



COMMONWEALTH OF PENNSYLVANIA

May 13, 2022

E-FILED

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company, for Approval of Their Default Service Programs; Docket Nos. P-2021-3030012; P-2021-3030013; P-2021-3030014; and P-2021-3030021

Dear Secretary Chiavetta:

The Pennsylvania Public Utility Commission's Implementation Order at *Electronic Access to Pre-Served Testimony*, Docket No. M-2012-2331973, requires that all testimony furnished to the court reporter during a proceeding must subsequently be provided to the Secretary's Bureau.

As such, this letter will confirm that the Office of Small Business Advocate ("OSBA") has e-filed the Direct Testimony and Exhibit of Robert D. Knecht, labeled OSBA Statement No. 1, the Rebuttal Testimony of Robert D. Knecht, labeled OSBA Statement No. 1-R and the Surrebuttal Testimony and Exhibit of Robert D. Knecht, labeled OSBA Statement No. 1-S, on behalf of the OSBA, in the above-captioned proceedings.

All known parties were previously served with the aforementioned Testimony. If you have any questions, please contact me.

Sincerely,

/s/ Erin K. Fure

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

Enclosures

cc: Robert D. Knecht
Parties of Record (**Cover Letter and Certificate of Service Only**)



COMMONWEALTH OF PENNSYLVANIA

February 25, 2022

The Honorable Jeffrey A. Watson
Administrative Law Judge
Pennsylvania Public Utility Commission
Piatt Place
301 5th Avenue, Suite 220
Pittsburgh, PA 15222

Re: Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company, for Approval of Their Default Service Programs; Docket Nos. P-2021-3030012; P-2021-3030013; P-2021-3030014; and P-2021-3030021

Dear Judge Watson:

Enclosed please find the Direct Testimony and Exhibits of Robert D. Knecht, labeled OSBA Statement No. 1, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-captioned proceedings.

Please note that the associated Work Papers are CONFIDENTIAL and will only be provided to parties who have executed Appendix A to the Amended Protective Order, issued January 27, 2022.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Erin K. Fure

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

Enclosures

cc: PA PUC Secretary Rosemary Chiavetta (Cover Letter & Certificate of Service only)
Robert D. Knecht
Parties of Record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

JOINT PETITION OF METROPOLITAN	:	
EDISON COMPANY, PENNSYLVANIA	:	Docket Nos. P-2021-3030012
ELECTRIC COMPANY, PENNSYLVANIA	:	P-2021-3030013
POWER COMPANY AND WEST PENN	:	P-2021-3030014
POWER COMPANY FOR APPROVAL OF	:	P-2021-3030021
THEIR DEFAULT SERVICE PROGRAMS	:	

Direct Testimony and Exhibits of

ROBERT D. KNECHT

On Behalf of the

Pennsylvania Office of Small Business Advocate

Topics:

**Historical Pricing and Shopping Trends
Commercial Class Procurement Method
Time-of-Use Rates**

Date Served: February 25, 2022

Date Submitted for the Record: _____

DIRECT TESTIMONY OF ROBERT D. KNECHT

1 **1. Introduction**

2 **Q. Please state your name and briefly describe your qualifications.**

3 A. My name is Robert D. Knecht. I am an independent consultant, specializing in the
4 preparation of analyses and expert testimony in the field of regulatory economics.
5 For over thirty years, I was a Principal of Industrial Economics, Incorporated
6 (“IEc”), and I served as Treasurer of that firm for fifteen years. I obtained a B.S.
7 degree in Economics from the Massachusetts Institute of Technology in 1978, and
8 a M.S. degree in Management from the Sloan School of Management at M.I.T. in
9 1982, with concentrations in applied economics and finance. I am appearing in this
10 proceeding on behalf of the Pennsylvania Office of Small Business Advocate
11 (“OSBA”), and this work was performed under an agreement between OSBA and
12 IEc. My résumé and a listing of the expert testimony that I have filed in utility
13 regulatory proceedings during the past five years are attached in Exhibit RDK-1.

14 **Q. What is the purpose of this testimony?**

15 A. OSBA asked me to review the default service plan (“DSP”) proposals of
16 Metropolitan Edison Company (“Met-Ed”), Pennsylvania Electric Company
17 (“Penelec”), Penn Power Company (“Penn Power”) and the West Penn Power
18 Company (“West Penn”) (individually, “Company,” collectively, “Companies”), to
19 evaluate whether those proposals are consistent with sound economics and
20 regulatory policy, and whether they are equitable to small business customers.

21 The Companies offer default service to three rate class groups: Residential,
22 Commercial and Industrial. The “Commercial” class consists of non-Residential
23 general service customers, which includes both business and non-business
24 customers (including lighting customers, as well as some multi-family residences
25 served from a single meter). Consistent with Commission policy, the Company

1 limits the Commercial class to customers with a maximum demand of 100 kW.¹
2 For the purposes of this testimony, I deem that small business customers are
3 subsumed within the “Commercial” rate class group, and I focus on the proposed
4 DS procurement plans for those customers.

5 The balance of this testimony addresses the following aspects of the Companies’
6 proposals:

7 Section 2: Historical review of the Companies’ default service rates and
8 shopping trends;

9 Section 3: Review of proposed procurement plan for Commercial
10 customers;

11 Section 4: Evaluation of the Companies’ proposed time-of-use (“TOU”)
12 rates.

13 **2. Historical Trends**

14 **Q. Please summarize the history of the Companies’ DS charges.**

15 A. My electronic workpapers attached to this testimony present a statistical and
16 graphical history of each of the Companies’ DS charges from the beginning of 2011
17 to the end of 2021, showing C- and E-Factors, as well as comparing Residential
18 and Commercial DS rates.²

19 Based on this history, I observe the following:

- 20 • Both Residential and Commercial default service rates for Met-Ed,
21 Penelec, and West Penn trended downward between 2011 and 2020, with

¹ This policy was adopted at the Companies’ default service proceedings docketed at P-2015-2511333; P-2015-2511351; P-2015-2511355; and P-2015-2511356. The Joint Petition for Settlement for that matter was submitted by the parties on April 1, 2016. The change in the hourly pricing threshold to 100 kW as of June 1, 2019 is addressed in paragraph II.a.2.d. on page 7.

² See RDK WP1.

1 a recent uptick in 2021 associated with the rise in natural gas prices,
2 particularly for Commercial customers.

- 3 • Residential default service rates for Penn Power do not exhibit a trend
4 over the longer term, while Penn Power's Commercial rates exhibit a
5 trend increase, as well as above average volatility.

- 6 • Over the full historical period, Commercial default service rates have been
7 slightly higher than the Residential rates for all four Companies, but
8 particularly for Penn Power. The price premium for Commercial
9 customers has generally been increasing, and is higher for the past five
10 years than for the whole period for all the Companies except West Penn.
11 This premium is particularly pronounced for Penn Power, where
12 Commercial default service rates have, on average, been 11.4 percent
13 above Residential rates for the past five years.

- 14 • The relatively large uptick in Commercial rates in 2021 (as compared to
15 Residential) results from the differences in procurement strategy for the
16 two classes. Residential class procurements involve 12- and 24-month
17 contracts, and there were no procurements for that class in the second half
18 of 2021 when natural gas prices spiked. By contrast, roughly one-third
19 of Commercial class procurements are 3-month contracts, which exposed
20 a significant share of the Commercial load to the gas price increase in the
21 fall of 2021.

- 22 • For the most part, the Companies have been successful at keeping
23 reconciliation charges/credits ("E-Factors") relatively low, and they have
24 avoided any obvious bias toward over- or under-collections. The average
25 absolute value E-factor for all of the Companies for both Residential and
26 Commercial classes has been between 0.4 and 0.5 cents per kWh, and that
27 value has been lower during the past five years in almost all cases.

1 **Q. Please summarize the shopping trends for the Companies' Commercial**
2 **customers.**

3 A. My workpapers provide the Companies' customer shopping trends.³ This review
4 shows:

- 5 • Residential shopping, measured either as a percentage of load or percentage of
6 customers, increased quickly between the onset of competition in 2011 to peaks
7 of between 30 and 40 percent in early 2014. Shopping rates dropped sharply
8 following the polar vortex in that winter, recovered somewhat by the spring of
9 2017, and have steadily declined since. Current Residential shopping rates are
10 generally in the 20 to 25 percent range.
- 11 • Measured as a percent of customers, Commercial shopping rates show a pattern
12 similar to that of the Residential class, with less pronounced shifts. By
13 customer count, shopping rates are 35 to 42 percent, modestly lower than rates
14 in 2017 of 38 to 47 percent. Measured as a percent of load, shopping rates show
15 a similar pattern, but at a higher shopping rate, currently averaging about 60 to
16 70 percent.
- 17 • Unsurprisingly, larger Commercial customers exhibit much higher shopping
18 rates than smaller customers, as they tend to be more attractive to serve and
19 have a larger economic interest in obtaining lower prices. Over 90 percent (and
20 up to 98 percent) of Commercial customer load over 300 kW shops, while
21 shopping for the 25 to 50 kW customers is roughly 60 percent and shopping for
22 the under 25kW customers is below 50 percent. Since the last DSP proceeding,
23 average shopping rates across all sizes of Commercial customer have remained
24 fairly stable, except for the under 25kW group where shopping has declined
25 over the past two years (despite the large default service price increases).

³ See RDK WP2. It is my understanding that the "Commercial" and "Industrial" categories of customer for these exhibits is based on industrial classification, not the Company's DSP categories. Thus, there is no large shift in the data in 2019 when the DSP "Commercial" category was limited to customers below 100 kW.

- 1 • By an enormous majority, default service “Commercial” customers have
2 maximum demand below 25 kW. Across the four Companies, nearly 160,000
3 customers with maximum demand below 25 kW took default service in
4 December 2021, with less than 7,000 default service customers between 25 kW
5 and 100 kW. Within the under 25kW group, about 37 percent of the customers
6 shop, while 50 percent of the load shops. Thus, even within the under 25 kW
7 group, shopping rates are materially higher for the relatively large customers.

8 **Q. Do you have any other background observations regarding shopping trends**
9 **for the Companies?**

10 A. I admit to being surprised at the number of customers who choose to take service
11 from non-utility EGSs who set their rates well above the utility price to compare
12 and whose customers appear to be relatively dissatisfied with the service as
13 exhibited by a high uncollectibles rate.

14 In their 2015 default service proceeding, the Companies expressed concern that
15 high uncollectibles rates associated with some EGSs were imposing excess costs
16 on the Companies and indirectly on default service ratepayers, through the
17 Companies’ purchase of receivables program.⁴ In the settlement of that proceeding,
18 parties agreed to establish a “claw-back” mechanism which would impose
19 additional charges on EGSs whose rates were more than 50 percent above the PTC
20 and whose uncollectibles rate was at least 100 percent above the Company average.
21 At the time, I concluded that these criteria were not particularly stringent, and that
22 EGSs should have little difficulty in staying within those parameters.

23 As it turns out, a significant number of EGSs continue to fail to meet even these lax
24 restrictions. Based on the Companies’ data, over 13 percent of the EGSs
25 representing a similar percentage of shopping revenues for YE August 2021 were
26 subject to the clawback charge, meaning that they have extremely high prices and
27 a poor collections rate.⁵ Moreover, in that period, over 90 percent of revenues

⁴ Docket P-2015-2511333, et al., which addressed default service rates for 2017-2019.

⁵ See OSBA-I-4 and RDK WP4. The Companies’ response to OCA-I-13 Attachment A appears to indicate

1 associated with EGS service were to EGSs with prices that exceeded the average
2 utility PTC. While there are, of course, some legitimate reasons why EGS prices
3 may exceed the PTC (e.g., “green” power options), offering high prices that result
4 in customer dissatisfaction is not reasonable. Moreover, it is difficult to interpret
5 these data as a strong endorsement for the merits of retail competition.

6 **3. Commercial Default Service Procurements**

7 **Q. Please summarize the Companies’ proposal for DS supply procurement for**
8 **Small C&I customers.**

9 A. The Companies propose DS plans for the 48 months running from June 1, 2023 to
10 May 31, 2027. The salient features of the Companies’ proposed DS procurement
11 for Commercial customers are as follows:

- 12 • All DS supplies will be procured through full requirements, load-
13 following (“FRLF”) contracts.
- 14 • Under the current DSP, approximately one-third of the Commercial
15 supplies are purchased under contracts with terms of 3 months, 12
16 months, and 24 months. The Companies propose to replace the 3-
17 month contracts with 6-month contracts. With this change, the
18 Company proposes to move to two procurement dates each year,
19 targeted at March and September.
- 20 • Default service rates are currently reset and reconciled on a quarterly
21 basis, for both Residential and Commercial rate class groups. The
22 Companies proposed to limit rate changes to every six months (at June
23 1 and December 1), and reconcile on a bi-annual basis.
- 24 • As in the past, none of the contracts will extend beyond the end to the
25 DSP. As shown in the Companies’ Exhibit JHC-1, the longer-term

that the number of Residential shopping customers taking service from “clawback EGSs” exceeds the number of Residential shopping customers. These data are obviously incorrect, but may reflect a monthly customer count, summed across the year.

1 contracts for Commercial service will generally not be “laddered.”
2 That is, all of the one-year contracts end on the same day (May 31),
3 as do most of the two-year contracts. Thus, for Commercial
4 customers, nearly 90 percent of the load will “turn over” on June 1,
5 2025, and the entire load will turn over on June 1, 2027.

- 6 • In order to provide some temporal diversification in procurement, the
7 Companies will use two separate procurement dates for the
8 Commercial contracts for service beginning on June 1, in the
9 preceding November and March time frames. About 31 percent of
10 Commercial load will be contracted six months before service begins,
11 and 69 percent will be procured on a single date in March, two months
12 before service begins. Going forward, procurements will generally
13 occur 8 and 2 months prior to delivery.
- 14 • FLRF contract tranches will be targeted at 50 MW of load, and will
15 be procured through a descending-price clock auction process,
16 consistent with the Companies’ current DSP.
- 17 • Currently, winning bidders in the auctions will be limited to no more
18 than 75 percent of the load subject to that auction. The Companies
19 propose to change that restriction to limit awards within each fixed
20 price auction to 40 percent of the aggregated load for the auction, in
21 order to reduce supplier concentration risk and reduce potential
22 supplier collateral requirements.⁶
- 23 • Alternative Energy Portfolio Standards Act (“AEPSA”) energy
24 requirements, other than photovoltaic (“PV”), for FRLF contracts will
25 generally remain with the supplier. AEPSA PV energy requirements
26 for Met-Ed, Penelec and Penn Power are procured directly by the
27 Companies, for both DS and shopping customers. At West Penn,

⁶ Companies Statement No. 2 at 26-27.

1 AEPS Act PV requirements must generally be met by the DS
2 suppliers.

- 3 • Responsibility for certain non-market-based (“NMB”) transmission
4 costs will continue to remain with the Companies, and will continue
5 to be recovered in the default service support riders (“DSSRs”).⁷

- 6 • In the event that a particular procurement fails or a supplier defaults,
7 the existing contingency plans remain in effect. In general, the
8 Companies will attempt to re-bid the supply if there is sufficient time,
9 or simply purchase the required supplies on PJM-administered
10 markets.

- 11 • The Companies propose to make certain changes to financial
12 requirements for bidders, including the introduction of a credit-based
13 tranche cap (that allows higher risk bidders to participate in auctions
14 but limits their potential load), adding an Independent Credit
15 Requirement per Tranche (“ICRT”), and modifications to the
16 calculation of the maximum unsecured credit limit and credit rating
17 methods. I do not specifically address these proposed changes in this
18 testimony, but both I and the OSBA are continuing to evaluate the
19 potential impact of these changes.⁸

20 **Q. Please provide the background for the Companies’ use of 3-month contracts**
21 **for a significant share of the Commercial DS procurement.**

22 A. The 3-month contracts for Commercial service were introduced in the Companies’
23 2015-2017 DS proceeding, as part of the Companies’ proposal to employ a mix of

⁷ Despite the misleading name, the Companies’ DSSRs are charges that are non-bypassable, in that they apply to both DS and shopping customers.

⁸ See OSBA-I-13 (including HIGHLY CONFIDENTIAL attachments).

1 3-, 12-, 24- and 48-month contracts.⁹ The partial settlement of those proceedings
2 adopted a mix of 3-, 12- and 24-month contracts.

3 In the Companies' 2017-2019 DS proceeding, the Companies proposed to eliminate
4 the 3-month procurements from the mix.¹⁰ The Companies generally argued that
5 the three-month contracts involved high administrative costs, lower bidder
6 participation in the stand-alone 3-month auctions, and a minimal impact of the 3-
7 month contracts on default service rates. In that proceeding, I agreed conceptually
8 with the Companies' rationale that the benefits of including 3-month contracts were
9 likely outweighed by the cost. However, because the parties had agreed to include
10 3-month contracts in the preceding settlement, and since little evidence was
11 available regarding the impacts of these procurements, I did not fully support the
12 elimination of the 3-month contracts. In settlement, the 3-month contracts were
13 retained. Moreover, the settlement envisioned extending this procurement pattern
14 through May 2021.

15 In the current proceeding, the Companies propose to replace the 3-month contracts
16 with 6-month products. Additional information is now available regarding the
17 actual results from 3-month procurements, which was not available in either of the
18 past two DS proceedings.

19 **Q. Have the Companies demonstrated that the FRLF approach for DS supplies**
20 **continues to produce reasonable results?**

21 A. As in the Companies' last two DS proceedings, Company witnesses Dr. James D.
22 Reitzes and Dr. Nicholas E. Powers ("Brattle") present an evaluation of each FRLF
23 procurement since late 2016.¹¹ Brattle compares the winning bid price from the

⁹ Docket Nos. P-2013-2391368, P-2013-2391372, P-2013-2391375, P-2013-2391378.

¹⁰ Docket Nos. P-2015-2511333; P-2015-2511351; P-2015-2511355; and P-2015-2511356. The settlement of those proceedings contemplated a four-year term for the DS plan, albeit with the potential for significant changes halfway through.

¹¹ Brattle updated its filed evidence to make some corrections to the analysis, to include results from the 3-month Commercial contract procurements and to provide results through early 2022, in response to OSBA-I-9.

1 auction with an estimate of the “no-risk” price based on futures market prices and
2 other factors in place at the time of each auction. This analysis allows Brattle to
3 calculate an estimated risk premium for the FRLF contract.¹²

4 Based on this analysis, Brattle concludes first that its calculations are conservative
5 in that they exclude certain costs associated with default service (notably alternative
6 energy credit costs associated with AEPSA).¹³

7 Second, Brattle concludes that the overall risk premiums for default service are
8 relatively modest. As corrected and updated in OSBA-I-9, Brattle calculates
9 average risk premiums from late 2016 to April 2021 as ranging from 2.2% to 5.9%
10 across the four companies.

11 **Q. What are your observations from the Brattle analysis?**

12 A. The average winning bid prices for Residential and Commercial service from the
13 12- and 24-month products are reasonably similar, with Commercial prices
14 generally being modestly lower over the past four years. This is a little surprising,
15 since a review of the historical PTCs show that Commercial customer PTCs have,
16 on average, been modestly above that of Residential service between 2017 and
17 2021.¹⁴ The higher Commercial rates appear to be due, at least in part, to relatively
18 high prices for the three-month products.

19 Table RDK-1 below provides a comparison of simple average prices by year in
20 which service starts and by contract term.

¹² In this testimony I rely on the Brattle analysis; I have not attempted to independently verify its accuracy.

¹³ Companies Statement No. 4, page 22.

¹⁴ See RDK WP1.

Table RDK-1					
Average FirstEnergy Companies' Default Service Contract Prices					
\$ per MWh					
Start Year for Service	3-Month	12-Month Contracts		24-Month Contracts	
	Commercial	Residential	Commercial	Residential	Commercial
2011		61.14	61.05	61.88	
2012		49.42	56.35		
2013		56.93	57.25	58.03	
2014		59.25	61.18		
2015	65.90	65.96	69.23	68.22	71.93
2016	55.85	51.27	52.94		
2017	57.15	55.00	56.73	54.92	56.06
2018	59.30	56.11	56.53		
2019	55.02	53.73	52.98	52.65	52.02
2020	45.44	48.02	46.12	49.54	51.01
2021	70.56	58.42	55.29	56.60	53.41
2022	75.74	72.21	70.86	61.88	

Sources: RDK WP3 CONFIDENTIAL. Note this analysis is based in part on OSBA-I-9 which includes corrections and updates to originally filed analysis in (non-confidential) Exhibit JDR-NEP-1.

1 Although the wholesale contract prices are similar for the Residential and
2 Commercial classes, the Brattle Group's analysis generally indicates that
3 Commercial customers should be moderately less costly to serve than Residential
4 customers on a zero-risk basis. Thus, when risk premiums are segregated between
5 the two classes, the Brattle Group's analysis over the 2016 to 2021 period is shown
6 in Table RDK-2 below.

Table RDK-2			
Average Implied Price Premium			
12- and 24-month Contracts; October 2016-April 2021			
	Residential	Commercial	Total
Met-Ed	3.8%	8.1%	5.9%
Penelec	0.2%	8.5%	4.3%
Penn Power	-1.3%	8.2%	2.6%
West Penn	1.0%	3.3%	2.2%
Source: OSBA-I-9, OSBA-I-11			

1 Thus, except for West Penn, the Brattle analysis indicates that the FRLF approach
2 to contracting is producing reasonable results for the Residential class. It is less
3 clear that the results for the Commercial class are reasonable.

4 In addition, the risk premiums in the Brattle analysis vary considerably from
5 procurement to procurement, and can be quite high in some cases. A summary by
6 year is shown in Table RDK-3 below, and presented in more detail in RDK WP3.
7 I observe in particular that the risk premiums in the 3-month products are as high
8 or higher on average than for the longer-term products. This finding runs counter
9 to theoretical expectations. From a ratepayer perspective, procuring a significant
10 share of load would theoretically have the benefit of reducing the risk associated
11 with serving the Commercial class (with its higher shopping risk), in exchange for
12 less stability in rates. The Brattle analysis, however, indicates that any reduction
13 in supplier risk is not passed on to ratepayers, while rate instability is higher for
14 Commercial than for Residential ratepayers. This rate instability was all too
15 evident in the relative PTCs for the Companies beginning in December of last year.
16 As shown in RDK WP1, the Commercial PTC across the Companies was nearly 30
17 percent higher than the Residential class PTC beginning December 2021.

Table RDK-3			
FirstEnergy Companies Average Implied DS Risk Premiums			
Commercial Class			
Start Year for Service	3-Month Term	12-Month Term	24-Month Term
2011	--	1.9%	--
2012	--	4.0%	--
2013	--	-0.1%	--
2014	--	7.4%	--
2015	2.4%	9.2%	19.0%
2016	8.1%	8.0%	--
2017	11.6%	9.0%	7.8%
2018	5.8%	3.5%	
2019	4.9%	3.9%	6.1%
2020	10.8%	12.1%	13.1%
2021	9.5%	4.2%	6.4%
2022	10.4%	11.0%	
Sources: RDK WP3 CONFIDENTIAL			

1 **Q. What, then, do you conclude and recommend with respect to the Companies’**
2 **proposed procurement plan for Commercial customers.**

3 A. While the FRLF model does not appear to produce a result for Commercial
4 customers that is as attractive as that for Residential customers, I expect that there
5 is little enthusiasm for a significant departure from that approach. FRLF
6 procurement has been the standard procurement model for default service for
7 several years in Pennsylvania, and EDCs generally have little interest in developing
8 in-house expertise in wholesale market procurement. Moreover, while the FRLF
9 approach may result in relatively high-risk premiums for Commercial customers,
10 those customers do have the option to shop, and they also have the option to take
11 hourly default service from the Companies. Thus, there is no obvious alternative

1 to the FRLF approach for Commercial customers, other than to try to make the
2 products as attractive as possible.

3 Thus, as a start, I agree with the Companies' proposal to eliminate the three-month
4 contracts, which appear to do little for ratepayers other than to make default service
5 supply more unattractive. The 3-month contracts are not providing lower prices,
6 they are not providing lower risk premiums, and they are increasing rate instability.
7 Moreover, because they are short-term, the overall dollar value of the contract is
8 far short of that for 12- or 24-month products, possibly reducing supplier interest
9 in these products.

10 In considering the replacement for these products, I take note of the fact that the
11 default service Commercial customers, to a very large degree, are smaller
12 customers with load sizes akin to that of Residential customers. And the overall
13 Residential load on offer by the Companies is much larger than the Commercial
14 load, which may attract more supplier interest and competition. Thus, rather than
15 simply replacing the 3-month products with 6-month products, I recommend that
16 Commercial procurement move much closer to the Residential model, namely a
17 mix of 12- and 24-month products. If the Commercial products look more like the
18 Residential products, they may prove to be closer substitutes during an auction
19 process and thus attract more interest from bidders.

20 In so doing, however, I recommend against retention of the five percent spot market
21 procurement that is part of the Residential class procurement model. This
22 requirement adds needless complexity for no real gain, other than as a face-saving
23 gesture in a DSP proceeding settlement years ago.¹⁵ At five percent, the impact of
24 the spot market procurements on the actual PTC faced by customers is *de minimis*.
25 Moreover, it is a fallacy to suggest that the spot supplies are priced to customers at
26 the hourly spot market price.¹⁶ In reality, the Companies simply forecast what spot

¹⁵ See OSBA-I-5. The Companies acknowledge that the only rationale for retaining the five percent spot component is prior regulatory approval of a settlement.

¹⁶ Petition at paragraph 14.

1 market prices will be for each rate period, and roll that estimate in with the contract
2 prices from the FRLF agreements to develop the default service rate.¹⁷ Any
3 variations between actual and forecast spot prices will then be reflected in rates at
4 some future time when the default service rates are reconciled. While the spot
5 market forecast prices may add the barest hint of seasonal price differentiation to
6 the Companies' PTCs, they provide no real-time price signals whatsoever.

7 I therefore developed two alternatives for a FRLF Commercial procurement
8 approach, in the pattern of that presented by the Companies in Exhibit JHC-1.¹⁸
9 My alternative recommendations are shown in Exhibit RDK-2. In developing these
10 proposals, I attempted to reflect the following:

- 11 • Meet the 35 tranches of Commercial load used by the Companies in their
12 model;
- 13 • Retain the Companies' goal to hold procurements twice per year;
- 14 • Rely on 12- and 24-month products to the extent feasible;
- 15 • "Ladder" the contracts, to reduce the amount of load that "turns over" at
16 any particular time, thereby reducing rate volatility;
- 17 • Eliminate the "dead stop" feature of the Companies' plans, in which all
18 contracts end at May 31, 2027. Since the FRLF procurement model is
19 well-established at the Companies, there is no need to assume that any
20 changes that might occur in the next default service proceeding cannot be
21 managed with some modest amount of contract supply continuing across
22 the end of the DSP period.

¹⁷ The Companies agree. See OSBA-I-5.

¹⁸ I did not attempt to model my proposals on a Company-specific basis, as the Companies do not in Exhibit JHC-1. However, details at a Company level may require some modification to my proposals.

1 The difference between my two alternatives is that the first uses the Companies’
2 Residential model, in which all contracts end on May 31. This approach has the
3 benefit of simplicity, but it does require that a significant share of the load turns
4 over on May 31. In particular, on May 31, 2025, the Companies’ plan would have
5 93 percent of the Residential load turn over. My “Modified Residential Model”
6 improves somewhat on this, but still requires load turnover of 66 to 77 percent on
7 June 1. This proposed model would also involve entering into contracts with 24-
8 month supplies (about 26 percent of total) beginning to flow on June 1, 2026, and
9 thus continuing on into the next DSP period.

10 My alternative “Laddered Model” approach would involve laddering the 12-month
11 contracts as well as the 24-month contracts. To do so, the Companies would
12 procure about 30 percent of the load that starts to flow on June 1, 2023, under six-
13 month contracts. This would then allow for that portion of the load to turn over on
14 December 1 of each year rather than June 1. As shown in Exhibit RDK-2, this
15 approach would reduce the maximum turnover to 49 percent for any particular
16 date.

17 **4. Time-of-Use (“TOU”) Rates**

18 **Q. How are TOU rates defined in Pennsylvania?**

19 A. The Public Utility Code defines time-of-use rate as “[a] rate that reflects the costs
20 of serving customers during different time periods, including off-peak and on-peak
21 periods, but not as frequently as each hour.”¹⁹

22 The Public Utility Code also requires that electric distribution companies (“EDCs”)
23 offer a time-of-use rate option to default service customers where smart meters are
24 in place.²⁰ It is important to recognize that TOU rates are voluntary. It is also
25 important to recognize that TOU rate options can be offered by competitive EGSs,

¹⁹ 66 Pa. C.S. §2806.1(m).

²⁰ 66 Pa. C.S. §2807(f)(5).

1 which at least theoretically could be more innovative and flexible than the regulated
2 utility option.²¹

3 **Q. Please provide the background for the Companies' TOU rates.**

4 A. The Companies currently provide TOU service to Residential customers through a
5 rate rider, with on- and off-peak periods during the summer season. TOU service
6 as defined in the code is not available to non-residential customers, although those
7 customers are eligible to take hourly priced default service.

8 In the Companies' last default service proceeding, the parties agreed in settlement:
9 *"The Companies will make a specific proposal regarding their residential time of*
10 *use rate offerings in the earlier of their first base rate increase requests or default*
11 *service proceedings following full implementation of smart meter back office*
12 *functionality, which is planned for fourth quarter 2019 as of the date of this Partial*
13 *Settlement."*

14 As this is the first such proceeding, the Companies have put forward their TOU rate
15 proposal.

16 **Q. What are the key issues to consider when designing TOU default service rates?**

17 A. The cost to provide wholesale electric service varies considerably from hour to hour
18 and season to season. Wholesale energy market prices vary almost continuously,
19 generally reflecting the bid price of the most expensive wholesale supplier
20 dispatched for that period (reflecting transmission constraints). Wholesale prices
21 for generation capacity, some ancillary services and transmission are generally
22 based on a measure of hourly peak demand, generally limited to only a few hours
23 of the year. TOU rates are intended to better match the rates paid at different times
24 with the associated costs, and thus send more accurate price signals to customers
25 about the costs they impose on the network.

²¹ OCA-I-24.

1 Historically, the variations in energy prices have followed system load, with higher
2 prices at higher loads, because higher loads require more expensive generators to
3 be dispatched. While this remains true for most areas including Pennsylvania, the
4 increasing penetration of intermittent generators whose capacity varies with
5 windspeed and cloud cover, combined with the potential for increased use of
6 electric storage technologies, can increase divergence between overall load and
7 wholesale spot energy prices can occur.

8 TOU rates in Pennsylvania are almost always touted as an incentive for customers
9 to shift load from high-price to lower-price periods and thus reduce their bills.²²
10 This statement is accurate, of course, but it is incomplete. TOU rates, even
11 voluntary ones, will create winners and losers without any load shifting at all. TOU
12 rates are generally designed such that the customer with the *average* load pattern is
13 indifferent to taking service at TOU and at flat rates. When TOU rates are offered,
14 they provide an opportunity for customers whose unadjusted load is *already* more
15 weighted to lower-price periods to achieve savings by simply switching to TOU
16 rates and not changing their behavior at all.²³ Over time, of course, this effect will
17 shift costs to customers who choose to remain with traditional rates.

18 Wholesale market rates tend to reflect *total* system loads, not the loads for any
19 particular class. TOU rate periods should similarly reflect total load profiles, which
20 serve as a proxy for time-variant wholesale prices.²⁴ There is little logic to setting

²² See, e.g., Companies Statement No. 5 at 15.

²³ The corollary to this situation is that, with a voluntary TOU scheme, there may be customers whose regular load pattern is very significantly tilted toward high-priced periods. Even if these customers are able to shift some of the load to off-peak periods, there may still be no incentive for them to adopt TOU rates if, on average, their loads remain more weighted toward peak loads than the average customer in the class. Thus, optional TOU rates are less effective than mandatory TOU rates.

²⁴ The Companies did not consider actual wholesale energy price data in developing TOU periods. OSBA-I-17(a).

1 TOU periods based on the load profile for any particular class, as proposed by the
2 Companies.²⁵

3 A significant portion of wholesale generation/transmission costs is related not to
4 broad on-peak periods, but to narrow critical peak periods. Traditional TOU rates
5 as proposed by the Companies provide little in the way of matching rates with these
6 costs (although they remain slightly better than regular flat per-kWh default service
7 rates).

8 Thus, TOU rates, as defined in the Pennsylvania Utility Code, are a relatively crude
9 tool for attempting to reflect the time-variant nature of electric market costs in time-
10 variant rates. As defined in the Code, TOU rates cannot reasonably reflect the hour
11 to hour and minute to minute variation in energy prices and cannot reflect the
12 specific peak periods that drive generation and transmission capacity costing.
13 Moreover, the greater the effort to match costs and rates, the more complex the
14 rates become. For example, daily load shapes and associated energy prices look
15 very different in the winter than in the summer. Summer peaks tend to occur in
16 the mid- and late-afternoon, when air conditioning load is high and when both home
17 and workplace loads occur. Winter load shapes tend to be bi-modal, with peak
18 periods in the early morning when heating systems come on, and in the late
19 afternoon when both home and workplace demands occur. Moreover, the “shoulder
20 month” load/price profiles are also substantially different, with much less
21 pronounced peak periods. Thus, matching TOU rates with costs would logically
22 involve setting a different time schedule for time-of-use periods at least for each
23 system with substantially different price parameters across those seasons. Such an
24 approach, of course, makes the tariff more complicated, thereby reducing customer
25 interest and acceptability.

26 Finally, there are a variety of different types of time-variant rate structures being
27 adopted across the country. Some reflect the on-peak/off-peak approach, while

²⁵ OSBA-I-17.

1 others focus more on imposing high costs during extreme peak periods.²⁶ The
2 Companies have a wide array of options to consider when developing their TOU
3 proposal in this proceeding.

4 **Q. Please summarize the Companies’ proposed TOU “default service” rates for**
5 **Commercial customers this proceeding.**

6 A. In short, the Companies propose to adopt a TOU “default service” tariff that does
7 not vary across seasons, and which includes three separate periods within each
8 day.²⁷ These are:

9 Peak: 14:00 to 21:00 Non-Holiday Monday-Friday

10 Super Off-Peak: 23:00 to 6:00 All Days

11 Off-Peak: All Other Hours

12 The Companies further propose that the rates within these periods be differentiated
13 based on a multiple of the regular default service rate in place at the time, that the
14 supplies for this service come from the regular default service wholesale suppliers,
15 and that the variances between revenues and costs be reconciled within the overall
16 default service reconciliation and not as a separate class. Note in particular that the
17 Companies consider peak-demand related generation and transmission capacity
18 costs to be related solely to the on-peak period.

19 My observations regarding the Companies’ proposal are as follows:

20 First, although the Companies do not directly so state, their proposal appears to be
21 significantly guided by the current approved practices of the other Pennsylvania

²⁶ See, e.g., https://www.brattle.com/wp-content/uploads/2021/05/17904_a_survey_of_residential_time-of-use_tou_rates.pdf.

²⁷ TOU rates are obviously not “default” service, since they can only be taken by an affirmative customer decision.

1 EDCs.²⁸ In this case, I believe this is wise, in that some earlier Pennsylvania TOU
2 designs resulted in unreasonable rates and badly distorted incentives for
3 customers.²⁹ Thus, the Companies have generally steered away from processes for
4 default service procurement, rate-setting and reconciliation that are independent
5 from those for regular default service.

6 Second, the Companies have taken to heart the Commission’s admonition to
7 develop rates to accommodate electric vehicle (“EV”) charging. Thus, the
8 Companies’ proposal is much more effective at providing price signals to
9 encourage additional consumption when electric costs are the lowest (the “super
10 off-peak”), and less effective at discouraging use during the extreme peak periods.

11 Third, the Companies have generally opted for simplicity rather than better
12 matching of rates and costs. (This consideration, too, is generally consistent with
13 that of the other Pennsylvania EDCs.) The Companies do, of course, have
14 substantially different load profiles across seasons. Moreover, while the
15 Companies do appear to exhibit winter peaks, such winter peaks are at least as likely
16 to occur outside of the Companies’ proposed peak period (i.e., they sometimes
17 occur early morning) as within it.³⁰

18 **Q. What, then, do you conclude regarding the Companies’ TOU proposal?**

19 A. Ideally, the effectiveness of the Companies’ TOU rates could be improved by
20 defining usage periods that reflected different seasonal patterns, as well as by
21 offering rates that are more targeted at extreme peak periods. Analytically, I would
22 make greater efforts to ensure that the TOU period definitions were based on
23 historical market pricing patterns, rather than Residential load patterns.

²⁸ PECO uses a three-period model that is very similar to the Companies’ proposal, as does Duquesne Light in its EV Pilot rate. Neither of these EDCs have seasonally differentiated period definitions. PPL Electric has a two-period model, with peak periods that are modestly different between winter and summer seasons.

²⁹ See, in particular, PPL Electric’s problems with the Small C&I TOU rates extensively litigated at R-2009-2122718, M-2011-2258733, R-2011-2264771, P-2013-2389572, M-2016-2578051, etc.

³⁰ See RDK WP6.

1 Nevertheless, I recognize that the Companies’ have chosen simplicity over greater
2 precision as a matter of judgment, they have adopted procedures that should avoid
3 the major TOU rate problems of the past, and they have adopted a TOU design that
4 is substantially similar to that of the other large Pennsylvania EDCs. Finally, I
5 recognize that more flexible and responsive rate options can be offered by
6 competitive EGSs, if those suppliers and their customers see a joint benefit in so
7 doing.

8 I therefore take no exception to the Companies’ proposed TOU rate design in this
9 proceeding.

10 **Q. Do you have any concerns about the applicability of TOU rates to net metering**
11 **customers?**

12 A. The net metering rules in Pennsylvania create a potential problem for small
13 business customers. The Commission has determined that net metering customers
14 are eligible for TOU rates, and that excess generation from those customers must
15 be cashed out at the appropriate TOU PTC.

16 The Companies propose to address these circumstances by segregating metered net
17 electric consumption by net metered customers into the three TOU periods, and
18 then deriving the amounts to be cashed out based on any excesses within each
19 period. The Companies cite to an “April 2017 Secretarial Letter” in support of this
20 proposal.³¹

21 A problem that has arisen in Pennsylvania is that the Code allows relatively large
22 customer generators (potentially up to 5,000 kW) to take electrical distribution
23 service under a small Commercial tariff and yet sell the net generation at the full
24 PTC. In effect, Commercial generators with minimal own-load can masquerade

³¹ Petition of PPL Elec. Utils. Corp. for Approval of a New Pilot Time-of-Use Program, Docket Nos. P-2013-2389572 and M-2016-2578051 (Secretarial Letter issued Apr. 6, 2017) (“April 2017 Secretarial Letter”).

1 as net metering customers. It was this situation at PPL Electric which led to the
2 “April 2017 Secretarial Letter.”

3 What distinguishes this case from the PPL Electric matter is that the on-peak prices
4 proposed by the Companies are considerably higher than those developed by PPL
5 Electric, due to the assignment of all capacity-related costs in the on-peak period.
6 Thus, there is the potential that large solar generators could take advantage of the
7 much higher on-peak prices, essentially being paid for providing offsets to
8 generation and transmission capacity that they do not necessarily provide.

9 This may not be an actual problem for the Companies. First, there is not much
10 evidence that the Companies currently have large net generators in the Commercial
11 class.³² Second, the on-peak period does not begin until 2pm and extends to 9pm,
12 so much of the high-solar generation hours are excluded, and some low generation
13 are included in the peak period.

14 In addition, the Companies’ proposal in this respect appears to be substantially
15 similar to that approved by the Commission in the most recent PECO DSP
16 proceeding.

17 As such, I recommend only that the Companies closely monitor any situations of
18 this type, and that they advise the Commission and the parties to this proceeding if
19 these situations result in a material increase in costs to Commercial default service
20 customers.

21 **Q. Does this conclude your direct testimony?**

22 **A.** Yes, it does.

³² OSBA-I-14

EXHIBIT RDK-1

RÉSUMÉ AND EXPERT TESTIMONY LIST

FOR

ROBERT D. KNECHT

Overview

Mr. Knecht has more than 40 years of economic consulting experience, focusing on the energy, utility, metals and mining industries. For the past 30 years, Mr. Knecht's practice has primarily involved providing analysis, consulting support and expert testimony in regulatory matters, primarily involving electric and natural gas utilities. Mr. Knecht's work includes many aspects of utility regulation, including industry restructuring, cost unbundling, cost allocation, rate design, rate of return, customer contributions, energy efficiency programs, smart metering programs, treatment of stranded costs and utility revenue requirement issues. He has consulted to state advocacy agencies, industrial customer groups, law firms, regulatory agencies, government agencies and utilities, in both the United States and Canada. He has provided expert testimony in more than one hundred separate utility proceedings.

In addition to his work with regulated utilities, Mr. Knecht has consulted on international industry restructuring studies, prepared economic policy analyses, participated in a variety of litigation matters involving economic damages, and developed energy industry forecasting models.

Mr. Knecht served as a Principal of IEC for 33 years, and as its Treasurer for 15 years. He is currently an independent consultant who remains affiliated with IEC.

Education

Master of Science, Management (Applied Economics and Finance), Sloan School of Management, M.I.T.

Bachelor of Science, Economics, Massachusetts Institute of Technology

Select Project Experience

For more than 25 years, Mr. Knecht has provided consulting services, analysis and expert testimony before the Pennsylvania Public Utility Commission on all manner of regulatory proceedings to the **PENNSYLVANIA OFFICE OF SMALL BUSINESS ADVOCATE**. In addition to expert testimony, Mr. Knecht has assisted OSBA with the development of public policy positions, litigation strategy, and longer term strategy.

For the **ATTORNEY GENERAL OF THE STATE OF RHODE ISLAND**, Mr. Knecht provided consulting and expert witness services in an acquisition proceeding involving PPL Corporation's proposed acquisition of Narragansett Electric from National Grid. Mr. Knecht's testimony addressed financial, economic, environmental, tax, operating cost and rate implications.

For the **NEW BRUNSWICK PUBLIC INTERVENER**, Mr. Knecht provides consulting and expert witness services in a variety of regulatory proceeding before the New Brunswick Energy and Utilities Board involving New Brunswick Power, Enbridge Gas New Brunswick, and petroleum products. Mr. Knecht has addressed issues of load forecasting, costs forecasting, cost of capital, allocation of corporate overhead costs, utility cost allocation, revenue allocation, market-based rate design, cost-based rate design, and rate decoupling.

For **L'ASSOCIATION QUÉBÉCOISE DES CONSOMMATEURS INDUSTRIELS D'ÉLECTRICITÉ (AQCIÉ) AND LE CONSEIL DE L'INDUSTRIE FORESTIÈRE DU QUÉBEC (CIFQ)**, Mr. Knecht provided analysis, consulting advice and expert testimony before the Régie de l'énergie in regulatory matters involving Hydro Québec Distribution and TransÉnergie. This work includes revenue requirement, power purchasing, cost allocation, treatment of cross-subsidies, and rate design.

For the **INDEPENDENT POWER PRODUCERS SOCIETY OF ALBERTA**, Mr. Knecht provided consulting advice, analysis and expert testimony before the Alberta Energy and Utilities Board in a series of proceedings involving the restructuring of the electric utility industry, the unbundling of rates, and the development of transmission rates.



ROBERT D. KNECHT

INDUSTRIAL ECONOMICS, INCORPORATED

EXPERT TESTIMONY SUBMITTED IN REGULATORY PROCEEDINGS (2016-2021)

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
D-21-09	RI Division of Public Utilities and Carriers	PPL Electric, National Grid	November 2021	Attorney General of the State of Rhode Island	Acquisition financial impacts, due diligence, environmental impacts, tax implications, operating costs, rates.
R-2020-3025652	Pennsylvania Public Utility Commission	UGI Utilities, Inc. (Gas Division)	July 2021	Pennsylvania Office of Small Business Advocate	Renewable natural gas procurement.
R-2021-3024750	Pennsylvania Public Utility Commission	Duquesne Light Company	June 2021	Pennsylvania Office of Small Business Advocate	Cost allocation, rate design
R-2021-3024296	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	June 2021	Pennsylvania Office of Small Business Advocate	Economic viability, cost allocation, rate design.
R-2021-3023618	Pennsylvania Public Utility Commission	UGI Utilities Inc. (Electric Division)	May 2021	Pennsylvania Office of Small Business Advocate	Cost allocation, rate design
R-2020-3023970	Pennsylvania Public Utility Commission	Philadelphia Gas Works	April 2021	Pennsylvania Office of Small Business Advocate	Procurement of renewable natural gas
R-2020-3022134	Pennsylvania Public Utility Commission	Pike County Light & Power Company (Gas)	February 2021	Pennsylvania Office of Small Business Advocate	Cost allocation, rate design.
R-2020-3022135	Pennsylvania Public Utility Commission	Pike County Light & Power Company (Electric)	February 2021	Pennsylvania Office of Small Business Advocate	Cost allocation, rate design.
Matter 485	New Brunswick Energy & Utilities Board	Retail Petroleum Distributors	February 2021	Pennsylvania Office of Small Business Advocate	Maximum retail margins.
R-2020-3018929	Pennsylvania Public Utility Commission	PECO Energy Company (Gas Division)	December 2020	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design, negotiated rates
P-2020-3021191	Pennsylvania Public Utility Commission	Peoples Natural Gas Company LLC	December 2020	Pennsylvania Office of Small Business Advocate	Sharing benefits of tax repair election
Matters 467, 478	New Brunswick Energy & Utilities Board	Liberty Utilities (Gas New Brunswick)	October 2020	New Brunswick Public Intervener	Historical financial review, test year revenue requirement, earnings sharing mechanism, cost allocation, rate design, deferral accounts
P-2020-3019907	Pennsylvania Public Utility Commission	UGI Utilities, Inc. (Electric Division)	August 2020	Pennsylvania Office of Small Business Advocate	Default service procurement
R-2020-3018835	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	July 2020	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design, flex rates
P-2020-3019356	Pennsylvania Public Utility Commission	PPL Electric	June 2020	Pennsylvania Office of Small Business Advocate	Default service procurement, TOU rates, renewable energy rates

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
R-2020-3017206	Pennsylvania Public Utility Commission	Philadelphia Gas Works	June 2020	Pennsylvania Office of Small Business Advocate	Revenue requirement, cost allocation, revenue allocation, rate design
R-2020-3018993	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	May 2020	Pennsylvania Office of Small Business Advocate	Purchased gas costs, interest on penalty credits.
R-2019-3015162	Pennsylvania Public Utility Commission	UGI Utilities, Inc. - Gas Division	May 2020	Pennsylvania Office of Small Business Advocate	Revenue requirement, rate of return, load forecast, cost allocation, revenue allocation, rate design, interruptible service, line extension
R-2020-3015251	Pennsylvania Public Utility Commission	National Fuel Gas Distribution	March 2020	Pennsylvania Office of Small Business Advocate	Charge for monthly metered transportation service
Matter 458	New Brunswick Energy & Utilities Board	New Brunswick Power	December 2019	New Brunswick Public Intervener	Historical financial review, DSM, rate trajectory, revenue requirement, cost allocation, rate design
P-2019-3012628	Pennsylvania Public Utility Commission	Pennsylvania Power Company	November 2019	Pennsylvania Office of Small Business Advocate	Waiver of distribution system improvement charge cap.
Matters 443, 453	New Brunswick Energy & Utilities Board	Enbridge Gas New Brunswick	October 2019	New Brunswick Public Intervener	Historical financial review, regulatory deferral account, system expansion test, revenue requirement, return on rate base, load forecast, corporate allocations, cost allocation, rate design, sharing mechanism, income taxes
Matter 444	New Brunswick Energy & Utilities Board	Petroleum Distributors	August 2019	New Brunswick Public Intervener	Motor fuel and home heating oil maximum margins
R-2018-3006814	Pennsylvania Public Utility Commission	UGI Utilities, Inc. -- Gas Division	April 2019	Pennsylvania Office of Small Business Advocate	Incentive mechanism, cost allocation, rate design, rate harmonization, expansion program, EE&C plan.

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
Matter 430	New Brunswick Energy & Utilities Board	New Brunswick Power	April 2019	New Brunswick Public Intervener	Historical financial review, DSM, rate trajectory, revenue requirement, long-term planning, load forecast, deferral accounts, cost allocation, rate design
A-2018-3006061 et al.	Pennsylvania Public Utility Commission	Aqua Pennsylvania, Peoples Gas	April 2019	Pennsylvania Office of Small Business Advocate	Financial implications for acquisition, affirmative public benefits
M-2018-3004144	Pennsylvania Public Utility Commission	UGI Utilities, Inc., Electric Division	November 2018	Pennsylvania Office of Small Business Advocate	Energy efficiency plan, performance, forecast, cost sharing, avoided costs
P-2018-3002709	Pennsylvania Public Utility Commission	Pike County Light & Power	September 2018	Pennsylvania Office of Small Business Advocate	Default service procurement, hedging strategies
R-2018-2647577	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	June 2018	Pennsylvania Office of Small Business Advocate	C&I Network costs, cost allocation, revenue allocation, rate design
R-2018-3000253	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania	June 2018	Pennsylvania Office of Small Business Advocate	Design day demand forecasting
A-2017-2629534	Pennsylvania Public Utility Commission	PPL Electric Utilities	April 2018	Pennsylvania Office of Small Business Advocate	Corporate restructuring
R-2017-2640058	Pennsylvania Public Utility Commission	UGI Utilities, Inc., Electric Division	April 2018	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design
M-2017-2640306	Pennsylvania Public Utility Commission	Peoples Natural Gas	April 2018	Pennsylvania Office of Small Business Advocate	Energy efficiency and conservation plan, combined heat and power plan.
C-2017-2633651	Pennsylvania Public Utility Commission	PPL Electric Utilities	March 2018	Pennsylvania Office of Small Business Advocate	Present OSBA legal position
P-2017-2636755, 2637857, 2637858, 2637866	Pennsylvania Public Utility Commission	Metropolitan Edison, Pennsylvania Electric, Pennsylvania Power, West Penn Power	February 2018	Pennsylvania Office of Small Business Advocate	Default service procurement plans, eligibility rules, risk premiums, market enhancement mechanism, TOU rates, net metering

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
Matter 375	New Brunswick Energy & Utilities Board	New Brunswick Power	January 2018	New Brunswick Public Intervener	Integrated resource plan, demand side management, long term rate trajectory, rate adjustment mechanism, revenue requirement, cost allocation, rate design
M-2016-2578051	Pennsylvania Public Utility Commission	PPL Electric Utilities	December 2017	Pennsylvania Office of Small Business Advocate	Time-of-use rates, net metering
Matter 371	New Brunswick Energy & Utilities Board	Enbridge Gas New Brunswick	October 2017	New Brunswick Public Intervener	Capital expenditure prudence, allocated corporate costs, revenue requirement, flex rates, tariff language.
R-2017-2602627, 2602633, 2602638	Pennsylvania Public Utility Commission	UGI Utilities, Gas Division, Central Penn Gas, Penn Natural Gas	June 2017	Pennsylvania Office of Small Business Advocate	Consolidation of purchased gas cost filings.
R-2017-2586783	Pennsylvania Public Utility Commission	Philadelphia Gas Works	May 2017	Pennsylvania Office of Small Business Advocate	Revenue requirement relevance, financial review, cost allocation, revenue allocation, rate design
R-2016-2580030	Pennsylvania Public Utility Commission	UGI Penn Natural Gas	April 2017	Pennsylvania Office of Small Business Advocate	Test year, load forecast, O&M expenses, rate base, rate of return, cost allocation, rate design, EE&C program, capacity assignment
Matter 336	New Brunswick Energy & Utilities Board	New Brunswick Power	January 2017	New Brunswick Public Intervener	Financial forecast, equity requirement, depreciation life, variance mechanisms, cost allocation, rate design
Matter 338	New Brunswick Energy & Utilities Board	Generic	December 2016	New Brunswick Public Intervener	Retail petroleum margins
Matter 330	New Brunswick Energy & Utilities Board	Enbridge Gas New Brunswick	September 2016	New Brunswick Public Intervener	Revenue requirement, investment test, customer retention initiatives, cost allocation, rate design
R-2016-2537359	Pennsylvania Public Utility Commission	West Penn Power Company	July 2016	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design.

DOCKET #	REGULATOR	UTILITY	DATE	CLIENT	TOPICS
R-2016-2537355	Pennsylvania Public Utility Commission	Pennsylvania Power Company	July 2016	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design.
P-2016-2537609, 2537594	Pennsylvania Public Utility Commission	UGI Central Penn Gas, UGI Penn Natural Gas	July 2016	Pennsylvania Office of Small Business Advocate	Waiver of DSIC cap.
P-2016-2543523	Pennsylvania Public Utility Commission	UGI Utilities, Inc., Electric Division	July 2016	Pennsylvania Office of Small Business Advocate	Default service procurement.
R-2016-2529660	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania, Inc.	June 2016	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design.
R-2015-2469275	Pennsylvania Public Utility Commission	PPL Electric Utilities Corporation	May 2016	Pennsylvania Office of Small Business Advocate	Default service procurement plan.
R-2015-2518438	Pennsylvania Public Utility Commission	UGI Utilities, Inc., Gas Division	April 2016	Pennsylvania Office of Small Business Advocate	Cost allocation, revenue allocation, rate design, energy efficiency and conservation program.
P-2016-2521993	Pennsylvania Public Utility Commission	Columbia Gas of Pennsylvania, Inc.	April 2016	Pennsylvania Office of Small Business Advocate	Waiver of DSIC cap.
M-2015-2477174	Pennsylvania Public Utility Commission	UGI Utilities, Inc., Electric Division	February 2016	Pennsylvania Office of Small Business Advocate	Energy efficiency and conservation plan review and development.
Matter No. 306	New Brunswick Energy & Utilities Board	Enbridge Gas New Brunswick	February 2016	New Brunswick Public Intervenor	Financial review, investment prudence, revenue requirement, cost allocation, rate design, market-based pricing.
P-2015-2511333, 2511351, 2511355, 2511356	Pennsylvania Public Utility Commission	Metropolitan Edison, Pennsylvania Electric, Pennsylvania Power, West Penn Power	January 2016	Pennsylvania Office of Small Business Advocate	Default service procurement plans, purchase of receivables.

Note: Dates shown reflect submission date for direct testimony.

February 2022

EXHIBIT RDK-2

RDK COMMERCIAL PROCUREMENT SCHEDULES

FirstEnergy Companies: Default Service Procurement Schedules

Exhibit RDK-2

Auction	Term-Months	Percent	Tranches	Lead Months	6/1/23-11/30/23	12/1/23-5/31/24	6/1/24-11/30/24	12/1/24-5/31/25	6/1/25-11/30/25	12/1/25-5/31/26	6/1/26-11/30/26	12/1/26-5/31/27
RDK Commercial Proposal: Modified Residential Model												
Nov-22	24	17.14%	6	6								
Nov-22	12	31.43%	11	6								
Mar-23	24	17.14%	6	2								
Mar-23	12	34.29%	12	2								
Sep-23	24	14.29%	5	8								
Sep-23	12	20.00%	7	8								
Mar-24	24	11.43%	4	2								
Mar-24	12	20.00%	7	2								
Sep-24	24	11.43%	4	8								
Sep-24	12	25.71%	9	8								
Mar-25	24	11.43%	4	2								
Mar-25	12	25.71%	9	2								
Sep-25	24	11.43%	4	8								
Sep-25	12	25.71%	9	8								
Mar-26	24	14.29%	5	2								
Mar-26	12	25.71%	9	2								
				Supply	100%	100%	100%	100%	100%	100%	100%	100%
				Avg Term	16	16	19	19	18	18	18	18
				Turnover	100%	0%	66%	0%	74%	0%	77%	0%

RDK Commercial Proposal: Laddered Model												
Nov-22	24	11.43%	4	6								
Nov-22	12	22.86%	8	6								
Mar-23	24	11.43%	4	2								
Mar-23	12	25.71%	9	2								
Mar-23	6	28.57%	10	2								
Sep-23	12	28.57%	10	5								
Sep-23	24	11.43%	4	8								
Sep-23	12	11.43%	4	8								
Mar-24	24	11.43%	4	2								
Mar-24	12	14.29%	5	2								
Sep-24	12	28.57%	10	5								
Sep-24	24	11.43%	4	8								
Sep-24	12	11.43%	4	8								
Mar-25	24	11.43%	4	2								
Mar-25	12	14.29%	5	2								
Sep-25	12	28.57%	10	5								
Sep-25	24	11.43%	4	8								
Sep-25	12	11.43%	4	8								
Mar-26	24	11.43%	4	2								
Mar-26	12	14.29%	5	2								
Sep-26	12	28.57%	10	5								
				Supply	100%	100%	100%	100%	100%	100%	100%	100%
				Avg Term	13	15	17	17	17	17	17	17
				Turnover	100%	29%	49%	29%	49%	29%	49%	29%

EXHIBIT RDK-3

KNECHT ELECTRONIC WORKPAPERS

RDK WP1 PTC Comparisons.xlsx

RDK WP2 Shopping.xlsx

RDK WP3 Risk Premia 3-12-24.xlsx CONFIDENTIAL

RDK WP4 Clawback.xlsx

RDK WP5 Commercial Schedules.xlsx

RDK WP6 Peak Demands.xlsx

EXHIBIT RDK-4

REFERENCED INTERROGATORY RESPONSES

OCA-I-13*

OCA-I-24

OCA-I-28

OSBA-I-4*

OSBA-I-5

OSBA-I-9**

OSBA-I-11

OSBA-I-13**

OSBA-I-14*

OSBA-I-17*

* Electronic attachments are incorporated by reference.

** CONFIDENTIAL or HIGHLY CONFIDENTIAL electronic attachments are incorporated by reference.

**JOINT PETITION OF METROPOLITAN EDISON COMPANY PENNSYLVANIA
ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN
POWER COMPANY FOR APPROVAL OF THEIR DEFAULT SERVICE PROGRAMS
Docket Nos. P-2021-3030012, P-2021-3030013, P-2021-3030014, and P-2021-3030021**

OFFICE OF CONSUMER ADVOCATE Set I, No. 13

“Of the EGSs that resulted in the customer refunds for the Clawback Charge listed (anonymously) in Exh. JMS-3, how many residential customers did each EGS serve at the time of each calculation identified in this analysis?”

RESPONSE:

See ME/PN/PP/WP Response to OCA Interrogatory Set I, No. 13 Attachment A.

**JOINT PETITION OF METROPOLITAN EDISON COMPANY PENNSYLVANIA
ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN
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OFFICE OF CONSUMER ADVOCATE Set I, No. 24

“Does the Companies’ billing system allow an EGS to bill a different TOU rate structure other than the option proposed in this filing?”

RESPONSE:

Yes. The Companies’ billing system does not limit the terms of EGS products and contracts, including time-varying generation rates, provided to customers that are not enrolled in the Companies’ Customer Assistance Programs.

**JOINT PETITION OF METROPOLITAN EDISON COMPANY PENNSYLVANIA
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POWER COMPANY FOR APPROVAL OF THEIR DEFAULT SERVICE PROGRAMS
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OFFICE OF CONSUMER ADVOCATE Set I, No. 28

“Would it be correct assumption that a customer on the proposed TOU rate option would not see equal monthly savings compared to the applicable fixed price PTC? Please discuss your analysis of projected bill impacts this proposed TOU rate option compared to the current PTC or the PTC in effect over the last 12-18 months for each EDC.”

RESPONSE:

Yes, monthly savings from the standard, fixed-price TOU Rider rate will likely vary based on a participating customer’s ability to shift their usage during a particular billing period because the proposed TOU Rider rate is a default service rate offering based on the effective PTC Rider rate as modified by a TOU pricing multiplier. The Companies have not performed the quantitative analysis of billing impacts requested in this interrogatory.

**JOINT PETITION OF METROPOLITAN EDISON COMPANY PENNSYLVANIA
ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN
POWER COMPANY FOR APPROVAL OF THEIR DEFAULT SERVICE PROGRAMS
Docket Nos. P-2021-3030012, P-2021-3030013, P-2021-3030014, and P-2021-3030021**

OFFICE OF SMALL BUSINESS ADVOCATE Set I, No. 4

“Reference Companies’ Statement No. 1 at 12-17; Response to OSBA-I-8 Attachments B and C in the Companies’ last default service proceeding; clawback mechanism:

- a. Please provide updated versions of the referenced attachments for each Company for each year ending June 2017, 2018, 2019, 2020 and 2021, in MS Excel electronic format.”

RESPONSE:

After the communication of a verbal objection, OSBA agreed via email exchange dated January 28, 2022 to change the requested period of data to the twelve months ended August 31 each year, instead of June 30, to align with the clawback charge period.

See ME/PN/PP/WP Response to OSBA Interrogatory Set 1, No. 4 Attachment A for write-offs for each Company by rate class and uncollectible accounts expense for the twelve months ended August 31 for each of 2019, 2020 and 2021. The attachment does not include data by class for the periods ended August 2017 and 2018 because the Companies’ reporting methodology for write-offs changed in 2018 related to purchase of receivables (“POR”) write-offs. As a result of the change in methodology, the Companies cannot analyze write-off data for the September 1, 2016 to August 31, 2018 period by class as the data would not result in an apples-to-apples comparison to write-offs by class for the years ending August 31, 2019, 2020, 2021. In particular, the write-offs for each rate class would be skewed during the September 1, 2016 to August 31, 2018 period.

See ME/PN/PP/WP Response to OSBA Interrogatory Set 1, No. 4 Attachment B for the following data for each electric generation supplier (“EGS”) participating in the Companies’ purchase of receivables POR programs: (1) EGS revenues; (2) EGS write-offs; (3) write-offs as a percentage of revenues; (4) average price per kWh; and (5) whether the EGS uses “rate-ready” or “bill-ready” billing.

Please note there are slight differences between the net write-offs in Attachment A and the clawback charge write-offs provided in Attachment B because any EGSs no longer serving customers in a Company’s service area are excluded from the two-prong test to identify EGSs subject to the clawback charge.

**JOINT PETITION OF METROPOLITAN EDISON COMPANY PENNSYLVANIA
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Docket Nos. P-2021-3030012, P-2021-3030013, P-2021-3030014, and P-2021-3030021**

OFFICE OF SMALL BUSINESS ADVOCATE Set I, No. 5

“Reference Petition at Paragraph 14:

- a. Please explain what the Companies mean by “will be priced at” with respect to the 5% spot market purchases. Is it correct that the prices paid by residential default service customers are based on a forecast average of all default service supplies including spot supplies, plus a reconciliation amount for historical differences between actual and forecast prices?
- b. Please define the purpose served by minimal purchases of supplies at spot market prices. Please include any analysis or evidence available to the Companies that including an estimate of spot market costs plus a reconciliation of historical spot market supply cost variances has any beneficial impact in terms of better aligning residential DSP rates with market prices.
- c. To the extent that procuring a small percentage of supplies on the spot market for residential customers does indeed have a beneficial impact, please explain why a similar strategy does not apply to small commercial/industrial customers.
- d. Is the 5% spot purchase requirement adding needless risk for higher variances in the context of switching to semi-annual rate adjustments, as discussed in Petition paragraph 37.”

RESPONSE:

- a. Yes, the prices paid by residential default service customers are based on a forecast average of all default service supplies, including spot supplies, plus a reconciliation amount for historical differences between actual and forecast prices.
- b. The spot market prices are part of a prudent mix of products to achieve a least cost over time, which is a key requirement of Act 129 of 2008 (“Act 129”). The Companies have not conducted an analysis to determine any beneficial impact in terms of better aligning residential DSP rates with market prices. The spot component, if any, for each Company’s residential and commercial customer default service products was agreed upon in the Settlement of the DSP III proceedings and was found to be prudent and appropriate by the Commission in that proceeding and subsequent default service proceedings.
- c. See the response to subpart b. above.

- d. The Companies believe the proposed 5% spot component for the residential default service product is appropriate and consistent with the Companies' existing, Commission-approved residential default service product. The Companies have not done an analysis of the impact of the spot market component in the context of switching to semi-annual rate adjustments.

**JOINT PETITION OF METROPOLITAN EDISON COMPANY PENNSYLVANIA
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POWER COMPANY FOR APPROVAL OF THEIR DEFAULT SERVICE PROGRAMS
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OFFICE OF SMALL BUSINESS ADVOCATE Set I, No. 9

“Reference: Exhibit JDR-NEP-1.

- a. Please provide a working MS Excel version of the referenced exhibit, with supporting workpapers. As available, please include number of bidders in each auction in your responses.
- b. In MS Excel format, please update the referenced exhibit to (i) include procurements conducted since April 2021, and (ii) include the 3-month procurements for the Commercial rate class group.

Please also include an explanation for any changes in the analysis presented in the last DSP (OSBA-I-16), including but not limited to the capacity price used in the 2017 auctions.

This requests an update of the information provided in OSBA-I-16 in the Companies’ last default service proceeding.”

RESPONSE:

- a, b. See ME/PN/PP/WP Response to OSBA Interrogatory Set I, No. 9 CONFIDENTIAL Attachment A. Information regarding the number of bidders in each auction is provided in a separate file; see ME/PN/PP/WP Response to OSBA Interrogatory Set I, No. 9 CONFIDENTIAL Attachment B.

CONFIDENTIAL Attachment A implements the methodology as described in the Reitzes-Powers testimony (see Statement No. 4, pp. 20-22 and Table 2). In the process of providing this electronic file, some discrepancies were found and corrected with respect to the reference year used for certain cost data and for energy prices relied upon to make the locational and load-shape adjustments for some default service procurements occurring in late 2017, 2018, and 2019. Also, capacity costs for the 24 month default service procurements in October 2020, January 2021, and April 2021 auctions were revised in consideration of the capacity proxy price (CPP) affecting those procurements. Attachment A is also updated to include procurements conducted since April 2021.

A revised version of Table 2 (see Statement No. 4, p. 23) and Exhibit JDR-NEP-1 from the Reitzes-Powers testimony have been provided, both of which reflect the above modifications. The revised table is pasted below as Table 2A. The revised

Exhibit JDR-NEP-1 is labeled JDR-NEP-1A and is attached as ME/PN/PP/WP Response to OSBA Interrogatory Set I, No. 9, CONFIDENTIAL Attachment C. For all four utilities, the average risk premium reported in the revised Table 2A is lower than the corresponding result as reported in the original Table 2.

Table 2A: Average Estimated Risk Premium in Default Service Full-Requirements Auctions (October 2016-April 2021): DSP IV and V

EDC	Risk Premium (\$/MWh)	Risk Premium (% of No-Risk Price)
Met-Ed	2.92	5.91%
Penelec	1.99	4.33%
Penn Power	1.37	2.56%
West Penn Power	0.93	2.16%

Source: The Brattle Group

Notes: The calculations underlying this table have been updated, consistent with the description provided above. Compare with Table 2 as produced in Statement No. 4.

See ME/PN/PP/WP Response to OSBA Interrogatory Set I, No. 9 Attachment D for an MS Excel file that implements the methodology as described in this response for the 3-month procurements for the Commercial rate class group.

In the current risk premium calculation, we apply weighted average capacity prices, which we calculated as the sum of each capacity product's clearing price multiplied by its share of total capacity sold. In the risk premium calculation for the last DSP, we used the limited resources clearing price (2015/16 and 2017/18) and Base Resources clearing price (2018/19). The current calculation can be found in the "Capacity" tab, with the weighted average price being estimated in the "capacity prices" tab. No other changes were made to the values calculated in the previous DSP in response to OSBA-I-16.

**JOINT PETITION OF METROPOLITAN EDISON COMPANY PENNSYLVANIA
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OFFICE OF SMALL BUSINESS ADVOCATE Set I, No. 11

“Reference Companies’ Statement No. 4, page 22, average risk premiums:

- a. Please provide the values shown in lines 16 through 21 split between residential and commercial classes.”

RESPONSE:

- a. The requested values mirror those presented in Table 2 in Statement No. 4 on p. 23. See Tables 2R and 2C, provided below, for the breakout by residential and commercial classes. The calculations underlying Table 2R and 2C were carried out in a manner consistent with the description provided in the ME/PN/PP/WP Response to OSBA Interrogatory Set I, No. 9.

**Table 2R: Average Estimated Risk Premium in Default Service
Full-Requirements Auctions (October 2016-April 2021): DSP IV and V – Residential Only**

EDC	Premium (\$/MWh)	Risk Premium (% of No-Risk Price)
Met-Ed	1.95	3.77%
Penelec	(0.05)	0.21%
Penn Power	(0.89)	-1.32%
West Penn Power	0.42	1.03%

Source: The Brattle Group

**Table 2C: Average Estimated Risk Premium in Default Service
Full-Requirements Auctions (October 2016-April 2021): DSP IV and V – Commercial Only**

EDC	Premium (\$/MWh)	Risk Premium (% of No-Risk Price)
Met-Ed	3.90	8.06%
Penelec	4.03	8.45%
Penn Power	4.64	8.17%
West Penn Power	1.46	3.34%

Source: The Brattle Group

**JOINT PETITION OF METROPOLITAN EDISON COMPANY PENNSYLVANIA
ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN
POWER COMPANY FOR APPROVAL OF THEIR DEFAULT SERVICE PROGRAMS
Docket Nos. P-2021-3030012, P-2021-3030013, P-2021-3030014, and P-2021-3030021**

OFFICE OF SMALL BUSINESS ADVOCATE Set I, No. 13

“Reference: Modification of credit requirements, Companies’ Statement No. 2 pages 24-29:

- a. For the past five years, please indicate when and how the proposed change to the additive nature of the maximum unsecured credit limit would have affected winning bidders. Please specify the date for the auction, the number of suppliers affected, the total load for each supplier involved, and the load that would need to have been procured from a different supplier.
- b. Regarding the change to the credit rating methodology, please detail the current methodology. Please also detail the impact that the proposed change would have had on supplier maximum unsecured credit limits over the past five years.
- c. Regarding the proposed change to the load cap, please detail what the impact of the proposed change would have been over the past five years in terms of load that would need to have been provided by alternative suppliers.
- d. Regarding the credit-based tranche cap, please detail what the impact of the proposed change would have been over the past five years in terms of load that would need to have been provided by alternative suppliers.
- e. Please provide the Companies’ estimate of the cost of the ICRT for wholesale suppliers per tranche, and the basis therefor.
- f. Please describe the consultations undertaken by the Companies with wholesale suppliers regarding the proposed changes to credit requirements, and summarize the responses from those suppliers.”

RESPONSE:

- a. See ME/PN/PP/WP Response to OSBA Interrogatory Set I, No. 013 HIGHLY CONFIDENTIAL Attachment A which provides, for each fixed-price procurement over the last five years and for each winning supplier: (1) the applicable maximum unsecured credit limit (“MCL”) from the Companies’ approved DSP; (2) the number of Companies with which the supplier won tranches ; (3) aggregate MCL under the approved DSP; (4) the MCL that would apply under the Companies’ DSP VI proposal; (5) tranches impacted by MCL changes; (6) megawatts impacted by MCL changes; (7) the tranches won by product and Company; and (8) the price per tranche by product and Company.

The Companies have no knowledge of whether or how individual suppliers would have responded to the proposed credit requirements if they had been in place in past auctions. Therefore, the Companies do not have information on the load that would

- have needed to be procured from a different supplier. The Attachment does not include information about hourly procurements because the credit exposure for the industrial class will not be changing as a result of the Companies' proposal.
- b. The current credit rating methodology is explained by Mr. Catanach in his direct testimony (Met-Ed/Penelec/Penn Power/West Penn Statement No. 2, p. 24, 18-12; p. 25, 1-22; and p. 26, 1-14). See ME/PN/PP/WP Response to OSBA Interrogatory Set I, No. 013 HIGHLY CONFIDENTIAL Attachment A for the information about the impact of the Companies' proposal on the winning supplier's maximum unsecured credit limits over the past 5 years.
 - c. See ME/PN/PP/WP Response to OSBA Interrogatory Set I, No. 013 HIGHLY CONFIDENTIAL Attachment B which provides, for each fixed-price procurement over the last five years and for each winning supplier: (1) tranches won by suppliers; (2) applicable load cap from the Companies' previously approved DSPs; (3) load cap that would apply under the Companies' DSP VI proposal; (4) tranches needed from alternate supplier; (5) the tranches won by product and Company; and (6) the price per tranche by product and Company. The Attachment does not include information about hourly procurements because the credit exposure for the industrial class will not be changing as a result of the Companies' proposal.
 - d. See ME/PN/PP/WP Response to OSBA Interrogatory Set I, No. 013 HIGHLY CONFIDENTIAL Attachment C which provides, for each fixed-price procurement over the last five years and for each winning supplier: (1) tranches won by suppliers; (2) applicable load cap from the Companies' previously approved DSPs; (3) credit-based load cap that would apply under the Companies' DSP VI proposal; (4) tranches needed from alternate supplier; (5) the tranches won by product and Company; and (6) the price per tranche by product and Company. The Attachment does not include information about hourly procurements because the credit exposure for the industrial class will not be changing as a result of the Companies' proposal.
 - e. The Companies do not have an estimated cost of the ICRT for wholesale suppliers per tranche. The only additional cost to wholesale suppliers would be the cost of posting the additional collateral to cover the ICRT vs. the cost of only posting to cover any Mark-to-Market exposure. For suppliers with an investment-grade parent that can issue a parental guarantee, there would be no additional cost. A supplier that posted a letter of credit ("LC") would only have the minimal cost of bank fees for issuing the LC. Other suppliers that posted cash to cover the ICRT would receive interest on the posted cash from the Companies. Additionally, there will also be reduced supplier exposure based on the mark-to-market exposure calculation that could reduce the collateral required for mark-to-market due to removing the mark-to-market multiplier of 1.1.

- f. The Companies have not been in consultation with wholesale suppliers regarding the proposed changes to credit requirements.

**JOINT PETITION OF METROPOLITAN EDISON COMPANY PENNSYLVANIA
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POWER COMPANY FOR APPROVAL OF THEIR DEFAULT SERVICE PROGRAMS
Docket Nos. P-2021-3030012, P-2021-3030013, P-2021-3030014, and P-2021-3030021**

OFFICE OF SMALL BUSINESS ADVOCATE Set I, No. 14

“Reference Companies’ Statement No. 5 at page 18 and 21; TOU rates for net metering customers:

- a. In MS Excel electronic format, for the past four years, please provide a monthly history for net metering customers by Company by rate class showing number of net metered customers, customer kWh consumption excluding cashout kWh, cashout kWh, cashout cost, and (if available) customer gross generation kWh.”

RESPONSE:

- a. See ME/PN/PP/WP Response to OSBA Interrogatory Set I, No. 014 Attachment A for the period September 2019 through December 2021. In September 2019, the Companies implemented billing and accounting system changes that enabled the Companies to track and query the data requested in this interrogatory. Therefore, the attachment does not include net metering customer data during the 2018 through August 2019 period that predates those system changes. Customer gross generation kWh data is unavailable due to the need for additional metering beyond the Companies’ AMI meters.

**JOINT PETITION OF METROPOLITAN EDISON COMPANY PENNSYLVANIA
ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN
POWER COMPANY FOR APPROVAL OF THEIR DEFAULT SERVICE PROGRAMS
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OFFICE OF SMALL BUSINESS ADVOCATE Set I, No. 17

“Reference Exhibit PML-22, proposed TOU rate design:

- a. Please provide supporting data for the referenced exhibits, inclusive of hourly load and LMP data for each of the five years, in MS Excel electronic format.
- b. In light of the substantial differences between winter and summer loads, please explain why a seasonal TOU rate is not proposed.
- c. From the figures, it appears that the average zonal load for the summer months for the 12N to 2PM periods generally exceed the loads in the last hour or two of the proposed 7-hour peak period. Please explain how the peak period was derived.”

RESPONSE:

- a. See ME/PN/PP/WP Response to OSBA Interrogatory Set I, No. 17 Attachment A for the hourly load data. The LMP data was not used in the preparation of Met-Ed/Penelec/Penn Power/West Penn Exhibit PML-22.
- b. See ME/PN/PP/WP Response to OCA Interrogatory Set I, No. 23.
- c. The proposed TOU on-peak period was derived using the average hourly residential load which is shown on the lower half of each page of Met-Ed/Penelec/Penn Power/West Penn Exhibit PML-22. The proposed TOU rates will be offered to residential and small commercial customers, with residential load comprising the majority of eligible load.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

JOINT PETITION OF METROPOLITAN	:	
EDISON COMPANY, PENNSYLVANIA	:	Docket Nos. P-2021-3030012
ELECTRIC COMPANY, PENNSYLVANIA	:	P-2021-3030013
POWER COMPANY AND WEST PENN	:	P-2021-3030014
POWER COMPANY FOR APPROVAL OF	:	P-2021-3030021
THEIR DEFAULT SERVICE PROGRAMS	:	

VERIFICATION

I, Robert D. Knecht, hereby state that the facts set forth in my Direct Testimony labelled OSBA Statement No. 1 and associated Exhibits RDK-1, RDK-2, RDK-3, and RDK-4 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 19 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).



Date: February 25, 2022

Robert D. Knecht

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

JOINT PETITION OF METROPOLITAN	:	
EDISON COMPANY, PENNSYLVANIA	:	
ELECTRIC COMPANY, PENNSYLVANIA	:	DOCKET NOS. P-2021-3030012
POWER COMPANY AND WEST PENN	:	P-2021-3030013
POWER COMPANY FOR APPROVAL OF	:	P-2021-3030014
THEIR DEFAULT SERVICE PROGRAMS	:	P-2021-3030021
	:	
	:	

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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/s/ Erin K. Fure

Erin K. Fure
Assistant Small Business Advocate
Attorney ID # 312245

Dated: February 25, 2022



COMMONWEALTH OF PENNSYLVANIA

March 24, 2022

The Honorable Jeffrey A. Watson
Administrative Law Judge
Pennsylvania Public Utility Commission
Piatt Place
301 5th Avenue, Suite 220
Pittsburgh, PA 15222

Re: Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company, for Approval of Their Default Service Programs; Docket Nos. P-2021-3030012; P-2021-3030013; P-2021-3030014; and P-2021-3030021

Dear Judge Watson:

Enclosed please find the Rebuttal Testimony of Robert D. Knecht, labeled OSBA Statement No. 1-R, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-captioned proceedings.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Erin K. Fure

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

Enclosures

cc: PA PUC Secretary Rosemary Chiavetta (Cover Letter & Certificate of Service only)
Robert D. Knecht
Parties of Record

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

JOINT PETITION OF METROPOLITAN	:	
EDISON COMPANY, PENNSYLVANIA	:	Docket Nos. P-2021-3030012
ELECTRIC COMPANY, PENNSYLVANIA	:	P-2021-3030013
POWER COMPANY AND WEST PENN	:	P-2021-3030014
POWER COMPANY FOR APPROVAL OF	:	P-2021-3030021
THEIR DEFAULT SERVICE PROGRAMS	:	

**Rebuttal Testimony of
ROBERT D. KNECHT**

**On Behalf of the
Pennsylvania Office of Small Business Advocate**

Topics:
Net Metering
TOU Rates
Generic Default Service Proceeding
Third-Party Data Access

Date Served: March 24, 2022

Date Submitted for the Record: _____

REBUTTAL TESTIMONY OF ROBERT D. KNECHT

1 **1. Introduction**

2 **Q. Please state your name and briefly describe your qualifications.**

3 A. My name is Robert D. Knecht. I submitted direct testimony earlier in this
4 proceeding and my qualifications were presented therein.

5 **Q. What is the purpose of this testimony?**

6 A. OSBA asked me to present its legal positions regarding certain assertions offered
7 by David N. Hommrich, representing Sunrise Energy, LLC and John P. Bevec
8 (together, "Sunrise"), and by Travis Kavulla, representing Retail Energy Supply
9 Association and NRG Energy, Inc. (together, "RESA/NRG").

10 OSBA also requested that I present its legal opinions regarding non-EGS third-
11 party electronic customer data access, as proposed in the Companies' filing and
12 addressed in the intervenor direct testimony of Kenneth Schisler representing
13 Enerwise Global Technologies, LLC d/b/a CPower Energy Management
14 ("Enerwise"), Lael Campbell representing Constellation Energy Generation, LLC
15 and Constellation NewEnergy, Inc. ("Constellation"), Barbara R. Alexander
16 representing the Pennsylvania Office of Consumer Advocate ("OCA"), Harry
17 Geller representing the Coalition for Affordable Utility Services and Energy
18 Efficiency in Pennsylvania ("CAUSE-PA"), and Alex Fried on behalf of the Met-
19 Ed Industrial Users Group ("MEIUG"), the Penelec Industrial Customer Alliance
20 ("PICA"), and the West Penn Power Industrial Intervenors ("WPPII") (collectively,
21 the "Industrials").

22 **2. Response to Sunrise**

23 **Q. What is OSBA's legal concern regarding the testimony of Witness Hommrich?**

24 A. Witness Hommrich makes a variety of assertions regarding alleged errors in the
25 Companies' default service plan, but does not propose any specific changes. At
26 page 2 of the direct testimony, Witness Hommrich indicates, "*I also plan to*

1 eventually suggest changes to the default service plan that will bring the plan into
2 compliance with the AEPS Act.” I understand that Sunrise is permitted to file
3 “Second Direct Testimony” on March 23, 2022, pursuant to the interim order in
4 this proceeding issued by Administrative Law Judge Jeffrey A. Watson on March
5 21, 2022 (“Interim Order”). I am advised by counsel that OSBA reserves its rights
6 to submit rebuttal to both the Sunrise First Direct Testimony and the Sunrise Second
7 Direct Testimony in its “Second Rebuttal Testimony,” to be filed on or before April
8 4, 2022, pursuant to the Interim Order.

9 For the purposes of this first rebuttal, I observe only that Witness Hommrich
10 appears to conclude that the Companies have a legal obligation to subsidize the
11 attachment of net-metered renewable distributed generation as part of its
12 obligations to meet the various renewable portfolio standards for load serving
13 entities under AEPSA.¹ Although it is unclear from Witness Hommrich’s First
14 Direct Testimony, it is apparent that these additional subsidies be passed on to other
15 default service ratepayers. I am advised by OSBA counsel that it will vigorously
16 oppose any such interpretation of AEPSA, as Witness Hommrich’s interpretation
17 is inconsistent with both the letter of the law and Commission practice.

18 **3. Response to NRG/RESA**

19 **Q. What is OSBA’s legal position regarding Witness Kavulla’s recommendation**
20 **that the F/E proposed time-of-use (“TOU”) rate be used as the default service**
21 **rate for residential and small business customers?**

22 A. I am advised by counsel that OSBA does not agree with the NRG/RESA legal
23 assertion that the legislation permits the use of TOU rates as the *default* rate for
24 residential and small business customers when those customers do not affirmatively
25 choose another option, and that OSBA will vigorously oppose any such approach
26 in regulatory and judicial fora. As a non-lawyer, I observe that it is difficult to
27 observe how Witness Kavulla’s proposal is consistent with the statutory language:

¹ Unnumbered Direct Testimony of David N. Hommrich on behalf of Sunrise Energy, LLC and John P. Bevec at 11-12.

1 The default service provider shall offer residential and small
2 business customers a generation supply service rate that shall
3 change no more frequently than on a quarterly basis.²

4 Residential or commercial customers may *elect to participate* in
5 time-of-use rates or real-time pricing.³ [emphasis added]

6 The Companies’ proposed TOU rate changes daily rather than quarterly.
7 Moreover, default service is not a service to which customers elect to participate; it
8 is the service to which customers are assigned if they do not affirmatively choose a
9 different option. Different options, of course, include the (non-default) TOU rate
10 option offered by the default service provider and those offered by EGSs.

11 **Q. What is OSBA’s legal position regarding Witness Kavulla’s proposal to**
12 **conduct a generic hearing or hearings to assess issues related to competitive**
13 **electric generation suppliers (“EGSs”) in the Pennsylvania electric**
14 **marketplace?**

15 A. I am advised by counsel that OSBA questions the need for such a proceeding,
16 particularly as it relates to small business customers. Witness Kavulla cites to
17 declining shopping rates in Pennsylvania as the primary basis for another generic
18 review of the role of EGSs in the marketplace, and in particular with respect to
19 developing the cost basis for the default service charge and decoupling the role of
20 default service provider from the monopoly electric distribution company
21 (“EDC”).⁴ However, for commercial customers, Witness Kavulla offers only
22 cherry-picked evidence that commercial shopping rates are declining, whereas the
23 statistical evidence in my direct testimony indicates that any such trend effect is
24 relatively small and limited to the smallest of commercial customers. Moreover,
25 as detailed in the Companies’ last two default service proceedings, the Companies
26 transitioned all customers with maximum demand above 100 kW to hourly priced

² 66 Pa. C.S. §2807(e)(7).

³ 66 Pa. C.S. §2807(f)(5).

⁴ RESA/NRG Statement No. 1 at 4 lines 20-28 and 53-54.

1 default service effective June 1, 2019.⁵ This transition should have provided an
2 excellent opportunity for EGSs to expand their market share in the commercial
3 sector given the risks to customers associated with hourly pricing. (There is little
4 evidence that EGSs increased market share for those customers in the 100 to 300
5 kW range since mid-2019, as shown in the exhibits to my direct testimony.)

6 Nevertheless, I am advised that OSBA does not oppose conducting a generic
7 proceeding to consider the state of competition in Pennsylvania. Moreover, the
8 OSBA does not oppose Witness Kavulla’s proposal for an honest accounting of
9 EDC costs associated with providing default service, in the manner of that used to
10 develop the gas procurement charge in Pennsylvania, as long as any additional
11 procurement costs assigned to default service are deducted from base rates.

12 However, the statistical evidence offered in this proceeding indicates that the
13 average prices offered by EGSs are materially higher than default service rates, and
14 that the uncollectibles rate for many EGSs is substantially higher than that for
15 default service.⁶ While higher prices from EGSs may be justified in part by the
16 nature of the product (e.g., “green power”) or by the additional services purportedly
17 provided by EGSs, the high uncollectible rates are a signal that customers are less
18 satisfied with EGS service than with default service. Thus, if the Commission does
19 elect to conduct hearings, the OSBA recommends that a broader agenda than that
20 suggested by Witness Kavulla would be in order, and should include the following
21 issues:

- 22 • Whether ESG rates in excess of the PTC are associated with any valuable
23 services for shopping customers;

⁵ See, e.g., Recommended Decision, Docket No. P-2017-2637855 et al., Finding of Facts paragraphs 29-33, May 31, 2018; Recommended Decision, Docket No. P-2015-2511333 et al., April 29, 2016, page 9.

⁶ See OSBA Statement No. 1 at 5-6 and RDK WP4; CAUSE-PA Statement No. 1 at Charts 1-8, and Tables 1-7.

- 1 • Whether the customer referral programs should be terminated entirely, as they
2 lend the Commission and EDC imprimatur to the common EGS marketing
3 tactic of setting a low initial price and raising prices above market later;
- 4 • Whether EDCs should be required to include an explicit comparison of the
5 default service rates to the EGS rates on all bills to shopping customers;
- 6 • Whether the Commission’s decision to require all customers over 100 kW to
7 take hourly default service remains justified in light of the average price
8 premiums for EGS supply;
- 9 • Whether EDCs should continue to offer purchase of receivables programs to
10 EGSs, and, if so, whether the EDCs should retain responsibility for EGS
11 uncollectibles;
- 12 • Whether EGSs have taken advantage of smart metering in Pennsylvania (where
13 available) to offer more innovative real-time, time-of-use, critical peak,
14 seasonal or other rate designs than the bland vanilla TOU offerings of the EDCs,
15 or whether the Commission should begin to require the EDCs to develop more
16 sophisticated products;
- 17 • Whether EGSs have reasonably offered reasonable and cost-competitive
18 “green” rate options to ratepayers, or whether the Commission should begin to
19 require the EDCs to develop such products.

20 **4. Data Access**

21 **Q. Please summarize the positions of the various parties regarding the issue of**
22 **access to customer data by entities other than EGSs.**

23 A. In their filing, the Companies put forward “Third-Party Data Access Tariffs” at
24 Exhibits TLC-1 to TLC-4, presented by Witness Tiffanne L. Cowan at Statement
25 No. 6. The objective of these tariffs is to standardize/automate the procedure and
26 clarify the rules for providing customer data, individually and in aggregate, to third-
27 parties other than EGSs. (Licensed EGSs are already granted access to their

1 customers' data). The Companies indicate that this issue most often arises from
2 entities seeking to provide energy management services to customers. Customer
3 authorization to provide such data must be granted, with the third-party holding the
4 responsibility to obtain the customer authorization, maintain records for that
5 authorization, and maintain the confidentiality of the data. The Companies
6 acknowledge that there is an ongoing generic proceeding to evaluate these issues,
7 but they deem that an immediate need exists to replace the existing policies.⁷

8 Enerwise Witness Schisler offers direct testimony supporting the Companies'
9 proposal in order to allow Enerwise to more effectively provide energy
10 management services, with the proposed change that data access be granted for 24
11 months rather than the 12 months proposed by the Companies.

12 Constellation Witness Campbell provides brief testimony affirming support for the
13 Companies' proposal, subject to future adoption of best practices that arise out of
14 the generic proceeding for this issue.

15 Industrials' Witness Fried concludes that the Companies' proposal fails to
16 recognize the commercially sensitive nature of data for large industrial customers
17 and does not provide sufficient safeguards to ensure confidentiality. Witness Fried
18 indicates that a third-party attestation that it has obtained customer consent is
19 insufficient to provide reasonable protection to customers. Witness Fried
20 recommends (a) that this issue be addressed in the generic proceeding, (b) that third
21 parties be required to provide signed authorizations to the Companies for data to be
22 released, and (c) that customer data only be disseminated under these tariffs if a
23 customer affirmatively opts into the process.

24 CAUSE-PA Witness Geller opposes the adoption of the proposed tariffs at this
25 time, citing to concerns regarding (a) the reliance on third-parties to obtain and
26 verify customer consent with no oversight by the Companies or the Commission,

⁷ The generic proceeding, docketed at M-2021-3029018 comes out of the Commission's order at: *License Application of Enerwise Global Techs., LLC d/b/a CPower for Approval to Offer, Render, Furnish, or Supply Elec. or Elec. Generation Servs.*, Final Order, Docket No. A-2019-3009271 (entered Oct. 7, 2021).

1 (b) reliance on third-parties to keep data confidential without explicit standards and
2 protocols, (c) a lack of clear definitions for confidentiality, (d) the potential for
3 government and law enforcement agencies to use this information, and (e) the lack
4 of any recourse to customers if their data are compromised or any clear penalty for
5 third-parties who violate customer confidentiality.

6 OCA Witness Alexander recommends that the Companies' proposal be rejected at
7 this time, "in part due to the Commission's initiation of a generic proceeding to
8 explore this policy for all EDCs." Witness Alexander does not present any specific
9 concerns regarding the proposal.

10 **Q. What is OSBA's legal position regarding these issues?**

11 A. I am advised by counsel that based on its review of the evidence presented thus far
12 in this proceeding, OSBA intends to support the positions of OCA Witness
13 Alexander and Industrials' Witness Fried in its briefs in this matter.

14 **Q. Does this conclude your first rebuttal testimony?**

15 A. Yes, it does.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

JOINT PETITION OF METROPOLITAN	:	
EDISON COMPANY, PENNSYLVANIA	:	Docket Nos. P-2021-3030012
ELECTRIC COMPANY, PENNSYLVANIA	:	P-2021-3030013
POWER COMPANY AND WEST PENN	:	P-2021-3030014
POWER COMPANY FOR APPROVAL OF	:	P-2021-3030021
THEIR DEFAULT SERVICE PROGRAMS	:	

VERIFICATION

I, Robert D. Knecht, hereby state that the facts set forth in my Rebuttal Testimony labelled OSBA Statement No. 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 19 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).



Date: March 24, 2022

Robert D. Knecht

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

JOINT PETITION OF METROPOLITAN	:	
EDISON COMPANY, PENNSYLVANIA	:	
ELECTRIC COMPANY, PENNSYLVANIA	:	DOCKET NOS. P-2021-3030012
POWER COMPANY AND WEST PENN	:	P-2021-3030013
POWER COMPANY FOR APPROVAL OF	:	P-2021-3030014
THEIR DEFAULT SERVICE PROGRAMS	:	P-2021-3030021
	:	
	:	

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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/s/ Erin K. Fure

Erin K. Fure
Assistant Small Business Advocate
Attorney ID # 312245

Dated: March 24, 2022



COMMONWEALTH OF PENNSYLVANIA

April 7, 2022

The Honorable Jeffrey A. Watson
Administrative Law Judge
Pennsylvania Public Utility Commission
Piatt Place
301 5th Avenue, Suite 220
Pittsburgh, PA 15222

Re: Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company, for Approval of Their Default Service Programs; Docket Nos. P-2021-3030012; P-2021-3030013; P-2021-3030014; and P-2021-3030021

Dear Judge Watson:

Enclosed please find the Surrebuttal Testimony and Exhibit of Robert D. Knecht, labeled OSBA Statement No. 1-S, on behalf of the Office of Small Business Advocate (“OSBA”), in the above-captioned proceedings.

As evidenced by the enclosed Certificate of Service, all known parties will be served, as indicated.

If you have any questions, please do not hesitate to contact me.

Sincerely,

/s/ Erin K. Fure

Erin K. Fure
Assistant Small Business Advocate
Attorney ID No. 312245

Enclosures

cc: PA PUC Secretary Rosemary Chiavetta (Cover Letter & Certificate of Service only)
Robert D. Knecht
Parties of Record

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

JOINT PETITION OF METROPOLITAN	:	
EDISON COMPANY, PENNSYLVANIA	:	Docket Nos. P-2021-3030012
ELECTRIC COMPANY, PENNSYLVANIA	:	P-2021-3030013
POWER COMPANY AND WEST PENN	:	P-2021-3030014
POWER COMPANY FOR APPROVAL OF	:	P-2021-3030021
THEIR DEFAULT SERVICE PROGRAMS	:	

Surrebuttal Testimony of

ROBERT D. KNECHT

On Behalf of the

Pennsylvania Office of Small Business Advocate

Topics:

Commercial Class Default Service Procurement

Date Served: April 7, 2022

Date Submitted for the Record: _____

SURREBUTTAL TESTIMONY OF ROBERT D. KNECHT

1 **Q. Please state your name and briefly describe your qualifications.**

2 A. My name is Robert D. Knecht. I submitted direct and rebuttal testimony earlier in
3 this proceeding and my qualifications were presented therein.

4 **Q. What is the purpose of this testimony?**

5 A. This surrebuttal testimony responds to the rebuttal testimony of Companies’
6 witness James H. Catanach (Companies Statement No. 2-R) regarding my
7 recommendations for commercial sector default service procurement.
8 Specifically, this testimony addresses issues of (a) the benefits for “overhanging”
9 contracts from DSP VI to DSP VII, (b) the implications of the Companies’ proposal
10 to include 6-month full-requirements load-following (“FRLF”) contracts for the
11 commercial class but not the residential class, and (c) the relative advantages of
12 “laddering” the 12- and 24-month FRLF contracts within each plan year.

13 To my knowledge, no other party provided rebuttal to my direct testimony.

14 **Q. Please describe the positions of the parties regarding whether the Companies’**
15 **procurement plans should include a “hard stop” (or “dead stop”) for all**
16 **contracts at the end of the DSP VI period (May 31, 2022), or whether some**
17 **contracts should be permitted to “overhang” into DSP VII.**

18 A. In direct testimony, both Dr. Serhan Ogur representing the Pennsylvania Office of
19 Consumer Advocate (“OCA”) and I recommended that the default service
20 procurement plans include contracts that would overhang into DSP VII, to avoid
21 requiring all load to be subject to a price change on a single day in 2027. We both
22 recommended that procurement auctions in September 2025 and March 2026

1 include 24-month products with service beginning June 1, 2026 extending to May
2 31, 2028.¹

3 Witness Catanach argues that the Companies' proposal without such overhang is
4 appropriate because the Companies have been doing it that way since DSP II, and
5 that the risk is mitigated by conducting procurements before the start of the next
6 DSP. To my knowledge, no other party filed rebuttal to either Dr. Ogur or me on
7 this issue.

8 I respectfully disagree that past practice justifies a continuation of this approach,
9 for a few reasons.

10 First, as Dr. Ogur correctly observes, the other large Pennsylvania EDCs all use an
11 overhang approach.

12 Second, based on my participation in the Companies' earlier default service
13 proceedings, the desire for a "hard stop" reflected the preference of some
14 participants in those proceedings, and was adopted as a compromise. As there does
15 not appear to be any such opposition in this proceeding, there is no need to continue
16 the practice.

17 Finally, Witness Catanach's argument that risk is mitigated by conducting
18 procurements before the start of the next DSP is obviously true, since it would be
19 impossible to conduct procurements for DSP VII after it has started. However, the
20 risk of a significant price shift on Day 1 for DSP VII is substantially reduced if
21 overhanging contracts are reflected in the supply mix for that day. Thus, the
22 Companies' approach unnecessarily includes risk for a large rate shift that can be
23 avoided by following the practices of other Pennsylvania EDCs.

24 **Q. What is Witness Catanach's response to your direct testimony regarding the**
25 **inclusion of 6-month contracts for commercial default supplies but not for**
26 **residential supplies?**

¹ OCA Response to ME/PN/PP/WP(OCA)-I-2, Exhibit RDK-1.

1 A. Witness Catanach opines that the Companies’ proposal reflects the risk reduction
2 benefits of providing diversification in the timing and nature of the procurements,
3 which he compares to “dollar cost averaging” for financial investments. If this
4 argument were reasonable, it would apply to both residential and commercial
5 customers. However, Witness Catanach offers no explanation for why 6-month
6 products are appropriate for the commercial class but not the residential class.
7 Moreover, Witness Catanach does not address my observation that the commercial
8 class now includes only customers with loads below 100 kW making it more similar
9 to the residential class.

10 With respect to the argument that risk reduction is achieved through regular
11 procurements of smaller amounts, Witness Catanach is certainly correct as a matter
12 of basic statistics. However, I have several responses to that observation:

13 First, the “more regular and smaller procurements” is a curious argument for the
14 Companies to make, in that their procurement proposal for this proceeding reduces
15 the number of auctions from a quarterly scheme to a bi-annual scheme, exactly the
16 opposite of that implied by the “dollar cost averaging” theory. Mr. Catanach’s
17 direct testimony indicates that this change was made to reduce procurement costs,
18 with no mention of the reduced temporal diversification.

19 Second, Mr. Catanach offers no rebuttal to my observations regarding the
20 Companies’ own risk analysis that shows that the 3-month procurements resulted
21 in higher rate volatility for commercial customers while providing no apparent
22 reduction in the risk premium. It is unclear why the Companies believe that a
23 similar pattern will not apply to the 6-month contracts.

24 Third, a quantitative review of the Companies’ proposal for the commercial class
25 shows that it is not terribly effective for implementing the “dollar cost averaging”
26 approach. As shown in the attached workpaper (RDK WPS1), the Companies’
27 proposal results in 75 percent of the commercial load being procured two months
28 prior to supply beginning to flow and 25 percent at eight months ahead. By way
29 of contrast, my proposals show a 50/50 mix for the “Modified Residential

1 Approach” and a 40/26/34 mix of 2/5/8-month lead times in the “Laddered Model.”
2 In effect, both of my alternatives are more effective for achieving the benefits of
3 “dollar cost averaging” than the Companies’ proposal.

4 Finally, Witness Catanach does not address my concern that the commercial load
5 is substantially smaller than the residential load, and thus bidder interest in small
6 3-month or 6-month products for the commercial class may be limited, which may
7 then contribute to the higher risk premiums to serve the commercial class. The
8 Companies’ proposal to include 6-month products for commercial but not
9 residential will simply extend that problem. As shown in the attached workpaper
10 (RDK WPS1), the 6-month contracts for commercial service represent less than 8
11 percent of the overall residential/commercial load that will be procured in DSP VI.
12 As such, bidder interest in the 6-month products is may very well be materially
13 lower than that for the larger and more common 12- and 24-month products.

14 **Q. What is the Companies’ response to your recommendations regarding**
15 **“laddering” some of the 12-month products within program years at 6-month**
16 **intervals?**

17 A. Witness Catanach relies on the “dollar cost averaging” argument, noting that the
18 Company engages in two procurements with 2- and 8-month lead times for the start
19 of each 12-month delivery term. While Witness Catanach’s observation is accurate
20 as to the Companies’ proposal, my “Laddered Model” proposal also contains two
21 procurements with 2- and 8-month lead times for the start of each 12-month
22 procurement period, as well as a procurement with a 5-month lead time for the
23 laddered 12-month product. (See Exhibit RDK-2 attached to my direct testimony.)
24 Thus, my proposal provides more temporal diversification than does the
25 Companies’ approach.

26 **Q. Considering the Companies’ rebuttal and your analysis in this surrebuttal, do**
27 **you have any recommendations regarding the relative advantages of the two**
28 **alternative procurement plans identified in your direct testimony?**

1 A. I do. My primary concern in direct testimony was to address the higher risk
2 premiums for commercial default service, particularly for shorter-term contracts,
3 shown in the Companies' analysis by (a) moving more toward longer-term
4 contracts, recognizing that the Companies propose a step in that direction, and (b)
5 making the commercial contracts more similar to the residential contracts and thus
6 perhaps attracting more bidder interest. Because no party to this proceeding has
7 advocated a laddered approach for the residential class within each DSP year, I
8 conclude that the "Modified Residential Model" in my direct testimony is the
9 preferred approach, as it will better match the model adopted for the residential
10 class.

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

12 A. Yes, it does.

EXHIBIT RDK-1S

KNECHT ELECTRONIC WORKPAPERS

RDK WP1 Default Service Procurement Schedules.xlsx

*****The electronic workpaper will be delivered via email simultaneous to service of Surrebuttal Testimony*****

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

JOINT PETITION OF METROPOLITAN	:	
EDISON COMPANY, PENNSYLVANIA	:	Docket Nos. P-2021-3030012
ELECTRIC COMPANY, PENNSYLVANIA	:	P-2021-3030013
POWER COMPANY AND WEST PENN	:	P-2021-3030014
POWER COMPANY FOR APPROVAL OF	:	P-2021-3030021
THEIR DEFAULT SERVICE PROGRAMS	:	

VERIFICATION

I, Robert D. Knecht, hereby state that the facts set forth in my Surrebuttal Testimony labelled OSBA Statement No. 1-S and associated Exhibit RDK-S1 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 19 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).



Date: April 7, 2022

Robert D. Knecht

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

JOINT PETITION OF METROPOLITAN	:	
EDISON COMPANY, PENNSYLVANIA	:	
ELECTRIC COMPANY, PENNSYLVANIA	:	DOCKET NOS. P-2021-3030012
POWER COMPANY AND WEST PENN	:	P-2021-3030013
POWER COMPANY FOR APPROVAL OF	:	P-2021-3030014
THEIR DEFAULT SERVICE PROGRAMS	:	P-2021-3030021
	:	
	:	

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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Dated: April 7, 2022

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

JOINT PETITION OF METROPOLITAN	:	
EDISON COMPANY, PENNSYLVANIA	:	
ELECTRIC COMPANY, PENNSYLVANIA	:	DOCKET NOS. P-2021-3030012
POWER COMPANY AND WEST PENN	:	P-2021-3030013
POWER COMPANY FOR APPROVAL OF	:	P-2021-3030014
THEIR DEFAULT SERVICE PROGRAMS	:	P-2021-3030021
	:	
	:	

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served via email (*unless other noted below*) upon the following persons, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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Dated: May 13, 2022