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December 27, 2012

VIA ELECTRONIC FILING

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

RE: Petition of PECO Energy Company For Approval of its Default Service Program;
Docket No. P-2012-2283641; **Comments of Interstate Gas Supply, Inc. and
Dominion Retail, Inc. to Compliance Filing**

Dear Secretary Chiavetta:

Enclosed for filing with the Commission is the original Comments of Interstate Gas Supply, Inc. and Dominion Retail, Inc. to Compliance Filing 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 Dennis J. Buckley (via email and first class mail)
Per Certificate of Service

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PECO Energy Company For :
Approval of its Default Service Program : Docket No. P-2012-2283641

**COMMENTS OF INTERSTATE GAS SUPPLY, INC.
AND DOMINION RETAIL, INC.
TO COMPLIANCE FILING**

Dated: December 27, 2012

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I. INTRODUCTION

On October 12, 2012, the Pennsylvania Public Utility Commission (“Commission”) issued an Opinion and Order which, among other things, approved PECO Energy Company’s (“PECO” or the “Company”) Default Service Plan II (“DSP” II). DSP II was intended to address PECO’s requirements for default service for period June 1, 2013 through May 31, 2015 and also proposed several competitive enhancements, known collectively and generically as the Retail Market Enhancements (“RME”). That same October 12, 2012 Order directed PECO to conduct a collaborative process, to address some of the unresolved issues, and to thereafter make a Compliance filing, including a revised RME plan, within sixty (60) days or on December 11, 2012.

The collaborative process participants included Electric Generation Suppliers (“EGS”) such as Interstate Gas Supply, Inc. d/b/a IGS Energy (“IGS”) and Dominion Retail, Inc. d/b/a Dominion Energy Solutions (“DES”) (collectively “EGS Parties”), and other interested parties and the bulk of the issues reserved for that process involved to RME. Changes to the details of the two component programs were necessary because, as part of the October 12 Order, the Commission modified PECO’s proposed Retail Opt-In (“ROI”) auction into an aggregation program and provided for the inclusion of small C&I customers in the Standard Offer Referral (“SOR”) program. The Commission assigned the issue of cost recovery to the collaborative for resolution as well.

Following the October 12 Order, a number of Parties including PECO, filed Petitions for Clarification and/or Reconsideration. Answers to those Petitions also were filed. On November 21, 2012, the Commission issued an Opinion and Order in response to those Clarification Petitions which, among other things, clarified that customers as well as EGSs could be responsible for some RME Program cost and clarifying that EGSs must file, with the

Commission, the terms and conditions for their eight (8) month opt-in program component at least forty-five (45) days before the offers are made available to customers.

PECO conducted several collaborative meetings, both in-person and by telephone, subsequent to the Commission's Order and while the Parties did discuss, and agree upon a variety of modifications both to the opt-in and referral programs, they were unable to reach any agreement to address the important issue of cost recovery.

On December 11, 2012, as required by the Commission, PECO filed a Revised Default Service Plan Compliance Filing which, among other things, included revisions both to the ROI and the SOR. As part of that filing, PECO requested that the Parties file Comments on December 27, 2012 to the Revised Plan and that Reply Comments be due January 7, 2013. As of the date of these Comments, the Commission has not ruled upon this request but, nonetheless, the EGS Parties will submit their Comments in accordance with that schedule.

II. COST RECOVERY

A. RME Programs will Benefit All Customers.

The EGS Parties consistently have advocated that the RME Programs will provide benefits not only to EGSs, which seems to be a universally held belief, but also to the market and customers more generally, because these programs are designed to create a robust competitive market for electricity supply. Even if customers do not shop, they benefit from a robust market through the discipline that it provides to the prices generally and they have the ongoing opportunity to enjoy the benefits of that market, which includes taking advantage of additional products and services as they become available from suppliers. Accordingly, the EGS Parties continue to believe that some form of sharing of these costs between suppliers and customers is appropriate and warranted under the circumstances.

As originally proposed, PECO's programs would appear to come with significant price tags, albeit with a greater level of cost for the SOR due to the implementation cost of that program; but the ROI, as an auction, was not without its costs, as well. As the auction has now been transformed into an aggregation, however, the cost should be significantly reduced. Current estimates for the opt-in program are in the neighborhood of one (\$1.00) dollar to two (\$2.00) dollars per customer assigned (as opposed to acquired). The SOR, however, has a far more substantial cost structure, with current estimates running \$2.6 million for startup or capital costs, and another nine hundred thousand (\$900,000.00) dollars per year of ongoing operational costs. If one calculates the costs on a per customer basis, using a reasonably expected level of participation level in the referral program on an annual basis, the per customer acquired cost is in the one hundred dollars per customer range.

PECO has again proposed to recover the entire cost of the ROI from participating suppliers on a percentage basis so that the costs will vary on the number of customers assigned. While the EGS Parties continue to believe that some sharing of these costs with customers is the equitable approach, they could accept paying those costs in full, provided the SOR is appropriately addressed. Realistically, at a one or two dollar per customer assigned level, even though that really means \$10 to \$20 per customer acquired, based on a range of response rates of 5% to 10% (which may be on the high side), suppliers should be willing to participate. The same cannot be said for the SOR, however.

B. Recovery of SOR Costs Through the POR Discount is Bad Policy.

PECO's proposed method of cost recovery for the SOR is to spread the cost across all EGSs serving residential customers in the PECO service territory. The same would be true for the small C&I segment. This is a potentially disastrous methodology for cost recovery. While certainly it ensures that PECO receives the dollars that it spends on the program, it does not

match cost causation with cost recovery responsibility and is likely to cause suppliers to leave, or to not enter PECO's service territory.

In contrast to the ROI recovery scheme, PECO would tax all suppliers in the PECO service territory to pay for the SOR, which may benefit none of them or only one or two suppliers. Individual EGSs may have good reasons for wanting to participate or not participate in the SOR, but under PECO's scheme the EGS' business judgment is irrelevant, PECO has decided that ALL residential suppliers must pay – and pay through the POR discount, which means that suppliers that currently have more customers pay even more. In short, PECO is not only proposing to impose cost responsibility on all suppliers, but also to redistribute cost responsibility so that established suppliers pay more. In the business world, forcing one competitor to pay for a program that benefits other, newer competitors simply is not acceptable. Accordingly, PECO's cost recovery proposal (PECO Revised Compliance filing pp. 11-12, Exhibit E, p. 6 and Exhibit G) should be rejected. PECO simply should not be permitted to charge suppliers for the cost of a program in which they do not participate through a mechanism that causes established suppliers to subsidize new entrants.

C. The SOR Program will be Expensive.

Eliminating the possibility of POR discount cost recovery for the SOR does not solve the entire problem, however. There remains the issue of the extremely high costs of this program, as proposed by PECO. While it may be possible to nibble around the edges to reduce the costs somewhat, this type of program may simply be too costly to operate. This problem is not unique to PECO; the costs on a per customer basis are not significantly different from the cost levels proposed by other EDCs. Referral programs suffer from two major flaws: 1) they are expensive and have the potential to charge suppliers on a retroactive basis; and, 2) they may not provide conversion rates that would encourage suppliers to participate in spite of the cost.

D. Cost Sharing is Appropriate for the SOR.

The preferred method of cost recovery would be to either charge suppliers a per customer switch fee designed to recover at least some portion of the cost of these program on a going forward basis. Assigning costs at fifty percent sharing ratio, suppliers/customers, would be fair. EGSs would pay on a per switch basis, with the remaining costs being recovered from customers through a non-bypassable surcharge.

The result, if some form of cost sharing is not adopted for this program, is that the program is destined to fail. The reasons are simple, if suppliers are able to acquire customers on their own for less than the seventy-five (\$75.00) to one-hundred (\$100.00) dollar per customer cost of this program that otherwise would be assigned entirely to them, suppliers will not participate. This cost disparity further illustrates why it would be patently unfair to require all suppliers to pay for the cost of the program if they do not participate in the program.¹ Nonetheless, if the cost of acquiring customers, on a per customer basis, is higher than a supplier's own acquisition costs, they will not participate in the program, and that seems a likely result here. There are two obvious options: 1) require some form of cost sharing, or 2) abandon the SOR program. Either would be acceptable to the EGS Parties.

E. The Commission Should Consider a First Choice Program.

The EGS Parties believe that a referral-type program could be one of the more effective tools at transferring customers into the competitive market, but such a program must be activated when the customer initially calls to sign up for, or transfer electric supply service and should require a customer affirmatively to choose an electric supplier from a list that could include default service. Customers should no longer be placed on EDC default service as the "do nothing" option – if the customer does not pick, he or she should be assigned to the next supplier

¹ If supplier A has built an operation that can acquire customers for less than \$75, and that supplier is building a business today, that supplier will be punished for being industrious by being forced to pay the costs of a higher priced program to switch customers to its competitors.

on a rotating basis. By requiring customers to exercise choice at the outset, we can eventually eliminate the dominant position of default service and can instead level the playing field to the point where EGS service can realistically compete. Until such a program is possible, however, the SOR as proposed by PECO, with its high cost and low probability of success, may prove to be unworkable.

III. CONCLUSION

In short, the EGS Parties' major concern with PECO's revised DSP plan is PECO's insistence on requiring all EGSs to pay the costs of the SOR program through the POR discount, which is inherently unfair to those who do not participate. Accordingly, the EGS Parties recommend that: 1) the Commission revise PECO's Plan to eliminate the recovery of costs of the standard offer referral program from all suppliers through the POR discount and, instead, to implement a sharing mechanism which recovers half of the costs of the SOR from suppliers through a per customer switch fee and the remainder from customers through a non-bypassable surcharge. Alternatively, the Commission could abandon the standard offer referral program until such time as it can implement a first switch program as described above.

Respectfully submitted,



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Dated: December 27, 2012

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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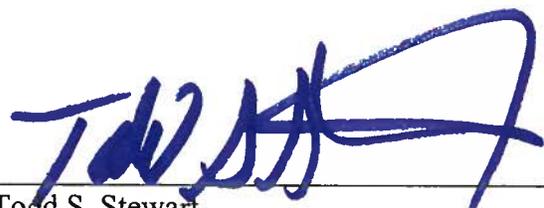
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