BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket Nos. P-2020-3019907
G-2020-3019908

UGI Utilities, Inc. – Electric Division

Statement No. 2-R

Rebuttal Testimony of
Stephen F. Anzaldo

Topic Addressed: **Reconciliation Mechanism – E Factor Rate Impact**
Reverse Migration (GSR-2 to GSR-1)

Dated: August 31, 2020

I. INTRODUCTION

Q. Please state your name and address.

A. My name is Stephen F. Anzaldo. My business address is UGI Utilities, Inc., 1 UGI Drive, Denver, PA 17517.

Q. Did you previously submit direct testimony in this proceeding on behalf of UGI Utilities, Inc. – Electric Division ("UGI Electric" or the "Company")?

A. Yes. I submitted my direct testimony, UGI Electric Statement No. 2, on May 26, 2020.

Q. What is the purpose of your rebuttal testimony?

A. My rebuttal testimony will respond to the Office of Consumer Advocate ("OCA") witness Serhan Ogur (OCA Statement No. 1) and his criticism of how the Company's E-factor mechanism, used to reconcile actual default service costs and default service revenues for residential and small commercial classes, affects the GSR-1 rate. I also respond to the Office of Small Business Advocate ("OSBA") witness Robert D. Knecht (OSBA Statement No. 1) and his proposal for a reciprocal migration charge/credit for customers transitioning from GSR-2 to GSR-1.

II. RECONCILIATION MECHANISM – E FACTOR RATE ("ECA")

Q. What issues does Dr. Ogur raise with UGI Electric's proposed quarterly reconciliation mechanism?

A. Dr. Ogur reviewed the Company's quarterly rate adjustment mechanism, which reconciles revenues and costs over the applicable three-month period. Dr. Ogur testified that resulting over or under collections occur during the subsequent three-month period, with a two month lag. However, if the reconciliation would result in more than a 5 percent (5%) change in the system average total bill, adjustments may be reconciled over longer periods (i.e., longer than three-months, but no longer than 12 months). According to Dr. Ogur, under these circumstances, the E Factor Rate will be large at times and volatile from quarter to quarter.

Q. Has Dr. Ogur quantified the magnitude of the E Factor rate relative to the Energy Cost ("EC")?

A. Yes. Dr. Ogur reviewed the Company's E factor values since June 2014. Specifically, he performed an absolute value analysis to determine how close UGI Electric's Energy Cost Adjustments ("ECA") were to a zero percent value. An adjustment value of zero percent would mean that the Company's Energy Costs equaled the Company's Energy Revenues for a particular quarter. In such an instance, no rate adjustment would be required. Dr. Ogur's analysis showed that since June 2014, the absolute value of the Company's E Factor rate was as high as 37 percent (37%) and as low as -16 percent (-16%) of the EC rate. He determined that since June 2014, the Company's average absolute value for the ECA was 8%.

Dr. Ogur states that such distortions in the EC rate introduce unnecessary instability and volatility to the residential and small commercial customers' default service rates while reducing the market-effectiveness of the GSR-1 rate.

Q. Does the Commission use an absolute value ratio of the E factor rate in proportion to the EC rate to determine the reasonableness or appropriateness of an E factor adjustment?

A. No. According to 66 Pa. C.S § 2807(e)(3.9), "The default service provider shall have the right to recover on a full and current basis, pursuant to a reconcilable automatic adjustment clause under section 1307 (relating to sliding scale of rates; adjustments), all reasonable costs incurred under this section and a commission-approved competitive procurement plan." Based on this, it is expected that costs and revenues will fluctuate during any particular quarter and that the rate will need to be adjusted to reconcile the differences. Dr. Ogur's analysis is focused on determining the reasonableness of the Company's GSR-1 reconciliations. In his opinion, the smaller the reconciliation, the better for customers. In Dr. Ogur's opinion, a 37% variance from zero and a -16% variance from zero require large reconciliations.

Q. Do you agree with Dr. Ogur's E Factor analysis relative to the EC?

A. No. The more appropriate analysis to determine volatility to customers is to review the total GSR-1 rate change that customers experience with each quarterly adjustment. The following table provides such an analysis.

Effective Date	Total GSR-1 Rate	Percent Change in GSR-1 Rate
6/1/2020	6.812	12.7%
3/1/2020	6.042	0.0%
12/1/2019	6.042	-6.3%
9/1/2019	6.449	0.0%
6/1/2019	6.449	0.0%
3/1/2019	6.449	-15.9%
12/1/2018	7.664	0.0%
10/27/2018	7.664	6.1%
9/1/2018	7.223	0.0%
6/1/2018	7.223	8.7%
3/1/2018	6.643	0.0%
12/1/2017	6.643	6.9%
9/1/2017	6.214	0.0%
6/1/2017	6.214	10.3%
3/1/2017	5.636	-14.5%
12/1/2016	6.593	-10.9%
9/1/2016	7.403	0.0%
6/1/2016	7.403	23.0%
3/1/2016	6.021	-12.3%
12/1/2015	6.865	0.0%
9/1/2015	6.865	-15.5%
6/1/2015	8.124	5.4%
3/1/2015	7.708	-9.6%
12/1/2014	8.523	2.2%
9/1/2014	8.338	-10.2%
6/1/2014	9.280	

Based on a review of the quarterly changes in the GSR-1 rate between 2014 and 2020, the highest percent change was 23.0% and the lowest was -15.9%. In fact, the range for the DSP III period shows the highest percent change was 12.7% and the lowest was -15.9%.

Q. What recommendation does Dr. Ogur propose in order to stabilize this rate?

A. Dr. Ogur recommends a "six-month/12-month" reconciliation mechanism, where cost recovery of over-collections or under-collections occurring over a six-month period would be collected over the subsequent 12-month period with a lag. Dr. Ogur believes this methodology would provide additional stability in rates for residential and small commercial default service customers, and also permit the default service rates to be reflective of market prices since the reconciliation adjustment can be expected to be smaller than if the amortization of the amounts were made over a six-month period.

Q. Do you agree with the mechanism proposed by Dr. Ogur?

A. No. The Company proposes to maintain its current practice of quarterly reconciliation (as specified in its Rider B - Generation Supply Service Surcharge) for addressing Energy Cost Adjustments that would result in more than a five percent (5%) change in the system average total bill for default service. In such an instance, the Company will refund/recover the balance over more than a three-month period, but no longer than twelve months. The Company proposes maintaining its existing reconciliation methodology because, as previously stated, the Company's default service procurements provide rate stability for customers. Additionally, the Company's reconciliation method provides sufficient flexibility for appropriately and reasonably smoothing out variance impacts on customer bills.

Q. If the proposed rate change is greater than a 5% change in the system average total bill for default service, how does the Company generally decide on how to refund/recover the balance over more than a 3-month period, but not longer than 12 months?

A. The Company generally will amortize the rate change over 6, 9, or 12-months based on the total percentage change to the average customer's bill under each of these scenarios. In other words, the Company normally selects the appropriate amortization period to minimize the impact to the customers, unless there are other extenuating circumstances (e.g., a rate case or extraordinary change to the power market) that would cause the Company to deviate from this practice. Having this flexibility allows the Company to minimize rate changes to customers by flexing or changing the amortization period accordingly.

Q. Does Dr. Ogur propose any other changes to the Company's Default Service Supply Product portfolio?

A. Yes. Dr. Ogur recommends a supply portfolio which consists of 100 percent of Fixed-Price, Full-Requirements ("FPFR") load-following supply contracts. Please see the Rebuttal Testimony of Angelina M. Borelli (UGI Statement No. 1-R) for further discussion of this FPFR load-following supply contract recommendation.

III. REVERSE MIGRATION (GSR-2 to GSR-1)

Q. What issue does Mr. Knecht raise with UGI Electric's customer migration?

A. OSBA witness, Mr. Knecht, references the Company's process for applying a migration charge/credit to customers transitioning from GSR-1 to GSR-2. According to this process, the Company requires departing GSR-1 customers to continue to pay, or be credited, for their share of the reconciliation balance in the GSR-1 rate at the time of transition. Mr. Knecht questions why there is no parallel exemption from the reconciliation charge for customers transitioning from GSR-2 to GSR-1.

Q. How will the Company address the concern raised by Mr. Knecht?

A. The Company will update the Rider B – Generation Supply Service Surcharge section in its Electric Tariff to include a provision for customers who switch from GSR-2 to GSR-1 during the DSP IV term. Customers who undergo this reverse migration will be exempted from any over/under collections as reflected in the Company's E-factor (existing as of May 31, 2021) for a period of 12 months after returning to GSR-1, which would occur in September 2021.

Q. **Is the Company proposing any additional costs in order to implement the reverse migration of customers from GSR-2 to GSR-1?**

A. The Company is also requesting permission to recover, as a DSP administrative expense, programming costs required to implement a billing system change required to implement this reverse migration provision, in an amount of $3,000.

Q. Does this conclude your rebuttal testimony?

A. Yes.