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March 12, 2013

VIA eFILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

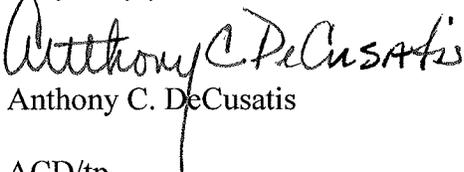
**Re: Joint Petition Of Metropolitan Edison Company, Pennsylvania Electric Company,
Pennsylvania Power Company and West Penn Power Company For Approval Of Their
Default Service Programs
Docket No. P-2011-2273650, Docket No. P-2011-2273668,
Docket No. P-2011-2273669 and Docket No. P-2011-2273670**

Dear Secretary Chiavetta:

Enclosed for filing is the **Reply of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company to the Petition for Clarification and/or Reconsideration of the Met-Ed Industrial Users Group, Penelec Industrial Customer Alliance, Penn Power Users Group and West Penn Power Industrial Intervenors** (the "Reply") in the above-captioned proceeding.

As indicated on the enclosed Certificate of Service, copies of the Reply are being served on all active parties, the presiding Administrative Law Judge and the Office of the Special Assistants.

Very truly yours,


Anthony C. DeCusatis

ACD/tp
Enclosures

c: Per Certificate of Service

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Moscow New York Palo Alto Paris Philadelphia Pittsburgh Princeton San Francisco Tokyo Washington Wilmington

**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	:	

CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served copies of the **Reply of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company to the Petition for Clarification and/or Reconsideration of the Met-Ed Industrial Users Group, Penelec Industrial Customer Alliance, Penn Power Users Group and West Penn Power Industrial Intervenors** upon the following persons, in the matter specified below, in accordance with the requirements of 52 Pa. Code § 1.54:

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Dated: March 12, 2013

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**REPLY OF
METROPOLITAN EDISON COMPANY,
PENNSYLVANIA ELECTRIC COMPANY,
PENNSYLVANIA POWER COMPANY
AND WEST PENN POWER COMPANY**

**To The Petition For Clarification And/Or Reconsideration Of The
Met-Ed Industrial Users Group, Penelec Industrial Customer Alliance,
Penn Power Users Group And West Penn Power Industrial Intervenors**

I. INTRODUCTION AND OVERVIEW

Metropolitan Edison Company (“Met-Ed”), Pennsylvania Electric Company (“Penelec”), Pennsylvania Power Company (“Penn Power”) and West Penn Power Company (“West Penn”) (collectively, or any combination of the foregoing, the “Companies”) submit this Reply to the Petition For Clarification And/Or Reconsideration (hereafter “Petition”) filed by the Met-Ed Industrial Users Group, Penelec Industrial Customer Alliance, Penn Power Users Group and West Penn Power Industrial Intervenors (the “Industrial Customer Group”) to the Pennsylvania Public Utility Commission’s (“PUC” or the “Commission”) Order entered February 15, 2013 (“February 15 Order”) in the above-captioned matter.

As explained below, the Companies support the Industrial Customer Group’s Petition and agree that the Commission should clarify its February 15 Order to explicitly affirm that the “non-bypassable surcharge” option for recovering the cost, not borne by electric generation suppliers (“EGSs”), of the Companies’ Retail Opt-In Aggregation (“ROI”) and Customer Referral

Programs (collectively, “RME Programs”) should apply only to residential and small commercial customers that are eligible to participate in the Companies’ RME Programs. Such an affirmation is consistent with the plain language of the February 15 Order, properly implements the Commission’s intent, and is supported by the ratemaking principle that calls for assigning costs on the basis of cost causation.

II. REPLY

1. On November 14, 2012, the Companies filed a Joint Petition for Approval of Revised Default Service Plan – Retail Market Enhancement Programs (“Revised RME Programs”) in compliance with the Commission’s Order entered on August 16, 2012 (“August 16 Order”). By that Order, the Commission approved, with modifications, Default Service Programs for the period from June 1, 2013 to May 31, 2015 (“DSPs”) that the Companies had filed on November 17, 2011, and directed the Companies to submit new proposals for various elements of their RME Programs. *See* August 16 Order, pp. 161-162.¹

2. Various parties filed Comments with regard to the Revised RME Programs, including the Retail Energy Supply Association (“RESA”) and Dominion Retail, Inc. (“Dominion”), who outlined an alternative approach for the Companies to recover the cost of their RME Programs by having the cost responsibility shared by participating EGSs and customers that are eligible for such programs. *See* February 15 Order, pp. 12-13.

3. In the February 15 Order, the Commission decided that RME Program costs should be recovered from EGS participants and from residential and small commercial customers eligible to participate in those programs. The specific measures for cost recovery approved by the Commission were delineated in the February 15 Order (p. 14), as follows:

Based on the record before us, we are persuaded that a very reasonable accommodation of all the Parties’ positions should be incorporated into this

¹ The August 16 Order was clarified by a subsequent Commission Order (the “Clarification Order”) entered on September 27, 2012. On October 16, 2012, the Commission extended the deadline for the Companies’ filing of the Revised RME Programs to November 14, 2012.

resolution. As to the Opt-In Aggregation Program, we agree with RESA that a fee of the lesser of one dollar per assigned customer or actual program costs to EGS participants is appropriate. Any remaining costs should be recovered in either one of two ways: (1) through a non-bypassable surcharge, as proposed by RESA; or (2) shared with fifty percent from the purchase of receivables (POR) discount and fifty percent from residential and small commercial default service customers.

As to the CRP, we agree with RESA that a fee of the lesser of thirty dollars per customer or actual costs per referred customer is appropriate. Any remaining costs should be recovered in either one of two ways: (1) through a non-bypassable surcharge, as proposed by RESA; or (2) shared with fifty percent from the POR discount and fifty percent from residential and small commercial default service customers.

4. The Commission's description of the second option for cost recovery, as set forth above, clearly evinces its intent that costs not borne by EGSs should be recovered only from customers that are eligible to participate in the RME Programs, namely, "residential and small commercial" customers. Moreover, RESA's proposal, which the Commission referenced as the model for the "non-bypassable surcharge" option, was described in the testimony of RESA's witness as a rate mechanism that would recover the costs of the RME Programs from customers "eligible" for those programs: "[T]he costs should be recovered . . . through a non-bypassable charge applied . . . to all customers in the eligible customer class."²

5. In its Petition, the Industrial Customer Group asks the Commission to clarify the February 15 Order to expressly affirm that the non-bypassable charge approved as an option for recovering the costs of the RME Programs not borne by EGSs may be applied only to customers that are eligible to participate in those programs. Alternatively, if the Commission cannot grant such an affirmation by means of clarification, the Industrial Customer Group requests that the Commission reconsider the February 15 Order and direct that the non-bypassable charge should apply only to residential and commercial customers.

6. The Companies support the Industrial Customer Group's Petition. For the reasons set forth in Paragraph No. 4, above, the Commission has already signaled its intent that the non-

² Surrebuttal Testimony of Christopher Kallaher, RESA St. 2-SR, p. 21.

bypassable charge should apply only to customers who are eligible for the RME Programs. Therefore, furnishing the clarification the Industrial Customer Group requests will make the Commission's intent explicit and eliminate any potential for disagreement in the future. Additionally, and more importantly, by granting the affirmation the Industrial Customer Group requests, the Commission will also affirm the well-established principle that parties on whose behalf costs are incurred should be responsible for paying those costs in the rates they are charged for service. Thus, in *Petition of PECO Energy Company for Approval of Smart Meter Technology Procurement and Installation Plan*, Docket No. M-2009-2123944 (Final Order entered May 6, 2010), the Commission held that certain "common costs" incurred to implement PECO Energy Company's Smart Meter Plan should be "allocated to the customer classes based upon the extent to which these investments and services *enable customers to participate in the smart meter program*" (emphasis added). Assigning costs in this fashion is consistent with the principle of "cost causation," which is the fundamental basis for allocating service costs among customer classes.³

³ See *Petition of PECO Energy Company for Approval of Smart Meter Technology Procurement and Installation Plan*, *supra* (Initial Decision issued January 19, 2010): "In conclusion, the company's proposal to allocate the common costs associated with the Smart Meter plan accurately assigns those costs to each customer group based on reasonable cost of service and causation principles which have long been determined by the Commission as the fundamental basis for utility ratemaking and which is explicitly required by the Implementation Order."

III. CONCLUSION

For the reasons set forth above, the Petition For Clarification And/Or Reconsideration of the February 15 Order filed by the Industrial Customer Group should be granted and, as requested therein, the Commission should affirm that the non-bypassable charge approved as an option for recovering the costs of the RME Programs not borne by EGSs may be applied only to customers that are eligible to participate in those programs.

Respectfully submitted,



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