DUQUESNE LIGHT STATEMENT NO. 1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition Of Duquesne Light Company	:	
For Approval Of Default Service Plan	:	**Docket No. P-2016-________**
For The Period June 1, 2017 Through	:	
May 31, 2021	:	

DIRECT TESTIMONY OF
C. JAMES DAVIS

Dated: May 2, 2016

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I. INTRODUCTION

Q. Please state your full name, business affiliation and address.

A. My name is C. James Davis. I am the Director – Rates, Energy Procurement, and Federal/RTO Affairs for Duquesne Light Company ("Duquesne Light" or "Company"). My business address is 411 Seventh Avenue, Pittsburgh, PA 15219.

Q. Please describe your professional and educational background.

A. I graduated from St. Vincent College with a Bachelor of Arts degree in Computer Science in 1989 and Duquesne University with a Master of Business Administration in 1995. Prior to joining Duquesne Light, I had more than 24 years of diversified experience in the utility industry working for Allegheny Energy and FirstEnergy. I have held positions in Risk Management, Finance, Portfolio Management, Generation Dispatch, and Commodity Operations.

Q. Please describe your current responsibilities as the Director of Rates, Energy Procurement and Federal/RTO Affairs.

A. I am responsible for the oversight and direction of the Company's Rates & Tariff Services Department, Supply Procurement and RTO Settlement activities, as well as Federal and RTO affairs. In this role, I am responsible for the planning, development and direction of Duquesne Light's filing in this Default Service proceeding.

Q. What is the purpose of your direct testimony?

A. First, I introduce the Company's witnesses who provide more detail about specific aspects of Duquesne Light's plan for default service for the period from June 1, 2017 through May 31, 2021 ("Default Service Plan," "DSP VIII," or "Plan"). Second, I describe Duquesne Light's default service obligations, and I explain how the Company has satisfied those obligations under its seventh default service plan ("DSP VII"). Third, I provide an overview of Duquesne Light's proposed DSP VIII Plan for default service. Finally, I discuss Duquesne Light's plans to evaluate the benefits of entering into long-term contracts to support the development of utility-scale solar projects (up to 20 MW) in Pennsylvania at some point during the DSP VIII supply period.

Q. Please introduce the testimony of Duquesne Light's other DSP VIII witnesses.

A. Duquesne Light is submitting the testimony of four other witnesses.

- In Duquesne Light Statement No. 2, John Peoples, Duquesne Light's Manager of Energy Supply, discusses the power procurement methods and products to be used to supply default service for each customer class, including the Supplier Master Agreement to be used in these procurements. He also evaluates the consistency of the Plan's procurement methods with certain requirements of Act 129, and provides an overview of the Company's Time-of-Use ("TOU") program, including how it will be supplied.
- In Duquesne Light Statement No. 3, Neil S. Fisher, Principal at The NorthBridge Group, reviews the performance of the default service models used by Duquesne Light to date, explains how the Company's proposed Plan is designed to support the competitive electricity market in Duquesne Light's service territory while providing appropriate assurances of price stability for small customers, and

evaluates Duquesne Light's Default Service Plan with respect to Act 129's requirements.

- In Duquesne Light Statement No. 4, David B. Ogden, Duquesne Light's Manager of Rates and Tariff Services, describes the proposed default service rates and changes to the associated Retail and EGS Coordination Tariffs. Mr. Ogden also describes the Company's proposal to unbundle default service costs from base distribution rates.
- In Duquesne Light Statement No. 5, Marcie L. Morrison, Duquesne Light's Interim Director of Customer Engagement, explains how the Company will implement the proposed retail market initiatives, including the Company's Customer Choice Communication Programs, Standard Offer Customer Referral Program, and CAP Customer Shopping.

II. OVERVIEW OF DUQUESNE LIGHT'S DEFAULT SERVICE OBLIGATIONS AND CURRENT DSP VII PLAN

Q. Please describe Duquesne Light's default service obligations.

A. Duquesne Light is obligated to provide electric supply service to all customers within its service territory who do not select an electric generation supplier ("EGS") or who return to default service after being served by an EGS which becomes unable or unwilling to serve. By law, Duquesne Light is required to file a plan with the Pennsylvania Public Utility Commission (the "Commission") which sets forth how the Company will meet its default service obligations, including a strategy for procuring generation supply, a schedule for implementation, and a rate design to recover the Company's reasonable costs.

Q. How does Duquesne Light currently meet its default service obligations?

A. On April 24, 2014, Duquesne Light filed a petition with the Commission for approval of a default service program for the period from June 1, 2015 through May 31, 2017. On September 15, 2014, Duquesne Light entered into a stipulation with various parties, expressing agreement on the petition subject to modifications to certain aspects of the proposed default service program, while leaving other issues for litigation. On January 15, 2015, the Commission entered an order approving the default service plan, as proposed by Duquesne Light and as modified by the stipulation, and resolving the contested issues. The resultant approved plan, which currently is in effect, is referred to as "DSP VII."

DSP VII is compliant with Public Utility Code, 66 Pa. C.S. §§ 2807(3.1)-(3.4), as Duquesne Light procures a "prudent mix" of contracts designed to obtain electric supply at the "least cost over time." Under DSP VII, Duquesne Light procures default service supply separately for four different customer classes. The principal procurement features of DSP VII include the use of fixed-price full requirements supply contracts for Residential, Small C&I, and Medium C&I default service customers, and procurement of supply for Large C&I default service customers through the PJM Interconnection, LLC ("PJM") hourly spot markets. DSP VII also includes tailored contract lengths for each customer class. Solicitations for the full-requirements contracts occur within three months before the commencement of their delivery periods.

Q. Does Duquesne Light have other obligations under DSP VII?

A. Yes. Consistent with its procurement obligations and its approved plan, Duquesne Light uses standardized documents and procedures approved by the Commission when conducting its default service supply procurements. In addition, in accordance with the Commission's direction in its Retail Markets Investigation,[1] Duquesne Light has undertaken a wide range of initiatives to support retail competition.

Q. Has Duquesne Light satisfied its obligations?

A. Yes. Duquesne Light has satisfied all of its obligations to date under DSP VII, including its fundamental obligation, as default service provider, to provide adequate and reliable default service to default service customers at least cost over time. In addition, Duquesne Light continues to provide its "Standard Offer" customer referral program in which default service residential customers contacting Duquesne Light's customer service center are encouraged to select among a group of EGSs who have voluntarily chosen to offer customers a 12-month contract priced at 7% below Duquesne Light's default service rate at the time of the offer. Also, effective June 1, 2016, Duquesne Light is offering TOU rates to certain eligible Residential customers.

III. OVERVIEW OF DUQUESNE LIGHT'S PROPOSED DSP VIII PLAN

Q. What were Duquesne Light's primary policy considerations when developing its proposed Default Service Plan?

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[1] *Investigation of Pennsylvania's Retail Electricity Market: End State of Default Service*, Docket No. I-2011-2237952, Order entered February 15, 2013.

A. Duquesne Light developed its Plan to satisfy Act 129, which amended Section 2807(e)(3) of the Public Utility Code, 66 Pa. C.S. § 2807(e)(3), with respect to, among other things, power procurement for default service providers. In developing its Plan to satisfy Act 129, the Company was guided by the Second Default Service Rulemaking Order, which the Commission entered to provide guidance with respect to the interpretation of Act 129's requirements.[2] Duquesne Light also considered the guidance provided in the Default Service End-State Order in the Investigation of Pennsylvania's Retail Electricity Market.[3] Finally, the Company recognized the importance of supporting the competitive electricity market while providing appropriate assurances of price stability for small customers. In their testimony, Duquesne Light's other witnesses describe the Company's proposed DSP VIII and how it is aligned with legislative and regulatory requirements and associated policy considerations.

Q. Please provide an overview of Duquesne Light's DSP VIII Plan.

A. The Default Service Plan is a comprehensive program under which Duquesne Light will provide default service to its customers from June 1, 2017 through May 31, 2021. Duquesne Light has grouped its default service customers into four primary customer classes, which are the same customer class groupings used in its currently effective default service plan: (1) Large Commercial & Industrial ("Large C&I"), which currently

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[2] *Default Service and Retail Electric Markets*, Docket No. L-2009-2095604 (Order entered October 4, 2011) ("Second Default Service Rulemaking Order").

[3] *Investigation of Pennsylvania's Retail Electricity Market: End State of Default Service*, Docket No. I-2011-2237952, Order entered February 15, 2013.

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includes customers with peak demands greater than or equal to 300 kW;[4] (2) Medium Commercial & Industrial ("Medium C&I"), which currently includes customers with peak demands greater than or equal to 25 kW but less than 300 kW; (3) Small Commercial & Industrial ("Small C&I"), which includes customers with peak demands less than 25 kW; and (4) Residential and Lighting (in aggregate referred to as "Residential"). The Plan includes default service offerings tailored to the needs of each customer class, it complies with the requirements of Act 129, and it includes concrete steps to support retail competition. The Default Service Plan also builds upon the foundation established in previous Commission-approved plans, which have facilitated and supported the competitive retail market over a sustained period of time, while offering stable and reasonable rates for small customers who do not elect to receive service from an EGS.

Q. Why is Duquesne Light proposing a four-year term for DSP VIII?

A. Duquesne Light is proposing a four-year term instead of a two-year term for two reasons. First, the Company has had seven prior DSP filings reviewed and approved which have covered and resolved most of the potential default service issues. The Company believes that the relatively short two-year terms of its most recent two default service plans have allowed for further refinements. After having had experience with seven default service plans in this manner, the Company believes that its proposed DSP VIII is based on sufficient experience and information to justify establishing a course for the next four

[4] As discussed later in my testimony, the Company plans to lower the threshold for hourly price service from ≥ 300 kW to ≥ 200 kW on June 1, 2019.

years. The second reason why the Company is proposing a four-year plan is to reduce the costs to litigate the default service plans every other year. Extending the term from two years to four years will save litigation time and cost for Duquesne Light, other parties that participate in default service proceedings, and the Commission. The reduction in Duquesne Light's costs will benefit customers.

Q. Please provide an overview of the proposed default service supply product portfolios, and the general methodology to set supply rates, for each of Duquesne Light's customer classes under DSP VIII.

A. In his direct testimony, Mr. Peoples provides a detailed description of the proposed mix of supply products, the procurement approach, and the schedule for implementation. Furthermore, Mr. Ogden's direct testimony outlines the methodology to establish default service supply rates for each customer class. However, an overview of these aspects of the Plan is as follows:

- Large C&I default service customers will continue to have supply rates that are based on hourly day-ahead market energy prices. Customers also will be charged a pass through of PJM capacity and ancillary services costs as well as the administrative costs of providing hourly price service ("HPS"). The Company proposes to procure the supply for this service through a competitive Request for Proposals ("RFP") process.
- Medium C&I default service customers will have supply rates that adjust quarterly based on three-month, non-laddered, fixed-price full requirements contracts. The contracts will be procured within three months before the

commencement of their delivery periods. Default service supply for the Medium C&I customers will be obtained through competitive RFPs, with winning bidders selected on the basis of lowest price.

- Small C&I default service customers will have supply rates that adjust every six months based on twelve-month and twenty-four-month, laddered, fixed-price full requirements contracts. The contracts will be procured within three months before the commencement of their delivery periods. Default service supply for the Small C&I customers will be obtained through competitive RFPs, with winning bidders selected on the basis of lowest price.
- Residential default service customers will have supply rates that adjust every six months based on twelve-month and twenty-four-month, laddered, fixed-price full requirements contracts. The contracts will be procured within three months before the commencement of their delivery periods. Default service supply for the Residential customers will be obtained through competitive RFPs, with winning bidders selected on the basis of lowest price.

Q. What changes is Duquesne Light proposing in DSP VIII for each customer class as compared to the Company's existing plan in effect for DSP VII?

A. The major changes are summarized below:

- **Large C&I** – The Company is proposing to make three significant changes for Large C&I customers that receive default service. First, effective June 1, 2017, the Company is proposing to simplify the structure and administration of HPS in an effort to lower the Company's administrative costs that HPS customers pay.

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Second, while the Plan continues to provide hourly day-ahead market energy pricing to Large C&I default service customers, Duquesne Light will no longer procure this supply directly from PJM, but instead it will procure this supply in the form of non-laddered 12-month supply products procured through competitive RFP processes. Third, once these changes are in place and have been successfully tested, the Company plans to lower the kW threshold for HPS from ≥ 300 kW to ≥ 200 kW beginning on June 1, 2019.

- **Medium C&I** – There are no proposed changes to the supply portfolio or overall procurement approach for Medium C&I customers that would be effective June 1, 2017. However, as of June 1, 2019, the Company proposes to move customers with peak demands greater than or equal to 200 kW to the Large C&I class and, accordingly, these customers' default service rates will reflect hourly day-ahead market energy pricing from that date forward.
- **Residential and Small C&I** – The Company is proposing to transition Residential and Small C&I customers to a product mix consisting of 50% laddered one-year fixed-price full requirements ("FPFR") supply contracts and 50% laddered two-year FPFR supply contracts. Currently, the Company relies exclusively on laddered one-year FPFR supply contracts to serve these customers. In this Plan, the Company continues the laddering of supply products and will continue to change the default service supply rates every six months as in DSP VII. As described by Duquesne Light witness Fisher, the proposed mix of one-year and two-year FPFR products and the semi-annual overlapping of their delivery periods will provide Residential and Small C&I customers greater

assurances of price stability than the Company's current supply portfolios. As in DSP VII, the supply products for the Residential class will be separate from the supply products for the Small C&I class.

- **Solar Project Plan** – As I describe later in my direct testimony, Duquesne Light is proposing to evaluate the benefits of entering into long-term contracts to support utility-scale solar projects (up to 20 MW). The alternative energy credits associated with this project could be used to help satisfy the solar requirements of serving Residential default service customers at some point during the DSP VIII period and beyond.

Q. Does Duquesne Light's proposed DSP VIII include products with delivery periods that extend beyond May 31, 2021 (the end of the DSP VIII period)?

A. Yes, some of the supply products for the Residential and Small C&I customer classes extend beyond the DSP VIII period. As explained by Mr. Fisher in his direct testimony, this preserves the option for a fairly seamless continuation of the laddered procurement cycle as Duquesne Light transitions from DSP VIII to DSP IX. Mr. Fisher also explains that these contracts also avoid subjecting Residential and Small C&I customers to a "hard stop" with regard to their supply products at the end of the DSP VIII period, which could expose customers to magnified risks and rate instability. Furthermore, having contracts that extend beyond the default service period is consistent with the approach approved by the Commission in DSP VI and DSP VII. It should be noted that the solicitations for these products are not scheduled until September 2019, so there is a significant amount of time before new supply commitments extending beyond the DSP VIII period are made should legislative or regulatory developments require changes to the supply product mix.

Q. Is Duquesne Light proposing to use the same default service SMA for DSP VIII that it is using for DSP VII?

A. As explained by Mr. Peoples in his direct testimony, the Company will continue to use the SMA template that was developed by the Procurement Collaboration Working Group, with proposed revisions. The proposed Supply Master Agreement is attached to Mr. Peoples direct testimony.

Q. Does Duquesne Light's DSP VIII proposal include a contingency plan in case a supply solicitation fails to attract a sufficient number of qualified bids to be deemed competitive, the Commission does not approve the submitted bids, or a winning bidder defaults on its obligations?

A. Yes. Mr. Peoples describes the Company's contingency plan in his direct testimony.

Q. How will Duquesne Light recover its default service supply costs?

A. In his direct testimony, Mr. Ogden explains how all costs associated with default service supply procurement will be recovered.

Q. What programs is Duquesne Light proposing to support retail market competition in DSP VIII?

A. Duquesne Light is proposing several programs to support retail market competition:

- **Standard Offer Customer Referral Program.** As Ms. Morrison explains in her direct testimony, Duquesne Light will continue to advise certain default service customers that contact the Company that they can receive their supply from participating EGSs at rates that will be 7% below the current Price to Compare ("PTC").

- **Time of Use Program.** The Company is offering TOU rates effective June 1, 2016 to certain eligible Residential customers. The Company issued RFPs soliciting EGSs to provide the TOU service. Two EGSs were selected to participate in the pilot. During DSP VIII, the Company plans to continue to facilitate EGS TOU offers and to expand the TOU program to allow more EGSs and more customers to participate over time. The TOU program is described in the direct testimonies of Mr. Peoples and Mr. Ogden.[5]

- **Purchase of Receivables Plan.** Duquesne Light will continue its Purchase of Receivables ("POR") plan. Under this Plan, Duquesne Light purchases the accounts receivables, without recourse, associated with EGS sales of retail electric commodity service to Residential, Small C&I, and Medium C&I customers at a small discount and then reimburses EGSs for their customer billings regardless of whether payment is received by Duquesne Light from customers.

- **Bill Ready.** Duquesne Light will continue a Bill Ready program that already is scheduled to begin on June 1, 2016. The Bill Ready program will facilitate the EGS development of tailored products for customers.

In addition, as discussed by Mr. Fisher in his direct testimony, Duquesne Light's Plan will support the competitive retail market in other ways, including by its use of competitive solicitations for fixed-price full requirements products. As Mr. Fisher explains, fixed-price full requirements default service supply products help to provide a more transparent price-to-compare benchmark against which customers can compare competing retail offers. Furthermore, the competitive solicitations for the fixed-price full requirements supply products ensure that EGSs will compete against market-based default service rates.

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[5] Mr. Peoples provides an overview of the TOU program and the EGS supply arrangements. Mr. Ogden describes the cost recovery of the TOU program.

V. SOLAR PROJECT PLAN

Q. Please describe the Company's plan to support the development of solar projects in Pennsylvania.

A. The Company is evaluating the benefits of entering into long-term contracts (i.e., more than four years) to support the development of utility-scale solar projects (up to a total of 20 MW) in Pennsylvania, preferably in Duquesne Light's service territory.[6] Duquesne Light would seek Commission approval of the solar contract after a more detailed plan has been developed at some point during the DSP VIII period. The alternative energy credits ("AECs") associated with this project (or projects up to the 20 MW cap) could be used to help satisfy the solar requirements of serving Residential default service customers later in the DSP VIII period and beyond.

The Company seeks to support the development of utility-scale solar alternative energy generating facilities in Pennsylvania in an effort to achieve least-cost environmental compliance with the requirements of Act 129 and achieve objectives of the Clean Power Plan. Given today's federal and state regulatory environment, these facilities are effective sources of renewable energy. They do not emit carbon dioxide, and they do not entail fuel costs. The development of solar facilities is consistent with Act 129's objectives, as it addresses the Alternative Energy Portfolio Standards ("AEPS") while also satisfying Act 129's "prudent mix" and "least cost" requirements. The Company believes that long-term solar contracts will provide greater opportunity for cost-effective financing for developers of utility-scale solar projects.

[6] Other major Pennsylvania Electric Distribution Companies have already signed 10-year power purchase agreements for solar alternative energy credits.

At this time, Duquesne Light wants parties to be aware of Duquesne Light's intention to support the development of solar projects by entering into long-term contracts during the DSP VIII period, and intends to file the solar contract arrangements and the associated costs for Commission review and approval in a subsequent filing(s) separate from the DSP VIII Plan.

Q. What does Duquesne Light want to accomplish in the DSP VIII proceeding with respect to its plan to evaluate utility-scale solar projects?

A. The Company has two primary objectives in the DSP VIII proceeding with respect to its solar plan. First, the Company is proposing to incorporate the flexibility in the DSP VIII SMA and Retail Tariff to accommodate the potential inclusion of long-term, Commission-approved solar contract(s) in the prudent mix during the DSP VIII period. Specifically, in the SMA sponsored by Duquesne Light witness Peoples, the Company is proposing to include language that would permit the Company to allocate solar AECs, if any, to third-party wholesale suppliers. If and when Duquesne Light enters into long-term contracts for AECs, Duquesne Light will continue to require each full requirements wholesale supplier to transfer AECs to Duquesne Light corresponding to the AEPS obligations associated with the amount of default service load served by that supplier. The primary change is that Duquesne Light will allocate any AECs that it procures toward the wholesale suppliers' AEPS obligations in accordance with the percentage of

Residential default service load served by each supplier. Any AECs allocated to a wholesale supplier will be credited to that supplier's AEPS obligation.[7]

Similarly, the Company is proposing to include language in the Retail Tariff (shown in Rider No. 8 – Default Service Supply rate) that would allow the Company to recover the costs associated with a long-term solar contract(s) once such a contract is approved by the Commission and becomes effective. Duquesne Light witness Ogden addresses the proposed changes to the Retail Tariff in his direct testimony

If the Company does not receive approval from the Commission and/or does not enter into a long-term solar contract during the DSP VIII period, then the proposed changes in the SMA and the Retail Tariff would not have any effect. These changes are designed to provide flexibility for the Commission to review and adopt a solar plan in the future without the need to revisit the default service SMA and wholesale supply rates in the Retail Tariff. Other Pennsylvania Electric Distribution Companies have similar language in their SMAs and cost recovery mechanisms already in place to address the treatment of long-term solar contracts.

Q. You mentioned that Duquesne Light has two primary objectives in the DSP VIII proceeding with respect to its plan to evaluate solar projects. What is the second objective?

[7] During each default service solicitation, at a time prior to the bid due date, Duquesne Light will inform bidders of the number of AECs, if any, to be allocated per tranche for the Residential customer class. The perceived value of any allocated solar AECs should reduce the bid prices of default service suppliers. Furthermore, Duquesne Light does not intend to require default service suppliers to take unknown quantities of solar generation at uncertain times of the day from any solar project, and once a default service contract is signed, it will not be altered even if Duquesne Light subsequently enters into a long-term solar contract.

A. In addition to the proposed changes in the SMA and Retail Tariff, the Company seeks input from intervenors in the DSP VIII filing regarding the structure of its proposal. The Company is still in the process of formulating its plan to support utility-scale solar projects in Pennsylvania and is mindful of the need to balance a variety of competing interests. For example:

- The Company does not want to increase uncertainty for wholesale suppliers and unnecessarily increase risk premiums in wholesale supplier bids.
- The Company also does not want to interfere with EGSs' pre-existing arrangements for alternative energy supply and does not plan to interfere with competitive retail markets by marketing green products to retail customers.
- The Company also seeks to manage the administrative burdens and costs for Duquesne Light and its customers by continuing to require each full requirements wholesale supplier to transfer AECs to Duquesne Light corresponding to the AEPS obligations associated with the amount of default service load served by that supplier.
- Ideally, the Company would like to support the development of new solar projects within its service territory, but wants to make sure that this does not materially impact the compliance costs of satisfying its alternative energy requirements for its customers.

In an effort to balance these and other competing interests, the Company seeks input from intervenors as the Company is still in the process of formulating its plan to support utility-scale solar projects in Pennsylvania.

Q. Does the Company plan to purchase the associated energy, capacity, and ancillary services provided by the solar facilities or just the AECs?

A. It is not yet known. It is my understanding that other major Pennsylvania Electric Distribution Companies have been able to enter into long-term purchase agreements for solar AECs without the associated energy, capacity, and ancillary services. The Company wants to provide greater opportunity for cost-effective financing for developers of utility-scale solar projects and plans to explore the best means to do so. As Mr. Ogden explains in his testimony, the revenue requirements associated with any Commission-approved solar contracts and their administration will be recovered from Residential customers. If the Company does acquire other products besides AECs, they will be sold into the market and the sales proceeds of solar energy, capacity, and ancillary services (not allocated to default service suppliers), if any, will be refunded to Residential default service customers. The rates of other default service customer classes will be unaffected by the Company's solar proposal.

Q. Does the Company have a specific solar project in mind at this time?

A. No.

Q. What process will the Company follow to acquire long-term solar contracts?

A. The Company will follow the requirements to acquire supply in Act 129, which allows the Company to rely on an auction, RFP, or bilateral agreement with certain conditions.[8]

[8] 66 Pa.C.S. § 2807(e)(3.1).

The Company will seek Commission approval of the terms and conditions of the solar contract(s) as well as the associated costs to be recovered in rates in a later filing(s).

Q. **Does the Company know when it will file these long-term solar contracts for Commission approval?**

A. No, but it currently expects to do so within the next 12 - 24 months.

VI. CONCLUSION

Q. Does this conclude your direct testimony?

A. Yes.

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