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APPLICATION OF THE CITY OF LUBBOCK THROUGH LUBBOCK POWER AND LIGHT FOR AUTHORITY TO CONNECT A PORTION OF ITS SYSTEM WITH THEELECTRIC RELIABILITY COUNCIL OF TEXAS	§ § § § § §	BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS

DIRECT TESTIMONY

OF

DEREK M. MAUZY

ON BEHALF OF

THE ALLIANCE FOR RETAIL MARKETS

NOVEMBER 28, 2017

DIRECT TESTIMONY
OF DEREK M. MAUZY

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DMM-1 **List of Testimony Presented in Prior Regulatory Proceedings**

DIRECT TESTIMONY OF DEREK M. MAUZY

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT EMPLOYMENT POSITION.

A. My name is Derek M. Mauzy. My business address is 1201 Fannin Street, Houston Texas 77002. I am currently employed by Reliant Energy Retail Services, LLC ("Reliant Energy") as Director of Market Research and Competitive Intelligence.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am providing direct testimony in this proceeding on behalf of The Alliance for Retail Markets ("ARM"), an incorporated coalition of retail electric providers ("REPs") providing retail electric service in the Texas competitive market.

Q. PLEASE DESCRIBE YOUR FORMAL EDUCATION

A. I received a Bachelor of Science degree in Electrical Engineering from Rice University in 1986.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE

A. I have more than 30 years of experience in the electric utility and competitive retail electric industry. I worked approximately three years for Central Power & Light Company in that utility's Generation Operations department. Later, I worked for Houston Light & Power and its successor companies in the Energy Control Department and for four years in the Rate Design Division. Thereafter, I became Manager of Pricing, and later Director of Pricing, with responsibilities related to cost analysis of retail power supply. In 2001, I became Director of Structuring in the Retail Structuring and Product Development area of the company. In 2002, I was named Director of Regulatory and Retail Analysis in the Retail Energy Supply group of Reliant Resources, Inc. My duties in that job included, among other things, focusing on regulatory issues related to the transition to competition and serving retail loads, particularly residential and small commercial loads. Since that

time I have held various roles in Innovation and Product Development, Strategy and Competitive Intelligence. Currently, I am Director of Market Research and Competitive Intelligence, where I support the residential and small commercial customer marketing efforts for Reliant Energy.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS ("PUC")?

A. Yes. A list of regulatory proceedings in which I have presented testimony appears in Attachment DMM-1.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to address Issue Nos. 34-36 in the Preliminary Order. My testimony provides information regarding the benefits of the Texas competitive electric market and highlights issues in the application submitted by Lubbock Power and Light (LP&L) that could impede LP&L's ability to opt into Texas' competitive retail electric market. If the Commission determines the proposed integration of LP&L's service area into the ERCOT power region is in the public interest, it should order LP&L to: (1) not undertake any actions that could unreasonably delay or prevent its ability to introduce retail choice in the integrated LP&L service area at a future date, including the creation of a new non-opt-in entity (NOIE) Load Zone; and (2) conduct a transition to retail competition study. My testimony:

- Discusses the benefits of retail electric competition in ERCOT;
- Recommends the removal of any market impediments to opting into retail competition proposed in LP&L's application, including the establishment of a new NOIE load zone, as part of any Commission public interest finding approving the requested integration of LP&L's service area into the ERCOT power region; and

- Recommends LP&L funding of an independent retail competition study as part of any Commission public interest finding approving the requested integration of LP&L's service area into the ERCOT power region.

I do not take a position on whether the costs to transition a portion of LP&L's service area to the ERCOT power region in relation to any benefits is in the public interest. However, I believe the introduction of retail competition in the transitioned LP&L service area would be in the public interest. My direct testimony was prepared under my direction, supervision, or control, and is true and correct to the best of my knowledge, information and belief.

III. BENEFITS OF RETAIL COMPETITION

Q. WHAT ARE THE BENEFITS OF RETAIL ELECTRIC COMPETITION?

A. Currently, more than 7 million retail electric customers in Texas are served by REPs in the competitive areas of the ERCOT power region. In the areas of Texas where retail electric competition exists, all categories of customers are able to choose a REP to provide retail electric service. Under customer choice, they may select a retail electric product based on what is most important to them including, but not limited to: price, customer service, environmental attributes, and/or product innovation and enhancement. Competition in the competitive ERCOT market drives innovation in both product design and pricing. If the customer's needs are not being met by the REP providing service, the customer may shop for and switch to a new provider of retail service. The competitive risk of losing existing customers and not gaining new customers keeps REPs accountable and induces them to offer products and services that provide value based on customer desires and needs.

Q. CAN YOU QUANTIFY SOME OF THE BENEFITS OF RETAIL COMPETITION BY COMPARING REP PRODUCTS OFFERED IN THE COMPETITIVE AREAS OF ERCOT VERSUS LP&L'S CURRENT PRODUCT OFFERINGS?

A. Currently, residential customers in Dallas and Houston have access to 50 or more REPs offering more than 360 different retail electric products in the competitive market.[1] Dallas residential customers may choose from 126 one-year fixed price products with an average price of 8.3 cents/kilowatt/hours (kWh) at a consumption level of 1000 kWh/month. Those Dallas customers also have access to 100 100-percent renewable products. Houston residential customers may choose from 123 one-year fixed price products with an average price of 9.2 cents/kWh at a consumption level of 1000 kWh/month. Those Houston customers also have access to 80 100-percent renewable products.

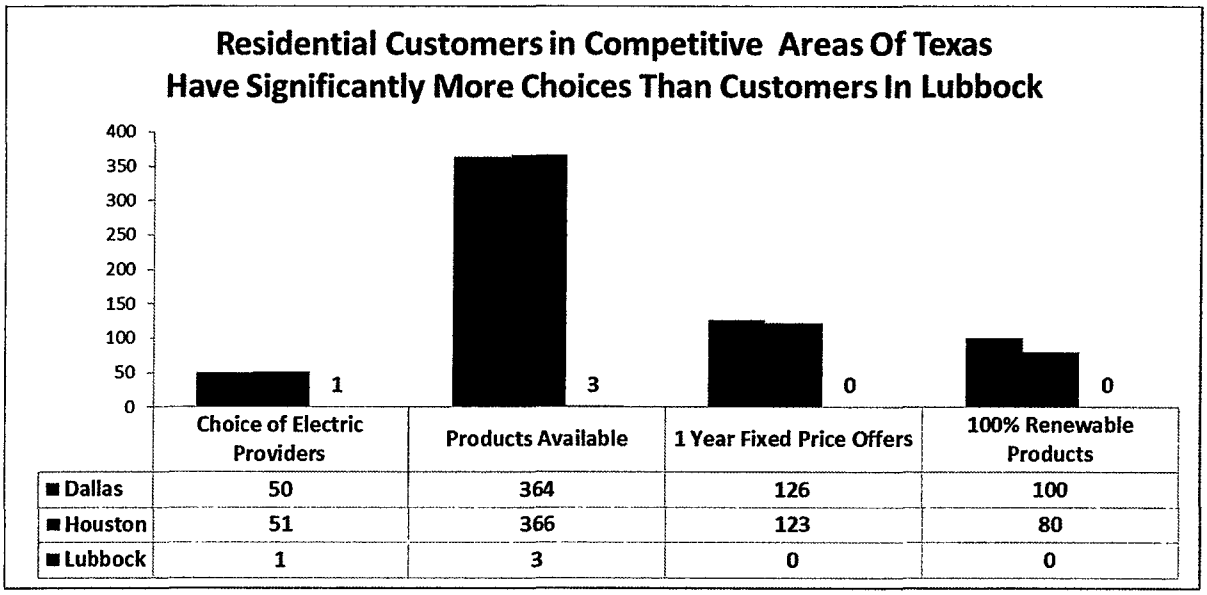
In contrast, LP&L residential customers currently have access to a single monopoly provider offering three residential service products, which include a standard rate, an electric space heating rate, and a net metering rate.[2] Currently, the LP&L standard rate is priced at an average rate of 11.6 cents/kWh at 1000 kWh/month,[3] which is 40 percent higher than the average of one-year fixed price offers available in Dallas. Currently, there are zero 100-percent renewable options available to LP&L customers. The below figures show these statistics graphically.

[1] Price information for Houston and Dallas area customers comes from data accessed on powertochoose.com as of November 10, 2017.

[2] http://www.lpandl.com/uploads/downloads/TARIFF-10-1-17_LPL_Elec_Rate.pdf

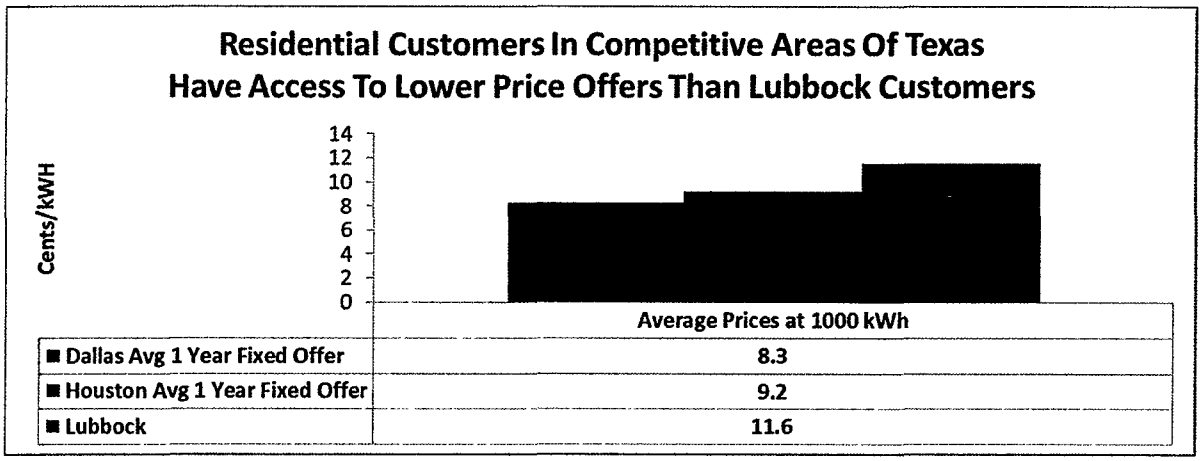
[3] http://www.lpandl.com/uploads/downloads/12-month-tx-residential-bill-amounts.pdf

Figure DMM-1



	Choice of Electric Providers	Products Available	1 Year Fixed Price Offers	100% Renewable Products
Dallas	50	364	126	100
Houston	51	366	123	80
Lubbock	1	3	0	0

Figure DMM-2



	Average Prices at 1000 kWh
Dallas Avg 1 Year Fixed Offer	8.3
Houston Avg 1 Year Fixed Offer	9.2
Lubbock	11.6

Q. HOW DO COMPETITIVE OFFERS IN THE ERCOT REGION COMPARE TO WHAT LP&L CUSTOMERS MIGHT EXPECT IF LP&L IS ALLOWED TO INTEGRATE INTO THE ERCOT REGION BY 2021, BUT CONTINUES TO OFFER MONOPOLY ELECTRIC SERVICE TO ITS CAPTIVE CUSTOMERS?

A. It is not possible to compare future competitive retail prices in the ERCOT region in 2021 versus future LP&L monopoly rates in 2021 with any level of accuracy. There are many variables that would contribute to the calculation and rate design of those prices and rates,

including wholesale power supply costs, transmission system costs, and distribution system costs, among other things. None of those variables are known with any certainty at this time.

However, the number of retail products and offerings that are expected to be available in the LP&L service area versus the number of such products and offerings in the competitive ERCOT retail electric market can be compared. I expect LP&L to continue to offer far fewer and less innovative products versus the depth and variety of products available to customers in the competitive market. Additionally, if LP&L remains a monopoly municipally-owned utility after integration into the ERCOT region, assuming the Commission approves its application, its customers would still only have one choice for retail electric service versus the significant number of choices that would be available in the competitive ERCOT retail market.

In the competitive market, REPs largely compete on price by identifying ways to reduce costs in order to stay competitive. Monopoly service providers are not motivated by the same incentive because the customer is faced with only one choice, that is, to either pay the regulated rates for retail electric service, or not receive such service from the monopoly provider, with no other option available. Under the latter scenario, the customer lacks the choice to take retail service from another provider that may provide service more efficiently at a lower cost.

Q. ARE REPS INCENTIVIZED TO COMPETE FOR MORE EFFICIENT WHOLESALE SUPPLY SOLUTIONS VERSUS MONOPOLY ELECTRIC PROVIDERS?

A. Yes. Monopoly service providers typically either own their generation or have long-term supply contracts with a limited number of power suppliers. REPs tend to have multiple wholesale supply arrangements that are priced and tailored to a specific retail product campaign or to customer needs. This customized pricing better reflects the breadth of power supply options available in the wholesale market and allows REPs to pass cost savings onto customers.

Moreover, wholesale power supply risk in a monopoly service area is generally borne by the customer instead of the electricity provider. For example, the LP&L Purchased Power Cost Recovery Factor (PPRF) allows LP&L to pass through wholesale supply risk directly to the customer. The PPRF "provides for the recovery of all purchased power costs incurred by LP&L in serving system demand and energy requirements." In the competitive retail market, however, REPs do not have this same ability to pass on "all purchased power costs" after the costs have been incurred. Instead, REPs must act efficiently by purchasing the right amount of supply at the lowest cost available and effectively hedging those costs to remain competitive.

IV. BARRIERS TO RETAIL COMPETITION

Q. DOES THE LP&L APPLICATION INCLUDE FEATURES THAT COULD PREVENT OR DELAY A REVIEW OF COMPETITION AS AN ALTERNATIVE TO LP&L MONOPOLY SERVICE?

A. Yes. The proposal to establish a new NOIE Load Zone would inhibit any transition to competition as part of this application.

Q. SHOULD A NEW NOIE LOAD ZONE IN ERCOT BE CREATED FOR LP&L's TRANSITIONED LOAD?

A. No. If its application is approved by the Commission, LP&L should join the existing West Load Zone for a number of reasons. First, there is no specific ERCOT Nodal Protocol requiring LP&L to establish a NOIE Load Zone for itself. Once a Load Zone is established under ERCOT Nodal Protocol Section 3.4.2, however, its boundaries may not be changed for 48 months. To avoid this 48-month restriction, LP&L could join the existing West Load Zone and still integrate its service area as part of the ERCOT region either as a NOIE not participating in the competitive retail electric market or as an opt-in entity whose service territory is open to retail competition. In other words, it is not necessary for LP&L to establish its own NOIE Load Zone in order to integrate into the ERCOT region.

Second, NOIE load zones have historically had a minimum size of 2,300 megawatts (MW), while LP&L's proposed load transfer is only 470 MW. Third, ERCOT's Competitive Load

Zones have absorbed block loads larger than the 470 MW of load LP&L proposes to add to the ERCOT region without significant impact to the wholesale or congestion revenue right markets. Fourth, ERCOT would incur incremental costs to create, maintain and settle LP&L load if included in a new NOIE Load Zone. Those costs would be lessened or eliminated if LP&L joins the existing West Load Zone. Since the ERCOT market was restructured in 2002, no new NOIE Load Zone has been created. Finally, establishing a NOIE Load Zone for LP&L pre-supposes that LP&L would join ERCOT as a NOIE. If LP&L were to opt into competition, Protocol Section 3.4.3(1)(f) would require it to join the appropriate Competitive Load Zone four years after customer choice is offered.

Q IF LP&L'S PROPOSED TRANSACTION IS APPROVED, WHAT IS THE APPROPRIATE ENTITY TO DETERMINE WHETHER A NEW LOAD ZONE IN ERCOT SHOULD BE CREATED FOR LP&L'S LOAD?

A. ERCOT Nodal Protocol Section 3.4.2 requires additions, deletions, or changes to load zones to go into effect 48 months after ERCOT Board approval. However, given the time-sensitive nature of LP&L's integration request, the Commission should order LP&L to join the West Load Zone if it is permitted to integrate its service area into the ERCOT region.

Q. HOW WOULD THE CREATION OF A NEW NOIE LOAD ZONE CREATE A BARRIER IMPEDING OR DELAYING RETAIL COMPETITION?

A. By definition, retail competition does not exist in a NOIE Load Zone because the monopoly service provider in a NOIE Load Zone has not opted into retail competition. If a NOIE Load Zone is established prior to the introduction of retail competition in the transitioned LP&L service area, additional costs will be incurred and delay will be experienced in moving the Affected Load from the NOIE Load Zone to the appropriate Competitive Load Zone (*i.e,* the West Load Zone) in order to facilitate retail competition.

Q. COULD LP&L CREATE OTHER BARRIERS THAT WOULD INHIBIT OR DELAY A DECISION TO OPT INTO THE ERCOT RETAIL COMPETITIVE MARKET?

A. Yes. LP&L could incur power supply contract costs that would make a transition prohibitively expensive prior to LP&L's governing body and its ratepayers evaluating the merits of retail competition. For example, LP&L could contract for wholesale supply to serve the transitioned load for an extended time period beginning June 1, 2021. Ideally, the optimal sequence of events facilitating the introduction of retail competition in a transitioned LP&L service area before June 1, 2021 would be to: (1) perform an independent transition to competition study; (2) provide all customers served by LP&L and the LP&L governing body with an opportunity to make an informed choice regarding opting into retail competition; and (3) open the LP&L service area to competition upon an opt-in decision made by LP&L's governing body, all before June 1, 2021. If LP&L opts into retail competition and establishes processes to support such competition prior to June 1, 2021, it will not have incurred wholesale power costs to serve the "Affected Load" since wholesale power supply costs will no longer be the obligation of LP&L, but rather will be the province of REPs providing retail electric service to customers in the LP&L footprint.

That said, if this sequence of events cannot be accomplished before June 1, 2021, I still believe LP&L should be required to engage an independent retail competition study to evaluate the merits of opting into competition at a future date.

Q. CAN YOU PROVIDE THE BASIS FOR YOUR CONCERN AND AN EXAMPLE OF HOW LONG-TERM POWER SUPPLY CONTRACTS CREATE BARRIERS TO OPTING INTO COMPETITION?

A. Yes. LP&L witness David McCalla notes in his direct testimony that the partial requirements contract with SPS used to serve "unaffected customers" does not expire until 2044. The contract is cited as a reason to avoid transitioning those customers to ERCOT until 2044. At Page 32 of his direct testimony, Mr. McCalla notes, "It is LP&L's intent to honor the terms of the 2010 agreement with SPS and take service under the partial

requirements contract to serve unaffected load customers. The unaffected load will remain connected to SPP as long as the partial requirements contract with SPS remains in effect. Once the contract has expired or has been terminated, it is currently the intent of the governing bodies of LP&L that LP&L would take steps to move the unaffected load to ERCOT." As noted above, LP&L could incur substantial power supply costs prior to completing a transition to competition study. Costs associated with such a power supply contract could effectively make a transition to competition more expensive and discourage policy makers from opting into retail electric competition.

V. TRANSITION TO COMPETITION STUDY

Q. IF LP&L IS PERMITTED TO JOIN THE ERCOT REGION, SHOULD LUBBOCK BE REQUIRED TO CONDUCT AN ANALYSIS REGARDING OPTING INTO RETAIL COMPETITION?

A. Yes. At Page 21 of his direct testimony, LP&L witness James W. Daniel explains that an additional benefit of LP&L's integration into the ERCOT system is that "LP&L will have the option to opt-in to retail competition. This option is not currently available in SPP." This benefit should be thoroughly evaluated by LP&L prior to LP&L service area's integration with the ERCOT region since a decision to opt into competition would impact if and how LP&L would contract for wholesale supply as of the requested June 1, 2021 transition date.

Q. IS A REQUIREMENT TO CONDUCT AN ANALYSIS REGARDING OPTING INTO RETAIL COMPETITION IN CONFLICT WITH SECTION 40.051 OF PURA?

A. No. As LP&L witness David McCalla notes at Page 34 of his direct testimony, Section 40.051 of PURA states "the municipal governing body or a body vested with the power to manage and operate a municipally-owned utility has the discretion to decide when or if the municipally-owned utility will provide customer choice." A requirement to conduct an analysis of the merits of opting into retail competition is not in conflict with the opt-in authority given to a municipal governing body or utility board. Performing this analysis

would be a prudent choice for LP&L's governing body to undertake in conjunction with its request to transition load into the ERCOT region, given LP&L could not opt-in to competition within the Southwest Power Pool (SPP) region (as noted by LP&L witness James W. Daniel) but could do so upon its service area's integration into the ERCOT region. Conducting a retail competition study in the early stages of a transition to ERCOT would provide LP&L's governing body with critical information to make an informed decision at a time when costs to opt-in to competition are likely at their lowest, due to the expiration of the Xcel Capacity Contract on May 31, 2021.

Q. DO LP&L CUSTOMERS WANT ACCESS TO RETAIL COMPETITION?

A. I am not aware of any formal polling or a Lubbock customer referendum that would definitively answer this question. However, more than 14,000 individuals have signed an online petition that support opening the LP&L service area to retail competition.[4] A retail competition study would more comprehensively address this issue.

Q. WHAT SHOULD A RETAIL COMPETITION STUDY INCLUDE?

A. The Commission should have input into the scope of such a study, which should include but not be limited to:

- a review of models of retail competition in ERCOT;
- discussion of the merits of those models including what model best supports retail competition in the transitioned LP&L service area;
- benefits of a transition to competition to Lubbock citizens and businesses;
- a review of available offers in the ERCOT competitive market;
- customer protections requirements, costs of a transition to competition to Lubbock;
- any stranded costs resulting from a transition to competition;
- a survey of Lubbock customers, as described above; and

[4] https://www.change.org/p/all-lp-l-customers-see-that-lp-l-stops-taking-advantage-of-the-customers/naftaExp1/control?recruiter=748676953&utm_source=share_petition&utm_medium=facebook&utm_campaign=share_for_starters_page&utm_content=nafta_share_post_copy_en_5%3Acontrol

- examination of gross revenue transferred to the City of Lubbock under the current monopoly model, and Franchise Fee and Gross Receipt options available to the City of Lubbock under retail competition.

Q. WHO SHOULD PERFORM SUCH A STUDY?

A. I believe the Commission should oversee an open selection process of an independent consultant to conduct the study on LP&L's behalf.

Q. HOW SHOULD SUCH A STUDY BE FUNDED?

A. The study should be funded by LP&L or the City of Lubbock because the information provided by the study will benefit Lubbock citizens and its policy makers. As LP&L witness David McCalla notes at Pages 27-28 of his direct testimony, LP&L is currently paying for various studies regarding the impacts to ERCOT, SPP, and LP&L. A transition to retail competition study is an extension of the studies already performed or being performed by LP&L as part of its requested transition to the ERCOT region.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes it does.

Attachment DMM-1
Testimony Provided by Derek M. Mauzy
Before the Public Utility Commission of Texas

Docket	Style
• 15639	*Application of Houston Lighting and Power Company Filing in Compliance with PUC Subst. R. 23.67*
• 16486	*Petition of Houston Lighting and Power Company to Implement a Temporary Fuel Surcharge/Refund*
• 23950	*Petition of Reliant Energy, Inc. to Establish Price to Beat Fuel Factor and Request for Good Cause Exception to Subst. R. 25.41*
• 24237	*Application of Reliant Energy, Inc. for Approval of Price to Beat Rates for Its Affiliated Retail Electric Provider in Compliance with Subst. R. 25.41(j)(1)(C)*
• 25480	*Application of Reliant Energy Retail Services, LLC for Adjustment of Price to Beat Fuel Factor*
• 26933	*Application of Reliant Energy Retail Services, LLC for Adjustment of Price to Beat Fuel Factors*
• 27320	*Application of Reliant Energy Retail Services, LLC for Adjustment of Price to Beat Fuel Factors*
• 27956	*Application of Reliant Energy Retail Services, LLC for Adjustment of Price to Beat Fuel Factors*
• 28980	*Petition of CenterPoint Energy Houston Electric, LLC for Finding that the 40% Threshold Under PURA §39.202(e) Has Been Met for Small Commercial Customers*
• 29526	*Application of CenterPoint Energy Houston Electric, LLC, Reliant Energy Retail Services, LLC and Texas Genco, LP to Determine Stranded Costs and Other True-Up Balances Pursuant to PURA §39.262*
• 29870	*Reliant Energy Retail Services, LLC's Application for Adjustments of Its Price-to-Beat Base Rates Pursuant to §39.292(k) and PUC Subst. R. 25.41(g)(3)(b)*
• 29870	*Reliant Energy Retail Services, LLC's Application for Adjustments of Its Price-to-Beat Base Rates Pursuant to §39.292(k) and PUC Subst. R. 25.41(g)(3)(b)*

- 30378 *Application of Reliant Energy Retail Services, LLC for Adjustment of Price to Beat Fuel Factors*
- 30485 *Application of CenterPoint Energy Houston Electric, LLC for a Financing Order*
- 31823 *Application of Reliant Energy Retail Services, LLC for Adjustment of Price to Beat Fuel Factors*
- 31841 *Petition of TXU Generation Company, LP for Administrative Determination that the Forty Percent Threshold Target of PURA §39.153(b) Has Been Met*
- 34077 *Joint Report and Application of Oncor Electric Delivery Company and Texas Energy Future Holdings Limited Partnership Pursuant to PURA §14.101*