

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

**In the Matter of the)
Investigation into the)
Marketing Practices of)
Starion Energy PA, Inc.)**

Case No. 9324

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

Resource Insight, Inc.

SEPTEMBER 24, 2013

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

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

4 **Q: Please summarize your professional experience.**

5 A: I have worked as a consultant to the electric-power industry since 1981.
6 From 1981 to 1986, I was a research associate at Energy Systems Research
7 Group. In 1987 and 1988, I was an independent consultant. From 1989 to
8 1990, I was a senior analyst at Komanoff Energy Associates. I have been in
9 my current position at Resource Insight since September of 1990.

10 Over the past thirty years, I have advised and testified on behalf of
11 clients on a wide range of economic, planning, and policy issues relating to
12 the regulation of electric utilities, including: electric-utility restructuring;
13 wholesale-power market design and operations; transmission pricing and
14 policy; market-price forecasting; market valuation of generating assets and
15 purchase contracts; power-procurement strategies; risk assessment and
16 mitigation; integrated resource planning; mergers and acquisitions; cost
17 allocation and rate design; and energy-efficiency program design and
18 planning.

19 My resume is attached as Exhibit JFW-1.

20 **Q: Please describe your involvement in Maryland's restructuring process.**

21 A: I have advised and testified on behalf of the Office of People's Counsel
22 ("OPC") in most of the major proceedings relating to Maryland's
23 restructuring process since 1997, including Maryland PSC Case Nos. 9064,
24 9117, 9149, and 9214. In addition, since the inception of the procurement
25 process for Standard Offer Service ("SOS") in 2004, I have monitored the
26 bidding process and evaluated bidding results on behalf of OPC in Case No.

1 9064. As part of that effort, I have developed independent forecasts of the
2 market price of wholesale supply to serve residential SOS load.

3 **Q: Have you testified previously in utility regulatory proceedings?**

4 A: Yes. I have sponsored expert testimony in more than sixty state, provincial,
5 or federal proceedings in the U.S. and Canada. Exhibit JFW-1 includes a
6 detailed list of my previous testimony.

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 testimony?**

10 A: The Office of People's Counsel has requested that I estimate the costs that
11 would have been incurred by a retail electricity supplier to provide retail
12 service to a typical residential customer in the Baltimore Gas and Electric
13 Company ("BGE"), Delmarva Power and Light ("DPL"), or Potomac
14 Electric Power Company ("PEPCO") service territories during the eighteen-
15 month period from January of 2012 to June of 2013. This testimony describes
16 how I estimated these costs and provides my cost estimates for the BGE,
17 DPL, and PEPCO service territories.¹

18 **Q: Please describe your approach for estimating the costs to provide**
19 **residential retail service.**

20 A: For each service territory (or "zone"), I calculated the costs to procure all
21 necessary electricity products in the PJM wholesale markets to provide a
22 "load-following" supply of power that matches a typical residential

¹ I relied on load data from the SOS procurement process to develop cost estimates for the BGE, DPL, and PEPCO service territories. I was not able to estimate costs for Southern Maryland Electric Cooperative's ("SMECO") service territory, because I did not have access to SMECO load data.

1 customer's load in every hour and complies with Maryland's Renewable
2 Portfolio Standard. In addition, I included all applicable PJM transmission
3 charges and supplier coordination fees that would likely have been incurred
4 by a retail supplier in the course of providing power to a residential
5 customer.²

6 **Q: How did you estimate the cost of wholesale power supply for each utility
7 zone?**

8 A: For each utility zone, I calculated the cost to procure wholesale power supply
9 based on actual costs (or revenues) between January of 2012 and June of
10 2013 for the following components of wholesale power supply:

- 11 • Hourly day-ahead market energy delivered at the PJM Western Hub.
- 12 • Energy congestion between the PJM Western Hub and the utility zone.
- 13 • Marginal transmission losses between the PJM Western Hub and the
14 utility zone.
- 15 • Auction Revenue Rights for the utility zone.
- 16 • Zonal capacity.
- 17 • Ancillary services.
- 18 • Transmission Loss Credits.
- 19 • Renewable Portfolio Standard compliance.
- 20 • Average distribution losses.

21 **Q: Please provide your estimates of the cost of wholesale power supply for
22 each utility zone.**

² I did not include estimates for marketing, call center, collateral, or other such retail transaction costs, since such costs are generally proprietary and thus difficult to estimate from publicly available data.

1 A: Table 1 provides my estimate of the monthly cost per kilowatt-hour to
2 procure wholesale power supply to serve a typical residential customer in
3 each utility zone.

4 **Table 1: Wholesale Supply Cost (¢/kWh)**

	BGE	DPL	PEPCO
Jan-12	5.74	5.59	5.59
Feb-12	5.46	5.24	5.31
Mar-12	5.52	4.63	5.25
Apr-12	5.46	4.45	5.21
May-12	5.63	5.10	5.42
Jun-12	6.49	6.71	6.31
Jul-12	7.37	7.84	7.16
Aug-12	6.23	6.43	6.12
Sep-12	6.05	6.26	5.94
Oct-12	6.10	6.25	5.93
Nov-12	6.63	6.74	6.38
Dec-12	5.78	5.91	5.59
Jan-13	6.33	6.30	6.22
Feb-13	6.25	6.08	6.18
Mar-13	6.96	6.77	6.83
Apr-13	6.75	6.57	6.58
May-13	7.02	6.90	6.84
Jun-13	8.58	8.45	8.39

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6 **Q: How did you derive the cost to provide retail service from your estimate**
7 **of the cost to procure wholesale supply?**

8 A: In order to calculate the cost to provide retail service, I added the following
9 charges to my estimate of the cost to procure wholesale power supply:

- 1 • Retail transmission charge, based on each utility’s current retail tariff for
2 the residential class.
- 3 • Applicable supplier coordination fees, based on each utility’s current
4 supplier coordination tariff.
- 5 • Discount rate on Purchase of Receivables, based on each utility’s current
6 supplier coordination tariff.

7 Table 2 provides for each utility the transmission charges and supplier
8 coordination fees included in my estimate of the cost to provide retail
9 service.³

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Table 2: Retail Charges (¢/kWh)

	Retail Transmission Charge	Retail Supplier Fees	Purchase of Receivables Discount Rate
BGE	0.80	0.07	0.1352%
DPL	0.57	0.03	0.0000%
PEPCO	0.61	0.08	0.2543%

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Q: Please provide your estimates of the cost to provide retail service.

A: Table 3 provides my estimate of the monthly cost per kilowatt-hour to provide retail service for a typical residential customer in each utility zone.

³ For the purposes of this calculation, I assume that these charges remain constant over the eighteen-month period of my analysis.

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Table 3: Monthly Cost of Retail Service (¢/kWh)

	BGE	DPL	PEPCO
Jan-12	6.62	6.19	6.29
Feb-12	6.34	5.84	6.01
Mar-12	6.40	5.23	5.95
Apr-12	6.34	5.05	5.91
May-12	6.52	5.70	6.12
Jun-12	7.38	7.31	7.01
Jul-12	8.26	8.44	7.87
Aug-12	7.11	7.03	6.82
Sep-12	6.94	6.86	6.65
Oct-12	6.99	6.85	6.63
Nov-12	7.51	7.33	7.08
Dec-12	6.66	6.51	6.29
Jan-13	7.22	6.90	6.92
Feb-13	7.13	6.68	6.89
Mar-13	7.84	7.37	7.53
Apr-13	7.63	7.17	7.29
May-13	7.91	7.50	7.55
Jun-13	9.47	9.05	9.10

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3 **Q: Does this conclude your direct testimony?**

4 **A: Yes.**