

**STATE OF MARYLAND**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of the Application of Delmarva )  
Power and Light Company for an )  
Increase in Its Retail Rates for the )  
Distribution of Electric Energy )**

**Case No. 9192**

**SURREBUTTAL TESTIMONY OF**  
**JONATHAN WALLACH**  
**ON BEHALF OF**  
**THE OFFICE OF PEOPLE'S COUNSEL**

Resource Insight, Inc.

**SEPTEMBER 17, 2009**

1 **Q: Please state your name, occupation, and business address.**

2 A: I am Jonathan F. Wallach. I am Vice President of Resource Insight, Inc., 5  
3 Water Street, Arlington, Massachusetts.

4 **Q: Are you the same Jonathan F. Wallach that filed direct and rebuttal**  
5 **testimony in this proceeding?**

6 A: Yes.

7 **Q: On whose behalf are you testifying?**

8 A: I am testifying on behalf of the Office of People's Counsel.

9 **Q: What is the purpose of your surrebuttal testimony?**

10 A: This testimony responds to the rebuttal testimony by Company witnesses Joseph  
11 Janocha and Elliott Tanos. Specifically, this testimony addresses: (1) Mr.  
12 Janocha's response to my recommendations regarding the revenue allocation to  
13 residential customers and regarding the customer charge for the residential class;  
14 and (2) Mr. Tanos's response to my concerns regarding the Company's cost of  
15 service study ("COSS").

16 **Q: Please summarize your recommendation regarding the allocation to the**  
17 **residential class of the Company's requested revenue increase.**

18 A: In my direct testimony, I explain how the Company's proposal would  
19 unreasonably allocate to residential ratepayers more of the requested revenue  
20 increase than is necessary to achieve the requested rate of return. I therefore  
21 recommend that the Company be allowed to allocate only as much of the  
22 revenue increase (or decrease) ultimately approved by the Commission as is  
23 required to achieve the authorized rate of return.

1 **Q: How did Mr. Janocha respond to your recommendation?**

2 A: Mr. Janocha appears to believe that I am giving “preference” to the residential  
3 class by recommending that all rate classes contribute equitably to the overall  
4 rate of return. From Mr. Janocha’s perspective, my recommendation to  
5 eliminate over-earnings from the residential class, and thus to eliminate  
6 subsidization of other classes’ under-earnings:

7 ... while easy and attractive to propose, simply shifts the burden of cost  
8 recovery to these non-residential classes.<sup>1</sup>

9 **Q: Are you proposing preferential treatment for the residential class?**

10 A: To the contrary, I am proposing that all rate classes be assigned their fair share  
11 of the requested revenue increase, so that each class achieves the required rate of  
12 return. In this case, residential revenues will increase by a smaller percentage  
13 than revenues for some non-residential classes not because of preferential  
14 treatment, but because the residential class has been over-earning, while these  
15 other classes have been under-earning. The Company’s proposal would be to  
16 continue subsidization by the residential class of non-residential under-earnings.  
17 My proposal is to eliminate it.<sup>2</sup>

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<sup>1</sup> *Rebuttal Testimony of Joseph F. Janocha*, Case No. 9192, September 11, 2009, p. 4.

<sup>2</sup> More precisely, my proposal would eliminate subsidization of the large secondary, primary, and streetlighting classes by both the residential and small-commercial classes. In fact, under my proposal, the percentage reduction in revenue allocation to small-commercial customers (relative to the allocation under the Company’s proposal) would be greater than the percentage reduction in revenue allocation to residential customers. In other words, eliminating subsidization would benefit small-commercial customers more than residential customers.

1 **Q: Please summarize your recommendation for the residential customer**  
2 **charge.**

3 A: In my direct testimony, I recommend rejection of the Company's proposal to  
4 increase the customer charge by 25%. Instead, I propose that the customer  
5 charge for the residential classes be increased in proportion to the overall  
6 revenue increase allocated to those classes.

7 As I discuss in my direct testimony, I recommend rejection of the  
8 Company's proposal for the following reasons:

- 9 • The proposed increase would inappropriately shift recovery of sales-related  
10 revenue losses from the volumetric Bill Stabilization Adjustment ("BSA")  
11 energy surcharge to a fixed customer charge.
- 12 • The proposed customer charge includes a number of customer-classified  
13 costs that, in reality, vary with the size of the customer (in revenues, sales,  
14 or demand), and therefore, should be recovered in part through the  
15 commodity charge.
- 16 • The customer charge inappropriately includes costs that the Company's  
17 COSS classifies as customer-related, but allocates as load-related.
- 18 • The large increase results in a disruptive change to small customers' bills.

19 **Q: Please summarize Mr. Janocha's response to your recommendation**  
20 **regarding the customer charge.**

21 A: Mr. Janocha does not contest my finding that increasing the customer charge by  
22 more than 10.8% effectively shifts recovery of sales-related revenue losses from  
23 the volumetric BSA energy surcharge to a fixed customer charge. Nor does he  
24 dispute my finding that the customer charge includes costs that should be  
25 classified as load-related for the purposes of rate design or that are in fact  
26 already allocated as load-related in the Company's cost of service study.

1           Instead, my findings notwithstanding, Mr. Janocha argues that the Company’s  
2           COSS provides the true measure of customer-related costs appropriately  
3           recovered through the customer charge. As a result, Mr. Janocha concludes that  
4           any increase in the customer charge less than indicated by the COSS would  
5           result in inappropriate subsidization of small consumers by large consumers.

6           **Q: Is it reasonable and appropriate to recover through the customer charge**  
7           **all costs that are classified as customer-related in the COSS?**

8           A: No. As I explain in my direct testimony, there are certain costs that may be  
9           reasonably classified as customer-related for the purposes of allocating those  
10           costs among rate classes in the COSS, but that are more appropriately treated as  
11           load-related for the purposes of setting rates to recover costs from within the  
12           rate class.<sup>3</sup> To the extent that these “customer-related” costs vary by customer  
13           size within a class, they are more appropriately recovered from within the class  
14           through the commodity charge.

15           In this respect, Mr. Janocha has it backwards with regard to the issue of  
16           intra-class subsidization. Under the Company’s approach, whereby all costs  
17           classified in the COSS as customer-related are recovered through a fixed  
18           customer charge, the smallest customers (with the least-expensive distribution  
19           equipment) pay the average of customer costs attributable to all sizes of  
20           residential customers. To the extent that such costs vary with size within the  
21           class, setting the customer charge at the average of customer-related costs  
22           results in a subsidy of large customers by small customers within the class.

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<sup>3</sup> Moreover, as noted above, there are some costs that are classified in the COSS as customer-related, even though they are allocated among customer classes in the COSS as load-related. These costs are also appropriately recovered through the commodity charge.

1 **Q: What are your concerns regarding the Company’s cost of service study?**

2 A: As I discuss in my direct testimony, although most of the allocators adopted in  
3 the COSS appear reasonable, I am concerned that the Company may be  
4 understating residential load diversity in its specification of allocators for  
5 secondary line transformers and for services. However, the Company has not  
6 conducted any analyses to determine whether load diversity is appropriately  
7 reflected in these allocators. I therefore recommend that the Company undertake  
8 a study of load diversity on its system to judge the reasonableness of its  
9 allocators.

10 **Q: Are you recommending any changes to the Company’s allocators for line**  
11 **transformers or services?**

12 A: Not at this time, since the Company apparently has neither the data nor the  
13 analyses needed to determine whether the current specifications are reasonable  
14 or in need of modification.<sup>4</sup> Lacking any data or analyses from the Company, I  
15 performed an illustrative calculation in my direct testimony to indicate how the  
16 Company’s allocator for line transformers may be understating load diversity.  
17 However, this calculation was intended merely to illustrate my concerns, not as  
18 a substitute for the analyses that the Company should undertake to support their  
19 allocator specifications.

20 **Q: What is Mr. Tanos’ response to your concerns regarding these two**  
21 **allocators?**

22 A: Mr. Tanos asserts that my concerns, and in particular the assumptions for my  
23 illustrative calculation, “do not fairly reflect the distribution plant characteristics

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<sup>4</sup> As I discuss in my direct testimony, the Company indicated in its responses to OPC Data Request No. 5, Questions No. 9 and 11 that it had not undertaken a study of load diversity or any other analysis to support its proposed allocators for line transformers and services.

1 of the Delmarva system.”<sup>5</sup> As a result, Mr. Tanos rejects my “logic, design and  
2 cost allocation,” even though I did not actually propose any changes in the  
3 allocation of costs in the Company’s COSS.<sup>6</sup>

4 In addition, Mr. Tanos disagrees with my “assertions that customer costs  
5 related to service drops should not be included as customer related.”<sup>7</sup> However,  
6 I made no such assertion in my direct testimony.

7 **Q: What is the basis for Mr. Tanos’ claim that the assumptions for your  
8 illustrative calculation are unrealistic?**

9 A: Judging from the Company’s responses to OPC discovery on this matter, there  
10 is no apparent basis for this claim, since the Company does not have information  
11 regarding load diversity on its system to determine whether my assumptions are  
12 realistic or not. If, in fact, the Company has data and analyses to support its  
13 proposed allocators, then it should provide such information to parties for  
14 further review. If not, the Company should undertake a study of load diversity  
15 on its system, as I recommend in my direct testimony.

16 **Q: Does this conclude your surrebuttal testimony?**

17 A: Yes.

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<sup>5</sup> *Rebuttal Testimony of Elliott P. Tanos*, Case No. 9192, September 11, 2009, p. 6.

<sup>6</sup> *Id.*, p. 9.

<sup>7</sup> *Id.*, p. 10.