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August 23, 2011

VIA HAND DELIVERY

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

RE: Petition of PPL Electric Utilities Corporation for Approval to Implement a
Reconciliation Rider for Default Supply Service Docket No. P-2011- ~~2256~~ 305
ANSWER OF DOMINION RETAIL, INC.

Dear Secretary Chiavetta:

Enclosed for filing with the Commission are the original and three (3) copies of the Answer of Dominion Retail, Inc. d/b/a Dominion Energy Solutions to the Petition of PPL Electric Utilities Corporation in the above-captioned docket. Copies of this Answer have been served in accordance with the attached Certificate of Service.

Thank you for your attention to this matter. If you have any questions related to this filing, please contact the undersigned.

Very truly yours,



Todd S. Stewart
Counsel for Dominion Retail, Inc.

TSS/alw
Enclosures

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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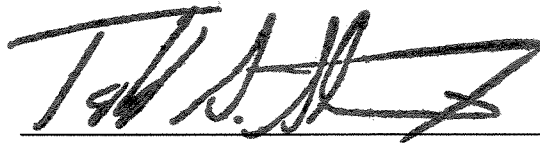
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Todd S. Stewart

Dated this 23rd day of August 2011

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PPL Electric Utilities :
Corporation for Approval to Implement a : Docket No. P-2011- 2250305
Reconciliation Rider for Default Supply Service :

**ANSWER OF
DOMINION RETAIL, INC.
IN OPPOSITION**

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

AND NOW COMES, Dominion Retail, Inc. d/b/a Dominion Energy Solutions (“DES”), by and through its counsel, and hereby submits its Answer to the Petition of PPL Electric Utilities Corporation (“PPL”) for Approval to Implement a Reconciliation Rider for Default Supply Service, (“Petition”) filed with the Pennsylvania Public Utility Commission (“Commission”), on or about August 3, 2011.

DES believes that the relief requested by PPL is illegal and contrary to sound public policy and therefore DES urges the Commission to reject PPL’s Petition. In its Petition, PPL seeks to alter the process that all parties agreed-to in its last default service case, to now make it less beneficial for customers to shop, and indeed, to provide a benefit to those who switch back to default service. In short, despite PPL’s claim of “competitive neutrality”, it has proposed a scheme that is so obviously contrary to the goal of encouraging customers to participate in competitive markets that it should be summarily rejected, particularly in light of the Commission’s ongoing efforts to improve the competitiveness of the retail electricity markets.¹

¹ *Investigation of Pennsylvania’s Retail Electricity Markets*, Docket No. I-2011-22337952.

What PPL has proposed is to penalize customers who take service from competitive suppliers and to reward customers who have previously chosen a supplier and for whatever reason return to default service. It is simply disingenuous to describe such a proposal as being “competitively neutral”. That is, no matter how you characterize it, such charge is and will be understood by customers to be shopping penalty--a price disincentive to choose an alternative supplier—and even worse, as a reward for returning to default service.

A. GENERAL ANSWER

1. PPL’s two-pronged proposal is not authorized by law.

PPL’s proposal for a “reconciliation rider” is really two proposals in one. (Petition, ¶ 28). First, it seeks to change PPL’s current method of reconciliation/collection of the over/under-recoveries associated with the mismatch between PPL’s forecast versus actual load and transmission charges, from quarterly reconciliation and recovery, to annual reconciliation and recovery.² That is, rather than recovering these costs currently--over the succeeding quarter--PPL is seeking to spread the recovery over an entire year. This change, as a stand-alone proposal, violates the “full and current” provisions of 66 Pa. C.S. § 2807(e)(3.9), and the requirement of 52 Pa. Code § 54.187(a) that that “the rate schedule shall be designed to recover fully all reasonable costs incurred by the DSP *during the period default service is provided to customers . . .*” (emphasis added). Stretching recovery over a full year will simply serve to further disassociate the incurrence of the costs from the recovery from customers, thus making the price to compare (“PTC”) even less market relevant.

However, PPL has coupled this extended recovery concept with a plan to continue to charge these costs of default service to customers who switch away from default service, for up

² DES is not suggesting that PPL not be permitted to recover these costs, nor has PPL suggested that it would be unable to recover the costs. Rather, DES disputes the timing of the recovery and the identity of the customers from whom the costs are recovered.

to one full year. At the same time PPL has proposed to **not** recover these default service costs from customers who shop and then return to default service, also for up to one full year. Such a scheme creates financial incentives to not switch and worse, for currently shopping customers it creates an incentive to return to default service. PPL has essentially proposed to create two PTCs, one for new customers and one for customers who return. It simply cannot be forgotten that it is PPL that performs the “forecasts” that eventually result in the over/under recoveries. While DES does not suggest that PPL has purposefully forecast rates in a manner that would create over/under collections, the imposition of a rider such as it has proposed here would allow PPL to impose such charges, with their obvious dampening effect on competition, based upon forecasts which it controls. Allowing such construct would be unwise and highly anti-competitive.

2. Migration Riders in the Natural Gas Industry have Harmed Competition.

PPL relies heavily on the fact that migration riders exist in the natural gas industry and that the Commission approved such riders for the gas industry. This reliance is misplaced. While it may be true that the Pennsylvania’s gas utilities have adopted migration riders, it also is true that 66 Pa. CS § 1307(f)(6) requires that result. There is no analog to migration riders under Chapter 28 of the Public Utility Code or under any chapter of the Public Utility Code with regard to electric distribution companies, nor should there be. If we choose to use the gas industry as an example, we should consider the persistent problem in the gas industry, of inaccurate forecasts leading to perpetual over/under recoveries that make price comparisons impossible and which have suppressed shopping to levels far below what we see in the electricity markets. The migration riders in the gas industry have the same apparent punishing effect on customers who choose and the riders persist as an integral component of the last significant barrier to real

competition in that industry-lack of price transparency. The gas industry example makes it clear that migration riders are bad for competition everywhere.

Moreover, the basis for migration riders in the gas industry is significantly different than what PPL is proposing here. In the natural gas industry, purchasers of gas are less likely to accurately predict the future costs of the gas they buy and then sell to customers, so there is at least some basis for reconciliation. However, PPL should have a high degree of accuracy in its forecasting because PPL knows, or should know with a high degree of certainty what the vast majority of its supply portfolio will cost in the next period—those costs are known. Not only are the costs known, but the wholesale suppliers are taking the load following (volume) and price risk, so the price per unit does not change if more or less customers are being served. The same is not true in the gas industry.

Accordingly, as a matter of fact and of policy, there are vast differences between the rationale for migration riders in the natural gas industry and what PPL has proposed here and there is no basis to conclude that imposing migration riders in the electric industry will be any less harmful to competition than it has been in the gas industry.

3. PPL's Petition Demonstrates No Need for a Migration Rider.

PPL claims that the present reconciliation methodology creates two “potential” mismatches which justify its proposal. PPL first alleges that customers who take default service from PPL during one period and then shop in the next period will not pay or receive over/under collections for the period for which they took default service. They also pay for those charges immediately when they begin service, even though they have not yet caused any charges to accrue. PPL's argument ignores that fact, and the fact that all other default service customers now pay for over/under collections in each subsequent quarter after they took the service. What

this means is that unless there is a sustained increase in shopping activity, which has not happened in PPL's service territory lately, the charge should be fairly consistent for all customers, so there should be minimal mismatch in under/over recoveries.

The second "potential" mismatch PPL alleges, would be among customers who shop and then return to default service and then are required to pay or receive over/under collections for a period for which they did not incur those costs. Customers who move between competitive suppliers and default service are essentially relying on default service as a "free call". That is, they always know they have a price certain to fall back on. However, that option is not "free"—there are costs associated with standing ready to serve returning customers that are now socialized among all default service customers. Contrary to PPL's assertion, it would be more unfair not to charge these customers the entirety of the default service costs. To do otherwise creates an artificial second default service rate that does not fully reflect the cost of the service. PPL's potential mismatch arguments simply ignore the fact that the cost of customers moving to and from default service is a legitimate cost of default service that should be recovered from customers who avail themselves of the default service. PPL's attempt to re-arrange the risks and rewards of the costs of default service is an attempt to reach a perfectly fair state that is not possible, and one which harms choice. With reconciliation, there is no perfectly fair outcome and the present method is straightforward, simple and should continue to be applied.

We cannot fail to forget that these "mismatches" are the result of PPL's forecasts not matching actual results. That is, to a very large extent, PPL has significant control over the size of any over/under collection. For competitors such as DES, there is no ability to recover mismatches between its costs and its prices on a *post hoc* basis. EGSs either get their pricing right or they "eat" the difference. Reconciliation of default service costs creates a significant

competitive advantage for default service over competitive service. Allowing PPL to realign the methodology to reward customers that return to default service and punish those who switch, when it controls the size of the over/under collections, would create a scheme that would be unfair and untenable for EGSs.

PPL also alleges that “the amount of under and over collections under the TSC, GSC-1 and GSC-2 have been substantial.” (Petition at ¶ 20) However, the examples cited by PPL are all for large customers: an \$8 million under collection for large C&I customers in 2010, and a \$3.5 million under collection for rate schedule LP4 customers, which are some of the largest of the large customers. *Id.* However, these claims of large undercollections are rebutted by the fact that PPL’s recently published PTC for commercial customers has dropped significantly from the prior period, clear evidence that shopping levels in the commercial classes have stabilized and that the under/over recoveries are most likely a thing of the past. It also is telling that PPL cites no example of large under collections or over collections for residential customers, while insisting that the migration rider apply to residential customers as well. Residential migration has remained under 50% and there is no basis to contend that PPL has not been able to recover those costs fairly from the remaining residential default service customers. There simply is no basis to conclude that there is any present need for a migration or reconciliation rider.

PPL goes on to claim that the current reconciliation mechanism “has created a distorted and unstable price to compare . . . and has promoted shifting between default service and competitive supply for reasons unrelated to actual competitive market conditions.” (Petition, ¶ 25). This claim cannot be supported. There simply is no sound policy basis to argue that the PTC should be artificially “stabilized” and thus further disassociated from the market. The fact is that customers switch to competitive supply because of market conditions--if default service

costs more than competitive service, switching to competitive supply makes more sense for customers. While it may be true that recovering default service costs from continuing default service customers in certain cases where there are very few customers remaining on default service may cause some dramatic increases in those costs, it also provides incentive for those customers to switch to the competitive market where the rates are more attractive.

4. PPL's Proposal Must Be Rejected.

DES denies specifically that PPL's proposal would more accurately refund and recover over and under collections and adamantly opposes the conclusion that a migration rider such as PPL has proposed here, will "promote the development of a competitive retail market". (Petition ¶ 26) Such a statement is unsupported in light of the fact that it is the migration riders in the natural gas markets have almost singlehandedly managed to suppress the statewide residential shopping level to the single digits, while electricity shopping has grown significantly in only the last two years.

PPL has proposed a "reconciliation rider" that is in reality a migration rider, and has proposed to extend the current quarterly reconciliation to an annual reconciliation process. Neither of these changes separately would benefit, but would rather harm the competitive market in PPL's service territory, producing real incentives for customers not to switch and even worse, creating an artificial cost structure that would provide very real incentives to have large numbers of customers switch back to default service. Together these proposals will prove to be disastrous. There is no authorization for PPL to impose such a scheme on customers, rather, such a construct would violate to current statutory and regulatory requirements. PPL is entitled to full recovery of costs, but it has not alleged that it has been unable to recover its costs, only that such recovery may make default service rates temporarily high. Such a result is neither

prohibited nor economically problematic. There simply is no good reason to implement PPL's proposal and it should be rejected or set aside at least during the pendency of the ongoing investigation.

B. ANSWER TO NUMBERED PARAGRAPHS.

1. ADMITTED.

2. ADMITTED

3. ADMITTED

4. ADMITTED, in part, DENIED, in part. It is Admitted that PPL has experienced net under or over collections in the past and it is Admitted that PPL currently reconciles its Generation Supply and Transmission costs. It is DENIED that there is any evidence to suggest that large over or under collections will occur in the future. By way of further Answer, it is Averred that it is PPL that controls, to a large extent, the size of any potential mismatch, because it performs the forecasts which are eventually reconciled. The remainder of the paragraphs is DENIED.

5. DENIED.

6. ADMITTED. The document speaks for itself.

7. DENIED.

8. ADMITTED.

9. ADMITTED.

10. ADMITTED.

11. ADMITTED.

12. ADMITTED, in part. PPL's DSP plan speaks for itself, and any characterization thereof is DENIED.

13. ADMITTED, in part. PPL's DSP plan speaks for itself, and any characterization thereof is DENIED.

14. ADMITTED.

15. ADMITTED, in part. PPL's tariff speaks for itself, and any characterization thereof is DENIED.

16. ADMITTED, in part. PPL's tariff speaks for itself, and any characterization thereof is DENIED.

17. ADMITTED, in part, DENIED, in part. The orders related to *Petition of Pennsylvania Power Company for Approval of Interim POLR Supply Plan*, Docket No. P-00052188; and *Pa. Power Co. v. Pa P.U.C.*, 932 A.2d 300 (Pa. Cmwlth. 2007) speak for themselves and any characterization thereof or legal conclusions drawn therefrom are DENIED.

18. ADMITTED.

19. DENIED. It is not clear from the context of paragraph 19 whether PPL intended that it describe the current situation, or its new proposal. To the extent that it is the former, it does not appear to be accurate and is therefore DENIED. If, however, it was PPL's intention that paragraph 19 describe its proposal, then any suggestion that the proposal is warranted or viable is DENIED. PPL's proposal speaks for itself.

20. ADMITTED, in part. It is Admitted that PPL has experienced over and under collections. It is Averred that PPL is at least partially responsible for any such over or under collection since it performs the forecasts which are the basis for any mismatch. It is Admitted that PPL has not demonstrated any significant over or under collection with regard to residential rate classes.

21. DENIED.

22. DENIED. The basic facts of paragraph 22 appear to be accurate, however, the characterization and context is not, and these allegations are therefore DENIED.

23. DENIED. The basic facts of paragraph 23 appear to be accurate, however, the characterization and context is not, and these allegations are therefore DENIED.

24. DENIED.

25. DENIED.

26. DENIED.

27. ADMITTED. It is Admitted that PPL has proposed a migration rider that, much like the gas industry, will have a significant dampening effect on competition and will most likely serve to seriously harm the existing levels of customer switching on the PPL system.

28. ADMITTED, in part, Denied, in part. It is Admitted that PPL describes its requested relief in the paragraph. It is DENIED that the relief is warranted.

29. ADMITTED, in part, Denied, in part. It is Admitted that PPL describes its requested relief in the paragraph. It is DENIED that the relief is warranted. It is Admitted that PPL appears to be setting up what will be a *de facto* two PTC pricing system by its proposal—one price for new customers and one price to entice customers to return to default service. The anti-competitive and customer confusing result will be devastating to choice.

30. ADMITTED, in part, Denied, in part. It is Admitted that PPL describes its requested relief in the paragraph. It is DENIED that the relief is warranted.

31. DENIED. It is DENIED that PPL's proposal is wise or warranted. It is ADMITTED that PPL's proposal will create incentives for customers who have shopped to return to default service and will penalize customers who shop.

32. ADMITTED, in part, Denied, in part. It is Admitted that PPL describes its requested relief in the paragraph. It is DENIED that the relief is warranted.

33. ADMITTED, in part, Denied, in part. It is Admitted that PPL describes its requested relief in the paragraph. It is DENIED that the relief is warranted. By way of further answer, it is averred that PPL is proposing to treat new customers differently from returning customers which is prohibited by 66 Pa. C.S. § 2807(e)(4).

35. ADMITTED, in part, Denied, in part. It is Admitted that PPL describes its requested relief in the paragraph. It is DENIED that the relief is warranted.

36. ADMITTED, in part, Denied, in part. It is Admitted that PPL describes its requested relief in the paragraph. It is DENIED that the relief is warranted.

37. DENIED. The relief requested in paragraph 37 is neither warranted nor in the public interest.

38. DENIED.

39. DENIED. By way of further answer, it is averred that the basis for reconciliation in the natural gas industry is quite different than the basis alleged by PPL. Moreover, the migration rider appears to be largely responsible for the lack of competition in the natural gas industry.

40. DENIED.

41. DENIED. It is denied that stabilizing the price to compare is a sound public policy goal or that it is consistent with encouraging customers to receive market relevant price signals.

42. DENIED.

43. ADMITTED, in part, Denied, in part. It is Admitted that PPL describes it requested relief in the paragraph. It is DENIED that the relief is warranted.

44. DENIED.

WHEREFORE, DES respectfully requests PPL's Petition be DENIED in its entirety.

Respectfully submitted,



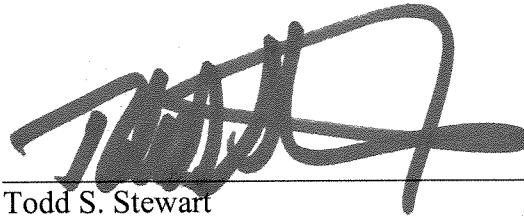
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Counsel for Dominion Retail, Inc.

DATED: August 23, 2011

AFFIDAVIT

I, Todd S. Stewart, certify that I am counsel for Dominion Retail, Inc., and that, in this capacity, I am authorized to and do make this Affidavit for them, that the facts set forth in the foregoing document are true and correct to the best of my knowledge, information and belief, and that I expect Dominion Retail, Inc.. to be able to prove the same at any hearing hereof. I understand that false statements made therein are made subject to the penalties of 18 Pa. C.S. §4904, relating to unsworn falsifications to authorities.

A handwritten signature in dark ink, appearing to read 'Todd S. Stewart', is written over a horizontal line. The signature is stylized and somewhat cursive.

Todd S. Stewart