**BEFORE THE**
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**UGI Utilities, Inc. – Electric Division**

**Statement No. 2-SR**

# Surrebuttal Testimony of
# Stephen F. Anzaldo

| | |
|---|---|
| **Topic Addressed:** | **Reconciliation Mechanism – E Factor Rate Impact**<br>**Reverse Migration (GSR-2 to GSR-1)**<br>**Tariff Clarifications** |

Dated: September 30, 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, and my rebuttal testimony, UGI Electric Statement No. 2-R, on August 31, 2020.

**Q. What is the purpose of your rebuttal testimony?**

A. My Surrebuttal testimony will respond to the Office of Consumer Advocate ("OCA") witness Serhan Ogur (OCA Statement No. 1-R) and the Office of Small Business Advocate ("OSBA") witness Robert D. Knecht (OSBA Statement No. 1-R) and their 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. In addition, the Company will address certain tariff clarifications to the Rider B – Generation Supply Service Surcharge section in its Electric Tariff.

## II. RECONCILIATION MECHANISM – E FACTOR RATE (“ECA”)

**Q. What is Dr. Ogur’s position on this issue?**

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

A. No. As stated in my rebuttal testimony, 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.

**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. 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 customers 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 base rate case increase) 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. What is Mr. Knecht's position on this issue?**

A. Mr. Knecht has no conceptual disagreement with Dr. Ogur's position but goes to say that it is difficult to read too much into the actual UGI Electric ECA history due to the following points:

1) that the Company has historically and inappropriately used the ECA as a "dumping ground" for variances in its Energy Efficiency and Conservation program;[1] 2) the Company's amortization period for variances is not fixed, in that the Company generally uses a 3-month period but it uses a longer period if the overall impact on the GSR-1 rate is more than 5 percent; and 3) the Company makes no change to either the EC rate or the ECA rate in a quarterly filing if the overall GSR-1 rate change is less than 2 percent. As a result of the above factors, Mr.

[1] This issue was corrected in accordance with Paragraph 32 of the Recommended Decision at Docket No. M-2018-3004144.

Knecht believes that the volatility in the ECA rate is substantially affected by factors unaffected by basis revenue-cost differences.

**Q. Have you addressed this issue in your Direct Testimony and Rebuttal Testimony?**

A. Yes, I have. As stated in my Direct Testimony and Rebuttal Testimony, 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 flexibility for appropriately and reasonably smoothing out variance impacts on customer bills. 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%.

## <u>III. REVERSE MIGRATION (GSR-2 to GSR-1)</u>

**Q. What issue did Mr. Knecht raise in his Direct Testimony with UGI's customer migration?**

A. Mr. Knecht references the Company's proposal to apply a migration charge/credit to customers transitioning from GSR-1 to GSR-2, to require departing GSR-1 customers to continue to pay, or be credited, for their share of the reconciliation balance in GSR-1 rate at the time of transition. Mr. Knecht raises the question why there is no parallel exemption from the reconciliation charge proposed for customers transitioning from GSR-2 to GSR-1.

**Q. Have you addressed this issue in your Rebuttal Testimony?**

A. Yes, I have. As stated in my Rebuttal Testimony, 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. In addition, 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.

## IV. TARIFF MODIFICATIONS

**Q. Is the Company making any further modifications to the Rider B – Generation Supply Service Surcharge section of the UGI Electric Tariff as proposed by Mr. Knecht in his Direct Testimony?**

A. The Company agrees to modify the tariff language in the Rider B - Generation Supply Service Surcharge section of the Company's Electric Tariff. The Company will revise the Price To Compare provision to eliminate the reference to the Alternative Energy Cost Charge ("AECC") and applicable base transmission rate language. In addition, the Company will clarify that the customer's highest billing demand will be calculated over the twelve-month period ending September 30, 2020.

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

A. Yes.