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July 9, 2012

**VIA HAND DELIVERY**

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, Filing Room  
Harrisburg, PA 17120

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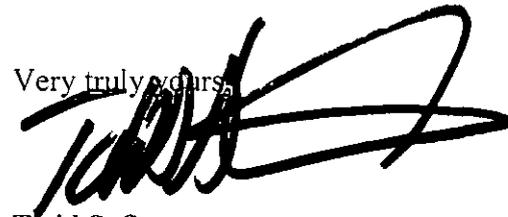
RE: Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania for Power Company and West Penn Power Company For Approval of their Default Service Programs, Docket Nos. P-2011-2273650, P-2011-2273668, P-2011-2273669, P-2011-2273670; **REPLIES OF DOMINION RETAIL, INC. TO EXCEPTIONS**

Dear Secretary Chiavetta:

Enclosed for filing with the Commission are the original and nine (9) copies of Dominion Retail, Inc. d/b/a Dominion Energy Solutions Replies to Exceptions of in the above-captioned docket. Copies of the Replies to Exceptions have been served in accordance with the attached Certificate of Service.

Thank you for your attention to this matter. If you have any questions related to this filing, please contact the undersigned.

Very truly yours,



Todd S. Stewart  
*Counsel for Dominion Retail, Inc.*

TSS/alh  
Enclosures

cc: Honorable Elizabeth H. Barnes

MAILING ADDRESS: P.O. BOX 1778 HARRISBURG, PA 17105

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>JOINT PETITION OF METROPOLITAN</b>	<b>:</b>	
<b>EDISON COMPANY, PENNSYLVANIA</b>	<b>:</b>	<b>Docket Nos. P-2011-2273650</b>
<b>ELECTRIC COMPANY, PENNSYLVANIA</b>	<b>:</b>	<b>P-2011-2273668</b>
<b>POWER COMPANY AND WEST PENN</b>	<b>:</b>	<b>P-2011-2273669</b>
<b>POWER COMPANY FOR APPROVAL OF</b>	<b>:</b>	<b>P-2011-2273670</b>
<b>THEIR DEFAULT SERVICE PROGRAMS</b>	<b>:</b>	

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**DOMINION RETAIL, INC.'S REPLIES  
TO EXCEPTIONS TO  
RECOMMENDED DECISION**

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NOW COMES, Dominion Retail, Inc. d/b/a Dominion Energy Solutions (“DES”) and hereby submits its Replies to Exceptions of the Office of Consumer Advocate (“OCA”) to the Recommended Decision (“R.D.”) of Administrative Law Judge Elizabeth H. Barnes (“ALJ”) issued by the Pennsylvania Public Utility Commission (“Commission”) on June 15, 2012, in the above captioned matter. The R.D. has correctly rejected a number of proposals offered by the OCA in the course of the proceeding which addresses the default service plans (“DSP”) proposed by the Pennsylvania utility affiliates of the First Energy Company: Metropolitan Edison Company (“MetEd”), Pennsylvania Electric Company (“Penelec”), Pennsylvania Power Company (“Penn Power”), and West Penn Power Company (“West Penn”)(collectively the “First Energy Companies” or “Companies”).

## **I. Replies to Exceptions of the OCA**

### **A. Reply to OCA Exception No. 1:**

**The ALJ's recommendation that the Companies be permitted to procure 100% of their residential default supply through 24-month full requirements contracts is correct. (OCA Exception No. 1, pp. 4-14).**

Contrary to the First Energy Companies' proposal to eliminate block and spot purchases for their transitional default service plan, the OCA insists that the Companies procure a mix of products that includes one and two year full requirements contracts along with block energy purchases of both one and four years and spot market purchases. (OCA Exceptions p. 10). The OCA's recommendation is not supportable and must be rejected.

As discussed at length in DES' Main Brief ("DES Main Brief pp. 6-7), retail success depends on pricing comparisons between default service and supplier offers being understandable for customers. As Mr. Butler discussed, including purchases of block and spot power will increase the volatility in the default service rates, particularly because those rates are subject to reconciliation. Under the Companies' proposal, default service customers will obtain price stability and transparency in a manner that will provide the comparability that will be required for competition, and particularly the Commission recommended ROA and referral programs, to flourish. Accordingly, the OCA's proposal should be rejected.

The OCA contends that Act 129, 66 Pa. C.S. § 2807(e)(3.2), requires a "prudent mix" of products, that must include full requirements contracts of differing duration and must include block and spot purchases, and must produce the least cost to consumers over time. The OCA suggests that the Companies' proposal does not meet this standard but largely ignores that fact that the Companies have proposed to stage the full requirements purchases, thus creating time

diversity in the purchases, and the fact that for practical purposes, block purchases are quite similar to full requirements purchases. What this means is that the only variable are spot purchases, which also tend to be the most volatile and thus cause the most negative impact on the PTC. The Companies' evidence certainly is sufficient to support its proposal that the elimination of block and spot purchases will produce less volatile and more market reflective pricing in the longer term. As important, the Companies also have explained why, under the circumstances of what is plainly intended as a transitional period, their proposed mix of wholesale energy products is eminently prudent.

At the same time, the OCA fails to acknowledge that what is considered to be a "prudent mix" is not a static rule as its argument suggests, but rather a dynamic concept that allows for an almost infinite level of product combinations that can and should vary over time to address particular circumstances.

Accordingly, there is no basis for adopting the OCA's proposal in light of the Companies' extensive support for the use of the two-year full requirements contracts. DES recommends adopting the Companies' proposal with regard to the procurement for residential and small commercial customers, and rejecting the OCA's proposal.

#### **B. Reply to OCA Exception No. 5:**

**The OCA's contention that the ALJ erred by failing to implement a one-year reconciliation methodology as opposed to the Companies' current quarterly reconciliation process is contrary to sound policy and must be rejected. (OCA Exception No. 5, pp. 22-25).**

The OCA's proposal to modify the Companies' current quarterly reconciliation is unsupported and unnecessary and should be rejected. As discussed in the R.D. (pp. 80-82) the Companies have proposed to continue to reconcile default service revenue and expenses on a

quarterly basis. The OCA proposed to modify this methodology in a manner that would have the Companies continuing to adjust their forward looking Price to Compare (“PTC”) on a quarterly basis, but reconcile the backward-looking expenses and revenues over a rolling twelve month period. It is the OCA’s belief that this methodology would smooth out the volatility that currently exists in default service rates despite the fact that it presented no serious evidence that default service rates are unnecessarily volatile in the first instance.

Annual reconciliation has proven elsewhere, particularly in the natural gas industry, to be highly detrimental to the competitive market. (DES St. No. R-1, 15:6-16:10). Another negative is that the longer reconciliation period would cause customers to pay more interest charges, thus compounding and increasing the unrecovered balances that will disassociate market costs from rates and damage potential pricing signals to customers. The FirstEnergy Companies believe that the OCA proposal will increase volatility in the Price to Compare, not reduce it. (FirstEnergy Statement No. 2-R, 15:16-10). The OCA fails to even allege that the status quo is inadequate or inequitable. (DES Main Brief p. 13).

There seems to be no rational basis for the OCA’s proposal except that it believes as a policy matter that default service revenues and costs should be reconciled over an annual basis. As such, the OCA does not provide any justification for adopting its one year reconciliation methodology and it should accordingly be rejected in favor of the Companies continuing their quarterly reconciliation process.

### **C. Reply to OCA Exception No. 7:**

**The OCA's proposed fixed discount off of the Price To Compare Product for the Retail Opt-In Auction should be rejected. (OCA Exception No. 7 pp. 28-31).**

The R.D. adopted the Companies' position that the ROA Program would be at minimum a 5% discount off the PTC, *at the time of the EGS auction.* (R.D. at 101-106). The OCA speculated that such a program could result in a customer ending up paying a rate for some period during the term of the contract that could be greater than the PTC. While technically correct, the OCA's concern is overstated and its proposed "fix" is unnecessary. In turn, the OCA proposed that the product should be a fixed discount off the PTC, so that if the PTC changes, the savings percentage remains the same.

The root cause of the type of PTC volatility that might produce the OCA's feared result is the inclusion of block and spot energy purchases in the default service mix, which ironically is a position championed by the OCA. That is, as the Companies' witness made clear, elimination of the block and spot purchase component of the default service portfolio will cause the PTC to become less volatile, thus lessening the chances for a large PTC price swing, in either direction, during the ROA program period. (FE MB. Pp. 15-17).

What is less obvious, is the premise of the OCA's argument that suggests that if the unthinkable were to occur, and there was a period during the one year contract term, where the PTC dipped below the prices offered in that program, that the entire benefit of the program is somehow negated. This premise is not true. If the program is designed properly, and not as the OCA has recommended, it should attract many suppliers to participate and the actual discount may exceed 5%, thus decreasing the likelihood of a rate reversal.

Moreover, the unspoken assumption of the OCA's assertion is that somehow the customer is disadvantaged if at some point during the contract period the customer ends up

paying a price greater than the PTC. This assertion ignores the fact that customers do indeed receive benefits—price certainty--from a fixed-price product, even if the PTC fluctuates, and multitudes of customers recognize those benefits in the market today. That is, customers search for the best price at the time, sign up for that price. If, however, at some future time they find the product can be found cheaper somewhere else, the customer is free to leave, without penalty. So if the PTC does go below this price, customers have the option to vote with their feet and leave the program.

If the OCA is suggesting that customers are unable or unwilling to recognize the price differential even though the PTC will be on their bill in a notable location, thus allowing customers to continuously compare the price they are paying with the PTC, then the OCA is suggesting that additional consumer education is required. DES, however, does not share this cynical view of customer behavior and believes that customers are quite capable of ascertaining whether an offer is beneficial to them. Accordingly, the OCA's proposal should be rejected and as unsupported and unnecessary.

#### **D. Reply to OCA Exception No. 10:**

**The ALJ's acceptance of the Companies' proposed term and product pricing for the Standard Offer Referral Program should be sustained. (OCA Exception No. 10, pp. 32-34).**

The OCA excepts to the ALJ's determination that the product for the Standard Offer Referral Program be a 7% discount for a twelve-month period. To the contrary, the OCA's witness, Ms. Alexander, expressed concern with the fact that the 7% discount was off of the PTC at the time of the offer, and was not a guaranteed savings of 7% over the course of the twelve-month contract. She recommends a four month product instead. She expressed the same

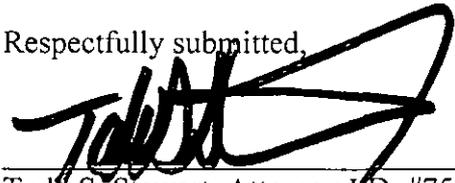
concern echoed in the Exception above that the customer could at some point during the program theoretically pay a rate higher than the PTC despite the fact that this is a cancel anytime contract with no penalty for cancellation. Again, the upshot of Ms. Alexander's position is that customers will not recognize that their price has exceeded the PTC or that customers would be unable or unwilling to take any action if in the unlikely event that a 7% discount proves to be insufficient to provide customer savings off the PTC during the course of the entire year. Ms. Alexander's concerns are unsupported.

The Companies' proposal clearly is in line with the guidelines proposed by the Commission and will provide appropriate incentives for customers to migrate from default service to competitive offers. Once in the competitive market place these customers have the same level of protection as any other customer in the competitive marketplace - except that the terms and conditions were prescribed by the EDC. Offers by suppliers at a fixed price for a one-year period of time are commonplace and so long as customers are made aware of the actual price and the fact that the price is not guaranteed to be below the PTC for the whole year, customers will have been provided with adequate information upon which to base their behavior and decisions. Accordingly, the OCA's Exception should be rejected and the R.D. should be sustained on this point.

## **II. CONCLUSION**

While it is not pleased with the entirety of the R.D. in this matter, as evidenced by its own Exceptions, DES has been willing to accept much of the R.D. as being reasonable. DES' Exceptions are intended to identify necessary improvements to the default service plans filed by the First Energy Companies, in ways that will make those plans more likely to achieve the goal of increasing competition on a voluntary basis. The OCA's exceptions, by contrast, seek to limit

the proposed DSP plans, and the competitive enhancements in particular, in ways that are not neither helpful nor in the public interest. The OCS's Exceptions will impose more cost, more complexity and less customer and supplier participation. In short, the OCA's approach will produce mediocrity, at best, and failure as the more likely outcome. DES respectfully disagrees with such an approach.

Respectfully submitted,  


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Dated: July 9, 2012

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**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served a true copy of the foregoing document upon the parties, listed below, in the manner indicated below, and in accordance with the requirements of 52 P.A. Code §1.54 (relating to service by a party).

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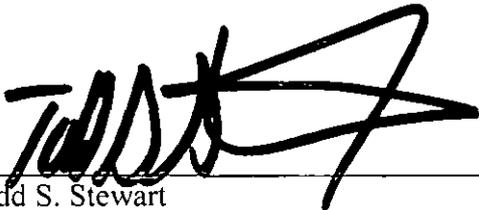
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Dated this 9<sup>th</sup> day of July, 2012

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