

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of Duquesne Light Company :  
For Approval of Default Service Plan :  
For The Period June 1, 2013 : Docket No. P-2012-\_\_\_\_\_  
Through May 31, 2015 :

**PETITION OF DUQUESNE LIGHT COMPANY  
FOR APPROVAL OF A DEFAULT SERVICE PLAN**

Pursuant to 66 Pa. C.S. § 2807(e), 52 Pa. Code § 5.41, and the Pennsylvania Public Utility Commission’s (“Commission”) Retail Market Orders at Docket No. I-2011-2237952, Duquesne Light Company (“Duquesne Light” or the “Company”) hereby petitions the Pennsylvania Public Utility Commission (“Commission”) for: (i) approval of a default service plan for the period from June 1, 2013 through May 31, 2015 (“Default Service Plan” or “Plan”), and (ii) other approvals described herein required for the implementation of the Plan. Duquesne Light respectfully requests approval of the Default Service Plan in a timely manner so that the Company can procure default supplies as detailed in the Plan and take other necessary actions to implement the Plan.

**A. BACKGROUND AND SUMMARY**

1. Since restructuring, Duquesne Light has implemented five successful default service programs which have helped to create one of the most competitive shopping environments in the Commonwealth<sup>1</sup> and the country while, at the same time, providing default service at rates and terms that meet the requirements of the Public Utility Code. Duquesne Light has adjusted its default service offerings in each successive plan to attempt to enhance

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<sup>1</sup> The Commission has specifically recognized the successes of competition in Duquesne’s territory. See, Rulemaking Re Electric Distribution Companies’ Obligation to Serve Retail Customers at the Conclusion of the Transition Period Pursuant to 66 Pa.C.S. § 2807(e)(2), p. 33, fn 18, Docket No. L-00040169, May 10, 2007 (“[t]he experience of Duquesne shows that retail markets can work. Duquesne’s territory has the highest rate of customer choice in Pennsylvania.”).

competition as the Company's customers have become more accustomed to and comfortable with their options in the competitive market. By this filing, Duquesne Light again seeks to build upon its prior successes and further promote competition for its customers.

2. The Company considered various factors in formulating its Default Service Plan. In particular, the Company carefully considered the Commission's guidance set forth in recent regulatory proceedings, principally the Investigation of Pennsylvania's Retail Electricity Market ("Retail Markets Investigation"). The Commission instituted this proceeding in 2011 to investigate the state of Pennsylvania's retail electricity market. As a result of that proceeding, the Commission issued a Final Order on December 16, 2011, providing recommendations for improvements to the competitive market, including giving guidance on default service plan duration, limiting long-term arrangements, and recommending inclusion of a Opt-In EGS Service Program and Standard Offer Customer Referral Program ("Standard Offer Program") as part of upcoming default service plans ("*December 16 Retail Markets Order*"). In addition, the Commission issued a Final Order on March 2, 2012 regarding Intermediate Work Plans ("*March 2 Retail Markets Order*"). In this Order, the Commission provided guidance to EDCs regarding consumer education, acceleration of supplier switching timeframes, customer referral programs, default service price-to-compare on bills, coordination between EDCs and EGSs, and creditworthiness standards. The Company has considered the Commission's recommendations in these Retail Market Orders and included proposals to implement such recommendations as part of its Default Service Plan.<sup>2</sup> Additional factors that were considered by Duquesne Light in

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<sup>2</sup> In its *March 2 Retail Markets Order*, the Commission noted that it was proposing guidelines for EDCs and parties with respect to default service plans. The Commission further noted that to the extent an EDC chose to deviate from the Commission's guidelines, the EDC should provide good cause for doing so. To a great extent, Duquesne Light has followed the Commission's guidance. In certain areas, Duquesne Light has proposed slightly different procedures than those proposed by the Commission. The Company has good cause for these proposed modifications and has supported them with substantial evidence in this filing.

developing this Plan include: the approaches that have worked in previous default service plans; the current desires and concerns of parties, customers, and retail suppliers; and the Commission's policies and rules.

3. A summary of Duquesne Light's Default Service Plan is set forth below, with additional details provided in the testimony and exhibits accompanying this Petition. This Plan meets the objectives of Act 129 by continuing "the availability of adequate, reliable, affordable, efficient and environmentally sustainable electric service at the least cost, taking into account any benefits of price stability, over time and the impact to the environment." (Public Policy Findings and Objectives of Act 129.)

4. In developing the Default Service Plan, Duquesne Light recognized that each customer class has different characteristics and different levels of experience with the competitive market. The Plan takes these differences into account and proposes procurement methodologies for each of the major customer groups that reflect these considerations. Under this Plan, the Company is proposing more market responsive procurement methodologies, as compared to the Company's prior plans, for Residential, Small C&I and Medium C&I customer classes as these customers have increased experience with shopping and have become better educated about shopping opportunities. A description of the principal elements of the Default Service Plan for each major customer group is provided below.

**B. PROPOSED DEFAULT SERVICE PROCUREMENT PLANS AND RATES**

5. This Default Service Plan consists of four separate procurement offerings tailored to meet the specific needs of major customer groups.

### Residential and Lighting Customers

6. Default Service for Residential and Lighting customers<sup>3</sup> will be supplied through 12-month full requirements supply contracts from third party suppliers obtained through semi-annual competitive requests for proposals (“RFP”). A full requirements contract requires a supplier to provide energy, capacity, ancillary services, and any other services or products necessary to serve a specified percentage of default service load 24 hours a day, for the term of the contract. Because the contract is “load-following,” the amount of energy and other services and products a supplier must provide will vary depending upon Duquesne Light’s actual default service load. The supply contracts that Duquesne Light has proposed for Residential and Lighting customers require the suppliers to satisfy this obligation at the prices that they bid in the respective RFPs. These contracts will provide for delivery of default service supply from June 1 of each calendar year to May 31 of the next calendar year, to coincide with the PJM planning year.

7. A table showing the RFP Date, Procurement Amount, Contract Term and Delivery Period for each RFP is below:

| <b>RFP Date</b> | <b>Procurement Amount</b> | <b>Contract Term</b> | <b>Delivery Period</b> |
|-----------------|---------------------------|----------------------|------------------------|
| November 2012   | 50%                       | 12 Months            | June 2013 – May 2014   |
| April 2013      | 50%                       | 12 Months            | June 2013 – May 2014   |
| April 2013      | 50%                       | 12 Months            | June 2014 – May 2015   |
| November 2013   | 25%                       | 12 Months            | June 2014 – May 2015   |
| April 2014      | 25%                       | 12 Months            | June 2014 – May 2015   |
| April 2014      | 25%                       | 12 Months            | June 2015 – May 2016   |

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<sup>3</sup> For purposes of this procurement plan, the Lighting customer rate schedules are AL, PAL, SE, SH, and SM.

8. As shown above, for the June 1, 2013 – May 31, 2014 delivery period, Duquesne Light will place for bid 50% of its default service supply in November 2012 and 50% of its default service supply in April 2013.

9. Duquesne Light will procure 50% of its default service supply for the June 1, 2014 – May 31, 2015 delivery period in April 2013, 25% in November 2013 and 25% in April 2014. By procuring 50% of the default service supply required for the second plan year at the same time that 50% of the supply for the first plan year is procured, the Plan incorporates a hedge against energy price movements which otherwise could result in large unanticipated increases in Residential and Lighting customers' rates starting June 2014. The use of consecutive one-year contracts tied to the PJM planning year is similar to buying power under a two-year contract in terms of an energy hedge, but also permits the adjustment of retail rates to reflect known changes in PJM capacity prices on June 1 of each year, which in turn provides for annual rates that better reflect contemporaneous market price levels in each year than a normal two-year contract.

10. In addition, Duquesne Light's procurement methodology is designed to provide for some rate stability for Residential and Lighting customers once the Default Service Plan period ends on May 31, 2015. This is achieved by the procurement of a limited amount of full requirements supply for delivery after the Plan period ends on May 31, 2015. This supply will be procured at the same time that a portion of the supply for the last year of the Default Service Plan period is also procured.<sup>4</sup> In light of the Commission's recommendation in the Retail Markets Investigation that EDCs limit or eliminate short-term energy contracts that extend

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<sup>4</sup> On pages 20-21 of the *December 16 Retail Markets Order*, the Commission recognized that rate stability concerns associated with a "hard stop" of supply contracts at the end of default service plan may be legitimate.

beyond a default service plan period,<sup>5</sup> Duquesne Light has limited the quantity of contracts with delivery after May 31, 2015, to provide for only 25% of the necessary supply to Residential and Lighting default service customers. While the RFP for this overhanging supply is scheduled to occur in April 2014, in the event that legal or regulatory developments result in Duquesne Light no longer serving as the default service provider for its service area after May 31, 2015, this solicitation could be adjusted by the Commission as necessary. Duquesne Light's Supplier Master Agreement also includes provisions under which its obligations may be assigned. This procurement design does not presume any particular outcome to the Commission's current Retail Markets Investigation. Instead, it is a prudent approach, given the desire to provide these customers with some level of rate stability moving from one default service plan to another.

11. Unlike Duquesne Light's current default service plan, which provides Residential customers with a 29-month fixed rate for the duration of the plan, Residential default service rates under this Plan will change every 12 months to be consistent with the annual procurements. Transitioning to one-year rates for Residential customers is a logical next step in advancing competition for Residential customers in Duquesne Light's service area. The one-year rates for Residential customers under this Default Service Plan are reset more frequently than under the currently effective default service plan (also referred to as "POLR V"), and Duquesne Light is proposing to bid out the supply for Residential customers as opposed to administratively determining the rate. Both of these factors should make Duquesne Light's Residential default service rate more market responsive than the rate under its current default service plan, while still providing for some rate stability and a known price each year against which EGSs may compete. Price stability and transparency is important, and can promote retail competition. The price

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<sup>5</sup> *December 16 Retail Markets Order*, pp. 20-21.

stability and transparency provided through the 29-month POLR V rate was very successful in promoting Residential customer shopping in the Company's service area, as EGSs served 39% of Residential customer load in Duquesne Light's service area as of March 2012.

12. Moreover, as explained below, having one-year Residential default service rates is consistent with Duquesne Light's proposal that EGSs that participate in the Opt-In EGS Service Program offer a one-year rate. This will provide customers with a clear benchmark to compare to the Opt-In EGS Service Program offer.

13. Duquesne Light recognizes that the Commission's regulations provide for quarterly rate changes for Residential customers. See 52 Pa. Code § 54.187. However, Duquesne Light does not believe that quarterly rate changes will be necessary for Residential customers because the Company is proposing to acquire default service supply for these customers in the form of 12-month fixed-price full requirements contracts. Fixed-price full requirements contracts greatly diminish cost over/under-recoveries that are associated with other procurement methods, such as those methods that involve the procurement of block products supplemented with spot energy sales and purchases, and therefore do not require more frequent rate resets in order to reconcile costs. Additionally, full requirements service allows utilities to accommodate a fluid shopping environment and reduce reconciliation charges and credits. Since the products that Duquesne Light is proposing to procure for Residential customers are all fixed-price full requirements products with 12-month delivery periods, there is no need to reset rates quarterly because any rate change within the year would be minimal. By limiting the potential over/under recoveries attributable to past procurements, Duquesne Light's one-year rate will better reflect contemporaneous market prices and send EGSs better price signals for their marketing purposes.

14. Duquesne Light proposes annual reconciliation of Residential procurement group default service costs and revenues. In the *December 16 Retail Markets Order*, the Commission recommended that EDCs contemplate the incorporation of quarterly, semi-annual or annual reconciliation periods in their next default service plans. *December 16 Retail Markets Order*, p. 55. Duquesne Light's proposal to reconcile costs for the Residential procurement group on an annual basis is consistent with the Commission's *December 16 Retail Markets Order*.

15. Supply for the Lighting customers' default service load will be included in the Residential procurement group. Wholesale suppliers will bid a single price to supply both Residential and Lighting customers' default service load. Separate rates will be developed by Duquesne Light for Residential and Lighting customers to reflect the lower market cost of supplying the applicable lighting customer classes. The methodology for developing lighting rates is described by William Pfrommer in Duquesne Light St. No. 4.

16. The RFPs for Residential customers will be conducted by Duquesne Light and occur at the same time as the RFPs for the Medium and Small C&I customers in order to increase bidder interest. A copy of the Supply Master Agreement is attached to the testimony of Duquesne Light witness James Wilson as Exhibit 1.

17. Approval of this Procurement Plan will assure that Duquesne Light's Residential and Lighting default service customers receive reliable service at least cost taking into account the benefits of price stability.

#### **Small C&I Customers**

18. Default Service for Small Commercial and Industrial ("Small C&I") customers, which are customers with monthly metered demands less than 25 kW, will be supplied with full requirements supply contracts from third party suppliers obtained through semi-annual RFPs.

19. The default supply contracts for Small C&I customers will be “laddered” contracts, in that they will have delivery periods that overlap. The table below shows the RFP Date, Procurement Amount, Contract Term and Delivery Period for each procurement.

| <b>RFP Date</b> | <b>Procurement Amount</b> | <b>Contract Term</b> | <b>Delivery Period</b>        |
|-----------------|---------------------------|----------------------|-------------------------------|
| November 2012   | 50%                       | 6 months             | June 2013 – November 2013     |
| April 2013      | 50%                       | 12 months            | June 2013 – May 2014          |
| November 2013   | 50%                       | 12 months            | December 2013 – November 2014 |
| April 2014      | 50%                       | 12 months            | June 2014 – May 2015          |
| November 2014   | 50%                       | 12 months            | December 2014 – November 2015 |

The procurement methodology is discussed in more detail in the testimony of James E. Wilson in Duquesne Light St. No. 2.

20. Like the plan for Residential and Lighting customers, the plan for Small C&I customers involves the procurement of full requirements supply contracts for delivery after the Default Service Plan period ends on May 31, 2015. Specifically, the procurement methodology provides for the acquisition of 50% of the required Small C&I default service supply through November 30, 2015, six months past the end of the Plan period, for rate stability reasons similar to those explained for the Residential and Lighting customers.<sup>6</sup> While the RFP for this overhanging supply is scheduled to occur in November 2014, in the event that legal or regulatory developments result in Duquesne Light no longer serving as the default service provider for its service area after May 31, 2015, this solicitation could be adjusted by the Commission as necessary. Duquesne Light’s Supplier Master Agreement also includes provisions under which its obligations may be assigned. This procurement design does not presume any particular

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<sup>6</sup> On pages 20-21 of the *December 16 Retail Markets Order*, the Commission recognized that a “hard stop” of supply contracts at the end of default service plan may be a legitimate concern with regard to rate stability.

outcome to the Commission's current Retail Markets Investigation. Instead, it is a prudent approach, given the desire to provide these customers with some level of rate stability moving from one default service plan to another.

21. Rates will be reset twice per year, and Duquesne Light will reconcile costs for these customers on an annual basis. Given that the rates for Small C&I customers under the Company's current default service plan are reset annually, the proposed semi-annual resetting of rates will allow rates to more consistently track changes in market prices.

22. Duquesne Light recognizes that the Commission's regulations provide for quarterly rate changes for Small C&I customers. 52 Pa. Code § 54.187. However, the Company does not believe that quarterly rate changes will be necessary for Small C&I customers because the Company is proposing to acquire supply for these customers in the form of 12-month fixed price full requirements contracts that are laddered on a six-month delivery schedule. Fixed price full requirements contracts greatly diminish cost over/under-recoveries that are associated with other procurement methods, such as those methods that involve the procurement of block products supplemented with spot energy sales and purchases, and therefore do not require more frequent rate resets in order to reconcile costs. Since the products that Duquesne Light is proposing to procure are all fixed price full requirements products with 12-month delivery periods and semi-annual laddering, there is no need to reset rates quarterly because any rate change that would occur during any six-month interval would be minimal.

23. Duquesne Light proposes annual reconciliation of Small C&I recoveries and costs. In the *December 16 Retail Markets Order*, the Commission agreed that longer reconciliation periods would keep default service rates more market reflective. *December 16 Retail Markets Order*, p. 55. Duquesne Light's proposal to reconcile costs for Small C&I

customers on an annual basis is consistent with the Commission's *December 16 Retail Markets Order*.

24. Small C&I customers include unmetered C&I customers. The load of unmetered accounts will be included in the Small C&I procurements. Default Service rates for unmetered accounts will be the same as the Small C&I Default Service rates.

25. The RFPs will be conducted by Duquesne Light and occur at the same time as those for the Medium C&I and Residential customers in order to increase bidder interest. Duquesne Light will use the form of contract proposed for Medium C&I customers for its Small C&I procurements adjusted for the smaller number of tranches needed and the definitions and terms with respect to Small C&I customers. A copy of the Supply Master Agreement is attached to the testimony of Duquesne Light witness James Wilson as Exhibit 1.

#### **Medium C&I Customers**

26. Default Service for Medium Commercial and Industrial ("Medium C&I") customers, which are customers with monthly metered demands equal to or greater than 25 kW and less than 300 kW, will be supplied with full requirements supply contracts for six-month terms from third party suppliers with no laddering. Under its current default service plan, Duquesne Light will procure in November 2012 50% of its Medium C&I customer supply for the first six months of this Plan, June 1, 2013 – November 30, 2013. Duquesne Light proposes to acquire the remaining 50% of default supply for Medium C&I customers for this period through an RFP that will be conducted in April 2013. Thereafter, Duquesne Light proposes to conduct RFPs for 100% of six-month supply for Medium C&I customers approximately 1-2 months before the delivery period, in April and November of each year.

27. The table below shows the RFP Date, Procurement Amount, Contract Term and Delivery Period for each RFP.

| <b>RFP Date</b>            | <b>Procurement Amount</b> | <b>Contract Term</b> | <b>Delivery Period</b>        |
|----------------------------|---------------------------|----------------------|-------------------------------|
| November 2012 <sup>7</sup> | 50%                       | 6 months             | December 2012 – November 2013 |
| April 2013                 | 50%                       | 6 months             | June 2013 – November 2013     |
| November 2013              | 100%                      | 6 months             | December 2013 – May 2014      |
| April 2014                 | 100%                      | 6 months             | June 2014 – November 2014     |
| November 2014              | 100%                      | 6 months             | December 2014 – May 2015      |

The Acquisition Schedule is further explained in the Testimony of James E. Wilson.

28. The procurement methodology for Medium C&I customers is more market responsive than under the POLR V Plan. The supply plan for Medium C&I customers moves from one-year contracts under POLR V to 6-month contracts under this Plan, and removes laddering that was offered in POLR V. These changes are made to reflect the growing sophistication of Medium C&I customers with competitive options, as 66% of the load is already receiving supply from an EGS.

29. Duquesne Light recognizes that the Commission’s regulations provide for quarterly rate changes for Medium C&I customers. 52 Pa. Code § 54.187. However, the Company does not believe that quarterly rate changes will be necessary for Medium C&I customers because the Company is proposing to acquire supply for these customers in the form of six-month fixed price full requirements contracts. Fixed price full requirements contracts greatly diminish cost over/under-recoveries that are associated with other procurement methods, such as those methods that involve the procurement of block products supplemented with spot energy sales and purchases, and therefore do not require more frequent rate resets in order to reconcile costs. Since the products that Duquesne Light is proposing to procure are all fixed-

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<sup>7</sup> The procurement is provided for under Duquesne Light’s current POLR V default service plan.

price full requirements products with six-month delivery periods, there is no need to reset rates quarterly because any rate change that occurs during the six-month interval would be minimal.

30. Duquesne Light will reconcile costs for these customers on an annual basis. In the *December 16 Retail Markets Order*, the Commission agreed that longer reconciliation periods would keep default service rates more market reflective. *December 16 Retail Markets Order*, p. 55. Duquesne Light's proposal to reconcile costs for Medium C&I customers on an annual basis is consistent with the Commission's *December 16 Retail Markets Order*.

31. The RFPs will be conducted by Duquesne Light and will occur at the same time as those for Small C&I and Residential customers in order to increase bidder interest. A copy of the Supply Master Agreement is attached to the testimony of Duquesne Light witness James Wilson as Exhibit 1.

#### **Large C&I Customers**

32. For Large Commercial and Industrial ("Large C&I") customers, which are customers with monthly metered demands equal to or greater than 300 kW, Duquesne Light will offer day-ahead hourly spot pricing, purchased directly from PJM, with true-ups made using purchases and sales in the real-time spot markets. This is the same service that is being offered to Large C&I customers under the Company's current POLR V Plan.

33. In the POLR V proceeding, Duquesne committed to examine a monthly or quarterly load following service for Large C&I customers as part of this Plan. The examination was to be based upon collaborative results from PPL Electric's default service proceeding at Docket No. P-2009-2135500. It is Duquesne Light's understanding that PPL Electric has not received any bids for monthly or quarterly load following service for Large C&I customers. Therefore, Duquesne Light does not propose to offer fixed-price service to Large C&I customers at this time.

34. Competition for Large C&I customers in Duquesne Light's service area is robust, with 97% of the Large C&I load already shopping. Hourly price default service is appropriate for this mature market segment at this time. At 300 kW, Duquesne Light has one of the lowest thresholds for Hourly Price Service for default customers in the country, and nearly half of the load in Duquesne Light's service area has this form of default service.

#### **Competitive Procurement Guidelines**

35. Duquesne Light proposes that no one supplier should be awarded more than 50% of the tranches available for any procurement class (Residential, Small C&I or Medium C&I) in any RFP, and seeks the Commission's approval for this provision as part of this proceeding. This provision will help provide diversity of supply and will reduce the impact of any single supplier's default.

36. All winning bids will be submitted to the Commission for approval prior to award.

37. Duquesne Light will release the weighted average of all the winning bids separately for the three procurement groups (not individual bid prices or supplier names) within two business days after approval by the Commission (to all parties interested in the RFP). Within fifteen calendar days from the closing of each solicitation, Duquesne Light will post the weighted average winning bid price on its website and publish a default service rate calculation model on its website that shows the build-up of the auction results into retail default service rates.

38. If for any reason an RFP fails to attract a sufficient volume of bids or the Commission does not approve the submitted bids or an accepted supplier defaults, Duquesne Light acknowledges that it has the obligation to procure supply to provide such portion of the default service. In this circumstance, Duquesne Light proposes to meet this obligation on an

interim basis through purchases in the PJM spot market and requests authority to recover all the costs of such purchases and all reasonable administrative costs from Medium C&I, Small C&I and/or Residential and Lighting customers. Duquesne Light agrees that it will submit to the Commission, within 10 days after any such occurrence, a contingency plan to handle any default service shortfall.

39. Consistent with its POLR V solicitations for Medium and Small C&I customers, Duquesne Light proposes to engage an independent third party to assist in qualifying bidders; conducting bidder information sessions; and, importantly, to receive all bids, rank qualifying bids, and determine winning bids for all three procurement groups.

**Act 129 Standards**

40. The procurement methodologies under the Default Service Plan are based upon the standards set forth by Act 129 that the procurement plan shall be designed to be “the least cost to consumers over time” and shall include a “prudent mix” of contracts. As explained in the testimony of James Wilson, the Hourly Price Service for Large C&I customers, and the competitive solicitations for full requirements contracts of various terms for Medium C&I, Small C&I, and Residential and Lighting customers, represent a “prudent mix” of procurement contracts and will provide default service customers with access to an adequate and reliable supply of generation at least cost over time.

41. Specifically, Act 129 requires that power “shall be procured through competitive procurement processes” (including auctions, requests for proposals and/or competitively procured bilateral agreements procured at no greater than the cost of obtaining generation under comparable terms in the wholesale market), and such procurement must be a “prudent mix” of spot market purchases, short-term contracts and long-term purchase contracts spanning from four to 20 years in length. *Id.* at 2807(e)(3.1)-(3.2).

42. As explained in more detail in the testimony of Duquesne Light witness James E. Wilson, Duquesne Light St. No. 2, Duquesne Light's Plan meets the procurement requirements of Act 129 by utilizing competitive procurement processes. Specifically, Duquesne Light will rely upon the PJM spot market to source its Large C&I default supply. In addition, Duquesne Light will hold a competitive RFP process to obtain supply for Medium C&I, Small C&I, and Residential and Lighting default service customers.

43. In addition, Duquesne Light's Default Supply Plan relies upon a prudent mix of contracts. The procurement contracts are explained in detail in the testimony of Duquesne witness James E. Wilson, Duquesne Light St. No. 2. A summary of the products for each class is as follows:

- For Residential and Lighting customers, Duquesne Light will procure default service supply through twelve-month full requirements contracts.
- For Small C&I customers, Duquesne Light will procure default service supply through laddered, six-month and twelve-month full requirements contracts.
- For Medium C&I customers, Duquesne Light will procure default service supply through six-month full requirements contracts.
- For Large C&I customers, Duquesne Light will procure default service supply directly from PJM in the day-ahead spot market.

44. This mix is a prudent mix of spot and short-term contracts. Pursuant to the Commission's Final Order in the Retail Markets Investigation, the Commission has recommended that default service plans keep long-term arrangements to a minimum. Thus, Duquesne Light has not proposed any long-term arrangements as part of the Default Service Plan. Duquesne Light has attempted to be mindful of both Act 129 and the Retail Markets Investigation in proposing the mixture of spot and short-term contracts for its Default Service Plan, and asserts that this Plan includes a prudent mix of contracts given the current levels of, and experience with, shopping for each class of customers, the competitive market enhancements

proposed in the Petition, and the uncertainty regarding how default service will be provided in the future.

45. Act 129 also requires that a default service plan ensures “adequate and reliable service” at the “least cost to customers over time.” 66 Pa. C.S. § 2807(e)(3.4). In his testimony, Duquesne Light St. No. 2, Mr. Wilson discusses how the Default Service Plan ensures “adequate and reliable service” through contract protections and PJM’s numerous mechanisms to ensure the reliability of its regional electricity grid of which Duquesne Light is a part.

46. Furthermore, and perhaps most importantly, Duquesne Light believes that this procurement plan will result in the “least cost to customers over time.” This is discussed in further detail in the testimony of Mr. Wilson, Duquesne Light St. No. 2.

47. For all of the reasons set forth above, this Default Service Plan meets the standards set forth via Act 129, and enables the Commission to make the necessary findings per Section 2807(e)(3.7) as follows:

- Duquesne Light’s Plan includes prudent steps necessary to negotiate favorable generation supply contracts;
- Duquesne Light’s Plan includes prudent steps necessary to obtain least cost generation supply contracts on a long-term, short-term and spot market basis;
- Neither Duquesne Light nor its affiliated interest has withheld from the market any generation supply in a manner that violates Federal law.

#### **Default Service Procurement Cost Recovery**

48. The RFPs for Residential and Lighting, Small C&I, and Medium C&I customers will include the procurement of energy, capacity, ancillary services, losses, alternative energy requirements, and other costs and risks. Duquesne Light will recover these costs and gross receipts taxes, along with the costs of administering the RFPs and hiring the independent

monitor, through fully reconcilable Section 1307(e) cost recovery mechanisms for each class. 66 Pa. C.S. § 1307(e).

49. Duquesne Light will continue to recover its administrative costs for providing hourly default service to Large C&I customers through a Fixed Retail Adder (“FRA”).

50. Duquesne Light currently recovers its POLR V proceeding costs, which are costs for preparing and obtaining approval of the POLR V proceeding, in base rates. Duquesne Light proposes to continue this practice for this Default Service Plan and will defer the Plan costs for recovery in the Company’s next base rate proceeding. This is a reasonable method of recovering these costs because the Company’s default service plan benefits all customers. The Company spends substantial time preparing its default service plans, and its plans both promote shopping and at the same time give all customers the ability to take default service if they choose not to shop.

**C. RETAIL MARKET ENHANCEMENTS**

51. Duquesne Light has supported expansion of competitive opportunities for customers through its five prior default service plans, and already has implemented a number of innovative market enhancements in order to facilitate the development of the retail market. The Company’s customer shopping level is among the highest in the Commonwealth, with 74% of the total load in its service area already receiving service from an EGS as of March 2012. This also puts Duquesne Light among the top 10 service areas in the country in terms of percentage of total load shopping. Shopping by procurement group is 39% of residential customer load, 34% of Small C&I load, 67% of Medium C&I load, and 97% of Large C&I load. Duquesne Light’s proposed Default Service Plan contains several important additional features designed to further promote retail competition. There are several competitive enhancements that are also included

as a result of the recommendations made in the *December 16 Retail Markets Order* and *March 2 Retail Markets Order*. These are explained in more detail below.

52. In its recent *March 2 Retail Markets Order*, the Commission gave EDCs guidance regarding several new retail market initiatives, including Opt-In EGS Service Programs, Standard Offer Customer Referral Programs and New/Moving Customer Referral Programs. Consistent with the Commission guidelines, the Company is proposing to adopt all three programs.

### **Opt-In EGS Service Program**

53. In its *March 2 Retail Markets Order*, the Commission directed EDCs to propose an Opt-In EGS Service Program in the EDCs' next default service proceeding. Pursuant to the Commission's direction, Duquesne Light is proposing an Opt-In EGS Service Program for Residential customers in this proceeding. The Company's proposed Opt-In EGS Service Program is outlined below and explained in greater detail in the testimony of Neil Fisher, Duquesne Light St. No. 3.

54. Under the Opt-In EGS Service Program, EGSs will bid to participate in the program. This bid will only be conducted one time, in May 2013, which is immediately prior to the start of the Default Service Plan. Duquesne Light will have conducted procurements for all of its residential supply for the June 1, 2013 – May 31, 2014 period in November 2012 and April 2013 and the one-year price to compare ("PTC") commencing June 1, 2013 will be known. Therefore, EGSs will know the default service price prior to bidding in the Opt-In EGS Service Program.

55. Consistent with the *March 2 Retail Markets Order*, EGSs must bid a price that is at least 5% below the PTC and must provide a \$50 bonus to each customer that remains in the Opt-In EGS Service Program for three billing cycles.

56. Customers will be able to elect to participate in the Company's Opt-In EGS Service Program in June 2013. Participating EGSs must offer a fixed ¢/kWh price for a period of 12 months with no penalties if customers leave the program early. In addition, participating EGSs cannot impose any switching restrictions. Duquesne Light recognizes that the Commission has recommended that EGSs guarantee the price under the program for six billing cycles. *March 2 Retail Markets Order*, p. 50. However, Duquesne Light believes that in this situation there is good reason to require a fixed 12-month Opt-In EGS Service Program price. As explained above, Duquesne Light is providing Residential default service customers with a 12-month default service supply rate that would remain constant during the June 1, 2013 through May 31, 2014 period. Therefore, under Duquesne Light's Plan, in addition to the fixed ¢/kWh charge, customers also will be able to know the percentage savings off the PTC through May 31, 2014 at the time they are asked to enroll. Duquesne Light believes that a 12-month program represents a meaningful period of time that will help increase customer enrollment and overall customer satisfaction with the program. The longer "guaranteed" savings time period should also help to alleviate customer concerns about "bait and switch" offers associated with a shorter-term program. Furthermore, if customers are dissatisfied with the generation price or EGS service, customers can switch back to default service or shop for another EGS at any time during the 12-month Opt-In EGS Service Program. By having a 12-month program, the Opt-In EGS Service Program rate will more closely align with the Company's proposed annual default

service rate for residential customers, while allowing customers to experience known savings for a longer period of time.<sup>8</sup>

57. A market determined price (and discount) will be established through the RFP. Duquesne Light proposes that each EGS be limited to providing service to 50% of the load under the Opt-In EGS Service program. Therefore, two or more winning EGSs will be selected to provide Opt-In EGS Service to customers.

58. Duquesne Light will send a standardized letter to all Residential default service customers, excluding CAP customers and default service customers that have recently affirmatively instructed Duquesne Light not to release their addresses to EGSs, notifying them of the Opt-In EGS Service Program price and terms. All eligible customers will be randomly assigned a specific EGS by the Company so that customers know the EGS that will provide them service. Therefore, each letter will identify the EGS that has been randomly assigned to the customer. Customers will notify Duquesne Light of their desire to enroll by returning a postcard or tear off coupon, on-line through the Duquesne Light website, or via the Company's IVR, and may select a winning EGS. Once the Company then notifies the EGS, the EGS will then complete enrollment by sending an EDI enrollment transaction to Duquesne Light. In addition to the process described above, customers can select a different EGS by calling the Company.

59. The winning EGSs will pay for the costs of this letter and any additional costs to implement the Opt-In EGS Service program. If there are no winning EGSs, Duquesne Light will

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<sup>8</sup> Winning wholesale default service suppliers that establish the Duquesne Light supply rate will need to assume the migration risks associated with customers leaving default service at any time (similar to an EGS Opt-In Supplier). However, winning wholesale default service suppliers will also need to assume the additional risk that customers can return to the Duquesne Light default service rate at any time throughout the contract period. In contrast, under Duquesne Light's Opt-In EGS Service Program, there would be a limited one-month enrollment period to participate in the program so EGSs would not have to hold their price offer open for an extended period similar to a wholesale default service supplier.

recover its costs for developing this program by increasing the Company's Residential Purchase of Receivables ("POR") discount rate.

60. Customers will have approximately a one-month period to enroll with a winning EGS. After the Opt-In EGS Service program's 12 billing cycle term expires, customers will remain with the EGS on month-to-month service, unless a customer affirmatively elects an alternative supplier or elects to return to default service.

61. Consistent with the Commission's *March 2 Retail Markets Order*, Duquesne Light will impose a customer participation cap on the Opt-In EGS Service program. The cap will be set at 50% of the Company's default service customers as of March 31, 2013, excluding CAP customers.

62. Consistent with the Commission's recommendations, EGS participation will be voluntary and all appropriately-licensed EGSs will be eligible to bid in the Opt-In EGS Service Program. Opt-In EGS Service Program Suppliers that participate must accept any and all eligible Residential customers that elect the Opt-In EGS Service Program, subject to the terms and conditions of the program. CAP customers are not eligible for the program. In addition, in order to participate in the program, an EGS must execute an agreement with Duquesne Light in which it commits to comply with and utilize pre-approved standard terms and conditions of service. The Company has included the EGS standard Agreement and RFP in this filing for Commission approval. See the testimony of Neil Fisher, Duquesne Light St. No. 3, Exhibit NSF-2.

#### **Standard Offer Customer Referral Program**

63. In the *March 2 Retail Markets Order*, the Commission recommended that each EDC propose a Standard Offer Customer Referral Program ("Standard Offer Program") in its

next default service proceeding. *March 2 Retail Markets Order*, pp. 30-31. Therein, the Commission recommended that the standard offer be a 7% reduction from the EDCs PTC on the date that the standard offer is made.

64. Consistent with the *March 2 Retail Markets Order*, the Company is proposing a Standard Offer Program for Residential customers. The Company's proposed program is outlined below and explained in greater detail in the testimony of Neil Fisher, Duquesne Light St. No. 3. Consistent with the Commission's recommendations, the Standard Offer Program price will be set administratively at 7% below the PTC on the date that the Standard Offer is made.

65. The Company proposes to initiate the Standard Offer Program on June 1, 2014, after new technology systems are in place.<sup>9</sup> Duquesne Light is in the process of making a significant investment in a new customer information system (FOCUS), the first phase of which is currently scheduled to be operational at the start of the Default Service Plan. Once the first phase of this project is operational, Duquesne Light is committing as a part of this filing to perform additional work to the new system to allow accelerated switching of new and moving customers. These modifications to the information technology system are not expected to be available until 2014. Sequencing the Standard Offer Program and Opt-In EGS Service Program retail market initiatives also may help to reduce both wholesale default service supplier and Opt-In EGS Supplier risk premiums during the first year of the Default Service Plan.

66. Duquesne Light proposes that EGSs be required to provide the Standard Offer price for 12 billing cycles. In the *March 2 Retail Markets Order*, the Commission indicated that the Standard Offer should be provided for a minimum of four months but should not exceed one

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<sup>9</sup> The Commission's recommendations do not provide a specific date for implementation of the Standard Offer program, except that it directs that proposals included in its *March 2 Retail Markets Order* be implemented prior to the expiration of the EDC's next default service plan, unless otherwise specified. (p. 2)

year. Duquesne Light believes that a one-year term is appropriate because EGSs should be able to offer a fixed rate for 12 billing cycles and this will provide residential customers with greater price stability.

67. Consistent with the Commission's recommendations, EGS participation will be voluntary and all appropriately-licensed EGSs will be eligible to participate in the program. EGSs that participate must accept any and all Residential customers that elect the Standard Offer, subject to the terms and conditions of the program. In addition, in order to participate in the program, an EGS must execute an agreement with Duquesne Light in which it commits to comply with and utilize pre-approved standard terms and conditions of service. The Company has included the standard agreement and program rules in this filing for Commission approval. See the testimony of Neil Fisher, Duquesne Light St. No. 3, Exhibit NSF-3.

68. Duquesne Light will advise Residential default service customers of the Standard Offer Program when they call the Company's call center. The Standard Offer Program will be presented to non-shopping residential customers that call Duquesne Light with a: (a) new or mover request; (b) high bill complaint; or (c) inquiry about customer choice. The Company will not automatically notify customers that call with issues related to emergencies, terminations, or outages, and also will not automatically notify shopping customers of the Standard Offer Program. However, Duquesne Light will not turn away any residential customers who inquire about the program, except for CAP customers. In the *March 2 Retail Markets Order*, the Commission stated that CAP customers should be excluded from the Standard Offer Referral Program at this time. *March 2 Retail Markets Order*, p. 31.

69. Applicable calls will be transferred to a "choice referral team" with customer service representatives that have a pre-determined script to handle such calls. The call center

implications and customer enrollment process for the Standard Offer Program is described in greater detail in the testimony of Michele Sandoe in Duquesne Light St. No. 5.

70. Unlike the Opt-In EGS Service Program, which is a one-time RFP, the Standard Offer customer referral program will be offered on an on-going basis. However, Duquesne Light proposes that if Residential shopping in its service area reaches two-thirds or more of residential customer load, then the Company would suspend the Standard Offer Program for the remainder of the Default Service Plan period.<sup>10</sup> Similar to the Opt-In EGS Service Program, the customer participation cap is important to reduce the level of migration risk for wholesale default service bidders as well as EGSs and their customers. Reducing the level of uncertainty may reduce risk premiums included in the default service prices and in EGS prices, benefitting both default service customers and participating EGSs. If successful, this cap could be reconsidered in future proceedings, but in the meantime, the cap will discourage wholesale default service bidders and EGSs from having to impose unnecessary costs and risk premiums on customers during the Plan supply period.

71. The Company proposes to recover its costs for implementing the Standard Offer Program through an increase in the Company's residential POR discount.

#### **New/Moving Customer Referral Program**

72. In its *March 2 Retail Markets Order*, the Commission directed EDCs to implement New/Moving Customer Referral Programs by the fourth quarter of 2012. In order to avoid delay in implementing the New/Moving Customer Referral Program, the Company has not included it as part of this filing. However, the Company does intend to work with parties and

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<sup>10</sup> If this threshold were met, Duquesne Light would provide 10 business days notice to participating EGSs, the Commission, and the OCA before referrals are suspended.

Commission staff to implement a New/Moving Customer Referral Program in the fourth quarter of 2012 and will separately make any necessary filings to implement this program.

### **Additional Retail Market Enhancements**

73. Duquesne Light has taken and continues to take many efforts to enhance competition including:

- **Purchase of Receivables Plan.** Duquesne Light proposes to continue its current Purchase of Receivables plan adjusted to reflect separate discounts for Residential, Small C&I, and Medium C&I customers and revised administration fees. Under this Plan, Duquesne Light purchases the account receivables, without recourse, associated with EGS sales of retail electric commodity service to Residential, Small C&I, and Medium C&I customers. Duquesne Light purchases the account receivables at a small discount and then reimburses EGSs for their customer billings regardless of whether it receives payment from customers.
- **Discussions with EGSs.** Duquesne Light has discussed this Default Service Plan with EGSs to ensure that they are aware and understand the terms of the Plan, and that they had an opportunity to provide input to the Plan before it was filed.
- **Ombudsman for Supplier Issues.** Duquesne Light will continue to maintain an ombudsman, dedicated to responding to EGS questions, monitoring competitive market complaints, and facilitating informal dispute resolution between EGSs.
- **Information sharing between Duquesne Light and EGSs seeking to sell electricity in Duquesne Light's service area.** Per its POLR V Settlement, Duquesne Light will provide monthly, on the EGS section of its website, to all EGSs licensed in the Commonwealth, subject to the Commission's customer privacy and protection rules, an updated view of each customer's name, address (both service and billing), contact name, 12 individual rolling months of usage and demand, meter read cycle, rate plan, revenue code, profile group, POLR customer indicator, current 1CP, and current 5 CP. EGSs will be allowed to download this information from the website.
- **Customer Awareness.** Duquesne Light undertook a comprehensive customer education program when its rate caps expired, and continues to inform customers regarding their shopping choices in a variety of ways, including: a customer service center that addresses issues and options regarding customer choice; dissemination of brochures addressing competition and other important energy issues including energy efficiency and low income assistance; and customer service booths at various public forums, including the Duquesne Light Home and Garden Show. In an effort to further customer awareness, Duquesne Light will continue to, regularly circulate information on Customer Choice, including promoting, via its customer newsletter *ServiceLine*, the links on its website and any telephonic means for a customer to solicit information about customer choice and retail offers. Further, in new customer packets, and any other materials related to new

service, Duquesne Light will continue to advise new customers upon service initiation of the opportunity to obtain supply from an EGS. Duquesne Light is in the process of updating its new customer information materials and shopping page to list both the OCA shopping guide and PA Power Switch website.

- **Online Customer Shopping Information.** Duquesne Light has created a guide for Electric Shopping on its website at <https://www.duquesnelight.com/forYourHome/customerService/ElectricChoice.cfm>. This section details how to participate, tips on selecting a supplier, and a calculator to determine savings from supplier offers. Additionally, the section links to the OCA Residential Shopping Guide. As part of its POLR V settlement, Duquesne Light provided customers with access to PaPowerSwitch.com, and will continue to do so. Duquesne Light's new website has a direct link to PAPowerSwitch on the home page of its website. On most of the pages of the website, PAPowerSwitch is one of five links that scrolls on the right side of the webpage.

#### **D. TIME-OF-USE RATES**

74. Under 66 Pa. C.S. § 2807(f)(5), default service providers are required to offer Time-of-Use ("TOU") and/or real-time price plans to customers that have smart meter technology. In addition, in the *December 16 Retail Markets Order*, the Commission suggested that EDCs include TOU proposals in their next default service filing. *December 16 Retail Markets Order*, p. 47.

75. In order to fulfill its statutory obligation, the Company filed a TOU program with the Commission on December 28, 2009. The Company notes that its current metering infrastructure does not support TOU rates. Therefore, the Company proposed a four-step process for developing a TOU program that is consistent with the Company's smart meter plan. The four-step process is as follows:

- Step 1 – (2010) Conduct Market Analysis
- Step 2 – (2011) Implement Residential Pilot Program Infrastructure
- Step 3 – (2012) Implement Residential Pilot Programs
- Step 4 – (2013) Implement TOU Pricing Programs to Smart Meter Customers

76. By order entered June 23, 2010 at Docket No. P-2009-2149807, the Commission approved the Company's TOU Plan requiring, among other items, supplemental filings to be submitted November 30 of 2011, 2012 and 2013.

77. The Company is preparing to conduct TOU Pilot Programs in the Summer of 2012.<sup>11</sup> After the Company evaluates the results of these Pilot Programs, the Company will file a TOU Plan supplement by November 30, 2012. In that filing, the Company will include a plan as appropriate for a third TOU Pilot beginning in June 2013.

78. At this point, Duquesne Light cannot offer TOU rates to all customers because all customers do not have smart meter technology. However, the Company is seeking input and guidance from customers under its Pilot Programs before offering a more robust TOU program.

79. The Company anticipates offering a more robust TOU program by June 2014. The Company will make a filing with the Commission to implement the more robust TOU program after it has evaluated its TOU Pilot Program data. Additional details regarding the TOU programs are provided in Mr. Pfrommer's testimony, Duquesne Light St. No. 4.

#### **E. REQUESTS FOR WAIVERS**

80. As explained above, Duquesne Light is proposing to change rates on an annual basis for Residential and Lighting customers and to change rates every six months for Small C&I and Medium C&I customers. Duquesne Light notes that the Commission's regulation at 52 Pa. Code § 54.187 requiring quarterly rate changes was adopted prior to the passage of Act 129. Act 129 provides that default service providers shall offer residential and small business customers a default service rate that changes no more frequently than quarterly. 66 Pa. C.S.

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<sup>11</sup> On March 20, 2012, Duquesne Light filed Supplement No. 57 to Tariff Electric PA PUC No. 24 ("Supplement No. 57"). In Supplement No. 57, Duquesne Light proposed to implement two TOU pilot programs. Also on March 20, 2012, Duquesne Light filed a Petition to Implement Supplement No. 57 on less than 60 days notice. On April 26, 2012, the Commission entered an Order approving Supplement No. 57 to become effective on April 27, 2012.

§ 2807(e)(7). Therefore, Duquesne Light believes that its proposal for changes in rates on an annual basis for Residential customers and on a semi-annual basis for Small C&I and Medium C&I customers complies with Act 129. However, Duquesne Light requests a waiver of 52 Pa. Code § 54.187 to allow annual rate changes for Residential and Lighting customers and 6-month rate changes for Small C&I and Medium C&I customers to the extent deemed necessary by the Commission. Duquesne Light also requests additional waivers, if necessary, of the Commission's Orders or Regulations to allow Duquesne Light to implement its Default Service Plan as described herein and in the Testimony and Exhibits that accompany this filing.

**F. CUSTOMER NOTIFICATION**

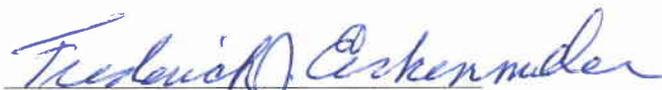
81. As indicated by the enclosed certificate of service, Duquesne Light has served a copy of this Petition upon all of the parties to Duquesne Light's most recent default service proceeding at Docket No. P-2009-213550, PJM, and EGSs in the Duquesne Light service area. Duquesne Light intends to notify its customers of new rates once approved or determined or as otherwise directed by the Commission.

**G. CONCLUSION**

82. Duquesne Light's Default Service Plan is based on a proven, successful and evolving model that will support retail competition in a well balanced manner and provide reliable, reasonably priced offerings to its customers. The Plan meets and is consistent with Act 129, and should be approved.

WHEREFORE, for all of the foregoing reasons, Duquesne Light Company respectfully requests that the Pennsylvania Public Utility Commission approve the Default Service Plan as proposed in this Petition as soon as possible, approve the proposed tariff sheets set forth in the Tariff Supplement provided herein, grant the approvals for Duquesne Light Company to procure power as set forth herein, including, if needed, credit support from its parent, approval of the Supply Master Agreement for procuring power for Residential and Lighting, the Small C&I and Medium C&I customers, approval of the Opt-In EGS Service program RFP and Agreement, approval of the Standard Offer Program rules and Agreement, and grant such other relief just and reasonable under the circumstances.

Respectfully submitted,



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