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March 20, 2013

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 Joint Answer 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

A handwritten signature in black ink, appearing to read 'Teresa K. Schmittberger', written over a horizontal line.

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 First Class Mail)
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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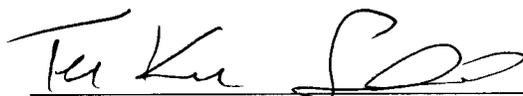
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the West Penn Power Industrial Intervenors

Dated this 20th day of March, 2013, 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	:	

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

TO THE HONORABLE, THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

1. Pursuant to Section 5.61(a) of the Pennsylvania Public Utility Commission's ("PUC" or "Commission") Regulations, 52 Pa. Code § 5.61(a), 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") (collectively, the "Industrial Customer Groups") hereby file this Joint Answer in the above-captioned proceeding.

2. On November 17, 2011, Metropolitan Edison Company ("Met-Ed"), Pennsylvania Electric Company ("Penelec"), Pennsylvania Power Company ("Penn Power"), and West Penn Power Company ("West Penn) (collectively, the "Companies") filed with the Commission a *Joint Petition for Approval of their Default Service Programs* ("DSPs II")¹ at the above-

¹ Met-Ed and Penelec generation rate caps expired on December 31, 2010, which resulted in their first DSPs (*i.e.*, "DSPs I") beginning on January 1, 2011, and running through May 31, 2013. Phase II of Met-Ed's and Penelec's DSPs will begin on June 1, 2013, and run to May 31, 2015 (*i.e.*, "DSPs II"). West Penn and Penn Power had different DSP schedules than the other two Companies. Regardless, West Penn's and Penn Power's "current" DSPs will end on May 31, 2013, with the "next" DSPs beginning on June 1, 2013. For ease of reference in this Answer, we will refer to all of the Companies' DSPs ending on May 31, 2013 as "DSPs I" and all DSPs beginning on June 1, 2013 as "DSPs II."

referenced docket. The Industrial Customer Groups filed a Petition to Intervene and Answer on December 19, 2011, and the Industrial Customer Groups actively participated in this proceeding, which included evidentiary hearings and the filing of briefs.

3. On August 16, 2012, the Commission issued an Opinion and Order approving the Companies' DSPs II, including a real-time hourly default service product that would be bid out to suppliers. *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, P-2011-2273670, Opinion and Order (Aug. 16, 2012), pp. 34-37 (hereinafter, "August 16, 2012, Order"). The August 16, 2012, Order did not specify each of the components that should be included in the Companies' hourly-priced default service product.

4. On January 15, 2013, the Companies filed the results of their industrial default service procurement with the Commission. The results featured a 24-month hourly product that would be offered to Large Commercial and Industrial ("C&I") customers beginning June 1, 2013. No other industrial class procurement was proposed to occur to serve Large C&I customers under the Companies' DSPs II.

5. On January 16, 2013, the PUC rejected the Companies' industrial procurement, stating that the hourly procurement results did not comply with the August 16, 2012, Order. Letter of Secretary Rosemary A. Chiavetta to Tori L. Giesler (January 16, 2013).

6. On February 28, 2013, the Companies filed a *Petition to Amend the Commission's August 12, 2012 Order And the November 8, 2012 Secretarial Letter Approving Default Service Procurement Bidding Rules* (hereinafter, "February 28, 2013, Petition") to modify the August 16, 2012, Order to clarify that default service suppliers for Large C&I customers would be paid the following components: (a) their winning bid price from auction; (b) the real-time price

established by PJM Interconnection, Inc.; and (c) a fixed adder for ancillary services and other costs included in the industrial supply master agreement. February 28, 2013, Petition, pp. 1-2.

7. Per the aforementioned PUC letter, the Commission rejected the Companies' only planned industrial default service procurement for their DSPs II. As a result, in the February 28, 2013, Petition, the Companies propose to hold an industrial procurement in September 2013 in conjunction with already scheduled residential and commercial procurements. February 28, 2013, Petition, p. 6. A September auction would allow for competitive procurement for Large C&I customers beginning December 1, 2013. *See id.*

8. To fill the default service gap between June 1, 2013, when the Companies' DSPs II begin, and December 1, 2013, when competitive procurement for Large C&I customers would occur pursuant to the Companies' Petition, the Companies intend to "procure the necessary physical supply for default service industrial customers directly from PJM, as well as associated ancillary products...." *Id.* at 6. In other words, the Companies propose to procure generation for Large C&I default service customers for the aforementioned six-month period via an "in-house" procurement. The Companies contend that an in-house procurement from June 1, 2013, until November 30, 2013, is necessary because an earlier competitive procurement for the industrial class "is likely to fail in light of the relatively small number of industrial customers remaining on default service and the expected lack of bidder interest in such a procurement." *Id.* at 7.

9. The Companies further explain that no party to the proceeding, other than RESA, "has objected to the Companies' re-solicitation of default service industrial supply contracts at the same time as its next scheduled default service procurement for residential and commercial customers...." *Id.* The February 28, 2013, Petition does not clarify whether RESA opposes the proposed September 2013 competitive procurement, the Companies' use of in-house procurement for the limited six-month gap period, or both.

10. As discussed more fully herein, the Industrial Customer Groups submit that the Companies' proposals to: (1) hold a competitive procurement in September 2013 for Large C&I customers in combination with the previously scheduled residential and small commercial customer procurements; and (2) utilize an in-house procurement process to ensure the Companies' ability to provide default service for Large C&I customers between June 1, 2013, and December 1, 2013, are reasonable in light of the current circumstances. Accordingly, this Joint Answer addresses and supports each of these proposals herein.

11. First, the January 15, 2013, procurement was the only competitive procurement planned for the industrial class during DSPs II. When the Commission rejected the January 15, 2013, procurement, the Companies effectively had two options for serving Large C&I default service customers: (a) an in-house procurement for the full length of DSPs II; or (b) a second competitive procurement to serve Large C&I default service customers. Rather than utilize an in-house procurement for the entirety of DSPs II, the Companies propose to hold a separate competitive procurement in September 2013, at the same time as their planned residential and commercial procurements. Per this proposal, a default service supplier would begin serving the Companies' Large C&I default service customers on December 1, 2013.

12. The Industrial Customer Groups support the Companies' planned competitive procurement in September 2013. Considering the imminent approach of June 1, 2013 (*i.e.*, the implementation date of the Companies' DSPs II), holding a competitive procurement for Large C&I customers prior to that date would be a significant logistical challenge, especially in light of all of the other default service changes that must be adopted by the Companies in the coming months. Conversely, supplementing the next scheduled residential and commercial procurements with an industrial component would only slightly increase the administrative

burden to the Companies and the corresponding costs associated with the procurement that would be passed on to customers.

13. In addition, an impromptu competitive procurement before September 2013 could result in higher bid amounts and insufficient bidder interest due to low Large C&I default service participation. *Id.* As explained in the February 28, 2013, Petition, approximately 90% of Large C&I customers are shopping customers. *Id.* at n. 4. For this reason, the Companies raise a reasonable concern that default service suppliers may consider Large C&I default service customers to have a higher risk of leaving default service than smaller customers. *See id.* If, in addition to this switching risk, suppliers also must prepare expedited bids for the industrial class, the risk associated with their bids would be increased further, an eventuality that could be reflected in bid prices. Moreover, a second failed competitive procurement based on lack of bidder participation would impose the costs of two procurements on Large C&I customers who would still fail to receive a competitive default service product. As a result, Large C&I customers could be detrimentally impacted in multiple respects by the increased costs due to a hurried competitive procurement.

14. Second, in order to preserve an industrial default service option, short-term in-house procurement is necessary to serve Large C&I default service customers until December 2013 when competitive procurement would begin under the Companies' proposal. A short-term in-house procurement of the default service product for the industrial class is just and reasonable under the circumstances and would still fall within the parameters of the Commission's prior endorsements of in-house procurement for the industrial class.

15. In-house procurement of the industrial default service product has been approved by the Commission on a number of different occasions. *See, e.g., Petition of the West Penn Power Company d/b/a Allegheny Power for Approval of its Retail Electric Default Service*

Program and Competition Procurement Plan for Service at the Conclusion of the Restructuring Transition Period; P-00072342, Opinion and Order (July 25, 2008), pp. 50-53; *see also* *Petition of Duquesne Light Company for Approval of a Default Service Program and Procurement Plan for the Period June 1, 2013 through May 31, 2015*; P-2012-2301664, Opinion and Order (January 25, 2013), p. 68. WPPII, as well as the other Industrial Customer Groups, also continue to support such an approach to industrial default service due to the low administrative burden and costs associated with such procurement. August 16, 2012, Order, p. 35.

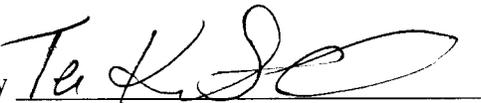
16. As part of this proceeding, WPPII supported continued in-house procurement of the industrial default service product in the West Penn service territory. *See* August 16, 2012, Order, pp. 34-35. While the Commission did not accept WPPII's proposed in-house procurement within the West Penn service territory, the Commission likewise did not hold that such a procurement should be generally prohibited. Instead, the Commission stated that "there is insufficient record evidence to support a finding that the entire cost of HP default service for West Penn's industrial customers will be higher under the competitive procurement process...". *Id.* at 37.

17. Accordingly, both of the Companies' proposals, a September 2013 competitive procurement and a short-term in-house procurement, are just, reasonable, and consistent with Commission precedent, particularly under the unique circumstances highlighted herein.

WHEREFORE, the Met-Ed Industrial Users Group, the Penelec Industrial Customer Alliance, the Penn Power Users Group, and the West Penn Power Industrial Intervenors respectfully request that the Pennsylvania Public Utility Commission: (1) approve the Companies' proposed competitive procurement for the industrial class in September 2013; (2) approve the Companies' proposed in-house procurement for the industrial class from June 1, 2013, to November 30, 2013; and (3) allow any such other relief as it deems necessary.

Respectfully submitted,

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