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December 20, 2012

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

VIA ELECTRONIC FILING

RE: Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company for Approval of Their Default Service Plans; Docket Nos. P-2011-2273650, P-2011-2273668, P-2011-2273669 and P-2011-2273670

Dear Secretary Chiavetta:

Enclosed please find the original of the Reply Comments of the Met-Ed Industrial Users Group ("MEIUG"), the Penelec Industrial Customer Alliance ("PICA"), the Penn Power Users Group ("PPUG"), and the West Penn Power Industrial Intervenors ("WPPII") in the above-referenced proceeding.

As shown by the attached Certificate of Service, all parties to this proceeding are being duly served. Thank you.

Sincerely,

McNEES WALLACE & NURICK LLC

By 
Teresa K. Schmittberger

Counsel to the Met-Ed Industrial Users Group,
the Penelec Industrial Customer Alliance,
the Penn Power Users Group, and
the West Penn Power Industrial Intervenors

TKS/sar

c: Administrative Law Judge Elizabeth H. Barnes (via e-mail and Hand Delivery)
Certificate of Service

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CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant).

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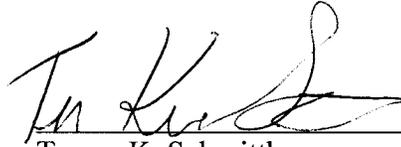
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Dated this 20th day of December, 2012, at Harrisburg, Pennsylvania

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**REPLY COMMENTS OF THE MET-ED INDUSTRIAL USERS GROUP,
THE PENELEC INDUSTRIAL CUSTOMER ALLIANCE,
THE PENN POWER USERS GROUP, AND
THE WEST PENN POWER INDUSTRIAL INTERVENORS**

I. INTRODUCTION

On August 16, 2012, the Pennsylvania Public Utility Commission ("PUC" or "Commission") issued an Opinion and Order directing Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company (collectively, the "Companies"), in part, to collaborate with electric generation suppliers ("EGSs") in developing the terms for the Companies' new opt-in aggregation and customer referral retail market enhancement ("RME") programs that will be part of the Companies' new default service plans ("DSPs").¹ Specifically, the FirstEnergy Order directed the Companies to collaborate with stakeholders and develop a proposal "regarding how EGSs will pay for the Standard Offer Customer Referral Program and the redesigned . . . Aggregation

¹ *Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company For Approval of Their Default Service Programs* (hereinafter, "FE DSP II"); Docket Nos. P-2011-2273650, *et. al.*, Opinion and Order (Aug. 16, 2012), p. 136 (hereinafter, "FirstEnergy Order").

Program."² Following three collaborative meetings among stakeholders related to RME cost recovery and program design, the Companies submitted their revised DSPs to the Commission on November 14, 2012 ("Revised DSP").³

In response to the Revised DSP, the Retail Energy Supply Association ("RESA"), the Office of Consumer Advocate ("OCA"), and the Office of Small Business Advocate ("OSBA") filed Comments on December 10, 2012.⁴ Pursuant to the procedural schedule established by the Commission in this proceeding, the Met-Ed Industrial Users Group ("MEIUG"), Penelec Industrial Customer Alliance ("PICA"), Penn Power Users Group ("PPUG"), and West Penn Power Industrial Intervenors ("WPPII") (collectively, the "Industrial Customer Groups") hereby submit these limited Reply Comments in response to RESA's request to impose equal cost sharing for RME programs between EGSs and "distribution customers."⁵ In agreement with the OCA and OSBA, the Industrial Customer Groups support the Revised DSPs' proposal to allocate all RME program costs to EGSs, as they are the primary beneficiaries of such programs. If, however, an alternative cost allocation proposal is considered, the Commission should reject any proposal to collect RME program costs from ineligible customer classes, specifically Large Commercial and Industrial ("C&I") customers.

² *Id.* This directive is consistent with the Commission's holding in its Intermediate Work Plan, which concluded that EGSs should be responsible for RME program costs. See *Investigation of Pennsylvania's Retail Electricity Market Intermediate Work Plan*; Docket No. I-2011-2237952, Order (Mar. 2, 2012), pp. 32, 78 (hereinafter, "RMI Order").

³ Still outstanding in this proceeding is the Industrial Customer Group's appeal of the Commission's November 8, 2012, Secretarial Letter, which relates to other, non-RME aspects of the Companies' DSPs. Accordingly, the Industrial Customer Groups continue to oppose the Companies' proposed DSPs for the reasons set forth in the aforementioned appeal. See *FE DSP II*, Appeal of Staff Action, and in the Alternative, Reconsideration of the Secretarial Letter (Nov. 19, 2012).

⁴ The Commission approved RESA's request for Comments to "assist in the resolution of the outstanding issues" related to the Companies' RME programs. *FE DSP II*; Secretarial Letter (Nov. 30, 2012).

⁵ *FE DSP II*, Retail Electric Supply Association Comments to Revised Default Service Plan Retail Market Enhancement Programs (Dec. 10, 2012), p. 7 (hereinafter "RESA Comments").

II. REPLY COMMENTS

A. The Companies' Proposal To Collect All RME Costs from EGSs Is Consistent with Commission Precedent.

Although RESA submits that RME costs should be divided between EGSs and distribution customers, both Commission precedent and cost causation principles require rejection of such a cost allocation proposal. Rather, as set forth herein, the Companies' proposal, which appropriately assigns these costs to the benefitting EGSs, should be adopted as the more appropriate cost collection mechanism.

RESA's Comments urge the Commission to reject the Companies' request to assign 100% of RME program costs to EGSs, arguing that the proposal is unreasonable and would discourage EGS participation if adopted. RESA sets forth an alternative cost allocation approach that would divide RME program costs between "distribution customers" and EGSs to generate greater interest among EGSs in the programs.⁶ In support of its cost allocation proposal, RESA cites the Commission's recent decision in another electric distribution company's ("EDC") DSP proceeding, acknowledging "the possibility" that customers may bear some cost responsibility.⁷ Importantly, while the PUC acknowledged that the "possibility" could exist for a division of cost responsibility, RESA has not presented any arguments that would render this division of costs appropriate for purposes of this proceeding.

Rather, RESA's proposed RME cost recovery from customers must be rejected as inconsistent with Commission precedent. The Industrial Customer Groups acknowledge that the

⁶ See *id.*

⁷ See *id.* at 6 (citing *Petition of PECO Energy Company for Approval of its Default Service Program*; Docket No. P-2012-228364, Opinion and Order (Nov. 21, 2012), p. 17 (hereinafter "PECO Order")).

Commission referred all RME issues to a collaborative process in the FirstEnergy Order.⁸ Nonetheless, the Commission specifically directed stakeholders to determine how RME cost recovery should be assigned among "EGSs."⁹ Furthermore, as part of the retail markets investigation, the Commission, encouraging EDCs to implement RME programs, has recognized that costs of these programs should be primarily borne by the EGSs "reaping the possible customer acquisition benefits."¹⁰ Parties' failure to reach an agreement on joint customer/EGS cost recovery within the Companies' collaborative does not alter this prior Commission precedent.

As the Comments submitted by the OCA and OSBA make clear, EGSs are the primary beneficiaries of the RME programs and should therefore bear the costs associated with implementation of those programs.¹¹ Upon introduction of RME programs, EGSs will experience an immediate increase in customer base and profit. Customers, particularly those who cannot or choose not to participate, will receive no similar benefit. As such, customers should not be assigned any portion of the resulting costs.

Consistent with the foregoing Commission precedent, the Industrial Customer Groups support the Companies' proposal to collect all RME program costs from EGSs and urge the Commission to adopt the Companies' Revised DSP proposal with respect to RME cost recovery.

B. If The Commission Adopts a Cost-Sharing Approach for RME Programs, Large C&I Customers Should Be Exempt.

As an alternative to the Companies' RME cost allocation proposal, RESA requests that the Commission order the costs of RME programs to "be shared equally between EGSs and

⁸ See PECO Order, p. 16 (indicating that customer cost sharing for RME programs is appropriately addressed by the collaborative process among PECO and interested parties).

⁹ See FirstEnergy Order, p. 136.

¹⁰ RMI Order, p. 78.

¹¹ See *FE DSP II*; OCA Comments, p.6; OSBA Comments, p. 10.

distribution customers."¹² The Commission is further urged to establish an initial "per customer" cost for the first year of the programs, with EGSs remitting half of these costs in order to participate, and the Companies recovering the remaining costs "from distribution customers via a surcharge."¹³ Because RESA's Comments are not explicitly clear as to whether **all** customers should be subject to the surcharge or whether this surcharge should be applied only to those customers eligible for the RME programs, the Industrial Customer Groups submit that, in the event RESA believes the surcharge should be applied to all customers, this proposal must be rejected as unjust, unreasonable, and inappropriately discriminatory.

As discussed above, the Industrial Customer Groups oppose any RME cost collection from customers. If, however, the Commission is persuaded by RESA's arguments to divide these costs between customers and EGSs, the Industrial Customer Groups submit that no such costs should be collected from Large C&I customers. Large C&I customers are ineligible for the Companies' RME programs, thereby rendering recovery of these costs from these customers to be unjust, unreasonable, and inconsistent with cost causation principles. Specifically, the Companies should not be required to recover costs from customers that are ineligible to participate in such programs. In addition to eligibility exclusions, Large C&I customers have already achieved significant shopping levels obviating the need for RME programs. Their participation in RME programs would not contribute to the development of robust competitive markets envisioned by the Commission.¹⁴

Given Large C&I customers' ineligibility for participation in RME programs, and in light of these customers' sophisticated nature and current shopping levels, the Commission should reject any proposal to collect RME program costs from Large C&I customers.

¹² RESA Comments, p. 7.

¹³ *Id.*

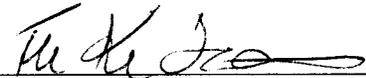
¹⁴ *See* RMI Order, p. 3.

III. CONCLUSION

WHEREFORE, the Met-Ed Industrial Users Group, Penelec Industrial Customer Alliance, Penn Power Users Group, and West Penn Power Industrial Intervenors respectfully request that the Pennsylvania Public Utility Commission consider and adopt, as appropriate, the foregoing Reply Comments.

Respectfully submitted,

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