

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

**In the Matter of a Request by )**  
**Baltimore Gas and Electric Company for )**  
**Recovery of Standard Offer Service Related )**  
**Cash Working Capital Revenue Requirement )**

**Case No. 9221**

**SECOND REBUTTAL TESTIMONY OF**  
**JONATHAN WALLACH**  
**ON BEHALF OF**  
**THE OFFICE OF PEOPLE’S COUNSEL**

Resource Insight, Inc.

**JULY 22, 2015**

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Attachment JFW-3      Commission Staff Response to OPC Data Request No. 1-6

1 **I. Introduction**

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

3 A: My name is Jonathan F. Wallach. I am Vice President of Resource Insight, Inc.,  
4 5 Water Street, Arlington, Massachusetts.

5 **Q: Are you the same Jonathan F. Wallach that filed second reply testimony in**  
6 **this proceeding?**

7 A: Yes.

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

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

10 **Q: What is the purpose of your testimony?**

11 A: On June 10, 2015, the staff of the Public Service Commission ("Staff") filed  
12 reply testimony by Phillip E. VanderHeyden. This rebuttal testimony responds  
13 to Mr. VanderHeyden's testimony regarding his proposals to: (1) provide an  
14 incentive to BGE for promoting retail choice; (2) functionally unbundle  
15 customer-service costs into distribution- and SOS-related portions; and (3)  
16 continue charging residential SOS customers an Administrative Adjustment as  
17 part of the residential Administrative Charge.

18 **Q: Are you revising any of the conclusions or recommendations from your**  
19 **second reply testimony regarding the Administrative Adjustment in light of**  
20 **Mr. VanderHeyden's reply testimony?**

21 A: No. Nothing in Mr. VanderHeyden's reply testimony would lead me to alter my  
22 conclusion that the Administrative Adjustment bears no relation to actual SOS-  
23 related costs and serves no purpose other than to arbitrarily and unreasonably  
24 increase the price paid by residential customers for Standard Offer Service. I

1           therefore continue to recommend that the Commission eliminate the  
2           Administrative Adjustment from the residential Administrative Charge.

3   **II. Retail Choice Incentive**

4   **Q: What is Mr. VanderHeyden’s proposal with regard to an incentive**  
5   **mechanism?**

6   A: Although not a detailed proposal, Mr. VanderHeyden recommends that a  
7   mechanism be developed that would reward BGE for taking actions that  
8   promote customer migration to competitive retail service. Mr. VanderHedyen  
9   further suggests that the incentive mechanism be structured as a fixed fee rather  
10   than as a charge pegged to SOS sales, so that BGE does not have an incentive to  
11   take anti-competitive actions in order to retain SOS load.

12   **Q: Why does Mr. VanderHeyden want to provide BGE an incentive to**  
13   **enhance switching from standard offer to competitive retail service?**

14   A: The only rationale offered by Mr. VanderHeyden for such an incentive is that  
15   “the development of retail choice markets are required by the statute.”<sup>1</sup>

16   **Q: Is this reasonable grounds for providing the Company an incentive to**  
17   **enhance retail choice?**

18   A: No. By Mr. VanderHeyden’s logic, BGE should also be rewarded for promoting  
19   standard offer service and increasing SOS load, since the provision of standard  
20   offer service is also “required by the statute.”<sup>2</sup>

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<sup>1</sup> *Reply Testimony of Phillip E. VanderHeyden on Behalf of the Staff of the Public Service Commission, Case No. 9221, June 10, 2015, p. 3, line 4.*

<sup>2</sup> See, generally, Public Utilities Article §7-510(c).

1           Rewarding BGE for favoring either competitive retail or standard offer  
2 service would appear to be contrary to one of the fundamental goals of the  
3 restructuring statute: providing customers the opportunity to choose freely  
4 between competitive retail and standard offer service.<sup>3</sup> For there to be retail  
5 choice, utilities must be neutral facilitators of the choice process. The  
6 restructuring statute promotes neutrality by ensuring that utilities recover no  
7 more or less than their actual, verifiable, and prudently incurred SOS-related  
8 expenses and a reasonable return on SOS-related assets. In contrast, Mr.  
9 VanderHeyden’s proposal would reward BGE – with the opportunity to recover  
10 more than actual costs and a reasonable return – for taking sides in the choice  
11 process.

12 **Q: What do you recommend with regard to Mr. VanderHeyden’s proposal for**  
13 **an incentive mechanism?**

14 A: The Commission should reject Mr. VanderHeyden’s proposal to reward BGE  
15 for promoting customer migration to competitive retail service, since such an  
16 incentive would be contrary to the fundamental goals and specific cost-recovery  
17 provisions of the restructuring statute.

### 18 **III. Functional Unbundling of Customer-Service Costs**

19 **Q: What is Mr. VanderHeyden’s position with regard to the unbundling of**  
20 **customer-service costs?**

21 A: Mr. VanderHeyden contends that the Company recovers through base  
22 distribution rates certain customer-service costs that were incurred to provide

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<sup>3</sup> Public Utilities Article §7-504.

1 standard offer service.<sup>4</sup> Mr. VanderHeyden therefore recommends that  
2 customer-service costs be functionally unbundled into distribution-related and  
3 SOS-related portions, and that SOS-related customer-service costs be recovered  
4 through the Administrative Charge.<sup>5</sup>

5 **Q: What is the basis for Mr. VanderHeyden's assertion that SOS-related costs**  
6 **are currently being recovered through distribution rates?**

7 A: Mr. VanderHeyden has not offered any evidence that a portion of customer-  
8 service costs are due to the provision of standard offer service or that the portion  
9 of the costs he believes to be SOS-related are not already recovered through the  
10 incremental-cost component of the Administrative Charge.

11 Instead, Mr. VanderHeyden relies on the results of the Company's  
12 functional unbundling analysis to support his contention that SOS-related  
13 customer-service costs are currently recovered through distribution rates.  
14 However, as I discussed in my second reply testimony, BGE does not believe  
15 that the costs identified as SOS-related in its analysis were actually incurred for  
16 the purposes of providing standard offer service. Consequently, BGE does not  
17 support recovery of such costs through the Administrative Charge.

18 **Q: Are you opposed to further separation of customer-service costs into**  
19 **distribution and SOS functions?**

20 A: No. However, as I discussed in my second reply testimony and discuss further in  
21 Section IV below, I am opposed to adoption of an arbitrary and artificial proxy  
22 value for SOS-related customer-service costs, as would be the case with a

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<sup>4</sup> VanderHeyden Reply, p. 30, ll. 6-12.

<sup>5</sup> As discussed in Section IV below, Mr. VanderHeyden further recommends continuation of the Administrative Adjustment until customer-service costs can be unbundled and the SOS-related portion of those costs can be directly recovered through the Administrative Charge.

1 continuation of the Administrative Adjustment, on the basis that such a proxy  
2 would be contrary to statute. As such, I recommend that the Administrative  
3 Adjustment be eliminated.

4 As Mr. VanderHeyden suggests, customer-service costs can be unbundled  
5 using a variety of functional allocators.<sup>6</sup> Whichever allocator the Commission  
6 deems appropriate, it is critical that the Companies unbundle only those  
7 customer-service costs which have been determined to be incremental, i.e.,  
8 potentially avoidable as a result of customers migrating to competitive retail  
9 service. For example, certain billing expenses may be avoidable if a customer  
10 switches to a retail supplier that offers separate billing for supply. On the other  
11 hand, metering expenses are not avoidable, since such expenses would be  
12 incurred whether a customer takes standard offer or competitive service. If non-  
13 incremental costs were recovered through the Administrative Charge, those  
14 customers who switch to retail supply would be able to avoid paying their fair  
15 share of such costs, while customers remaining on SOS would be obligated to  
16 subsidize switching customers for such costs.

17 It is also critical that the Companies charge retail suppliers for the full  
18 amount of supply-related incremental costs associated with any customer  
19 services provided to those retail suppliers. For example, retail suppliers who rely  
20 on BGE to render a consolidated bill should be charged for all incremental  
21 billing expenses incurred to render the supply portion of the consolidated bill.<sup>7</sup>

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<sup>6</sup> VanderHeyden Reply, p. 32, line 1 - p. 33, line 2.

<sup>7</sup> In other words, the supplier fee for consolidated billing services should recover the same incremental cost per bill that would be recovered through the Administrative Charge for incremental SOS-related billing expenses. The Company may therefore need to revise its current consolidated-billing fee of \$0.50 per bill.

1 If not, then SOS customers would inappropriately subsidize retail suppliers for  
2 such costs.

3 **Q: What process do you recommend for determining the amount to be**  
4 **recovered through the residential Administrative Charge for SOS-related**  
5 **customer-service costs?**

6 A: As with the rate for the uncollectible-cost component of the residential  
7 Administrative Charge, the charge for SOS-related customer-service costs  
8 should be determined in a distribution rate case through a full evidentiary review  
9 of the Company's proposed functional unbundling of customer-service costs  
10 into distribution-related and SOS-related cost categories. This process would  
11 provide a record for the Commission to rely on to ensure that:

- 12 • The only customer-service costs classified as SOS-related and recovered  
13 through the Administrative Charge are those incremental costs incurred as  
14 a result of providing standard offer service.
- 15 • Customer-service costs are unbundled in a reasonable and consistent  
16 manner and that the distribution and SOS-related portions are appropriately  
17 reflected in base distribution rates and the Administrative Charge,  
18 respectively.
- 19 • Supplier fees are set at appropriate amounts to reflect supply-related  
20 customer-service costs attributable to the provision of customer services to  
21 retail suppliers.

#### 22 **IV. Administrative Adjustment**

23 **Q: What does Mr. VanderHeyden propose with regard to the Administrative**  
24 **Adjustment?**

1 A: According to his response to OPC Data Request No. 1-6 (provided as  
2 Attachment JFW-3), Mr. VanderHeyden recommends continued collection of  
3 the Administrative Adjustment in the manner proposed by BGE, until such time  
4 that customer-service costs can be functionally unbundled and recovered  
5 through the Administrative Charge.<sup>8</sup> Mr. VanderHeyden contends that the  
6 Administrative Adjustment reasonably approximates the portion of the  
7 Company's customer-service costs that would be classified as SOS-related if  
8 such costs were functionally unbundled in a base rate proceeding:

9           The use of the Administrative Adjustment does not precisely allocate  
10          customer service costs, but it provides a reasonable facsimile of costs that  
11          would have been allocated, had it been possible to set base rates and SOS  
12          rates simultaneously and continue to adjust costs over time.<sup>9</sup>

13 **Q: Has Mr. VanderHeyden offered any evidence to support his claim that the**  
14 **amounts recovered through the Administrative Adjustment reasonably**  
15 **approximate the amount of SOS-related costs allegedly being recovered**  
16 **through distribution rates?**

17 A: No. Mr. VanderHeyden has not offered any evidence that the amounts recovered  
18 through the initial rate for the Administrative Adjustment would reasonably  
19 reflect the SOS-related costs allegedly being recovered through distribution  
20 rates. Nor, for that matter, does he offer any evidence that changes to the rate in  
21 the future (due to changes in incremental, cash working capital, or uncollectible

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<sup>8</sup> As I discussed in my second reply testimony, BGE proposes to continue collection of the Administrative Adjustment whenever the sum of the rates for incremental costs, return, uncollectible costs, and cash working capital is less than 4 mills/kWh. (Mr. VanderHeyden does not necessarily endorse the Company's proposal to set the price floor in the calculation of the Administrative Adjustment at 4 mills/kWh.) The Company also proposes to continue crediting the amounts collected through the Administrative Adjustment to all residential distribution customers.

<sup>9</sup> VanderHeyden Reply, p. 35, ll. 15-18.

1 costs) would be consistent with changes in the SOS-related costs allegedly being  
2 recovered through distribution rates.

3 In fact, in his response to OPC Data Request No. 1-6(c), Mr.  
4 VanderHeyden acknowledges that he was “not assuming a specific rate for the  
5 Administrative Adjustment” when he made the claim in his reply testimony that  
6 the Administrative Adjustment “provides a reasonable facsimile of costs that  
7 would have been allocated.” Instead, according to his response to OPC Data  
8 Request No. 1-6(c), Mr. VanderHeyden simply assumed that any rate for the  
9 Administrative Adjustment greater than zero “is better than no adjustment at  
10 all.”<sup>10</sup>

11 Thus, Mr. VanderHeyden’s claim that the Administrative Adjustment  
12 “provides a reasonable facsimile” of the costs incurred to provide standard offer  
13 service has no basis in fact and is instead the product of Mr. VanderHeyden’s  
14 opinion that any value for the Administrative Adjustment “is better than no  
15 adjustment at all.”

16 **Q: What do you recommend with regard to Mr. VanderHeyden’s proposal to**  
17 **continue collection of the Administrative Adjustment through the**  
18 **residential Administrative Charge?**

19 A: The Commission should reject Mr. VanderHeyden’s proposal. Mr.  
20 VanderHeyden has failed to provide any evidence that the costs collected  
21 through the Administrative Adjustment represent actual, verifiable, and  
22 prudently incurred costs to provide standard offer service. Consequently,

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<sup>10</sup> Mr. VanderHeyden’s position that any adjustment is better than none begs the question as to whether he would still believe that the Administrative Adjustment “provides a reasonable facsimile of costs that would have been allocated” whenever the calculation of the Administrative Adjustment yielded a rate of zero mills/kWh.

1 continued collection of the Administrative Adjustment through the residential  
2 Administrative Charge would be contrary to statute.

3 Moreover, as I discussed in my second reply testimony, the Administrative  
4 Adjustment no longer serves a useful purpose in terms of promoting retail  
5 choice. The retail market has developed and matured over more than a decade of  
6 competition in the supply of electricity to consumers. Consequently, it is neither  
7 necessary nor reasonable to charge SOS customers more than the actual  
8 incremental cost of residential SOS – and to require that SOS customers  
9 subsidize customers served by retail suppliers in the process of crediting  
10 Administrative Adjustment revenues – in order to provide an artificial  
11 competitive edge to retail suppliers. Accordingly, I recommend elimination of  
12 the Administrative Adjustment from the Administrative Charge for residential  
13 SOS.

14 **Q: Does this conclude your second rebuttal testimony?**

15 A: Yes.