OCA STATEMENT NO. 1R

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PECO ENERGY	**)**	
COMPANY FOR APPROVAL OF	**)**	**DOCKET NO. P-2020-3019290**
DEFAULT SERVICE PROGRAM	**)**	

REBUTTAL TESTIMONY

OF

STEVEN L. ESTOMIN

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

JULY 9, 2020

EXETER
ASSOCIATES, INC.
10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

TABLE OF CONTENTS

Page

I. INTRODUCTION 1

II. PECO AS DEFAULT SERVICE PROVIDER 2

III. PECO'S TIME-OF-USE RATE PROGRAM 3

IV. SUPPLIER CONSOLIDATED BILLING 4

V. LONG-TERM SOLAR AEC CONTRACTS 9

VI. COST ALLOCATION ISSUES 11

- A. Electric Supplier Coalition Issues 11
- B. Office of Small Business Advocate Issues 13

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Steven L. Estomin. I am an independent economics consultant. My office is located at 5821 Beaurivage Avenue, Sarasota, Florida 34243.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?

A. Yes. I submitted Direct Testimony in this proceeding on June 16, 2020 on behalf of the Pennsylvania Office of Consumer Advocate ("OCA")

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

A. My Rebuttal Testimony addresses certain issues raised by Mr. Kavulla in his Direct Testimony filed on behalf of the Electric Supplier Coalition ("ESC"). These issues relate to PECO Energy Company ("PECO" or the "Company") continuing in its role as Default Service Provider; PECO's proposed Time-of-Use ("TOU") rate program; supplier consolidated billing ("SCB"), PECO's proposal to enter into ten-year contracts for the provision of a portion of the Company's expected solar Alternative Energy Credit ("AEC") requirement; and PECO's allocation of costs between Default Service and distribution service. In addition to the issues raised by Mr. Kavulla, I also address an issue raised by Mr. Brian Kalcic, who submitted Direct Testimony on behalf of the Pennsylvania Office of Small Business Advocate ("OSBA"). That issue relates to the allocation of costs that PECO is estimated to incur for the implementation of its TOU rate program.

II. <u>PECO AS DEFAULT SERVICE PROVIDER</u>

Q. PLEASE SUMMARIZE MR. KAVULLA'S POSITION WITH RESPECT TO PECO'S ROLE AS DEFAULT SERVICE PROVIDER.

A. Mr. Kavulla recommends that PECO be removed from its role as Default Service Provider and instead the Default Service Provider function be competed from a group of interested firms offering rival plans.[1]

Q. PLEASE COMMENT ON MR KAVULLA'S RECOMMENDATIONS.

A. The recommendations made in Mr. Kavulla's Direct Testimony that relate to PECO's continued role as the Default Service Provider have been previously addressed by the Pennsylvania Public Utility Commission ("Commission"), and the Commission has determined that the interests of Pennsylvania's electric utility customers are best served with the Electric Distribution Companies ("EDCs") continuing to operate as Default Service Providers.[2] Since its enunciation of this determination in the End State Order in 2013, the Commission has not seen a need to reverse that decision.

Q. DO YOU BELIEVE THAT THE COMMISSION'S DECISION AS ARTICULATED IN THE END STATE ORDER REMAINS THE PREFERRED OPTION?

A. Yes. For reasons that have been previously presented to the Commission by the OCA, there are cost advantages accruing to Default Service customers from maintaining the EDCs as the providers of Default Service since the EDCs do not earn a return on the provision of that service. As a consequence, EDCs are well-positioned to provide Default Service at least cost to consumers. Additionally, the EDC, in its capacity as the regulated distribution company, remains in the best

[1] Direct Testimony of Travis Kavulla, ESC Statement No. 1, p. 13, lines 5-11.
[2] *Investigation of Pennsylvania's Retail Electric Market: End State of Default Service*, Docket No. I-2011-2237952 (Order entered February 15, 2013) ("End State Order"), p. 20.

position to seamlessly supply power to individual customers that, for whatever reason, cease to be supplied by their Electric Generation Supplier ("EGS").

Q. ARE YOU RECOMMENDING THAT THE COMMISSION CONTINUE TO ADHERE TO ITS CURRENT PERSPECTIVE OF RELIANCE ON THE EDC AS THE DEFAULT SERVICE PROVIDER?

A. Yes.

III. PECO'S TIME-OF-USE RATE PROGRAM

Q. PLEASE DESCRIBE MR. KAVULLA'S RECOMMENDATIONS REGARDING PECO'S PROPOSED TOU RATE PROGRAM.

A. Mr. Kavulla's recommendation addressing TOU rates is that the Commission should establish the Company's TOU rate as the default rate; that is, rather than the TOU program being approved as an "opt in" Default Service program, the TOU program should be approved as an "opt out" program.[3] This means that if a residential customer prefers to receive service under a flat per-kWh rate rather than a time-varying rate, the customer would need to take affirmative action to move from the TOU rate to the flat rate.

Q. DO YOU SUPPORT MR. KAVULLA'S PROPOSAL THAT THE COMMISSION DIRECT PECO TO ESTABLISH THE TOU RATE AS AN "OPT OUT" RATE RATHER THAN AS AN OPTION THAT WOULD REQUIRE RESIDENTIAL CUSTOMERS TO "OPT IN" IF THEY WISHED TO RECEIVE SERVICE UNDER THAT RATE?

[3] Direct Testimony of Travis Kavulla, ESC Statement No. 1, p. 21, lines 1-3.

A. No. First, the legislative language requires that the EDC (as Default Service Provider) *offer* TOU rates to customers with smart meters.[4] The legislative language also provides that the customer "may elect to participate in time of use rates."[5] The plain language is that TOU rates may not be established as a default, with the EDC offering flat rates as an option, but rather that flat rates be established as the default, with TOU rates offered as an option.

An additional, and important, consideration is that if the TOU rate is established as an "opt out" default, there is a greater risk that certain customers will remain on the TOU default rate even though the rate will not afford them savings and may, in fact, result in additional costs. This is particularly true for low income customers and customers with chronic illnesses that have limited ability to shift usage to the off-peak period. As a consequence, setting a TOU rate as the default, and requiring affirmative action on the part of the residential customers to move to a more favorable rate, would adversely affect the most vulnerable residential customers on PECO's system.

IV. SUPPLIER CONSOLIDATED BILLING

Q. PLEASE EXPLAIN THE MR. KAVULLA'S RECOMMENDATION REGARDING SUPPLIER CONSOLIDATED BILLING.

A. Mr. Kavulla raises the issue of SCB in the context of TOU rates, stating that in order to achieve greater enrollment in the TOU program, the Commission should allow supplier consolidated billing. The nexus between increased TOU enrollment and establishing SCB is tenuous at best. Nevertheless, Mr. Kavulla states that without

[4] 66 Pa. C.S. § 2807(f)(5).
[5] *Id.*

SCB, "…only PECO is allowed to offer time-varying rates effectively."[6] Mr. Kavulla's recommendation is that SCB should be implemented prior to the start of TOU rates.[7]

Q. PLEASE COMMENT ON MR. KAVULLA'S PROPOSAL REGARDING SCB.

A. As was the case with regard to PECO's continued role as the Default Service Provider, the SCB issue has been previously addressed by the Commission and, for the reasons explained in the End State Order, to date the Commission has not directed that SCB be offered. Further, the Commission has an active investigation open that is addressing SCB.[8] The Commission's investigation follows the Commission's rejection of a petition by NRG Energy to have the Commission direct SCB. Notwithstanding the currently open investigation and the Commission's prior decisions regarding SCB, numerous complex issues surround the potential approval of SCB, including the maintenance of consumer protections, adverse impacts on low income customers, potential adverse impacts on competition, and how SCB would potentially interfere with certain of the EDCs' legislated responsibilities. In addition to these issues, there is the issue of the cost of SCB, not only to the EGSs opting for SCB and the need to recover those costs from customers, but also additional costs that would be incurred by the Commission. A separate but related issue is whether SCB provides any meaningful improvement over what is currently available to EGSs through alternative methods to directly interact with their customers.

[6] Direct Testimony of Travis Kavulla, ECS Statement No. 1, p. 18, line 20.
[7] *Id*., p. 20, lines 11-14.
[8] Hearing on Implementation of Supplier Consolidated Billing, Pennsylvania Public Utility Commission Docket No. M-2018-2645-254.

Q. PLEASE EXPLAIN THE POTENTIAL METHODS THAT MAY BE AVAILABLE TO THE EGSs THAT WOULD ALLOW DIRECT INTERACTION WITH THEIR CUSTOMERS.

A. Even without the SCB option, EGSs can employ separate billing for generation services, which would accommodate direct customer interaction and provide an EGS with the ability to incorporate as much detail as desired about billing options. The EGSs also have available direct mail, email, telephone messaging, and text messaging options. EGSs, like many other businesses in a competitive environment, can develop and make use of apps which can be downloaded by customers and provide anytime/anywhere interaction directly with their customers. SCB, therefore, does not represent the sole method of direct interactions with customers, and these other methods of interaction could be relied upon to potentially achieve higher levels of subscriptions to TOU rates, as Mr. Kavulla suggests would be obtainable only through SCB.

Q. WHAT ARE YOUR CONCERNS REGARDING SCB'S IMPACTS ON CONSUMER PROTECTION?

A. The Commission itself has previously noted potential issues related to consumer protection that would emerge under SCB. For example, the Commission states that coordination between the EGS and the EDC would need to be accommodated to quickly effectuate reconnections.[9] A similar concern exists with respect to medical certification. When a customer submits a medical certificate to the public utility, service termination is prevented.[10] The Commission has stated that communication delays resulting from the EGS being an intermediary between the customer and the

[9] Pennsylvania Public Utility Commission, Petition of NRG Energy, Inc. for Implementation of Electric Generation Supplier Consolidated Billing, Docket No. P-2016-2579249, Opinion and Order, January 18, 2018. ("NRG Order")
[10] See Section II.A, Chapter 14 of the Pennsylvania Public Utilities Code.

EDC could increase the risk of improper termination and delay of interconnection.[11] Additionally, there would need to be protection against service disconnection resulting from nonpayment of billings for non-basic services (e.g., HVAC or home security systems) that could be included on the EGS bill. Of related concern is that customers in arrears on payments for non-basic services may be improperly precluded from switching their service to another EGS.

Q. WHAT POTENTIAL LOW INCOME ISSUES ARISE WITH SCB?

A. The Commission, in the NRG Order, identified several issues related to protecting low income customers. These include:

- How low income programs would be administered by EDCs when EGSs perform the billing function;
- How EGSs will ensure that low-income customer protections would remain in place;
- How the EDCs will be able to calculate the Customer Assistance Program ("CAP") credits, which are based on the total electric bill, when the EDCs do not have access to the EGS generation charges;
- How the EGS will receive Low Income Home Energy Assistance Program ("LIHEAP") grants given that energy suppliers are not eligible for receipt of those grants;
- How CAP arrearages would be dealt with; and
- How CAP customers would be informed that they are approaching the subsidy limits.[12]

Also of importance is that with an EGS's reliance on SCB, it would forego access to the utility's Purchase of Receivables ("POR") program. That would result in the EGS bearing the burden of uncollectible and late payments. With that cost,

[11] NRC Order, p. 29.
[12] NRG Order, p. 46.

EGSs would rely on customer credit checks to minimize exposure, which would adversely affect the ability of low income customers to shop.

Q. COULD SCB RESULT IN HIGHER MONTHLY EGS BILLS?

A. Yes. SCB would entail additional costs to EGSs, coupled with the potential additional costs associated with uncollectible accounts and credit checks on customers; the EGSs would likely need to recover those costs through additional charges. If those added costs are recovered through a separate fee, that is, through something other than the generation charge, it may be difficult for customers to easily compare costs among EGSs and between EGS service and Default Service. Furthermore, this price increase, like any price increase, would adversely affect not only low-income customers but other residential customers as well.

Q. ARE THERE OTHER COST IMPLICATIONS ASSOCIATED WITH SCB?

A. Yes. Chapter 56 of the Commission's regulations specify certain activities that EDCs are required to undertake which would then fall to an EGS opting for SCB. Billing systems and protocols would need to be adopted by the EGS consistent with the Chapter 56 requirements. Additionally, the EGS would need to provide a call center with trained staff. At the same time, this would result in an added burden (and cost) to the Public Utility Commission to ensure that the statutory and regulatory requirements are being met by the EGSs, including the determination of whether each EGS's call center is adequately staffed. Given that the oversight function would need to be exercised for each of the EGSs opting for SCB, this burden could be substantial.

Additional costs would be incurred for customer education to provide information to customers who are used to dealing with the EDC on electric service issues. Customer education would need to address how to deal with outages, emergency situations, service quality issues, billing complaints, meter issues; and how to deal with issues related to shopping for generation. It is not clear where this responsibility would reside, but regardless of whether it resides with the EGS, the EDC, or a government entity, the related costs would be borne by either consumers or taxpayers.

V. LONG-TERM SOLAR AEC CONTRACTS

Q. WHAT DOES MR. KAVULLA RECOMMEND WITH RESPECT TO PECO'S PROPOSAL TO ENTER INTO TEN-YEAR CONTRACTS FOR A PORTION OF THE COMPANY'S SOLAR AEC REQUIREMENT?

A. Mr. Kavulla recommends that PECO rely on the wholesale Default Service suppliers to deliver the full amount of AECs necessary to meet the requirements of the Alternative Energy Supply Portfolio ("AESP") Act, including all solar AECs. As an alternative, Mr. Kavulla recommends that the proposed 10-year contracts for solar AECs be limited to a term not to exceed the four-year duration of DSP V.[13]

Q. WHAT IS YOUR UNDERSTANDING OF THE BASIS FOR MR. KAVULLA'S OBJECTION TO THE 10-YEAR CONTRACTS FOR SOLAR AECS PROPOSED BY THE COMPANY?

A. Mr. Kavulla objects to PECO entering into long-term contracts for the supply of solar AECs to partially meet the Default Service AEPS Act requirements for several reasons. One reason, as explained by Mr. Kavulla, is that by PECO entering into contracts that extend beyond May 31, 2025, the terminal date of the DSP V period, the opportunity to move to an alternative Default Service Provider may be hindered or foreclosed.

[13] Direct Testimony of Travis Kavulla, ESC Statement No. 1, p. 27, lines 16-19.

Q. DO YOU AGREE THAT IF PECO ENTERS INTO CONTRACTS EXTENDING BEYOND THE TERM OF DSP V, THE ABILITY TO MOVE TO AN ALTERNATIVE DEFAULT SERVICE PROVIDER WOULD BE ADVERSELY AFFECTED?

A. As I stated earlier, I do not support the use of an alternative Default Service Provider. That said, any contractual obligations incurred by PECO by entering into those contracts could be transferred to a new Default Service Provider. Further, EDCs as Default Service Providers routinely enter into fixed-price, full-requirements power supply contracts (which are approved by the Commission) that extend beyond the terminal date of the Default Service Plan period to avoid what has been termed a "hard stop" on supply at the end of the period. Failure to enter into such contracts would unnecessarily expose residential customers to excessive market price risk at the commencement of a new Default Service Plan period.

Q. ARE THERE OTHER REASONS THAT MR. KAVULLA RECOMMENDS AGAINST PECO ENTERING INTO LONG TERM CONTRACTS FOR SOLAR AECS?

A. Yes. Mr. Kavulla notes that the long-term contracts may turn out to be uneconomic over the course of the delivery period relative to then-prevailing market prices.[14] That circumstance is certainly possible, just as the potential that the contracts will turn out to be below market over the course of the delivery period is possible. What is important, however, is that the future market prices for solar AECs are not known. The long-term solar AEC contracts, therefore, operate as a hedge against large price increases during the term of the contract, not as a means to secure the lowest possible price at any particular time.

[14] *Id.*, p. 29, lines 3-5.

Mr. Kavulla also states that PECO's long-term contracts for solar AECs will negatively affect the willingness of EGSs to undertake long-term projects themselves.[15] Why EGSs would be unwilling to undertake renewable energy projects if Default Service Providers enter into long-term contracts for AECs is not clear. Long-term contracts for AECs, or for bundled energy plus AECs, are generally seen to support renewable energy project development, not to impede it.

Q. DO YOU BELIEVE THAT THE UNDERLYING RATIONALES PUT FORWARD BY MR. KAVULLA SUPPORT HIS RECOMMENDATIONS REGARDING PECO ENTERING INTO 10-YEAR CONTRACTS FOR THE PURCHASE OF SOLAR AECS?

A. No, I do not. I do not see any compelling reason why PECO's DSP V proposal to enter into long-term contracts for the provision of solar AECs for partial satisfaction of the AEPS Act requirements should not be accepted.

VI. COST ALLOCATION ISSUES

A. Electric Supplier Coalition Issues

Q. WHAT IS MR. KAVULLA'S POSITION REGARDING PECO'S ALLOCATION OF COSTS BETWEEN DEFAULT SERVICE AND DISTRIBUTION SERVICE?

A. Fundamentally, Mr. Kavulla asserts that PECO's Price-to-Compare ("PTC") is too low because costs that should appropriately be allocated to Default Service are instead allocated to distribution service. He argues that this supposed cost shifting makes it difficult for EGSs to compete with Default Service since the Default Service prices are lower than they should be. To correct for what Mr. Kavulla sees as an

[15] *Id.*, p. 30, lines 17-20.

inappropriate subsidization of Default Service, he recommends that certain overhead costs incurred by PECO that are currently allocated to distribution service instead be allocated to Default Service.

Q. DO YOU CONCUR WITH MR. KAVULLA'S VIEW THAT PECO'S RESIDENTIAL DEFAULT SERVICE IS SUBSIDIZED BY THE COMPANY'S DISTRIBUTION SERVICE CHARGES?

A. No, for several reasons. First, the Commission has addressed this issue multiple times in the past and most recently in connection in its 2018 Opinion and Order ("2018 Order") related to PECO's distribution service rates.[16] In the 2018 Order, the Commission rejected the contention that PECO's allocation of overhead costs between Default Service and distribution service was inappropriate.[17] Second, the allocation of costs suggested by Mr. Kavulla does not appear to be based on principles of cost causality. Rather, the underlying rationale put forward is that if Default Service were provided on a stand-alone basis, that is, severed from the distribution service function, insufficient revenues would be available to Default Service (based on current revenue levels that are supported by PECO's cost allocation approach) to allow the service to continue.[18] To cure this alleged problem, Mr. Kavulla proposes that overhead costs be shared between distribution service and Default Service in some manner that results in substantially more costs being allocated to Default Service.[19] Mr. Kavulla contends that this approach is consistent with the National Association of Regulatory Utility Commissioners' ("NARUC's") guidelines that address cost allocation between a regulated entity and an unregulated

[16] Pennsylvania Public Utility Commission, Opinion and Order in consolidated Docket Nos. R-2018-3000164, C-2018-3001112, C-2018-3001043, and C-2018-3001471, December 20, 2018.
[17] *Id*., p. 65.
[18] Direct Testimony of Travis Kavulla, ESC Statement No. 1, p. 50, lines 14-21.
[19] Mr. Kavulla, in his Direct Testimony, does not offer a recommendation as to what allocators should be used to divide specific overhead costs to either Default Service or to distribution service.

or competitive affiliate.[20] Default Service, however, is not provided through an unregulated affiliate. While Default Service entails the provision of generation service, which is also provided by EGSs, Default Service also entails the obligation to stand ready to serve all distribution service customers and the EDC must maintain the capability to perform that function. The Commission has "…endeavored to fairly identify those costs that should be recovered from default service customers through the PTC, the rate the utility charges for a service which is also available in the competitive market [by EGSs]. The PTC does *not* determine the level of costs that would equal an EGS's costs for like services."[21] The alternative proposed by Mr. Kavulla, therefore, is in opposition to the determination made by the Commission and the Commission's assessment of the appropriate application of the fundamental principle of cost causality, which should be a guiding principle applied to utility cost allocation.

B. <u>Office of Small Business Advocate Issues</u>

Q. HAS MR. KALCIC, OSBA'S WITNESS IN THIS PROCEEDING, ADDRESSED ANY COST ALLOCATION ISSUES RELATED TO DSP V?

A. Yes. In his Direct Testimony, Mr. Kalcic addresses PECO's proposed allocation of the costs associated with the implementation of the Company's TOU rate program. While Mr. Kalcic agrees with PECO's proposed approach to recovering all of the TOU costs from the two eligible procurement classes (Residential and Small Commercial), he contends that not all of the TOU implementation costs should be allocated on the basis of Default Service supply sales, i.e., kWh, over the term of the Company's proposed plan.[22] Mr. Kalcic agrees that certain administrative costs

[20] Direct Testimony of Travis Kavulla, ESC Statement No. 1, p. 49, lines 9-22.
[21] 2018 Order, p. 68. (Italics added.)
[22] Direct Testimony of Brian Kalcic, OSBA Statement No. 1, p. 6, lines 8-12.

related to the provision of Default Service, such as costs related to: the conduct of the proceeding; the independent evaluator; Default Service sales forecasting; and the costs of the RFP monitor, are appropriately allocated on the basis of kWh.[23] Mr. Kalcic proposes that the allocation of costs related to the implementation of PECO's proposed TOU rate program, however, should be allocated on the basis of the number of customers in the two eligible classes.[24]

Q. DO YOU AGREE WITH MR. KALCIC'S PROPOSED TOU IMPLEMENTATION COST ALLOCATION METHODOLOGY?

A. No. Mr. Kalcic states, at page 7 of his Direct Testimony, that the "… TOU implementation costs would be incurred in order to afford Residential and [Small Commercial] default service *customers* the option of choosing a TOU rate…"[25] I can with equal force argue that the TOU implementation costs would be incurred in order to facilitate Residential and Small Commercial *kWh* being purchased under a TOU rate. The administrative TOU-related costs are fundamentally no different than the types of administrative costs that Mr. Kalcic concludes should appropriately be allocated on the basis of kWh (e.g., IT costs, the costs of the RFP Monitor, the costs to conduct the Default Service proceeding). Consequently, there is no reason why the TOU-related administrative costs should be treated differently from a cost allocation perspective. Because PECO serves many more Residential customers than it does Small Commercial customers, Mr. Kalcic's proposal would simply have the effect of shifting a much larger burden of the cost coverage of the Company's TOU rate program to residential customers.

---

[23] *Id*., p. 6, lines 17-20.
[24] *Id*., p. 7, lines 17-20.
[25] *Id*., p. 7, lines 5-7. Italics in original.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PECO Energy Company for Approval of a Default Service Program for the Period of June 1, 2021 through May 31, 2025	: : :	Docket No. P-2020-3019290

VERIFICATION

I, Steven L. Estomin, hereby state that the facts set forth in my Rebuttal Testimony, OCA Statement 1-R, are true and correct to the best of my knowledge, information and belief 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).

DATED: July 9, 2020
*291737

Signature: Steven Estomin
Steven L. Estomin

Consultant Address: Exeter Associates, Inc.
10480 Little Patuxent Parkway
Suite 300
Columbia, MD 21044-2690