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June 18, 2012

VIA E-FILING AND HAND DELIVERY

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

RE: Petition of PECO Energy Company For Approval of Its Default Service Program;
Docket No. P-2012-2283641; **MAIN BRIEF OF DOMINION RETAIL, INC.
AND INTERSTATE GAS SUPPLY, INC.**

Dear Judge Buckley:

Enclosed is the original and nine (9) copies of the Main Brief of Dominion Retail, Inc. and Interstate Gas Supply, Inc. in the above-captioned docket. Copies of this Main Brief 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.
and Interstate Gas Supply, Inc.*

TSS/alh
Enclosure
cc: ALJ Dennis J. Buckley

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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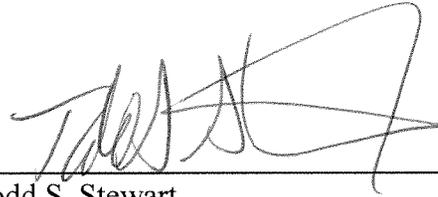
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Todd S. Stewart
*Counsel for Dominion Retail, Inc. and
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Dated this 18th day of June, 2012

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

**MAIN BRIEF OF
DOMINION RETAIL, INC. AND
INTERSTATE GAS SUPPLY, INC.**

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I. INTRODUCTION AND PROCEDURAL HISTORY

On or about January 13, 2012, PECO Energy Company (“PECO”) filed a Petition with the Pennsylvania Public Utility Commission (“Commission”) seeking approval of a default service program (“DSP II”) for the period of service from June 1, 2013 through May 31, 2015. PECO’s DSP II includes its procurement plan and implementation plan including the various contingency plans and associated supplier agreements that are required for PECO to procure default service supply for its non-shopping customers. PECO’s plan also proposes a number of proposals for new programs designed to accelerate migration of customers to competitive offers and away from default service over the period of the DSP II plan and beyond. These proposals are referred to collectively as competitive enhancements.

In support of its case, PECO submitted the Direct Testimony of five witnesses, which was later supplemented by the Supplemental Direct Testimony of Brian Crow and John McCawley. Mr. McCawley was the primary PECO witness supporting its proposed competitive enhancements, which include a retail opt-in auction process, a standard offer referral program, and the potential for a seamless move referral program in the future.

Dominion Retail, Inc. d/b/a Dominion Energy Solutions, (“DES”) and Interstate Gas Supply, Inc. d/b/a IGS Energy (“IGS”)(collectively “EGSs”) identified a number of important issues in PECO’s proposed procurement plan, including PECO’s proposal to eliminate block and spot purchases over the short term, and to thereafter rely entirely on full requirement contracts for the remainder of the DSP II time period. The EGSs support this proposal. And while the EGSs generally support PECO’s proposed retail enhancements (there are several significant structural flaws in PECO’s proposals), they oppose PECO’s proposal to modify its current quarterly reconciliation to an annual reconciliation.

In support of these views, the EGSs filed a Petition to Intervene on February 12, 2012. Their intervention was granted by Presiding Administrative Law Judge (“ALJ”) Dennis J. Buckley at a Prehearing Conference held on March 13, 2012. At the Prehearing Conference a litigation schedule was developed, which included evidentiary hearings to be held on May 21-24, 2012, the filing of Main Briefs on June 18, 2012 and the filing of Reply Briefs on July 3, 2012.

The four planned days of hearings eventually were whittled down to a single day through stipulations and waivers of cross examination between the parties. The evidence introduced at the hearing included prepared Direct, Rebuttal and Surrebuttal Testimony and some live rejoinder Testimony as well as cross examination of several witnesses. The EGSs presented the Direct Testimony (Dominion Retail/IGS Statement No. 1 “DR/IGS St. No. 1”), Rebuttal Testimony (“DR/IGS St. No. 1-R”) and Surrebuttal Testimony (“DR/IGS St. No. 1-SR”) of Mr. William L. Barkas. Mr. Barkas also testified at the hearing under cross examination (Transcript “TR”, pp. 101-113).

By way of introduction to the issues, the EGSs agree with PECO’s efforts to curtail its use of block and spot purchases, and believe that PECO’s proposal in that regard will bring stability to the pricing for default service. More predictable market prices also will assist PECO in addressing the persistent problem of matching revenues and expenses, that appears to have been the primary source of its reconciliation problems over the past year. (DR/IGS St. No. 1, pp. 5-7). The EGSs are pleased that PECO has proposed a retail opt-in auction (“ROA”), and a standard offer referral program as suggested by the Commission’s recent Final Order in, *Investigation of Pennsylvania’s Retail Electricity Market; Intermediate Work Plan*, Docket No. I-2011-2237952 (Final Order entered March 2, 2012)(“*IWP Order*”). There are, however, a number of structural problems with PECO’s proposals that Mr. Barkas addressed in his testimony.

One of the EGSs' fundamental concerns relates to PECO's insistence on recovering all of the costs of the referral program and the ROA from EGSs. While PECO has proposed a primary recovery mechanism for the ROA that only winning bidders pay the cost of the ROA, it has proposed that all suppliers be required to pay for the referral program, and possibly for costs not related to either of these program (DOM/IGS Cross-Examination Exhibit 1), through the Purchase of Receivables ("POR") discount. The POR "discount" is the amount that suppliers pay to PECO in exchange for PECO paying the suppliers the full amount that PECO bills customers on the supplier's behalf, rather than what is actually collected. Since PECO is taking the collection risk, it is compensated for that risk through the discount payment. Because this payment is based upon each supplier's billed revenues, suppliers with more customers and therefore more billed revenue, would end up paying more of the costs of PECO's proposed programs. (DES/IGS St. No. 1, p. 5). PECO's proposed backup collection mechanism for the ROA, not surprisingly, is recovery through the POR discount. As a threshold matter, there are sound policy reasons why customers should be asked to share in these costs, but there simply are no good reasons to require suppliers to contribute any amount through the POR discount (DES/IGS St. No. 1, pp. 4-5; DES/IGS St. No 1-R, pp. 2:5-10; DES/IGS St. No. 1-SR, pp. 5:23-6:15; TR. pp. 101-110).

PECO has proposed that the ROA offering be a six-month fixed price product, at least five percent (5%) less than the effective price to compare as of June 1, 2013. That product would include a fifty dollar (\$50) bonus paid to the customer by the EGS after the completion of three (3) billing cycles. PECO has proposed to cap the number of eligible customers to fifty percent (50%) of its non-shopping residential customers. PECO would divide the customers into twenty (20) tranches, each of approximately five percent (5%) of the eligible customers. (PECO St. No. 2-S, pp. 2:11-3:22). The tranches would be assigned on a clearing price methodology,

but any single supplier would be limited to serving fifty percent (50%) of the total tranches available. PECO has proposed to recover these costs from winning suppliers based upon the proportion of customers each supplier is assigned to the total number of customers assigned.

Mr. Barkas testified that it is appropriate to recover the costs of programs such as the ROA and the referral program, in the first instance, from customers. (TR. 101-110). However, in a move towards compromise in view of the IWP Order, Mr. Barkas did propose for the referral program only, that suppliers could be asked to provide coverage for the costs in a form of a “per-switch” customer fee. (DR/IGS St. No. 1, pp. 4-5). As for the ROA, however, Mr. Barkas continues to believe that recovery from all customers is appropriate. ((DES/IGS St. No. 1, pp. 4-5, TR. 101-110). Mr. Barkas also testified that a one-year product, as opposed to a six month product proposed by PECO, would provide customers with more price stability and would likely be a more attractive offering from a customer perspective. (DES/IGS St. No. 1-R, p. 8:1-7).

PECO’s referral program takes a different approach. PECO initially had proposed a “Supplier of the Month” program in which PECO would have held an auction every month, the winner of which would earn the right to be the sole supplier of standard offer service for that month. As a consequence of the IWP Order, PECO revised its testimony through Mr. McCawley’s Supplemental Direct (PECO St. No. 2-S, pp. 5:2-6:12), and modified the standard offer referral program to allow customers to select a supplier of their choice from a list of qualified suppliers or to be randomly assigned to the next supplier up in the queue. A supplier would have to be willing to offer a price that was at least seven percent (7%) less than the effective PTC at the time of enrollment and the offer would have to be at least a twelve (12) month fixed price contract with no early termination fees. The suppliers will also be required to provide service under the standard terms and conditions developed by PECO (DES/IGS St. No.

1, p. 4). PECO has proposed to recover the costs of the referral program, as discussed above, through the POR discount.

PECO proposes to alter its current reconciliation methodology under which it reconciles its expenses and revenues of providing default service on a quarterly basis, and to instead spread the recovery over a twelve month period. PECO claims through the testimony of its witness Mr. Alan Cohn (PECO Statement No. 5) that PECO has experienced a billing lag problem such that an annual reconciliation would level out the cost of the default service e-factor and the default service rate, otherwise known as the price to compare. The EGSs dispute this claim. To the contrary, the EGSs suggest that modifying the reconciliation methodology from a quarterly recovery to annual recovery solely to address this so-called billing lag is neither justified nor necessary. Annual reconciliation exacerbates the mismatch between the market prices of energy and the PTC that customers are asked to pay, thereby attenuating market price signals to customers, and creating the potential of keeping suppliers out of the market for long periods of time through perpetual boom and bust cycles caused by PTCs that are not based upon market prices of energy. (DR/IGS St. No. 1, pp. 5-7; DR/IGS St. No. 1-SR, pp. 4:10-5:2). Mr. Barkas testified at page 6 of his Direct Testimony that allowing the tale of this alleged accounting problem to wag the dog of PECO's default service pricing is inappropriate. Mr. Barkas also testified that such a pricing mechanism would be confusing for customers because customers may actually believe that PECO's default service was a one year fixed rate product comparable to those typically offered by suppliers, and would not understand that it was a reconciled product under which they could remain liable for make-up charges from prior periods. (DES/IGS St. No. 1, p. 6). This potential confusion far outweighs any speculative conclusion that rate volatility is harmful to customers.

The EGSs accordingly recommend that these portions of PECO's proposal be rejected.

II. DEFAULT SERVICE PROCUREMENT AND IMPLEMENTATION PLANS

A. Summary of the EGSs' Position

The EGSs support PECO's proposed procurement plan, and view with favor PECO's intention to replace its current block and spot purchases with full requirements products. The EGSs are concerned that the inclusion of block and spot purchases, as proposed by Mr. Hahn on behalf of the OCA (OCA St. No. 1, pp.7-8) will unnecessarily increase the volatility of PECO's PTC. While under ordinary circumstances, natural change in the PTC is viewed as beneficial, the upcoming period will be transitional in the truest sense, with the implementation of a number of products and programs designed to entice customers to move into to competitive market. During such periods, because of the way PECO structures its rates, the potential volatility of block and spot purchases can have impacts on the PTC that last months into the future, even after the price may have returned to more normal levels. Because of reconciliation, changes in market prices can be elongated and cause the PTC to change in unpredictable ways that can impact EGS's ability to offer competitively priced products. (DR/IGS St. No. 1-R, p. 6:1-7). At the end of the day, rather than bringing market relevance as may have been the intention, block and spot purchases have resulted in the opposite.

Customers are not harmed by the removable of block and spot purchases. Rather, default service customers would continue to receive a market priced product at more stable prices over time. Moreover, in a period where more migration is expected, customers are protected from the risks associated with the migration - because wholesale suppliers take on that risk - that otherwise they would bear. (DR/IGS St. No. 1, pp.7-8). PECO's procurement proposal should be accepted and the OCA's modifications rejected.

B. Residential Class Procurement

1. Term Length of Supply Contracts – Not Addressed

2. **RESA's Proposal to Include 10% Spot Purchases for Residential Customers – Not Addressed**
3. **OCA's Proposal to Continue Block and Spot Supply Procurement for Residential Customers – See Above.**

C. Small Commercial Class Procurement – Not Addressed

D. Medium Commercial Class Procurement – Not Addressed

E. Large Commercial and Industrial Class Procurement – Not Addressed

F. Extension of Supply Contracts Beyond May 31, 2015 – Not Addressed

G. Procurement Schedule

1. **OCA's Proposal to Reallocate Tranches Between Solicitations – Not Addressed**

2. **OCA's Proposed "Hold Back" for Opt-In Program – Not Addressed**

H. Load Cap

I. Other Procurement and Implementation Plan Requirements – Not Addressed

III. RATE DESIGN AND COST RECOVERY

A. Summary of EGSs' Position

The EGSs fundamentally disagree with PECO's proposal to modify its currently approved methodology for reconciling its revenues and expenses on a quarterly basis, and to instead reconcile annually and spread recovery over 12 months rather than 3 months. PECO's proposal could result in a price spike, or an accounting mismatch that lasts a month or two to be reflected in the PTC for 12 months. This type of long term reconciliation and the resulting prolonged impact of input level changes is not helpful for competition. (DR/IGS St. No. 1, pp. 5-7; DR/IGS St. No. 1-SR, pp. 6:17-7:18). PECO contends that annual reconciliation is needed to smooth out its matching of revenue and expenses, but the process provides the very real platform for a single anomaly to affect the PTC in a way that might make the PTC artificially look better than an EGS offer, resulting in marketers being "out of the money" and potentially out of the market for up to twelve months. Experience in the natural gas business has made it

clear that annual reconciliation can cause severe price dis-association such that the rate customers are asked to pay has no relevance to the actual market price of the commodity being sold. (DR/IGS St. No. 1, pp. 5-7; DR/IGS St. No. 1-SR, pp. 6:17-7:18). These concerns are well founded, are based on actual experience, and are ignored in PECO's quest to smooth out its own revenue, in light of the complete absence of evidence that volatility in rates is harmful.

The EGSs do support the Retail Energy Supply Association's ("RESA") witness, Mr. Kallaher's proposal for a surcharge to be included within the price to compare that would compensate PECO for the known and measurable costs of default service and which additionally would allow for full development of the market and to overcome the status quo bias that accompanies default service. While this approach appears to be new and innovative, having first been proposed by the First Energy utilities in their default service plan which currently is before the Commission, it nonetheless may provide the type of market enhancement that brings full development to the competitive market in Pennsylvania. (DR/IGS St. No. 1-R, pp. 9:16-10:21).

B. Reconciliation of Default Service Costs and Revenues

PECO currently reconciles its revenues and its expenses for providing default service on a quarterly basis and recovers or refunds any difference over the succeeding quarter, with a one quarter lag. (PECO St. No. 5, 8:11-16). PECO has proposed to change to an annual reconciliation so that determination of over/under recovery will be performed annually and the subsequent recovery or refund of the dollars will be spread over 12 months. The problem is that spreading recovery prolongs the contingent customer liability to pay for any over or under amount, to a full year. Apart from potentially increasing the amount of interest that customers may be asked to pay, this creates the potential that any miscalculation or market anomaly, when recovered over a year, could impact the PTC in a way that could artificially keep suppliers in a

bad market position relative to the PTC, for a very long time. These are the boom and bust cycles that Mr. Barkas discusses in his testimony. (DR/IGS St. No. 1, pp. 5-7; DR/IGS St. No. 1-SR, pp. 6-7).

While Mr. Cohn's contrived Exhibit ABC-1R speculates about what an annual reconciliation would look like, he fails to recognize that recovery of what may appear to be a small e-factor amount can have negative long term consequences for suppliers. The better approach for PECO would be to address the shortcomings of its accounting methodology that causes the so-called billing lag issue in the first instance. There is no testimony in the record that suggests that any customer has suffered any difficulty because of the historic variations in PECO's PTC. Mr. Cohn speculates that fluctuations may cause customer confusion but presents no evidence of the fact. (DR/IGS St. No. 1-SR, p. 7:9-12). Accordingly, PECO's proposal to alter its reconciliation approach must be rejected.

C. EDC Recovery of Additional PJM Charges

The EGSs support the notion of recovering PJM generation deactivation charges through the NMB Rider. (DR/IGS St. No. 1-R, p. 5:11-17). This approach to recover a cost which is unknown, unpredictable and un-hedgeable appears to be better than requiring suppliers to assume all of the risk, and it will level the playing field.

D. Costs Included in the Generation Supply Adjustment Charge – Not Addressed

E. Ratemaking Treatment of Auction Revenue Rights – Not Addressed

F. Elimination of Alternative Energy Portfolio Standard Surcharge – Not Addressed

IV. RETAIL MARKET ENHANCEMENTS

A. Summary of the EGSs' Position

As a general matter the EGSs support the implementation of PECO's competitive enhancements, noting that there are cost recovery, timing issues, and other problematic elements of the proposal which must be fixed. Customers should be asked to pay for at least some portion of the costs of these programs, because ultimately a robust competitive market provides them with the benefit of the best available array of prices and products that cannot exist without competition. These programs are intended to assist in overcoming the status quo bias that keeps many customers stuck on default service despite the opportunities and benefits that competitive offers might bring. To suggest that only suppliers benefit and should therefore solely bear the costs ignores this reality.

B. EGS Opt-In Competitive Offer Program

The EGSs believe that competitive enhancements, and in particular the ROA, should be structured in a way that actually promotes robust competition. DES and IGS's views are contrary to those expressed by First Energy Solutions' witness Tony Banks, who suggests that a market where a single retail supplier that obtained all the customers in an auction is a competitive market. (DR/IGS St. No. 1-R, pp. 2:1-4:14). The EGSs support load caps for suppliers participating in the programs. However, that is not to say that the EGSs are not sensitive to the need to bring the lower prices to customers, which is why they support holding the opt-in process before suppliers bid to serve the customers. Knowing the universe of customers that they will serve will allow EGSs to provide better offers to customers. No party refuted this contention. The arguments in response have rather focused on the alleged additional complexity that will be required, which is a red herring.

The EGSs believe that broad customer participation is necessary and therefore reject the OCA's proposed 20% customer participation cap as being contrary to the goal of moving customers to competitive offers. Perhaps more contentious than the timing of the auction versus

the customer opt-in enrollment, is the cost recovery mechanism for the program. The EGSs continue to believe that the most appropriate methodology for recovering these costs of competitive enhancements would be from all customers on a non-bypassable surcharge. This type of program is intended to benefit the entire market and increase the health of the competitive market by having customers migrate. These programs benefit both shopping and non-shopping customers by providing a stronger market for those customers already shopping and providing a competitive market opportunity for those who have not yet chosen that path. Recovery from all customers also encourages broader supplier participation and would bode well for the success of the program. In the event that this type of recovery is not considered or approved by the Commission, however, the EGSs have proposed the recovery from the suppliers who win customers on a proportional basis related to the number of customers actually assigned to those suppliers.

1. Composition of Product Offer

The EGSs believe that the most effective retail opt-in auction will be one in which customers are provided a one-year offer at a fixed percentage off of the price to compare at the time the offer is made, coupled with a fifty dollar (\$50) bonus. (DR/IGS St. No. 1, pp. 2-4; DR/IGS St. No. 1-R, pp. 8:1-7). This is contrary to PECO's proposal only in the length of the proposed offer - PECO has proposed a six-month offer, while the EGSs and the OCA have proposed a one-year offer. (OCA St. No. 2, p. 11). Likewise, the EGSs believe that the proposed product is sufficiently defined so that customers could be asked to opt-in to the program based upon the product composition, before suppliers are asked to bid on the product. In this way, suppliers would know the number customers that would be participating in the program prior to making their bids. (DR/IGS St. No. 1-SR, p. 5:7-18).

Other parties, including the Office of Consumer Advocate (“OCA”) and the Company have argued that providing for the auction prior to customers knowing the exact details of the program may cause customers to not participate. Mr. Barkas disagrees, considering that there are many offers out there in the marketplace now that are very popular with customers that have considerably more variability than a fifty dollar (\$50) bonus and a five percent (5%) discount offer off the price to compare on a fixed price basis. Accordingly, the EGSs support PECO’s proposed product, for the most part, but disagree with the timing of the program.

2. Customer Participation Cap

With regard to customer participation caps, the OCA has argued that only twenty percent (20%) of the eligible customers should be permitted to participate in this program. (OCA St. No. 1, p.12; OCA St. No. 2, p. 10). As Mr. Barkas has testified, a 20% customer participation cap would doom this program to fail before it ever started. The OCA’s main objective is to protect the wholesale suppliers who will potentially bid into PECO’s default service procurement. Mr. Hahn appears to believe that those suppliers will believe that a chance of fifty percent (50%) of the customers switching is riskier than twenty percent (20%) of the customers switching. However, as Mr. Barkas testified, the fact that there is switching risk at all is what may affect the price, not the magnitude of the customer participation. (DR. St. No. 1-R, pp. 6-7). That is, Mr. Barkas testified that the risk to wholesale suppliers is not a factor of how many customers are eligible, but rather in not knowing what percentage of customers will opt-in, which is different, and which should be consistent regardless of how many customers may be eligible. (DR/IGS St. No. 1-SR, pp. 3:15-4:5). Accordingly, there should be no difference in the level of the risk priced into the products by the wholesale suppliers. In this way, Mr. Barkas believes that it would be no different to the wholesale market whether it was a twenty percent (20%) or fifty percent (50%) migration possibility. Even if that were not the case however, Mr. Barkas

believes that the Commission considered this impact in its *IWP Order* and had nonetheless concluded that a fifty percent (50%) customer load cap was appropriate. *IWP Order*, at p. 59. In this case, Mr. Barkas agrees with the Commission's conclusion. The proposed 50% is reasonable and should be approved.

3. Supplier Participation Load Cap

With regard to the proposed limitation on how many customers an EGS may serve out of the potential pool of one million customers, the EGSs believe that PECO's proposal of capping that number at fifty percent (50%) also is reasonable. Contrary to the testimony of Mr. Banks on behalf of First Energy Solutions ("FES"), supplier participation load caps are necessary to ensure that a more diverse supplier community is serving the customers and this is important for the long term health of the competitive market in the PECO service territory. Potentially awarding one hundred percent (100%) of all of these customers to a single supplier will not benefit the competitive market at all. In short, Mr. Barkas vehemently opposes any suggestion that there be no supplier load cap. (DR/IGS St. No. 1-R, pp. 2:14-3:10)

4. Customer Options on Product Expiration and Notice Requirements

The Commission currently requires that a customer be provided with two notices upon the expiration of a fixed price offer. The customers in this program will have affirmatively asked to be included in a program that will provide them with a fixed price offer, albeit with a large group of customers doing the same thing at the same time. There is no reason, however, to treat such customers any differently from any other customer who opts to participate in the competitive market. There are no differences that support the need for any different treatment. Nonetheless, the OCA's witness, Ms. Alexander, has contended that such programs should require that customers receive three (3) notices prior to the expiration of the program. (OCA

St. No. 2, p. 12). Mr. Barkas rejected this contention, (DES/IGS St. No. 1-R, p. 8:12-16) contending that these customers who have “opted in” have been recognized by the Commission as having affirmatively chosen the supplier and therefore would require no additional notices beyond the two (2) already required. The Commission has already stated its preference that two notices are sufficient and PECO’s plan should therefore be approved. *IWP Order* at, p. 63.

5. Structure of Opt-In Auction – Sealed-Bid Format Versus Descending Price Clock Auction

The EGSs support PECO’s proposal to conduct a sealed bid RFP versus the preferred methodology of FES, namely a descending clock auction. As the Commission found in its *IWP Order*, both methodologies are acceptable in its eyes. *IWP Order*, at pp. 77-78. However, in view of Mr. Barkas, a sealed bid RFP would be more effective for PECO because it should come in at a lower cost and it requires suppliers to put their best offer on the table, which in this case, because the bids are so circumscribed already as having to be at least five percent (5%) discount with a fifty dollar (\$50) bonus for one year, believes that there will be fairly little room for suppliers to negotiate within those parameters so that the bids will be fairly homogeneous regardless of which methodology is used. This view was shared by PECO’s expert. (TR. 87:11-88:1).

C. EGS Standard Offer Program

The standard offer referral program is presently proposed as a twelve (12) month, seven percent (7%) discount off the then effective price to compare. The EGSs prefer the one year product because it provides longer term price stability. The most significant issue of contention with regard to the referral program is the cost recovery mechanism. While the EGSs continue to support the notion that customers should be asked to pay for most or all of the costs of these programs, they are also cognizant of the Commission's *IWP Order*, and its suggestion that suppliers be responsible for the costs. As an alternative, Mr. Barkas proposed that suppliers could be responsible for some of the costs. However, he made clear that if they were to be made to pay, the recovery should be had from those suppliers that actually are gaining customers. PECO has proposed to all suppliers pay through an additional charge to be recovered as part of the POR discount, a notion with which the EGSs' witness violently disagrees. (DR/IGS St. No. 1, pp. 4-5; DR/IGS St. No. 1-SR, pp. 5-6; TR. 101-110). He instead proposed cost recovery through a per customer switch fee calculated to recover the costs and assuming some reasonable level of customer participation and recovery of PECO's identifiable costs over a reasonable time period. Mr. Barkas testified at length that recovery of the costs of the customer referral, or the ROA for that matter, through the POR discount would stymie competition in PECO's service territory and would be unfair by saddling non-participating suppliers with what could amount to be rather significant costs. (DR/IGS St. No. 1, pp. 4-5; DR/IGS St. No. 1-SR, pp. 5-6; TR. 101-110).

PECO's witness, Mr. Cohn, in his Exhibit ABC-R4 outlines those costs for which PECO would seek recovery, with very little specificity as to the underlying basis for those costs. The listing appears to include several categories of costs that would be inappropriate to recover from

suppliers through any means because they seem to be cost associated more with consumer education which should be recovered from all customers. (DOM/IGS Cross-Examination Exhibit No. 1). If it is PECO's intention to recover such costs through this proceeding, these costs should be recovered from all customers.

Accordingly, the EGSs proposes its per customer switch fee as compromise position through which some or all of the costs of providing default service could be recovered from suppliers. (TR. 103:10-19).

1. Customer Eligibility

The EGSs believe that as a matter of principle that all customers should be able to participate in the competitive enhancements and that any technical reasons which may prevent such participation for the moment should be addressed. (DR/IGS St. No. 1-R, pp. 4:17-5:8).

2. Composition of Product Offer

The EGSs support the composition of the offer proposed here, a one-year, seven percent discount. However, if suppliers are to be saddled with the more costs as PECO appears to have proposed, Exhibit ABC-R4, then perhaps the discount should be lowered.

3. Customer Options Upon Product Expiration

Similar to the discussion above with regard to the expiration of offers in the ROA, customers who participate in a referral program should receive the same two notices that any other customer receives. They will have opted in just like any other customer and there are no good policy reasons to alter the methodology, particularly in light of the higher costs associated with sending more notices. Accordingly, the OCA's suggestion that there by additional notices should be rejected.

4. Types of Customer Calls Eligible for Presentation of Referral Program

The EGSs believe that most non-emergency calls to PECO's call center should be eligible for standard offer referral treatment. (DR/IGS St. 1-R, pp. 8:18-9:2). This is particularly true for new and moving customers, but also for any customer who might benefit from being aware of competitive offers in a setting that does not cause a potential for harm (emergencies) or frustration (calls concerning termination or collections).

5. Commencement Date of the EGS Standard Offer Program – Not Addressed

D. Participation By Low-Income Customers In Proposed Retail Market Enhancements

The EGSs believe that as a matter of principle that all customers should be able to participate in the competitive enhancements and that any technical reasons which may prevent such participation for the moment should be addressed. (DR/IGS St. No. 1-R, pp. 4:17-5:8).

E. Additional Proposed Retail Market Enhancements

- 1. Time-of-Use Offering – Not Addressed**
- 2. New/Moving Customer Referral Program – Not Addressed**
- 3. Referral of PECO Wind Customers – Not Addressed**
- 4. Seamless Moves**

The EGSs support the concept of a seamless move collaborative.

F. Recovery of Program Costs for Proposed Retail Market Enhancements

As discussed at length above, the EGSs believe as a threshold matter that customers will benefit from the enhancement programs proposed by PECO and that it therefore is appropriate to ask customers to pay some or all of the costs of these programs. (TR. 101-110). As a move in the direction of the Commission's IWP Order, however, Mr. Barkas did propose, if suppliers are

to be held responsible for the costs of that program, that they be assessed based upon the number of customers switched to them, through a per-customer switch fee. (DR/IGS St. No. 1, pp. 4-5). With regard to the broader based ROA, Mr. Barkas continues to believe that there is no basis for charging suppliers the cost of the program directly, but that in no circumstance should PECO's fall back proposal for POR discount recovery be adopted. (DR/IGS St. No. 1-R, pp. 4:1-14).

1. **EGS Opt-In Competitive Offer Program – See above**
2. **EGS Standard Offer Program – See above**
3. **Other Enhancements – See above**

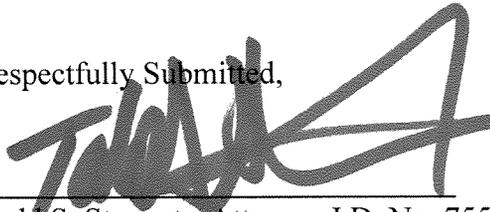
V. OTHER ISSUES - none

VI. CONCLUSION

PECO's proposed DSP II contains a few structural flaws (cost recovery, offer timing and offer structure) that must be addressed to insure that the programs provide the best opportunity for moving customers into the competitive market, which is the goal of these programs. Conversely, attempts to limit participation (OCA load cap), change the auction methodology (FES descending clock) or impose additional costs on suppliers by adding superfluous requirements (OCA three notice proposal) should be rejected. Likewise, while PECO's attempts to stabilize rates through the elimination of block and spot purchases are likely to produce expected results, PECO's misguided effort to extend its reconciliation to an annual process in an effort to mask its inability to match its revenue and expenses, should be rejected. There is no evidence that this mismatch has caused any problems for customers as PECO speculates, but there is ample evidence from the gas industry to support the EGSs position that annual reconciliation is harmful to competition.

Accordingly, with the modifications proposed by the EGSs, PECO's proposed DSP II should be approved.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'Todd S. Stewart', written over a horizontal line.

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