

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

SURREBUTTAL TESTIMONY

OF

STEVEN L. ESTOMIN

ON BEHALF OF THE

PENNSYLVANIA OFFICE OF CONSUMER ADVOCATE

JULY 23, 2020

EXETER

ASSOCIATES, INC.

10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

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1 **I. INTRODUCTION**

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

5 Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS PROCEEDING?

6 A. Yes. I submitted Direct Testimony and Rebuttal Testimony in this proceeding on June
7 16, 2020 and July 9, 2020, respectively, on behalf of the Pennsylvania Office of
8 Consumer Advocate (“OCA”)

9 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN
10 THIS PROCEEDING?

11 A. My Surrebuttal Testimony responds to two issues addressed by Mr. Joseph Bisti in
12 his Rebuttal Testimony filed on behalf of PECO Energy Company (“PECO” or the
13 “Company”). The two issues are the Company’s proposed semi-annual reconciliation
14 of generation supply adjustment collections and the Company’s proposed fixed time-
15 of-use (“TOU”) period price multipliers. Each of these issues is addressed in turn in
16 the following sections of my Surrebuttal Testimony.
17

18 **II. SIX-MONTH RECONCILIATION AMORTIZATION**

19 Q. PLEASE SUMMARIZE YOUR RECOMMENDATION REGARDING THE
20 COMPANY’S PROPOSED COLLECTION OF THE REVENUE SUPPLY
21 ADJUSTMENT RECONCILIATION.

22 A. In my Direct Testimony, I recommended a modification to the Company’s method of
23 collecting (or disbursing) the revenue under-collections (or over-collections)
24 associated with the provision of default service. The Company’s current method,
25 which PECO proposes to continue in Default Service Plan V (“DSP V”), is to

1 calculate the six-month total reconciliation amount and to recover (or refund) that
2 amount over a subsequent six-month period. My recommendation is for the
3 Company to continue to calculate the value over a six-month period, but schedule the
4 collections (or disbursements) over a subsequent 12-month period. That approach
5 would reduce the variability in the E-Factor levels and at the same time allow the
6 Company to fully cover its costs for the provision of default service. Additionally,
7 because the Company has proposed to implement a TOU default service option for
8 residential customers, the reconciliation amounts may be larger than what has been
9 the Company's experience in the past.

10 Q. HOW DID MR. BISTI RESPOND TO YOUR RECOMMENDATION?

11 A. Mr. Bisti offered several reasons why the Company should continue to conduct its
12 reconciliation of the Generation Service Adjustment ("GSA") under DSP V just as it
13 does in DSP IV and why the Commission should reject my recommendation. One of
14 the reasons is that the Commission rejected PECO's DSP II proposal to reconcile
15 annual over-collections/under-collections over a 12-month amortization period.¹ Mr.
16 Bisti goes on to explain that in the past two default service plan proceedings, i.e.,
17 those related to DSP III and DSP IV, PECO proposed the current six-month
18 amortization period to collect the reconciliation amount calculated over a prior six-
19 month period. The Commission approved that approach, which Mr. Bisti
20 characterizes as balancing the goals of price volatility mitigation and the reflection of
21 market conditions.² Additionally, Mr. Bisti notes that I did not provide any analysis
22 or other evidence supporting my contention that the collection or disbursement of the

¹ Rebuttal Testimony of Joseph A. Bisti on Behalf of PECO Energy Company, PECO Energy Company Statement No. 2-R, p. 12, lines 16-18.

² *Id.*, p. 13, lines 3-10.

1 reconciliation amounts over 12 months could provide more stable rates than
2 collection or disbursement over six months.³

3 Q. WHAT IS YOUR RESPONSE TO MR. BISTI'S EXPLANATION FOR THE
4 COMPANY PREFERRING ITS RECOMMENDED APPROACH?

5 A. First, I agree that the Commission has, in the past, rejected the use of a 12-month
6 accumulated reconciliation amount amortized over a subsequent 12-month period.
7 That, however, is not what I have proposed. My proposal is based on a reconciliation
8 level that is the same as proposed by the Company, i.e., over a six-month period. The
9 difference between the Company's proposal and my recommendation is simply that
10 my recommendation is for the reconciliation level to be amortized over 12 months
11 rather than the six months proposed by the Company. Similarly, my recommendation
12 differs from what the Commission rejected as part of PECO's DSP II proposal in that
13 my recommendation is not based on a 12-month period over which the reconciliation
14 amount is accumulated, but rather over a six-month period, therefore being not
15 wholly consistent with what the Commission has rejected in past PECO DSP
16 proceedings. Further, the reason for the adoption of the six-month amortization
17 period, as explained by Mr. Bisti, is that the six-month amortization period would
18 make the price-to-compare ("PTC") more reflective of market conditions, thus
19 providing customers with more appropriate market signals, as well as allowing a
20 greater level of Electric Generation Supplier ("EGS") competitiveness. The selection
21 of the residential default service generation portfolio, however, is done with
22 consideration of the balancing of rate stability and market responsiveness with the
23 obligation to provide default service customers with a supply that is least cost over
24 time. With that said, it would be most beneficial for the E-Factor to be small and

³ *Id.*, lines 11-13.

1 stable so as not to distort the price stability built into the default service supply
2 portfolio. Adopting the Company's proposal in no way provides a greater alignment
3 with market conditions since the market conditions are inherently reflected in the
4 portfolio itself, which is competitively procured in the wholesale market. Larger and
5 more variable E-Factors do not foster the greater reflection of market conditions, but
6 rather can work in the opposite direction.

7 Q. AS YOU PREVIOUSLY NOTED, MR. BISTI STATES THAT YOU DID
8 NOT PROVIDE ANY ANALYSIS SUPPORTING YOUR CONTENTION
9 THAT THE ANNUAL RECONCILIATION PERIOD WOULD PROVIDE
10 MORE STABLE RATES THAN THE SEMIANNUAL RECONCILIATION.
11 HOW DO YOU RESPOND?

12 A. No analysis is necessary since that result is an arithmetic certainty under all
13 circumstances except one, which is when the per-kWh reconciliation amounts are
14 precisely equal among all of the eight (8) six-month periods in the Company's
15 proposed four-year DSP V duration. Under that condition, there would be no
16 reduction in the variability from reliance on my approach, though there would also be
17 no increase in variability. Also, the probability of such a circumstance occurring
18 would be so small that it would not be worthwhile considering.

19

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

21 Q. PLEASE DESCRIBE YOUR RECOMMENDATION RELATED TO
22 PECO'S PROPOSED TOU RATE PROGRAM .

23 A. In my Direct Testimony, I recommended that PECO re-calculate the TOU rate
24 multipliers which establish the relationship among the rates in each of the three rate

1 periods proposed by the Company: the peak period, the off-peak period, and the super
2 off-peak period. Five years of data would be relied upon such that in each year, the
3 multipliers would be based on a five-year rolling average of market prices. This
4 approach would help ensure that the rates in each of the three periods are reflective of
5 broad market conditions. The Company's proposal is based on market data for the
6 five-year period from 2014 through 2018. The period price relationships established
7 through use of those data remain constant throughout the four-year period over which
8 DSP V would be in effect. This means that by the end of the period, i.e., 2025, half
9 the data used to establish the period rate relationships would be 10 or 11 years old.

10 Q. HOW DID MR. BISTI RESPOND TO YOUR RECOMMENDATION?

11 A. Mr. Bisti supports the Company's original proposal for two reasons. First, he argues
12 that I did not provide "...any empirical evidence that the use of five-year rolling
13 average spot market pricing data will result in significant changes to PECO's
14 proposed TOU price multipliers."⁴ Second, modification of the pricing period
15 multipliers resulting from the use of the five-year rolling average market prices may
16 lead to TOU rate period price differentials that are too small to induce customers to
17 change consumption patterns.⁵

18 Q. DO YOU AGREE WITH MR. BISTI'S POSITION ON THIS ISSUE?

19 A. I disagree with the conclusions that Mr. Bisti reaches based on his assessment of my
20 Direct Testimony, but do not fundamentally disagree with his characterization of my
21 Direct Testimony. I agree that no empirical analysis was provided, which would
22 necessarily need to be based on projections of hourly local spot market prices over the
23 coming five years. If the pricing period multipliers do not change significantly over

⁴ *Id.*, p 18, line 20 through p. 19, line 1.

⁵ *Id.*, p 19, lines 1-4.

1 the DSP V period, as seems to be suggested by Mr. Bisti, then the pricing multipliers
2 based on my recommendation would not differ appreciably from those advocated by
3 Mr. Bisti and no harm would result, though I am unable to envision what possible
4 harm that would be. In the alternative, if significant changes in the price multiplier
5 do result from the use of five-year rolling averages, one possibility is that the change
6 in the relationships of the TOU pricing periods would be to reduce the incentive for
7 customers to modify consumption patterns. The other possibility, of course, is that the
8 change in the relationships of the TOU pricing periods would be to *increase* the
9 incentive for customers to modify consumption patterns. If, however, changes in the
10 TOU pricing periods reduce the incentive for customers to change usage patterns, the
11 reduced incentives appropriately reflect changes in the underlying market conditions.
12 The shifting of loads should be based predominantly on the market prices, such that
13 loads would shift from the high-priced periods to the lower-priced periods and hence
14 result in a more efficient use of resources. Mr. Bisti seems to view the shifting of
15 loads as an end in and of itself, which it is not. Using an extreme example, if market
16 prices were the same in all hours of the year, there would be no reason for customers
17 to shift usage patterns. Mr. Bisti's reasoning would not be inconsistent with the
18 notion that even under this extreme (and extremely unlikely) condition, the prices
19 among the various TOU pricing periods should be sufficiently severe so as to induce
20 modifications in usage patterns. I fundamentally disagree with this line of reasoning.

21 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

22 A. Yes, it does.

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

VERIFICATION

I, Steven L. Estomin, hereby state that the facts set forth in my Surrebuttal Testimony, OCA Statement 1-S, 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 23, 2020
*292688

Signature: 
Steven L. Estomin

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