

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PPL Electric Utilities Corporation :  
For Approval of a Default Service Program : Docket No. P-2016-2526627  
And Procurement Plan for the Period :  
June 1, 2017 through May 31, 2021 :

SURREBUTTAL TESTIMONY

OF

RICHARD S. HAHN

REGARDING PPL ELECTRIC UTILITIES CORPORATION  
2017 DEFAULT SERVICE PROGRAM

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

June 3, 2016

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1 **I. INTRODUCTION**

2  
3 **Q. Please state your name and business address.**

4  
5 A. My name is Richard S. Hahn. My business address is Daymark Energy Advisors  
6 (“Daymark”, formerly La Capra Associates), One Washington Mall, Boston,  
7 Massachusetts 02108.

8  
9 **Q. On whose behalf do you testify in this proceeding?**

10  
11 A. I am testifying on behalf of the Pennsylvania Office of Consumer Advocate  
12 (“OCA”).

13  
14 **Q. Have you previously submitted testimony in this proceeding?**

15  
16 A. Yes. My direct testimony was filed on April 20, 2016, and my rebuttal testimony  
17 was filed on May 23, 2016.

18  
19 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

20  
21 A. The purpose of my rebuttal is to respond to the rebuttal testimonies of Mr.  
22 Rouland and Mr. Cavicchi on behalf of PPL and Mr. White on behalf of the Retail  
23 Energy Supply Association (RESA).

24 **II. SUMMARY AND RECOMMENDATIONS**

25  
26 **Q. Please summarize your conclusions and recommendations.**

27  
28 A. I continue to advocate for the inclusion of spot products and 24-month contracts  
29 in PPL’s DSP IV.

### **III. RESPONSE TO REBUTTAL TESTIMONY**

**Q. Please summarize the issues raised in the PPL and RESA rebuttal testimony that you wish to respond to.**

A. In the testimony of Mr. Rouland, PPL opposes my recommendation to include spot and 24-month products in the residential Default Service portfolio. PPL asserts that spot and 24-month products were phased out to allow Default Service rates to be updated more frequently and support retail competition, and that including these products would effectively return PPL to DSP I. PPL claims that evolution of its Default Service procurement plans has demonstrated that PPL's Default Service rates have not been excessively volatile. PPL also claims that spot prices cannot be accurately forecast, and their inclusion would lead to distortions in the PTC and additional reconciliation requirements. The rebuttal testimony of Mr. Cavicchi offers essentially the same arguments against the inclusion of spot and 24-month products. He further adds that 24-month contracts represent higher risk to suppliers and therefore result in higher prices. Mr. Cavicchi also points out that adding 24-month products increases the average contract length of the portfolio. In the rebuttal testimony of Mr. White, RESA also opposes the inclusion of 24-month products, stating that it would be a step backwards that would cause Default Service rates to be inconsistent with EGS pricing.

**Q. How do you respond?**

A. PPL's and RESA's opposition to the inclusion of 24-month products ignores the risk of exposure to volatile market prices by procuring 70%-75% of residential default service supplies at one time. PPL claims that this risk of exposure to volatile market prices also occurs in my recommended product mix. I agree. But what PPL fails to acknowledge is that this risk is much lower with my portfolio because only half of the residential Default Service load will be procured at any one time, compared to 70% to 75% under PPL's proposal. PPL also argues that its Default Service rates have not been volatile. Even if true, this is no reason to use an inferior product mix going forward. Just

1 because a risk has not resulted in a harm in the past does not mean that one should ignore  
2 that risk going forward.

3 I disagree with PPL's assertions that spot products are difficult to forecast and  
4 introduce additional reconciliation requirements. While no forecast is perfect, spot  
5 market prices can be forecasted using futures prices, and spot products can be reconciled  
6 within the mechanism proposed by PPL. And, I note that under my proposal, spot  
7 products represent a very small percentage of the total portfolio.

8 Portfolio theory is based upon the diversity of its components, in terms of both  
9 product type and length of term. PPL's proposal includes two products – six-month and  
10 twelve-month contracts. My proposal is based upon three products – spot plus contracts  
11 with term of twelve months and 24 months. This greater diversity of product components  
12 will produce benefits for residential Default Service customers going forward.

13 Furthermore, Pennsylvania statute requires a prudent mix of products, including  
14 spot and long-term products. While truly long term contracts are defined as those with  
15 terms of four years or greater, a portfolio with 24-month products will come closer to  
16 comporting with this aspect of the statute than a portfolio with products whose longest  
17 term is twelve months. I note that other Pennsylvania EDCs (such as PECO) have  
18 successfully incorporated 24-month products in their recent residential Default Service  
19 portfolios.

20 In addition, I note that in the Commission's review of FirstEnergy's most recent  
21 DSP, Chairman Brown issued a statement that urges the Commission to consider long-  
22 term contracts of four to twenty years. Until such contracts become part of Default  
23 Service power supply portfolios, the inclusion of 24-month contracts constitutes a  
24 reasonable interim step towards that goal and should not be objectionable.

25 Lastly, in response to RESA, I do not believe that there is a requirement for  
26 Pennsylvania's Default Service rates to precisely align with EGS pricing. Default Service  
27 must meet the requirements of Section 2807(e) and is designed to provide adequate,  
28 reliable, affordable, efficient and environmentally sustainable electric service at the least  
29 cost, taking into account any benefits of price stability over time and the impact on the  
30 environment.

1                   For the above reasons, I continue to advocate for the inclusion of spot products  
2                   and 24-month contracts in PPL's DSP IV.

3   **IV. CONCLUSION**

4

5   **Q.    Does this conclude your testimony?**

6   A.            At this time, yes. Should additional information become available through the  
7                discovery process, I will seek to supplement this testimony as appropriate.

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VERIFICATION

I, Richard S. Hahn, hereby state that the facts above set forth in my Surrebuttal Testimony, OCA Statement No. 1-SR are true and correct and that I expect to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 (relating to unsworn falsification to authorities).

Signature:   
Richard S. Hahn

Consultant Address: Daymark Energy Advisors  
One Washington Mall, 9<sup>th</sup> Fl.  
Boston, MA 02108

DATED: June 3, 2016