



Duquesne Light
Our Energy...Your Power

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June 3, 2011

VIA E-FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building, 2nd Floor
400 North Street
Harrisburg, PA 17120

Re: Investigation of Pennsylvania's Retail Electricity Market
Docket No. I-2011-2237952

Dear Secretary Chiavetta:

Please find attached for filing the Testimony of Richard Riazzi, on behalf of Duquesne Light Company, and Comments of Duquesne Light Company including Responses to Commission Questions in the above-referenced proceeding.

Sincerely yours,



Gary A. Jack
Assistant General Counsel

Enclosures

c: Office of Competitive Market Oversight
Irwin Popowsky
William Lloyd
Johnnie Simms

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

INVESTIGATION OF : I-2011-223792
PENNSYLVANIA'S RETAIL :
ELECTRICITY MARKET :

**TESTIMONY OF
RICHARD RIAZZI
DUQUESNE LIGHT COMPANY**

Date: June 8, 2011

1 Mr. Chairman and Commissioners, my name is Richard Riazzi. I am the
2 President and CEO of Duquesne Light Company (“Duquesne Light”). I welcome the
3 opportunity to provide the Pennsylvania Public Utility Commission (“Commission”) and
4 other interested parties with Duquesne Light’s views on the status of retail competition in
5 Duquesne Light’s service territory, which encompasses Allegheny and Beaver Counties
6 of Pennsylvania.

7 Duquesne Light has served Pittsburgh and its surrounding territory for over 130
8 years. We are located in the communities we serve and understand our customers.
9 Customer interaction is part of our daily business and goes hand-in-hand with reliably
10 managing the system. Duquesne Light and its employees are proud of that history and
11 our ongoing partnership with the people of Southwestern Pennsylvania. It is with that
12 history and partnership in mind that I come to testify before the Commission today.
13 Simply stated, retail competition is flourishing in Duquesne Light’s service territory.
14 This is illustrated by the following:

- 15 • 68% of the total load in Duquesne Light’s service territory is currently
16 receiving service from an electric generation supplier.
- 17 • There are 25 electric generation suppliers currently serving customers in
18 Duquesne Light’s service territory (13 serving the residential class, 23
19 serving the small and medium commercial classes, and 18 serving large
20 commercial and industrial customers).
- 21 • With regard to the residential class, 31,000 customers shifted from default
22 service to an EGS during the past five months alone and this trend looks to

1 continue. Over 144,000, about 30% of our residential customers, are now
2 served by alternative suppliers.

3 • 77% of the commercial class load is shopping with alternative
4 suppliers and 93% of the Industrial load is shopping --- comprising some
5 of the highest load shopping in the United States.

6 We believe that the success of retail competition in Duquesne Light's service
7 territory (refer to attached Graph on Customers Shopping in Duquesne Service Area) is
8 the result of the Company's thoughtful treatment of its customers and through a series of
9 deliberate actions and progressive changes in default service plans. The first major step
10 was the Company's voluntary divestiture of generation which permitted Duquesne Light
11 to lower rates and exit from generation rate caps in 2002, well before any other major
12 electric utility in Pennsylvania. With the divestiture, Duquesne has found there to be a
13 unique and natural alignment with customer oriented principles. Still today, Duquesne
14 remains the only Pennsylvania major EDC without a significant generation affiliate. The
15 second major step was a series of sensible default service plans that deliberately
16 advanced competition and helped develop a sustainable market in a meaningful manner
17 while staying true to some basic customer centric principles to help protect customers
18 along the way. The third major step was Duquesne Light's rate design policies and
19 procedures that facilitated and encouraged customer choice. During this process,
20 Duquesne Light established co-operative and constructive relationships with EGSs and
21 customer advocates. In fact, many of our Default Service Plans involved settlements by
22 all intervening parties.

1 Duquesne Light's continuous commitment to advancing competition has been
2 demonstrated through a series of thoughtful default service process improvements as
3 retail markets developed. For example, in POLR III beginning in 2005, we provided the
4 large C & I POLR customers both an hourly price and a fixed price service. We did that
5 for all customers down to a 300 kw demand level. This is the lowest demand level in the
6 state for large C & I and exposes approximately 45 percent of the total load in Duquesne
7 Light's service area to real time pricing. In POLR IV beginning in 2008, Duquesne
8 voluntarily moved large C & I customers to hourly price service alone. We moved
9 medium C & I POLR service from a three year fixed price to 1 year and 6 month pricing
10 changes determined by an index or RFP. In cooperation with EGS and other parties,
11 Duquesne successfully implemented a Purchase of Receivables plan – the first of its kind
12 for electrics in Pennsylvania. The 3 year fixed price residential plan withstood the test of
13 a new and highly volatile capacity market in PJM, safeguarding residential customers
14 from capacity swings over 600%. We eliminated declining blocks, supply related
15 demand charges for small C & I, and subsidized heating rates gradually over time. For
16 POLR V beginning this year, we introduced small C & I customers to RFPs and one year
17 price changes, instead of three year, and residential customers to a 29 month fixed price
18 service instead of 36 months. All these are continuous incremental steps that have
19 resulted in some of the highest shopping levels in the country, growing educational
20 awareness concerning customer choice within our customer base, 25 EGSs competing in
21 the territory, while, at the same time, providing varying levels of price certainty to our
22 residential, small C & I, and medium C & I customers.

1 These actions involved an ongoing dialogue with market participants and
2 customer representatives. Together, these activities have produced vibrant competition
3 that continues to expand in our service territory without the need to “assign” customers to
4 alternative suppliers without their consent. Statewide solutions might appear attractive to
5 produce quick improvements in switching statistics, but may be counterproductive to
6 meaningful competition in service territories with more developed retail markets as in
7 Duquesne Light’s territory. Further, Duquesne Light’s experience suggests that
8 significant statewide changes may not be justified at this time given the relatively recent
9 removal of such caps for other major EDCs in the State.

10 Duquesne Light does support continued evaluation of the state of retail markets
11 and identification of potential impediments to properly functioning retail markets. In
12 making such an evaluation, Duquesne Light recommends that a set of principles be
13 developed that will form the basis for future decisions and provide a level of guidance as
14 to the future direction of Commission policies for all participants, including EDCs,
15 existing EGSs, future EGSs, wholesale suppliers, and most importantly customers. In that
16 vein, Duquesne Light offers the following principles for consideration by the
17 Commission:

- 18 • The individual’s right to affirmatively choose their electric generation
19 supplier should be maintained. This suggests no assignment or auctioning
20 of customers in any fashion is appropriate --- whether for electric supply
21 or any other service.

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- Default service rates should be simple, easy to understand and make shopping and comparison of power prices easy, especially for residential customers.
- Reasonable rate certainty in default service rates is important, especially for residential customers and, in our view, advances competition. We acknowledge Act 129’s intent to give consideration to the benefits of price stability.
- Under current law, any default service plan must comply with the Default Service procurement provisions of Act 129. There is no basis to conclude that an alternative generation supplier will be better able than regulated incumbent EDCs to meet all the standards of Act 129.
- There should not be a single default service procurement or rate offering for all customer classes. Different customer classes have different service requirements, and different needs for rate stability.
- An entity that provides services should be able to bill customers directly for the services they provide.
- The Default Service Provider should be governed by some level of regulatory (PUC) oversight that includes reasonable consumer protection provisions. For example, a customer that does not take affirmative action to switch to an EGS should not be assigned to an EGS that subsequently can charge the customer whatever rate the EGS elects to charge, without any Commission oversight.

1 I do not intend to address specifically in this testimony each of the questions that
2 the Commission has circulated for comment in this investigation, as Duquesne Light has
3 provided detailed responses to those questions. I do want to note that by following the
4 principles that I have identified, the Company has been able, with the assistance of the
5 Commission, many market participants and other interested parties like the Office of
6 Consumer Advocate, Office of Trial Staff, and Office of Small Business Advocate, to
7 make significant improvements in customer access to the retail market while at the same
8 time maintaining fair and reasonable rates for customers that choose not to shop for their
9 energy suppliers. Duquesne has continued to modify its Default Service model over time
10 and found ways to advance competition as the service requirements and markets for the
11 different customer classes have evolved. We have been able to do this while keeping the
12 interests of our customers in clear sight.

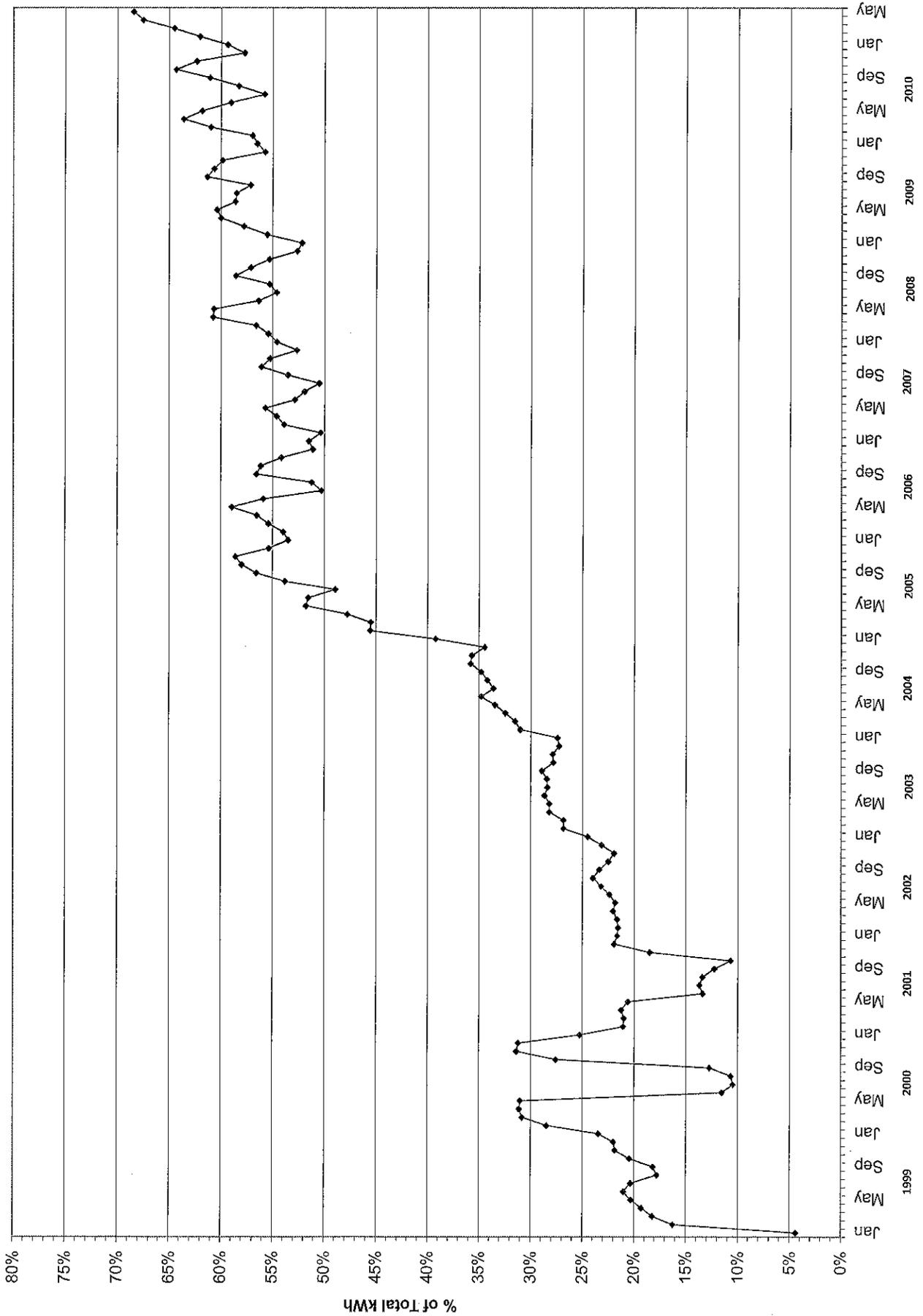
13 Just and reasonable rates for customers that choose not to shop require some
14 framework of regulation. Duquesne Light believes that the EDCs, as regulated
15 companies, are best able to meet these responsibilities over the long term and balance
16 those responsibilities with the requirement of creating and maintaining a competitive
17 retail market.

18 In a recent survey of our residential customers, 91% know they have the right to
19 choose their electric supplier. Two thirds of all customers are considering now or would
20 consider switching their electric supplier. One third would not switch at this time or did
21 consider it and decided not to switch. Based upon what our customers are telling us, a
22 conclusion could be made that 91% know they can shop, 30% have chosen to shop, one
23 third have decided not to shop and that preference not to shop should be respected.

1 While customer shopping is flourishing in the Duquesne Light territory, and, with
2 residential customer switching increasing in recent quarters, Duquesne Light submits that
3 the measure of the success of retail markets and default service models is not just about
4 the level of customer shopping. There are other important measures such as providing
5 reliable and stable default service, educating customers so that they understand the
6 important aspects of retail markets, providing simple to compare rates so they can make
7 informed choices streamlining shopping procedures to facilitate retail competition,
8 ensuring customers know they can shop and respecting the customer's right of choice
9 Given the significant level of competition in our service territory and customer awareness
10 of their ability to choose a supplier, we believe that a path of continued improvement
11 rather than significant change is the best approach. For these reasons, the Company
12 should remain the default supplier in its service territory for the foreseeable future.
13 Removal of the EDC from the default supplier role should be a remedy of last resort to be
14 employed only where progress toward improved competition is not being achieved.
15 While Duquesne prefers to remain the default service provider and to handle customer
16 interactions, we are open to exploring ways to maximize the benefits of competition for
17 electric energy supply, to minimize price and to reduce risk, all of which benefits
18 customers. Duquesne believes there are opportunities to continue to advance competition
19 for customers, and is looking forward to participating in this investigation of retail
20 competition. Thank you for the opportunity to express these views today.

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**Customer Shopping
in Duquesne's Service Area**
(All customers)



**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

INVESTIGATION OF : I-2011-223792
PENNSYLVANIA'S RETAIL :
ELECTRICITY MARKET :

**COMMENTS OF
DUQUESNE LIGHT COMPANY**

Duquesne Light Company hereby submits its Comments in this proceeding, including the Commission propounded questions below.

GENERAL COMMENTS

The Testimony of Richard Riazzi filed herewith is incorporated herein as the General Comments of Duquesne Light Company.

RESPONSES TO QUESTIONS

1. **What is the present status of competition for retail electric generation for customers, by class and service territory, and for alternative suppliers?**
 - 68% of the total load in Duquesne Light's service territory is currently receiving service from an electric generation supplier.
 - There are 25 electric generation suppliers currently serving customers in Duquesne Light's service territory (13 serving the residential class, 23 serving the small and

medium commercial classes, and 18 serving large commercial and industrial customers).

- With regard to the residential class, 31,000 customers shifted from default service to an EGS during the past five months alone and this trend looks to continue. Over 144,000 residential customers are now served by alternative suppliers, or almost 30 percent of the load.
- 77% of the commercial class load is shopping with alternative suppliers and 93% of the Industrial load is shopping.
- Almost 19,000 of our commercial customers are now shopping --- an increase of 90% from January 2008. For industrial customers, 660 of those customers shop today while 570 shopped in January 2008.
- Attached are graphs showing the customer shopping by both number and load for residential, commercial, and commercial and industrial customers.

We believe that the success of retail competition in Duquesne Light's service territory is the result of a series of deliberate actions and progressive changes to default service plans as competitive options available to various customer classes have expanded. The first major step was the Company's voluntary divestiture of generation which permitted Duquesne Light to lower rates and exit from generation rate caps in 2002, well before any other major electric utility in Pennsylvania. The second major step was a series of sensible default service plans that deliberately advanced competition and helped develop a sustainable market in a meaningful manner while staying true to some basic customer centric principles. In this regard, Duquesne Light's initial default service plan provided fixed rates for all customer classes and its most

recent plan now offers rates tailored to the needs and competitive opportunities available to each rate class. Large C&I customers, which comprise approximately 45 percent of the total load in Duquesne's service area, are offered default service rates based on hourly spot market prices. Medium C&I and Small C&I customers, which comprise approximately 24 percent of the total load in Duquesne's service area, are offered default service rates based on the results of an open and competitive solicitation process for full requirements supply. Medium C&I rates adjust every six months, while Small C&I rates adjust annually. Residential customers, which represent about 30 percent of the total load in Duquesne's service area, are provided default service at a 29 month fixed supply rate.

The third major step was Duquesne Light's rate design policies and procedures that facilitated and encouraged customer choice as well as establishing a co-operative and constructive relationships with EGSs as demonstrated by Default Service Plans that were settlements by all intervening parties. As examples, Duquesne Light has eliminated declining block rate structures and was the first major electric distribution company in Pennsylvania to develop a purchase of receivables program, in cooperation with the EGSs and other interested parties that applies to billings for small customers.

2. Does the existing retail market design in Pennsylvania present barriers that prevent customers from obtaining and suppliers from offering the benefits of a fully workable and competitive retail market? To the extent barriers exist, do they vary by customer class?

There are no substantial barriers in the retail market design in the Duquesne territory that prevents customers from obtaining the benefits of a fully workable and competitive retail market and from suppliers offering the benefits of a fully workable and competitive retail market. In our experience there is an initial awareness/learning curve the customer goes through as they gain

experience and become comfortable with market purchases. The learning curve phase can be accelerated through increased utility consumer education and more directly by active EGS marketing. In Duquesne's territory, our surveys have shown that customers understand they have the right to choose suppliers and have recently or are currently considering customer choice. Pricing is the largest driver of whether to switch, not market design. 93% of those who have or would consider switching choose price as the reason.

Inherently, the larger customers tend to be early adopters since they stand to benefit from a greater potential to reduce their energy costs due to the volume of energy they consume.

3. What are the economic and managerial costs associated with electric distribution companies (EDCs) fulfilling the default service role? Are the EDCs accurately passing those costs along to default service customers? Do default service rates include any elements that are not cost-based? Is an examination of distribution rates needed to ensure proper cost allocation? Are there barriers to competition as a result of having EDCs provide default service?

This question contains a series of questions within a question. Each is discussed below in turn.

A) What are the economic and managerial costs associated with electric distribution companies (EDCs) fulfilling the default service role?

The managerial costs are minimal. They include staff time to interact with PJM for hourly-priced default customers and vendor costs to conduct RFP processes for auction-based default customers. These costs are accurately passed through in the default service price. For fixed-price residential and lighting customers at Duquesne, staff time is required to manage a portfolio of third-party wholesale contracts and

interact with PJM for hourly balancing of supply. These costs are also fully embedded in the default service price.

The economic costs associated with hourly-priced and auction-based default service customers are minimal to non-existent. For fixed-price residential and lighting customers, Duquesne incurs economic costs associated with holding a fixed price open during a 9-month regulatory approval process and economic costs associated with serving load under a fixed price.

The Company has reviewed these costs in prior proceedings, and agrees that some administrative and general costs should be in default service rates. The Company believes these costs and allocation should continue to be reviewed in base rate and POLR cases. More definition of what should and should not be in default service rates would be instructional. Moreover, any costs assigned to default service rates need to provide an opportunity for full recovery so that costs are not unrecovered due to customers leaving default service to shop.

B) Are the EDCs accurately passing those costs along to default service customers?

As determined during the regulatory approval process, Duquesne adequately passes these economic costs through to default service customers.

C) Do default service rates include any elements that are not cost-based?

Default service rates include only elements that are based on costs and risks borne by the utility to serve default service customers. Duquesne Light, like most other Pennsylvania utilities, reconciles costs incurred under a procurement plan for all

C&I customers. Small and Medium C&I customers are served via fixed-price full requirements contracts, while the Large C&I rate plan is 100% spot-price full requirements service. Duquesne Light passes through the utility's costs of acquiring default service supply for all C&I default service customers.

With respect to default service for residential customers, Duquesne Light currently serves these customers at a fixed-price. Duquesne Light protects residential customers from price volatility for the term of the plan and assumes the risks associated with electricity supply and demand. Per Act 129's provisions regarding default service procurement, the supply is a "prudent mix" of contracts that ensures "adequate and reliable service" at the "least cost to customers over time."¹ In adopting the Act, the General Assembly recognized that consideration of "least cost" should "[take] into account any benefits of price stability."² That is, the cost associated with providing price stability is the amount necessary to compensate a supplier for assuming a commensurate amount of risk. While this cost of risk is not necessarily an out-of-pocket cost in all future market scenarios, it is a tangible cost and is priced appropriately in the residential default service price. Duquesne Light obtains a prudent, least cost supply mix for residential customers via a portfolio of spot, block and other products from competitive wholesale markets. In doing so, the Company, similar to a wholesale supplier in a fixed-price full requirements solicitation process, must also account for and charge for the associated risks to serve customers full requirements service at a fixed price. The default service price for residential

¹ 66 Pa.C.S. § 2807(e)(3.1)-(3.2) & (3.4).

² See Act 129 of 2008 (Preamble).

customers contains a risk component based on market evidence. This is similar to the cost necessary to purchase an insurance policy. Therefore, the rates charged to residential customers are cost-based, and include the costs of acquiring the supply portfolio and the associated costs of risk in providing fixed-price full requirements default service.

D) Is an examination of distribution rates needed to ensure proper cost allocation?

The answer to this question hinges on the obligations and responsibilities of EGSs and EDCs. Current rules do not require EGSs to perform metering, billing, and other customer service functions, and many EGSs choose not to do so. Therefore the obligation to provide these services is left to the EDCs. Furthermore, many of these costs cannot be avoided by an EDC if a customer shops, especially if the EDC is in the position of having to “stand ready” to serve customers that return from EGS service. Given the statutory obligation to serve, which is imposed on EDCs, but not on EGSs, it is not clear that any significant amount of costs should be removed from distribution rates. Finally, it is critical that EDCs maintain the integrity of the metering, billing and customer service processes, and it is questionable whether such integrity and consumer safeguards can be maintained if these processes are fragmented among various parties. If it is decided to make these services competitive, standards and protocols would need to be developed related to safety, reliability, privacy, and accuracy in order to protect consumers.

In any event, few EGSs have shown an interest in providing metering and billing on a competitive basis in a manner that would allow the EDC to avoid having

to maintain the necessary infrastructure to provide these services. If there were significant competition in the provision of these services, it would make sense from a policy perspective to unbundle them from distribution rates. Even so, it is important to keep in mind that experiences both within Pennsylvania and from other jurisdictions suggest that attempting to unbundle these services will be difficult and contentious with the potential creation of a new form of stranded costs as well as consumer confusion. As an alternative, rather than attempt to unbundle distribution functions or separate out certain distribution costs, other methods may prove more useful to support retail competition. For instance, rather than unbundle certain customer credit and collection costs from distribution rates, several Pennsylvania EDCs, including Duquesne Light, have implemented purchase of receivables (POR) programs that enable EGSs to market to retail customers without assuming customer credit and collection risks.

E) Are there barriers to competition as a result of having EDCs provide default service?

Please refer to the Company's responses to Questions 4 and 5 below.

4. Are there unintended consequences associated with EDCs providing default service, and related products, such as time-of-use rates?

The Company's response to Question 5 addresses in general terms whether EDCs providing default service impede competition or otherwise prevent customers from choosing electricity products and services tailored to their individual needs.

In response to the second part of the question, it is Duquesne's opinion that EDCs should seek to provide standard default service for each customer class without offering multiple product options for any one customer class. That is, while a "one size fits all" default service or rate offering for all customer classes is not appropriate at this time, EDCs should seek to offer a single default service rate for each customer class. In theory, an EDC with multiple product offerings could "crowd out" competitive suppliers and pose a barrier to competition.

One possible exception to this general principle, however, would be during a "transition period" as the Company moves from one form of default service to another for a certain customer class. For example, when the default service for Large C&I customers changed from a fixed rate to an hourly rate, the Company proposed and the Commission approved a period of time during which Large C&I customers were able to choose between a fixed and an hourly rate default service option, both of which were offered by the EDC. Therefore, the EDC would be able to serve them under an hourly rate but also offer them their more familiar fixed rate for a defined period of time. Such a transition may be necessary in certain situations to minimize the impact to customers of significant changes in default service rate structures.

5. Should default service continue in its current form? Does default service impede competition or otherwise prevent customers from choosing electricity products and services tailored to their individual needs? Does default service provide an advantage to the incumbent EDC and/or its generation affiliate(s)?

Default service provided by the EDC should continue in its current conceptual form in Pennsylvania at the present time. The approach of tailoring individual default service plans to address customer needs and the state of the market in individual service territories has been a good approach in Duquesne Light's view. Statewide applications of one policy with the intent to

increase switching numbers quickly will not be nearly as successful in addressing competition, consumer safeguards, and particular issues in parts of the state. This issue of studying and modifying default service is not new. Default service rules were reviewed extensively by interested parties and the Commission twice in the past five years, with the most recent amendments made to incorporate Act 129 changes in 2010 . With the other major EDCs coming off of their rate caps, competition and customer choice should be given a chance to develop under the current framework before assessing statewide changes to the models or rules. Through individual EDC default service plan reviews and approvals, the PUC will be better able to monitor the status of competition and customer choice and to make the appropriate adjustments.

In response to other parts of the question, default service can in fact enhance, rather than impede, competition. Duquesne Light believes strongly that its policies and default service plans have enhanced competition while at the same time providing consumer safeguards. Its shopping statistics and customer satisfaction prove that to be true. But statistics should not be the lone judging factor. There are other important measures such as providing reliable and stable default service, educating customers so that they understand the important aspects of retail markets, providing simple to compare rates and streamlining shopping procedures to facilitate retail competition.

Finally, from a review of Duquesne's current statistics indicating that 93% of its large C & I load is shopping, 73% of commercial is with alternative suppliers, and 28% of residential are shopping (which has increased significantly lately due to the entrance of new EGSs), Duquesne does not believe the incumbent EDC or generation affiliates have an unfair advantage.

- 6. Can/should the default service role be fulfilled by an entity, or group of entities, other than the EDC? If the default service role should be filled by an entity other than an EDC, what mechanisms could be employed to transition the default service role away from the EDC and onto competitive electric generation suppliers (EGSs)? Are different approaches appropriate for different customer classes? What criteria should be used to ensure that EGSs are qualified to assume the default service role and maintain reliable service?**

Duquesne Light knows of no strong reasons why the default service role should not be fulfilled by the EDC. Customers value their interface with their local EDC and it is not in the customers' interest to impose termination of EDC default services or introduce confusion to that communication interface unless there are compelling reasons to do so. That interface does not inhibit customer shopping if correctly implemented. Given the level of competition in the Duquesne service territory, regulatory certainty for the Company, its customers and market participants compels a conclusion that the Company remains the default supplier in its service territory for the foreseeable future. Removal of the EDC from the default supplier role should be a remedy of last resort to be employed only where progress toward improved competition is not being achieved or there is large financial instability. EDCs who have supported competition should not be required to exit their role of default service provider. In this regard, Duquesne Light recommends that EDCs propose solutions that they believe will improve competition without harming customers or denying their affirmative right to choose their supplier, under a process in which other parties may participate, followed by a determination by the Commission, that considers the state of the competition market in each service territory as well as the Commonwealth as a whole.

In response to the portion of the question asking whether different approaches are appropriate for different customer classes, Duquesne believes strongly that different approaches

should be adopted for different customer classes. All of Duquesne's POLR plans have reflected that strong belief that the differing customer classes have different needs, desires, sophistication, and risk tolerances. A cookie-cutter approach implementing one model statewide would harm customers and not meet the needs of different customer classes. Importantly, our customers are at a different stage than other customers in other territories who are just now considering shopping options and customer choice. The Commission should not assume that customers from a particular class have the same desires, wants, and sophistication across the state.

7. How can Pennsylvania's electric default service model be improved to remove barriers to achieve a properly functioning and robust competitive retail electricity market? Are there additional market design changes that should be implemented to eliminate the status quo bias benefit for default service?

Following are items that could potentially lead to Pennsylvania's electric default service model being improved to remove barriers to achieve a properly functioning and robust competitive retail electricity market.

- Uniformity of EGS license and registration processes across the Commonwealth.
- Regulate Fraudulent or Misleading Promotional Practices to avoid misrepresentations of offers or wrongful association with the EDC. Door to door campaigns and telemarketing are especially prone to misrepresentation since many of the agents are paid on commission. As such, customers are more likely to switch initially, but if and when they determine the misrepresentations, they are less likely thereafter to switch suppliers based on the bad experience.
- Provide a stable price default option with certainty and a transparent price to compare for all residential consumers.

- Meet collaboratively with market participants in your service territory on retail supplier matters and customer choice issues.
- Have a Supplier Coordination Tariff that facilitates retailer business and customer choice.

8. What modifications are needed to the existing default service model to remove any inherent procurement (or other cost) advantages for the utility?

Duquesne does not believe there is any inherent procurement or other cost advantages for the utility. It procures capacity from PJM through its RPM process. Energy is either procured from PJM on an hourly spot basis or through bilateral contracts from counterparties. Most pricing is either at visible index pricing levels in either the spot or forward markets. Thus one entity does not have real cost advantages over others for procuring power.

9. What changes, to Regulations or otherwise, can the Commission implement on its own under the existing default service paradigm to improve the current state of competition in Pennsylvania?

Duquesne Light understands and supports the Commission's goal of improving retail competition in the Commonwealth. Duquesne Light recommends that a set of principles be developed that will guide future decisions and provide a level of guidance as to the future direction of Commission policies for all participants, including EDCs, existing EGSs, future EGSs, wholesale suppliers, and most importantly customers. In that vein, Duquesne Light offers the following principles for consideration by the Commission:

- The individual's right to affirmatively choose their electric generation supplier should be maintained. This suggests no assignment or auctioning of customers in any fashion is appropriate --- whether for electric supply or any other service.
- Default service rates should be simple, easy to understand and make shopping and comparison of power prices easy, especially for residential customers.
- Reasonable rate certainty in default service rates is important, especially for residential customers and, in our view, advances competition. We acknowledge Act 129's intent to give consideration to the benefits of price stability.
- Under current law, any default service plan must comply with the Default Service procurement provisions of Act 129. There is no basis to conclude that an alternative generation supplier will be better able than regulated incumbent EDCs to meet all the standards of Act 129.
- There should not be a single default service procurement or rate offering for all customer classes. Different customer classes have different service requirements, and different needs for rate stability.
- An entity that provides services should be able to bill customers directly for the services they provide.
- The Default Service Provider should be governed by some level of regulatory (PUC) oversight that includes reasonable consumer protection provisions. For example, a customer that does not take affirmative action to switch to an EGS should not be assigned to an EGS that subsequently can charge the customer whatever rate the EGS elects to charge, without any Commission oversight.

On an unrelated matter, but relevant to Commission regulations, Duquesne would note that the current default service rules address the reassignment of default service obligations for a service territory. First, the rules state that the Default Service Provider (“DSP”) shall be the incumbent EDC in each certificated service territory, except as may be changed by one of the following processes:

1. EDC may petition the PUC for relief of the default service obligation;
2. An EGS may petition to be assigned the default service role for a particular EDC service territory; or
3. The Commission may propose through its own motions that an EDC be relieved of the default service obligation. 52 Section 54.183 (a) and (b).

Further, the Commission may reassign the default service obligation for the entire service territory, or for specific customer classes, to one or more alternative DSPs when it finds it to be necessary for the *accommodation, safety and convenience* of the public. (Emphasis supplied.) A finding would include an evaluation of the incumbent EDS’s operational and financial fitness to serve retail customers, and its ability to provide default service under reasonable rates and conditions. Id at (c). This regulation indicates the Commission should consider this on an individual EDC basis rather than adopt a statewide policy. Specific findings for specific service territories would have to be examined and ordered directing such replacements were necessary in order to protect the public.

10. What legislative changes, including changes to the current default service model, should be made that would better support a fully workable and competitive retail market?

Duquesne Light does not believe that the Pennsylvania retail market or current default service models are broken or require legislative fixes at this time. Statewide solutions might appear attractive to produce quick shopping statistics, but may be counter-productive and cause consumer confusion in service territories with more developed retail markets. As explained in our response to Question #1 above, competition and customer choice is flourishing in the Duquesne Light service territory. Also, significant changes may not be justified at this time given the recent removal of such caps for other major EDCs. It is too soon, in Duquesne's opinion, to draw real conclusions on the retail markets and default service models since many of the major electric utilities have only recently had their rate caps expire.

Additionally, Act 129 was recently enacted by the Legislature. This Act provides recent guidance to the PUC, EDCs, EGS, and others. Act 129 provides a balance of interests between promoting competition and protecting ratepayers. For example, the Public Policy Findings of Act 129 provides the overarching guidance to "take into account any benefits of price stability" and to "procure electricity to reduce the possible of price instability." [Public Policy Objectives 1 and 2 of Act 129.] Procurement by the use of bilateral contracts was specifically authorized by the Legislature as a means to assemble a portfolio of default service supply. [66 Pa.C.S. Section 2807(e)(3.1)] Duquesne believes that not enough time has passed to draw conclusions from the Act's implementation. With such recent legislative changes having been made, there are few, if any, legislative changes that are necessary or recommended now.

11. Are there, or could there be, potential barriers being created by the implementation of the EDC Smart Meter plans?

EDC Smart Meter plans, if implemented properly, should not create barriers to competition. Rather, there is the potential to make significant improvements in infrastructure and enhance distribution and competitive services. Smart Meter plans should be executed in a competitively neutral manner, such that smart meters provide the same benefits and data access to EDCs and EGSs alike. EDCs could make available all Smart Meter data to competitive suppliers and/or customers in a non-discriminatory manner consistent with open access codes of conduct and customer confidentiality protocols. The Company believes that Smart Meters can promote, not hinder, fair and efficient retail choice competition. As a result of Smart Meters, EGSs could offer new value-added services to their customers (i.e., time-of-use pricing, real-time pricing, etc.). The Smart Meter plans also can provide a more reliable and accurate supplier settlement process than is currently available at most EDCs. Therefore, the benefits of Smart Meters can be realized by customers, EGSs and EDCs.

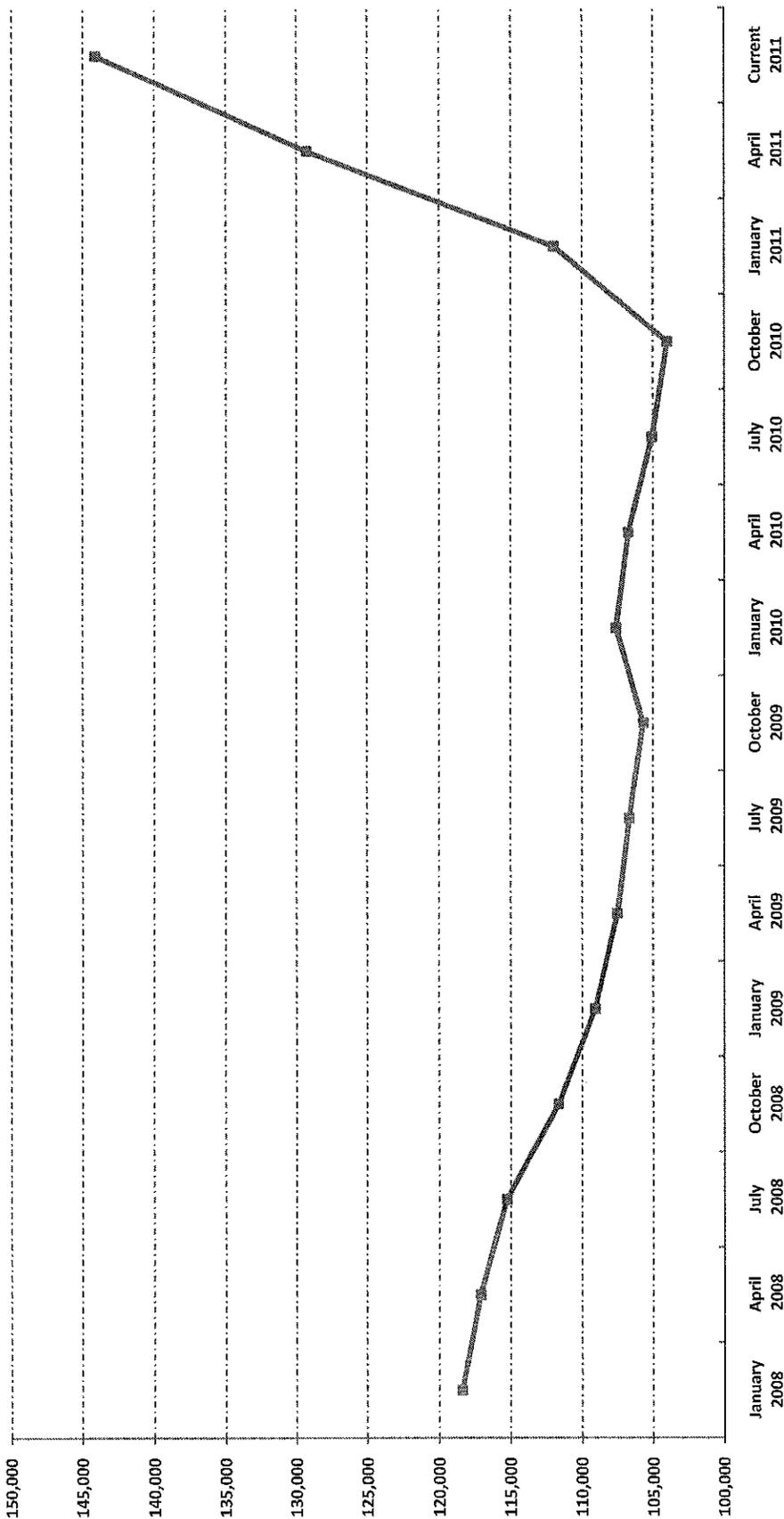
However, one objective of this statewide investigation should be to define a clear and well defined implementation plan and schedule of real time and time of use programs.

Respectfully Submitted,

Duquesne Light Company
June 3, 2011

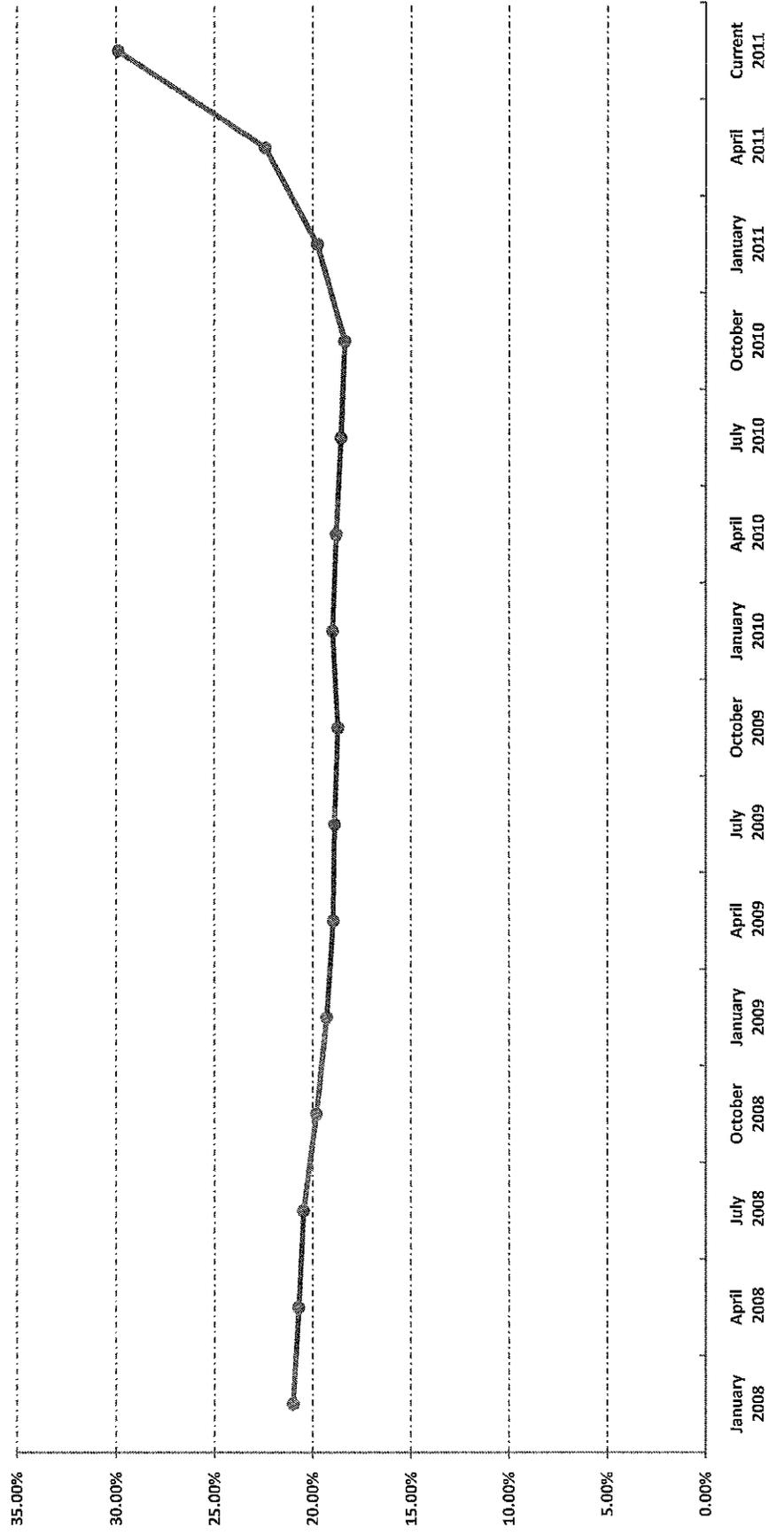


Residential Customers Served by an Alternative Supplier



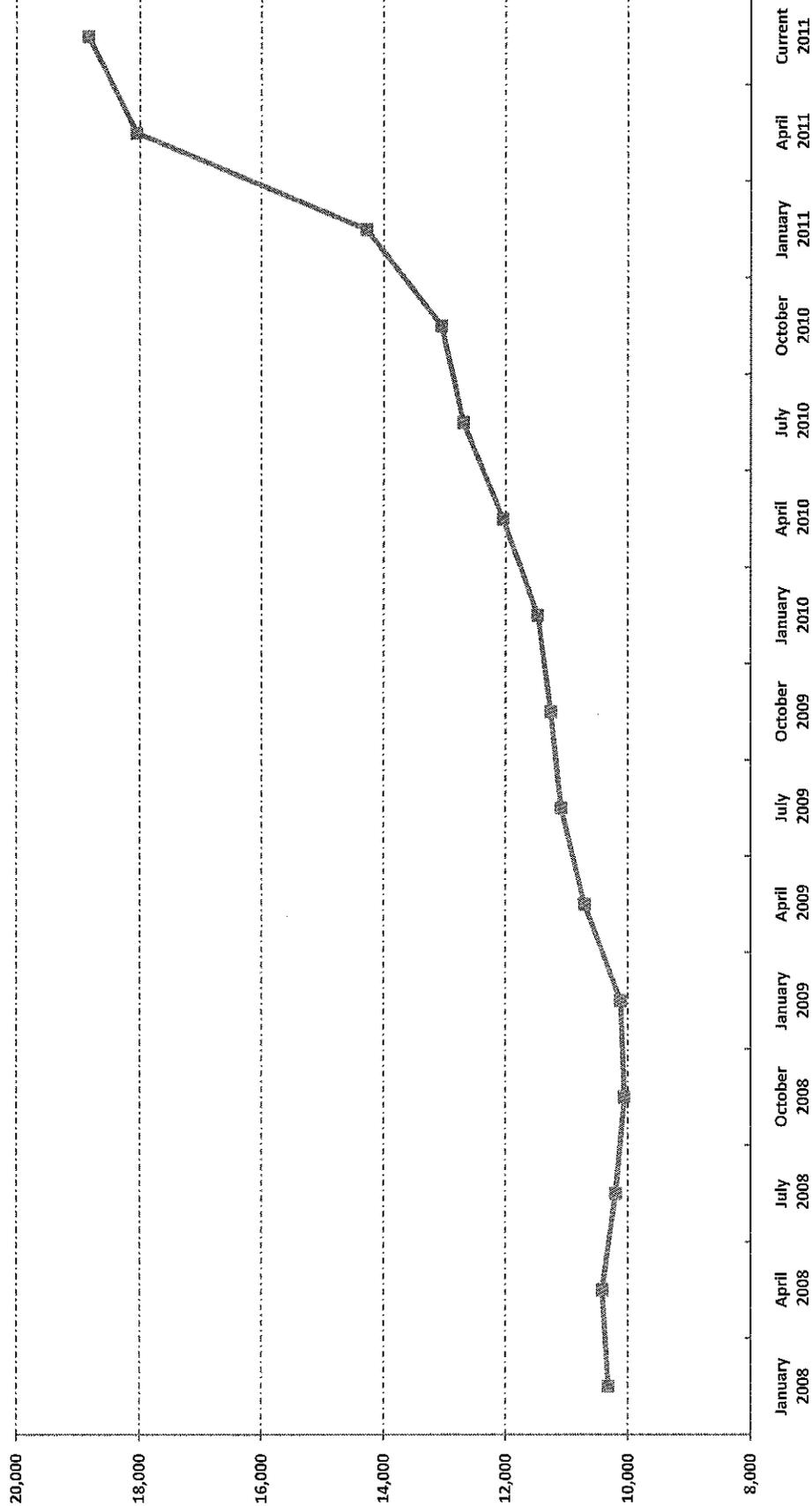


Residential Percentage of Customer Load (mw) Served by an Alternative Supplier



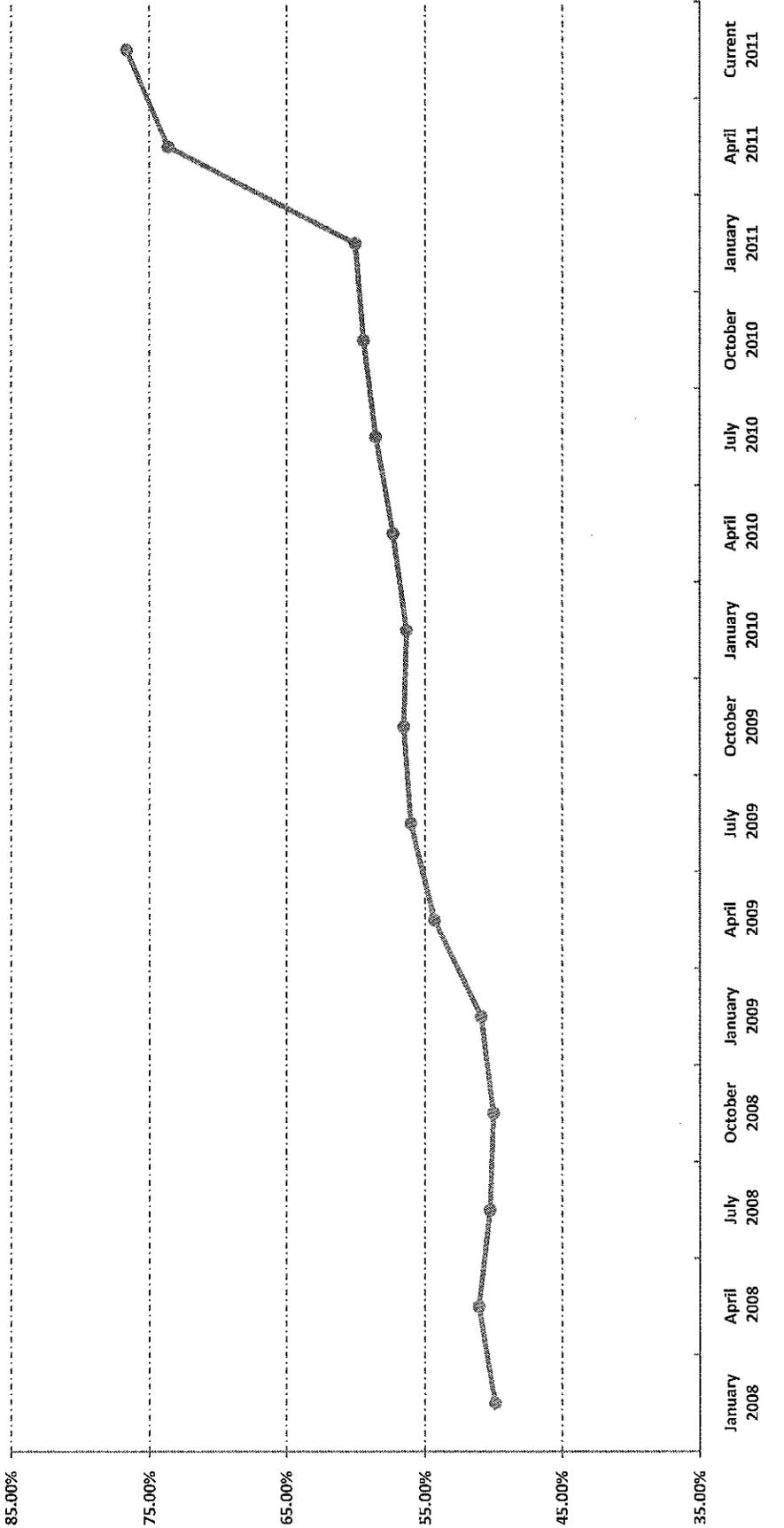


Commercial Customers Served by an Alternative Supplier



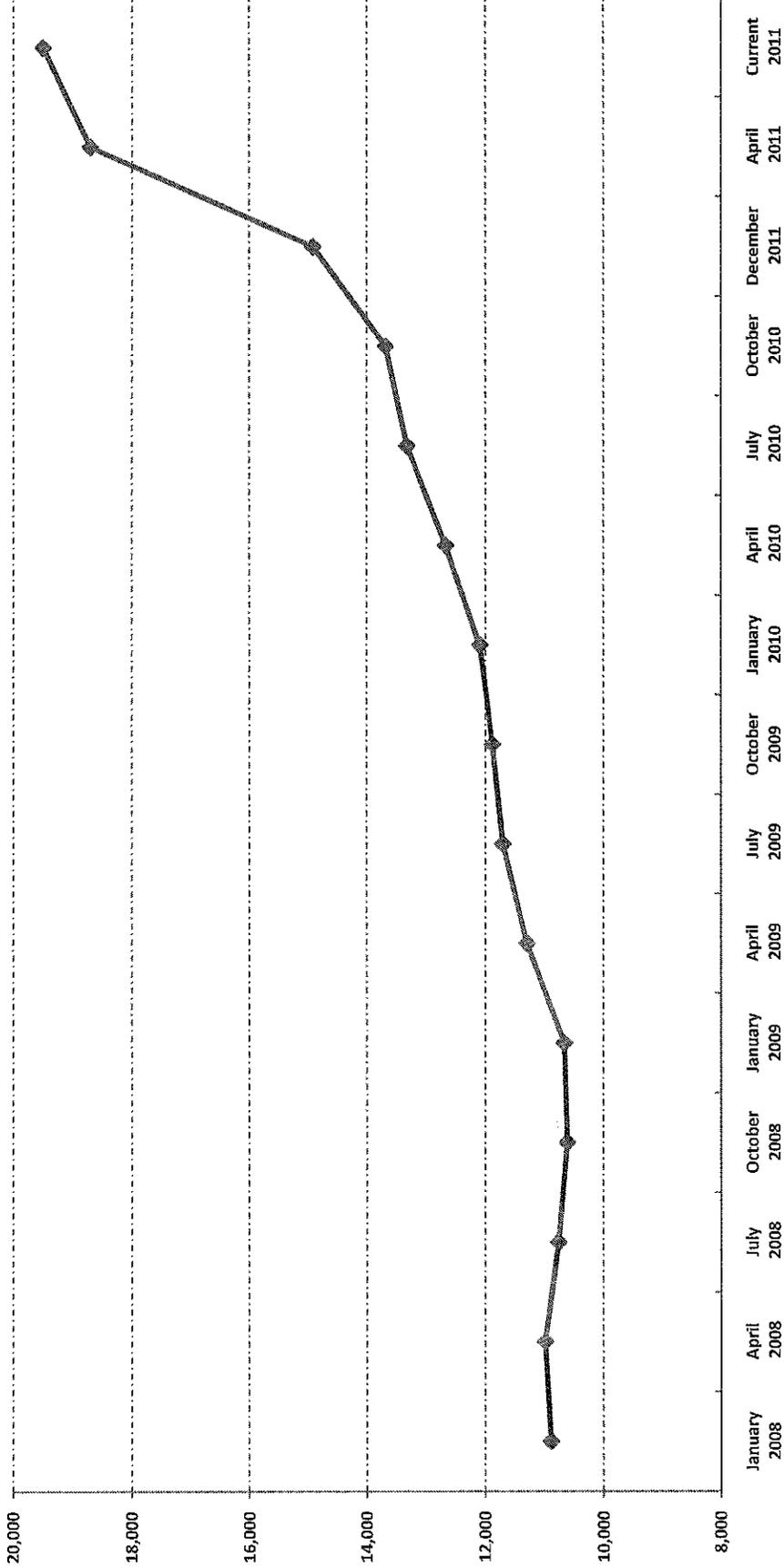


Commercial Percentage of Customer Load (mw) Served by an Alternative Supplier





Commercial and Industrial Customers Served by an Alternative Supplier





Commercial and Industrial Percentage of Customer Load (mw) Served by an Alternative Supplier

