified extensively in opposition to the Company's AEC procurement proposal. *See* OSBA Statement No. 1, at 11-13; OSBA Statement No. 1-R, at 3-4; OSBA Statement No. 1-S, at 1-4. The crux of Mr. Knecht's opposition can be summarized, as follows:

I therefore retain my conclusion that, unless EGSs are allowed to participate in the PPL Electric procurement of AECs, the Company's proposal should be rejected as anti-competitive.

OSBA Statement No. 1-R, at 3.

However, as it turned out, the EGS Parties barely raised an objection to the Company's proposal. Mr. Knecht ultimately concluded:

Thus, I must reasonably conclude that the competitive concerns I raised in my direct testimony relating to the Company's AEC procurement do not appear to represent a serious problem for EGSs.

OSBA Statement No. 1-S, at 4.

The OSBA acknowledges "that PPL Electric procurement of AECs will reduce risks faced by wholesale suppliers, thereby allowing those suppliers to offer lower wholesale prices." OSBA Statement No. 1, at 11 (footnote omitted). Therefore, as the EGS Parties apparently have no concerns about the possible anti-competitive effects of the proposal, the OSBA supports the



pilot program to test PPL's AEC procurement proposal as set forth in the *Partial Settlement*.  
*Partial Settlement*, at Paragraphs 23, 24.

## 6. TOU Program

As the Commission is well-aware, the Company's time-of-use ("TOU") default service program has, at times, been a debacle. Mr. Knecht summarized PPL's latest program changes, as follows:

The Company proposes to abandon its unsuccessful attempts to competitively and independently procure supplies for TOU customers, and to adopt its current contingency plan for those supplies. TOU supplies will be included in the overall default supply portfolio and will be the obligation of the wholesale suppliers. Prices will be set *around* the default service price, with an on-peak premium and an off-peak discount.

OSBA Statement No. 1, at 5 (emphasis in original).

The Company's TOU program modifications have two major components. Mr. Knecht explained, as follows:

Regarding the first issue, ***PPL Electric's proposal to abandon the effort to procure TOU supplies competitively is a rational recognition of reality.*** It was unlikely that the competitive procurement approach would succeed, particularly for the Small C&I rate class group, due to the relatively small size of the load and the inability of suppliers to hedge prices for both TOU consumers and TOU net-metered net generators. Moreover, the contingency plan has the significant advantage that the TOU rates will be set around the default service rate, such that on-peak rates are always higher than the basic rate, and off-peak rates are always lower. This common-sense result has not always been the case in prior incarnations of the Company's TOU offerings. I therefore agree with the proposed change.

OSBA Statement No. 1, at 13 (footnote omitted) (emphasis added).

Thus, while the OSBA supports this first component of the Company's TOU proposal, Mr. Knecht did identify issues with the second component:

Regarding the second issue, PPL Electric proposes to maintain the same basic parameters for its time-of-use ('TOU') 'default' service rate, namely a two-season approach (June-November, December-May) with a single contiguous on-peak period for each (weekdays, 2-6pm summer, 4-8pm winter). On- and off-peak rates ***are set such that the average rate paid for a customer with the average class load profile*** will pay the same overall rate as the default service rate.

*Id.* (emphasis added). After an extensive analysis, Mr. Knecht concluded that the Company's TOU analysis should be based upon an "should be based on an analysis of market prices, rather than reliance solely on loads." OSBA Statement No. 1, at 13-16.

To provide such analysis, Mr. Knecht recommended the following:

It is not unreasonable to require PPL Electric to regularly undertake due diligence with respect to the TOU parameters. I therefore recommend that the Commission direct PPL Electric to prepare a full evaluation of the key parameters for TOU rates for the next default service proceeding. This should include a review of both the definition for on- and off-peak periods, and an evaluation of the appropriate rate discount level for the off-peak period.

*Id.*, at 15-16.

In the *Partial Settlement*, PPL agreed to conduct a study as recommended by Mr. Knecht ("The Company agrees to perform additional analysis and reporting on the TOU program in its next DSP proceeding.") See *Partial Settlement*, at Paragraph 27. The OSBA appreciates the Company's willingness to conduct this study and supports this resolution of this troublesome TOU issue as a just and reasonable solution.

**Conclusion**

For the reasons set forth in the *Partial Settlement*, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed *Partial Settlement* and respectfully requests that the ALJ and the Commission approve the *Partial Settlement* in its entirety.

Respectfully submitted,

/s/ Steven C. Gray

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Dated: September 17, 2020

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:

**CERTIFICATE OF SERVICE**

I hereby certify that true and correct copies of the foregoing have been served via email (*unless otherwise noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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DATE: September 17, 2020

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