

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

UGI Utilities, Inc. – Electric Division

Statement No. 1-SR

**Surrebuttal Testimony of
Angelina M. Borelli**

**Topics Addressed: Transmission & Capacity Costs
 Rate Stability For Block & Spot Procurements
 Combined v. Separate Procurements for GSR-1**

Dated: September 30, 2020

1 **I. INTRODUCTION**

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

3 A. My name is Angelina M. Borelli. My business address is UGI Utilities, Inc. (“UGI
4 Electric” or the “Company”), 1 UGI Drive, Denver, Pennsylvania 17517.

5
6 **Q. Did you previously submit direct and rebuttal testimony in this proceeding?**

7 A. Yes. I submitted my direct testimony, UGI Electric Statement No. 1, regarding the
8 Company’s default service plan (“DSP”) IV on May 26, 2020. I submitted my rebuttal
9 testimony, UGI Electric Statement No. 1-R on August 31, 2020.

10

11 **Q. What is the purpose of your surrebuttal testimony?**

12 A. My surrebuttal testimony will respond to the Office of Consumer Advocate (“OCA”)
13 witness Serhan Ogur’s rebuttal testimony (OCA Statement No. 1-R). I respond to his
14 claims that: 1) the transmission and capacity cost differential for residential and
15 commercial customers is too high and may be inaccurate in the Pace study; and 2) the
16 Company should not continue to administer a block and spot purchase model (to obtain
17 default supplies). Finally, I respond to the OSBA witness Robert D. Knecht’s rebuttal
18 testimony (OSBA St. No. 1-R) and his claims that: 1) the Company caused OSBA to
19 incorrectly calculate the cost of default service because it did not completely respond to
20 OSBA-I-3; 2) the Company’s block and spot approach does not lead to rate instability; and
21 3) the load factor for commercial customers from the Company’s load research data
22 suggests a lower cost for commercial customers.

1 **II. TRANSMISSION AND CAPACITY COST DIFFERENCES IN THE PACE**
2 **STUDY.**

3
4 **Q. What did Dr. Ogur conclude regarding the cost-to-serve differential for residential**
5 **and commercial customers as provided in the Pace study?**

6 A. Dr. Ogur concluded that the cost difference between the residential and commercial
7 customers (appearing in the Pace study) was too high and likely inaccurate. Dr. Ogur
8 reiterated that he could not effectively review the Pace study results because he did not
9 have access to all of the inputs used to calculate the study's results (because the inputs used
10 by Pace are proprietary). However, he explained that UGI Electric had recently provided
11 the parties with the individual specific components (by way of a discovery response¹) that
12 Pace used to calculate the overall residential and commercial default service costs. (OCA
13 St. No. 1-SR at 3). Based upon a review of each default service cost component, Dr. Ogur
14 determined that the source of the overall high cost difference between the customer classes
15 was related to the transmission and capacity costs in Pace's study. According to Dr. Ogur,
16 "Given the small difference between the load factors for the residential and small
17 commercial customers, there is no reason why there should be such a large difference in
18 capacity and transmission costs between the two customer groups." (OCA St. No. 1-SR at
19 4).

20
21 **Q. What conclusion did Mr. Knecht reach in his rebuttal testimony regarding the**
22 **transmission and capacity cost estimates used in the Pace study?**

23 A. Mr. Knecht reviewed the individual specific cost components the Company provided in the
24 Supplemental Response to OSBA-I-12 in response to OCA's and OSBA's concerns raised

¹ Supplemental Response and Attachment OSBA-I-12.

1 in their direct testimonies (i.e., that they could not effectively review the study without the
2 inputs and calculations used by Pace). He stated in his rebuttal testimony that he did not
3 understand the large difference in transmission and capacity costs for the residential and
4 commercial customers in GSR-1. Mr. Knecht stated that “the Pace Study concludes that
5 the generation capacity and transmission costs for the residential class would be more than
6 two or even three times higher on a per-MWh basis than those for commercial customers.”
7 (OSBA St. No. 1-SR at 7-8). Without a better understanding of the reason(s) for the high
8 cost differential, Mr. Knecht retained his concerns regarding the validity of the Pace study.
9 (OSBA St. No. 1-SR at 8).

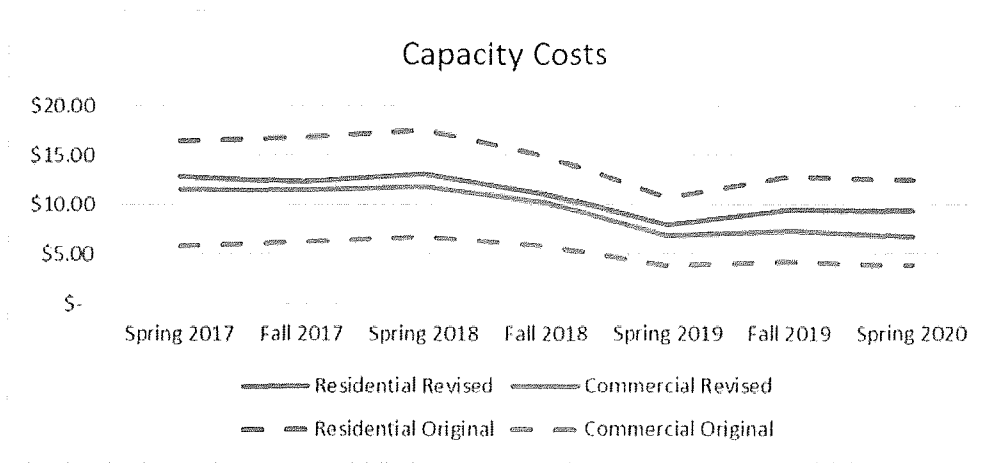
10
11 **Q. Have you reviewed the transmission and capacity cost concerns raised by OCA and**
12 **OSBA in their respective rebuttal testimonies?**

13 A. Yes. I reviewed the concerns raised by the parties in their respective rebuttal testimonies.
14 Thereafter, in consultation with Pace, I reviewed the Pace study’s components and results
15 with a specific focus on the transmission and capacity costs. It was determined that
16 incorrect historical load factors were used in the original Pace study to estimate the
17 transmission and capacity costs applicable to both customer groups. The incorrect load
18 factors were corrected and Pace provided a revised study. The revised study was provided
19 to the parties on September 17, 2020 in response to OSBA-II-1 and in Attachment OSBA-
20 II-1.

21
22 **Q. How did the transmission and capacity costs change after Pace revised its study with**
23 **the correct historical load factors?**

1 A. The cost spread narrowed for the transmission and capacity costs applicable to the
 2 residential versus commercial customers. Table 1 below shows a before and after look at
 3 the capacity costs (comparing the original Pace study results to the revised Pace study
 4 results).

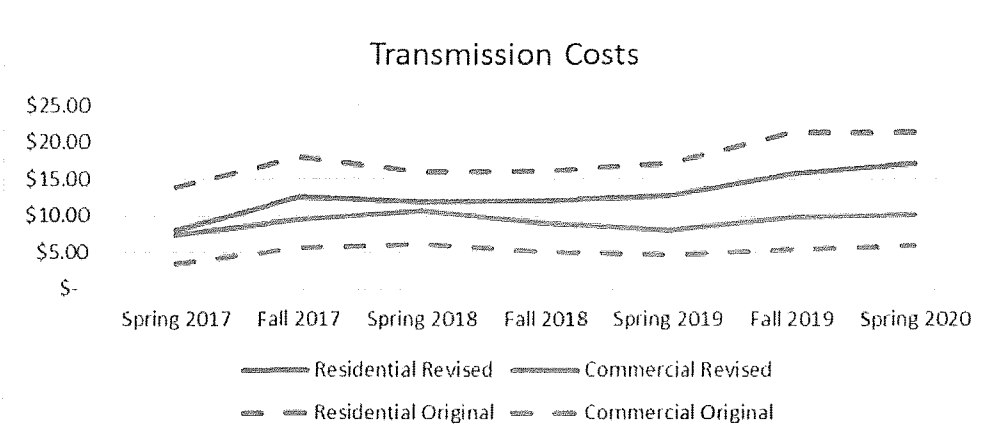
5 Table 1



6

7 Based on the results of the revised Pace study, the estimated capacity costs are much closer
 8 for the two customer class groups. Table 2 below shows a before and after look at the
 9 transmission costs (comparing the original Pace study results to the revised Pace study
 10 results).

11 Table 2



12

1 Based on the results of the revised Pace study, as with capacity costs, the transmission costs
 2 are closer for the residential and commercial class groups. Tables 3 and 4 below show how
 3 the estimated total default service costs from the Pace study for DSP III changed after the
 4 load factors were corrected.

5 Table 3 - Original Price Comparison (\$/MWh) with Incorrect Load Factors

Original	Spring 2017	Fall 2017	Spring 2018	Fall 2018	Spring 2019	Fall 2019	Spring 2020
Residential - Original	\$ 69.43	\$ 67.91	\$ 69.49	\$ 66.79	\$ 63.72	\$ 68.73	\$ 63.98
Small Commercial - Original	\$ 49.87	\$ 45.62	\$ 49.75	\$ 47.62	\$ 44.49	\$ 44.00	\$ 40.16

7 Table 4 - Revised Price Comparison (\$/MWh) with Correct Load Factors

After Load Update	Spring 2017	Fall 2017	Spring 2018	Fall 2018	Spring 2019	Fall 2019	Spring 2020
Residential - After Update	\$ 59.88	\$ 57.91	\$ 60.98	\$ 58.84	\$ 56.46	\$ 59.84	\$ 56.58
Small Commercial - After Update	\$ 59.37	\$ 54.82	\$ 59.39	\$ 55.85	\$ 50.93	\$ 51.45	\$ 47.35

9 It is important to note that these are estimated differences and may not reflect the
 10 differences that might be obtained if separate procurements were conducted for each class.
 11 That being said, I took the prices from Table 4 and calculated the weighted average price
 12 difference between the residential and commercial customers. Table 5 below shows that
 13 the weighted average price difference between the classes was estimated to be \$4.34 per
 14 MWh during DSP III.

15 Table 5

	Spring 2017	Fall 2017	Spring 2018	Fall 2018	Spring 2019	Fall 2019	Spring 2020	Total
Residential cost estimate	\$ 59.88	\$ 57.91	\$ 60.98	\$ 58.84	\$ 56.46	\$ 59.84	\$ 56.58	\$ 58.62
Residential load (mwh)	131,753	133,165	127,181	127,835	134,062	133,234	132,085	919,313
Small Commercial cost estimate	\$ 59.37	\$ 54.82	\$ 59.39	\$ 55.85	\$ 50.93	\$ 51.45	\$ 47.35	\$ 54.28
Small commercial load (mwh)	45,590	46,024	52,109	51,481	45,814	46,141	46,008	333,167
Price Difference	\$ 0.51	\$ 3.08	\$ 1.59	\$ 2.99	\$ 5.53	\$ 8.39	\$ 9.23	\$ 4.34

17

18 **Q. Do the results of this study warrant changing the Company's existing methodology**
 19 **for procuring default supplies?**

1 A. No, the Company does not believe any change is warranted at this time. The results of the
2 revised Pace study show smaller estimated price differences for residential and commercial
3 GSR-1 customers (as compared to the initial Pace study) and that the cost to procure default
4 supplies for commercial customers may be slightly lower than that of residential customers.
5 However, the estimated prices for each class were nearly identical for some procurements
6 (e.g., the Spring of 2017) and were estimated to be marginally different for other
7 procurements. However, this update is only one part of the overall analysis that must
8 accompany the Pace study and it must be recognized that the revised Pace study does not
9 necessarily reflect the actual prices that would be obtained in separate procurements for a
10 number of reasons.

11 First, the study does not address or include any risks associated with customer
12 migration, where customers leave default service for alternative electric generation supply
13 service, or vice versa. In such instances, the default service supplier is responsible for the
14 resulting discrepancies in load. As such, the load following supplier would factor
15 migration into its risk premiums. Second, the Pace study does not include any risk premium
16 that suppliers may include on the smaller loads that would result if the Company moved to
17 separate procurements (as compared to the larger load that exists when default supplies are
18 procured for all GSR-1 customers together as one group – as is currently done). Lastly,
19 the Pace study was conducted using a fixed historical period of data that may or may not
20 be reflective of the overall longer term costs related to the separate class groups. This is
21 important because past performance does not always indicate future performance.

22
23

1 **II. BLOCK AND SPOT PROCUREMENTS AND RATE STABILITY**

2 **Q. What did Dr. Ogur conclude in comparing the costs of load-following supplies against**
3 **block and spot supplies?**

4 A. In his rebuttal testimony, Dr. Ogur reviewed the recommendation made in OSBA's direct
5 testimony to consider increasing the amount of block procurements in the Company's
6 default service supply portfolio. Dr. Ogur stated that OSBA's analysis of block
7 procurements only included the energy costs and not all of the other costs related to the
8 provision of default service (e.g., capacity, transmission, ancillary services, congestion,
9 etc.). Therefore, OSBA could not appropriately compare the block costs against the full
10 requirement costs provided by the Company, which did include all costs needed to provide
11 default service. To resolve this discrepancy, Dr. Ogur updated OSBA's analysis by adding
12 in the missing cost elements to the block and spot portion of OSBA's analysis. Reviewing
13 the results of the updated OSBA analysis did not change Dr. Ogur's conclusion that the
14 Company should eliminate block procurements from its default service procurement plan.

15
16 **Q. How did Mr. Knecht revise his recommendation regarding the inclusion of block**
17 **supplies in the Company's default service portfolio?**

18 A. Mr. Knecht stated that his original analysis lacked all of the costs incurred for block
19 procurements because the Company's response to OSBA-I-3 excluded PJM capacity, PJM
20 transmission network integrations transmission service ("NITS"), PJM transmission
21 enhancement charges ("TEC") and other related PJM costs. He then updated his original
22 analysis to include this data, which the Company provided in response to OCA-I-2.² Mr.

² In response to OCA-I-2, the Company provided the total PJM costs related to block procurements for GSR-1 customers on August 27, 2020.

1 Knecht concluded that the load following and block procurements “produce roughly the
2 same supply cost, with neither method being obviously superior.” (OSBA Rebuttal at 2-3).
3 Mr. Knecht also determined that the volatility in pricing between these products was
4 relatively modest. (OSBA Rebuttal at 3).

5
6 **Q. Please explain how the Company managed the response to OSBA-I-3?**

7 A. OSBA-I-3 requested:

8 For each plan year ending May 31 for 2014 through 2020, please provide total
9 default service costs and MWh purchased, split between the full requirements load-
10 following (“FRLF”) contracts and the block-and-spot procurements (inclusive of
11 all related costs, including AEPS). (That is, please update the Company’s response
12 to OSBA-I-9(c) from the last default service proceeding at Docket No. P-2016-
13 2543523.)

14
15 Based on the request that the Company update the response to OSBA-I-9(c) from the last
16 default service proceeding, the Company did just that.³ The response to OSBA-I-9(c) in
17 the DSP III proceeding and OSBA-I-3(c) in this proceeding contained the same cost
18 elements (i.e., Blocks, NYPA, Load Following, Load Following – Reconciliation, Spot
19 Purchase, Spot Sale, Net Metering Purchases and AEPS Costs). A cursory review of the
20 responses shows that the PJM-related costs were absent from both responses. However,
21 before OSBA’s rebuttal in this case, neither OCA nor OSBA raised any concerns or issues
22 with how the Company responded to this question in either proceeding. That being said,
23 the absence of the PJM-related costs in the response to OSBA-I-3 was inadvertent and
24 OSBA was able to appropriately revise its analysis in its rebuttal testimony.

³ In the DSP III proceeding, OSBA-I-9(c) was identical to OSBA-I-3 in this proceeding.

1 **Q. After reviewing the rebuttal testimony of OCA and OSBA on this issue, do you**
2 **recommend changing your proposal?**

3 A. No. As shown in Table 1 in the Rebuttal testimony of Serhan Ogur (OCA St. No. 1-R), the
4 price differences between load following and block purchases resulted in an overall savings
5 to GSR-1 customers during the term of DSP III. During 2016/2017, blocks were \$8.32
6 cheaper than load following. During 2017/2018 blocks were \$6.78 more expensive than
7 load following. During 2018/2019 blocks were \$6.20 cheaper than load following. During
8 2019/2020 blocks were \$5.51 more expensive than load following. This results in an
9 overall savings to GSR-1 customers of \$2.23 per MWh by using blocks ($\$8.32 - \$6.78 +$
10 $\$6.20 - \$5.51 = \$2.23$ savings). Moreover, as I stated in my rebuttal testimony, UGI
11 Electric's bills are the second cheapest among Pennsylvania electric distribution companies
12 ("EDCs"), which has been achieved, in part, through block supply procurements. (UGI St.
13 No. 1-R at 13). Accordingly, I agree with Mr. Knecht that block procurements do not
14 create a significant rate instability and based on the savings apparent in Dr. Ogur's
15 calculations, I conclude that the Company should continue to include block procurements
16 in its default service supply portfolio.

17

18 **III. COMBINED VERSUS SEPARATE PROCUREMENTS FOR RESIDENTIAL AND**
19 **COMMERCIAL CUSTOMERS**

20 **Q. What position did OSBA take in its rebuttal testimony regarding the Pace study?**

21 A. In his rebuttal testimony, Mr. Knecht acknowledged that the Company provided the inputs
22 to the Pace study in its Supplemental Response to OSBA-I-12. After reviewing the Pace
23 study inputs, Mr. Knecht determined that the Pace study showed a slightly higher average

1 cost for commercial customers, which contradicted the analysis in his direct testimony that
2 energy costs should be higher for residential customers. Mr. Knecht also stated in his
3 rebuttal that the generation capacity and transmission costs in Pace’s study were much
4 higher for the residential class than the commercial class. He did not understand why that
5 would be the case. He stated “As I indicated in my direct testimony, the load factor for
6 commercial customers from the Company’s load research data would suggest a modestly
7 lower per MWh cost for commercial, but not nearly that of the magnitude shown in the
8 Pace study.” (OSBA St. No. 1-R at 8). Therefore, he retained his concerns regarding the
9 validity of the Pace study. (Id.).
10

11 **Q. Based on his rebuttal testimony, does Mr. Knecht continue to seek a solution for the**
12 **perceived cost inequity between GSR-1’s residential and commercial customers?**

13 A. It appears that he does. According to the analysis in Mr. Knecht’s rebuttal, he determined
14 that the load factor for commercial customers from the Company’s load research data
15 suggests a modestly lower default service cost for commercial customers. If the Company
16 adopted Mr. Knecht’s proposal to shift costs from the small commercial GSR-1 customers
17 to the residential GSR-1 customers, it would result in shifting 2.53% of actual GSR-1 costs
18 to residential default service customers. Mr. Knecht would have the Company reallocate
19 costs based on his review of the estimated costs contained in the revised Pace study.
20

21 **Q. Does the revised Pace study warrant separate rates based on estimated costs for each**
22 **customer class or separate procurements?**

1 A. No. As I stated earlier, in consultation with Pace, the Company determined that incorrect
2 historical load factors were used in the Pace study to estimate the transmission and capacity
3 costs applicable to both customer groups. The incorrect load factors were corrected and
4 Pace created a revised study, which was provided to the parties on September 17, 2020 in
5 response to OSBA-II-1 and in Attachment OSBA-II-1. Based on the results of the revised
6 Pace study, on average during DSP III, the price difference between the residential and
7 commercial classes was \$4.34 (during the entire DSP III term).

8 The study showed that at times the cost to service residential customers may be
9 slightly lower than that of commercial customers. However, the Pace study did not include
10 all relevant factors to fully know the true cost difference, if any, between residential and
11 commercial customers as discussed earlier in my surrebuttal. While the Pace study is a
12 relevant factor in this analysis, it does not provide the full picture needed to determine the
13 reasonableness of straying from the Company's combined procurement methodology.
14 There are just too many unknowns to adopt OSBA's proposed solutions. Moreover, the
15 Company believes it is unreasonable to adopt a revised rate strategy that shifts costs to
16 residential customers based on a study that both OCA and OSBA found highly unreliable
17 and questioned its results.

18

19 **Q. What concerns do you have with OSBA's rate differentiation proposal?**

20 A. OSBA, in effect, proposes adopting an estimated rate that is not based on actual costs and
21 that fails to represent all factors involved with establishing an appropriate rate structure for
22 small commercial customers. The Company prefers not to implement a rate that is
23 singularly based on a study with estimates and a study that is incomplete to serve OSBA's

1 purpose to shift costs to residential customers. Additionally, OSBA has not provided any
2 analysis as to how its estimated rate would impact the Company's ECA-factor and how
3 the ECA-factor would be reconciled between the residential and commercial customer
4 classes. Absent a clear and defined methodology for rate determinations, a more
5 comprehensive analysis should be undertaken before any costs are differently allocation
6 between customer groups.

7
8 **Q. How should the Company address the rate differentiation concerns and solutions**
9 **proposed in OSBA's testimony in this proceeding?**

10 A. The Company should be permitted to continue to maintain its existing combined
11 procurements for its GSR-1 residential and commercial customers until a more
12 comprehensive investigation and analysis can be performed (i.e., requesting indicative
13 pricing for separate procurements from wholesale suppliers). As previously stated, the
14 Company does not know if its small commercial load will receive bids from wholesale
15 suppliers at a reasonable price. Therefore, I recommend maintaining the Company's
16 existing combined procurement plan because both residential and commercial customers
17 benefit from it by avoiding risk premiums that would likely drive default service costs
18 higher for both classes.

19 The residential GSR-1 class also is benefitting (from combined procurements) due
20 to the addition of commercial load and the commercial load shape, which has a higher load
21 factor. The commercial GSR-1 class is benefitting due to the additional residential load
22 that reduces the risk associated with customer migration. This provides additional certainty
23 to suppliers and has historically achieved multiple, competitively-priced, bids due to the

1 larger overall load. Because there are considerable benefits for each class as a result of the
2 combined procurements, I do not believe that it is appropriate for one class to receive a
3 discount compared to the other class. For these reasons, the Company believes that the
4 best solution is to continue its current combined procurement methodology.

5

6 **IV. CONCLUSION**

7 **Q. Does this conclude your rebuttal testimony?**

8 A. Yes.

9

10