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December 20, 2012

VIA ELECTRONIC FILING

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

RE: Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania 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, and P-2011-2273670; **DOMINION RETAIL, INC.'S COMMENTS TO REVISED DEFAULT SERVICE PLAN - RETAIL MARKET ENHANCEMENTS**

Dear Secretary Chiavetta:

Enclosed for filing with the Commission is the original of Dominion Retail, Inc.'s Comments to Revised Default Service Plan - Retail Market Enhancement Programs in the above-captioned docket. Copies of the Comments have been served in accordance with the attached Certificate of Service.

Thank you for your attention to this matter. If you have any questions, please do not hesitate to contact the undersigned.

Very truly yours,

Todd S. Stewart
Counsel for Dominion Retail, Inc.

TSS/jld

Enclosures

cc: Honorable Susan D Colwell (via email and first class mail)
Per Certificate of Service

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 accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

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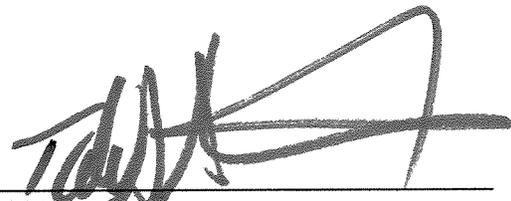
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Date: December 20, 2012

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

**DOMINION RETAIL, INC'S COMMENTS
TO REVISED DEFAULT SERVICE PLAN -
RETAIL MARKET ENHANCEMENTS**

Respectfully submitted,



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I. INTRODUCTION

On August 16, 2012, the Pennsylvania Public Utility Commission (“Commission”) issued an Opinion and Order in the above-captioned matter that, among other things, convened a collaborative process to address several items left unresolved by that Opinion and Order. Those unresolved items include: 1) Time-of-Use Rates for two of the First Energy¹ affiliates; 2) developing an Opt-in Aggregation (“OI”) program to replace the originally proposed auction; 3) development of a cost recovery plan for both the OI and the Customer Referral (“CR”) program; and, 4) revisions to the CR to include small commercial customers.

The collaborative process was duly commenced and Dominion Retail, Inc. d/b/a Dominion Energy Solutions (“DES”) actively participated in that process. Unfortunately, the collaborative was unable to reach consensus on an array of issues and sub-issues that were referred to it. Nonetheless, as required by the Opinion and Order (as modified by the Commission’s Amended Opinion and Order entered on October 11, 2012) First Energy submitted a revised compliance filing on November 14, 2012. A Secretarial Letter was subsequently issued by the Commission on November 30, 2012, which provided for the filing of Comments and Reply Comments to the revised default service plans. Several parties filed comments in response to the revised compliance filing. DES hereby submits its Reply Comments to the comments that were offered by the Office of Consumer Advocate and the Retail Energy Supply Association on December 10, 2012, as required. These replies are offered pursuant the schedule provided for in that same November 30, 2012 Secretarial Letter.

In its Comments, RESA makes the statement that “without robust EGS participation in the RME Programs, they cannot be successfully implemented and will not achieve the desired

¹ Metropolitan Edison Company (“Met-Ed”), Pennsylvania Electric Company (“Penelec”), Pennsylvania Power Company (“Penn Power”), and West Penn Power Company (“West Penn”) (collectively, that “Companies” or “First Energy”)

goal of promoting greater customer participation in the competitive market.”² DES agrees with this conclusion. However, DES does not agree with the entirety of the Comments filed by RESA as will be discussed more fully below. The OCA’s primary positions in this case, on the issues of relevance to DES, is that suppliers should be required a one-hundred percent (100%) of all the programs and that customers that participate in the RME programs require protections in addition to those already required for customers that shop today. Again, DES disagrees with these views. DES’ positions are more thoroughly developed below.

II. COST RECOVERY ISSUES

1. The Cost Recovery Conundrum.

Throughout the entirety of the litigation of the First Energy default service plans as well as those of the other EDCs in Pennsylvania, DES has stood firmly with RESA and other EGSs in suggesting that cost recovery for Retail Market Enhancement programs was a critical issue in determining the willingness of suppliers to participate in those particular types of programs. As the programs have evolved, it appears that the opt-in program, which originally had been proposed as an auction and which has now been transformed into an aggregation, will be relatively cost effective at a current estimated per customer assigned cost of one to two dollars. Understand, however, that a fee of one dollar per customer assigned is not the same as a fee of one dollar per customer acquired, because actual participation rates will be substantially less than one hundred percent (100%). That is, it that it may take mailing an offer to as many as twenty assigned customers to acquire a single paying customer. If that were the case, the cost per customer acquired would be twenty dollars per customer. In the grand scheme of things, however, if suppliers were to be required to pay the entire cost of this program -- while it would

² RESA Comments at p. 3

be inequitable -- it potentially would not be a barrier to entry so long as the fee remains at the one dollar per customer level.

With regard to the referral program, where the cost issues have been more pronounced, the same is not true. With initial estimates of a per customer acquired cost of approximately eighty-five (\$85.00) dollars, it is easy to understand why. At that level of cost, the referral program could cost more on a per customer basis than many EGS's average customer acquisition cost. What that means in practical terms is that if suppliers are able to acquire the average customer on their own for less than eighty-five (\$85.00) dollars, those suppliers are unlikely to participate in a referral program. Even if the costs were slightly less, suppliers would not be incentivized to participate because all the program rules and restrictions imposed by First Energy and the Commission tend to add costs as well. The likely result if the per customer switch fee remains at the eighty-five (\$85.00) level is that suppliers will not participate, the program will fail, and we will have invested much time and effort for naught. This is simple reality.

It also is obvious that First Energy would not agree to a program, voluntarily, that would not allow it to recover 100% of the dollars it expended. The only solution, if we are to move forward with the CR concept, is to share these costs with customers. Without cost sharing, the program is likely to fail. Abandoning the CR program as it is now conceived would save additional time and effort, and may allow more effort to be expended on achieving DES' longer term goal of requiring customers to choose their energy provider when they first sign up for distribution service. DES believes that until such an initial choice requirement is imposed, choice will not reach its full potential. That is, customers should be required to select a supplier of electricity as part of the process of signing up for electricity delivery service, either by

contacting a supplier directly or by contacting the EDC, and that those customers should be able to receive competitive supply as of the first kilowatt that flows through the new service.

With a substantial number of new and moving customers per year, such a program would surge transition customers in large numbers to the competitive market fairly quickly. DES's proposal would include the utility provided default service as one (1) of the options from which customers could choose, however, it would not be given any status above that of any other EGS offer. This is the type of switching program that will cause customers to eventually transition off of default service as default service will no longer be the primary option. Until such capability is endorsed and available, however, other referral programs will be only marginally successful. Accordingly, a delay in the CR program may not be that devastating or detrimental. On the other hand, if the Commission concludes that implementing the program immediately is necessary, it must also consider the need to share costs with customers or face non-participation by suppliers.

2. RESA's Cost Sharing Proposal Should Be Adopted.

RESA has proposed a rather cost-sharing regimen under which customers and suppliers would share the costs of both programs on a fifty percent supplier, fifty percent customer basis. RESA's proposal also would: 1) require FE to provide detailed cost estimates; 2) require that the fees be charged on a per-customer basis for both the retail opt-in and the customer referral program; 3) would impose a cap of no more than thirty (\$30.00) dollars per customer fee for the CR; and, 4) would require a prudence test before FE is allowed to collect any more than the original estimate.

While DES supports sharing of costs generally, it is less emphatic about the need to share costs for the OI program due only to the relatively low level of those costs, but it firmly believes that cost sharing is necessary to bring the per customer fee for the referral program into a more

reasonable posture. We also support the over-arching conclusion, contrary to the OCA's view, that customers do directly benefit from a market that is competitive and will benefit to an even greater degree if the market were robustly competitive. To suggest that only supplier benefit because they profit from the transaction ignores the plain benefits that shopping customers receive when they choose – they get an electricity supply product *that they have chosen* and which suits their particular needs. As a consequence, we submit that it is proper to ask customers to share the costs of the RME programs. In this particular circumstance, that means the costs of the CR should be shared to avoid failure.

3. Amortization of Program Costs and Miscellaneous Cost Recovery Issues.

RESA has insisted that all IT and programming cost, be amortized over the five (5) to seven (7) year period based upon that concept that they are capital costs and that such costs are typically recovered over longer time horizons. RESA also states its concern for a static fee structure that provides firm estimates of costs, up front, and which requires that the fees be based upon those estimates and that any deviation from the fee structure be subject to post hoc prudence review. Finally, RESA also emphatically demands that there be no post hoc recovery from “all suppliers” or participating suppliers, if, respectively, no suppliers show up, or some show up but exit the program leaving unrecovered costs.

With regard to RESA's first issue, namely amortization, DES agrees that it is more typical to amortize IT system improvements and other longer term, capital expenditures over a longer than two (2) year period, and the expedited recovery of those costs here is one factor that could be driving up the costs of the CR. To the extent that capital expenditures are being made for these programs, they should be recovered as capital expenditures.

It also is important from a supplier participation perspective that fees be clear, and be fixed. After the fact reconciled fees may be acceptable for customers, but such fees will scare away suppliers if there is even a chance of being charged for ongoing costs of a program well after a supplier has ceased to participate. The risk is too great. There must be certainty at the outset.

III. PROGRAM ISSUES

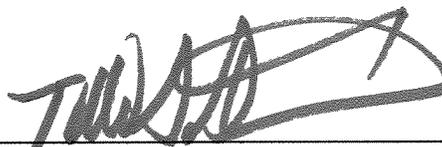
1. We Do Not Agree with RESA that customers must be able to select a particular supplier in the CR program.

Beginning on page 17 of its Comments, RESA points out what it believes to be a flaw in First Energy's CR program -- that customers may not be able to be assigned to a supplier of their own choosing. While this may facially appear to be a problem, this issue is one of the cost of processing the exception rather than the rule. That is, by including functionality to allow customers to pick a specific supplier, costs are increased in an already expensive program. It also is difficult to understand why a customer who knows the supplier's name cannot call that supplier directly and sign up. This program is primarily designed for customers who are unaware of choice and the vast majority will not be aware of a specific supplier name. There is no reason to require otherwise.

IV. CONCLUSION

DES remains willing to assist in the resolution of issue and implementation of successful RME programs. We thank the Commission for the efforts in making the retail electricity market competitive and ask that they consider these Comments as they view the future of Pennsylvania's retail energy markets.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "T. Stewart", written over a horizontal line.

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Dated: December 20, 2012