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September 10, 2012

VIA 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; **EXCEPTIONS OF DOMINION RETAIL, INC. AND INTERSTATE GAS SUPPLY, INC.**

Dear Secretary Chiavetta:

Enclosed for filing with the Commission are the original and nine (9) copies of the Exceptions of Dominion Retail, Inc. d/b/a Dominion Energy Solutions and Interstate Gas Supply, Inc. d/b/a IGS Energy in the above-captioned docket. Copies of the Exceptions have been served in accordance with the attached Certificate of Service.

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

Very truly yours,

Todd S. Stewart
Counsel for Dominion Retail, Inc.

TSS/alh
Enclosures

cc: Honorable Dennis J. Buckley

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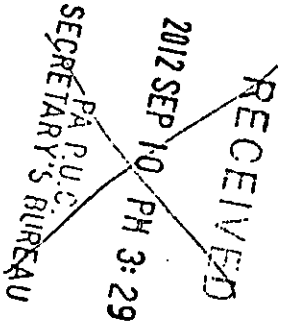
BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

EXCEPTIONS OF DOMINION RETAIL, INC. AND INTERSTATE GAS SUPPLY, INC. TO RECOMMENDED DECISION



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NOW COMES, Dominion Retail, Inc. d/b/a Dominion Energy Solutions ("DES") and Interstate Gas Supply, Inc. d/b/a IGS Energy ("IGS")(collectively "EGS") and hereby Excepts to the Recommend Decision ("RD") of Presiding Administrative Law Judge Dennis J. Buckley ("ALJ") of the Pennsylvania Public Utility Commission ("Commission") issued on August 27, 2012, in the above-captioned matter. In accordance with the cover letter affixed thereto, Exceptions are due to be filed with the Commission on September 10, 2012 and Replies to Exceptions on September 17, 2012.

I. GENERAL EXCEPTION

The RD recommends that the Commission accept the Default Service Plan ("DSP") proposed by PECO Energy Company ("PECO") - largely without modification. While as a practical matter, the EGSs agree with a substantial amount of what PECO proposed, they are nonetheless concerned by the manner in which the RD was composed. The RD appears to create, without analysis, a presumption that PECO's proposal is reasonable and in the public interest, and to then place the burden on the other parties to prove that the presumption was incorrect. This view is best expressed on Page 1 of the RD, wherein it states that "PECO has met its burden of establishing that its proposed program complies with the dictates of the law and the guidance of the Commission." Thus creating an apparent presumption throughout the remainder of the RD that PECO's plan is approved unless otherwise stated. The ALJ's conclusions throughout most of the remainder of the RD show this to in fact be true, except in a few rare instances where the ALJ disagreed with PECO's plan. In the majority of the "Recommended Disposition" portions related to the specific elements of PECO's plan, there is little analysis or

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supporting reasoning. This leaves those parties that do not agree with PECO's plan in the unenviable position of guessing at the rationale of the RD.

As the moving Party it is PECO that bears the twin burdens of proof and persuasion, 66 Pa. C.S. § 332(a). While it may be true that PECO has carried those burdens, it is not at all clear from the RD.

II. SPECIFIC EXCEPTIONS

Exception No. 1: The ALJ erred by approving PECO's proposal to reconcile its default service costs on an annual basis. (RD pp. 41-44).

The RD would approve without modification PECO's proposal to change it's default service price to compare ("PTC") on a quarterly basis, but to reconcile it's costs over a twelve (12) month period. The ALJ opines that "while quarterly reconciliation might appear more reflective of wholesale supply costs, annual reconciliation means that fluctuations in default service prices will be smoothed out and result in clear price signals for both customers and EGS'." (RD at 44). Put differently, while the RD admits that quarterly reconciliation allows for a price to compare ("PTC") that better reflects the costs of wholesale energy, which is the basis of competitive markets, it nonetheless adopts PECO's proposed methodology as better because it will smooth out the PTC. It is not clear exactly how the smoothed out PTC will create the "clear price signals" that the RD projects. The fundamental question that must be answered to resolve this issue is whether the Commission believes that a PTC that better reflects wholesale market prices, which may at times be volatile, is a better price signal for customers than a "smoothed-out" homogenized PTC that reflects very little market volatility? The EGS answer is clear, customers do not benefit when they are sheltered from the market forces that are the basis of the prices they eventually will pay.

The RD's contrary conclusion is seriously misguided. The simple answer is even acknowledged by the ALJ - quarterly reconciliation presents a more market reflective price to customers. Moreover, despite its recent request for Comments on a variety of questions regarding reconciliation, the Commission has not suggested that the goal of smoothing default service rates should trump the goal of providing market reflective pricing to customers, in fact the opposite is true: "The Commission's objectives are to ensure that the industry's current prices reflect current costs as accurately as is feasible." *Default Service Reconciliation Interim Guidelines*, Docket No. M-2012-2314313 (Order entered August 14, 2012, slip. op. at 2). It would be inopportune at best for the Commission to approve a substantial modification to the currently approved reconciliation methodology in light of the potential that the methodology could be improved in the future, if the Commission believes that improvement is possible. Moreover, the RD is internally inconsistent on the subject and implies that the goal of smooth default service pricing should be superior to that of market reflective pricing.

The ALJ makes such ado of adopting PECO's incorrect contention that the EGS' witness, Mr. Barkas, failed to prove that what happens in the gas market translates easily into the electricity market (RD at 43). If the ALJ's recommendation were adopted, however, and PECO's reconciliation were modified from the current quarterly to an annual reconciliation, the electricity markets would look amazingly like the natural gas markets for reconciliation purposes, and thereby increases exponentially the likelihood that the situation in the natural gas markets will prevail in the electric markets. Accordingly, the ALJ's determination that an annual reconciliation is appropriate and should be approved is in error and should be rejected in favor of maintaining PECO's current quarterly reconciliation process.

Exception No. 2: The ALJ erred in approving a six (6) month opt-in product. (RD pp. 59-60).

The RD rejects various parties' proposals for a twelve (12) month opt-in product, in favor of PECO's proposed six (6) month product. This recommendation is in error. Moreover, the basis for the ALJ's contention appears to be the Commission's rejection of a standard twelve (12) month product in earlier proceedings. *Retail Markets Investigation, Intermediate Work Plan;* Docket No. I-2011-2237952 (Order entered March 2, 2012)("*IWP Order*"). However, based upon the Commission's recent guidance in the First Energy Default Service Plan Order, *Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company for Approval of their Default Service Programs*, Docket Nos. P-2011-2273650, et seq., (Opinion and Order entered August 16, 2012)("*FE Order*"), it appears that the Commission has reconsidered that view. In its *FE Order*, the Commission ordered First Energy to provide a two-part product for the Retail Opt-In ("ROI") program that would consist of a four (4) month product at a five percent (5%) savings off of the PTC and a subsequent eight (8) month product with as of yet indeterminate pricing. While a number of parties have petitioned for reconsideration or clarification of this portion of the Commission's order, none have suggested that the twelve (12) month term of the total opt-in product was inappropriate. Accordingly, the ALJ's reliance on the Commission's *IWP Order* as the basis for concluding that a six (6) month opt-in product is the only option, is misplaced, and should be rejected.

Exception No. 3: The ALJ erred in recommending that the entirety of the costs of the Retail Opt-In Offer Program ("ROI") be borne by participating suppliers. (RD pp. 83-85).

On page 85 of the RD, the ALJ concludes that it is appropriate to recover the entirety of the costs of the ROI program from participating suppliers. As discussed at length on the record

of this proceeding, this means of recovering costs may limit the participation of a large number of potential suppliers. If the goal of the ROI program is to create robust and sustainable competition, which requires the participation of a number of suppliers, the program approved by the RD will fail to meet that goal. To the contrary, the Commission should encourage participation by the broadest number of eligible suppliers and should therefore reconsider the cost recovery mechanisms. There is ample evidence in the record to support the notion that customers benefit from such robust competition and that they can reasonably be asked at least to share in the costs of such programs.

However, if the Commission insists that suppliers foot the entire bill, then the program must be as cost efficient as is possible. A good example of such cost-cutting can be found in the recent *FE Order*, where the Commission did not require an auction process at all, and instead ordered that the ROI program be an assignment program open to as many suppliers as possible. This change has the benefit of reducing the costs of the ROI program - in addition to encouraging broader participation. With appropriate safeguards, the EGS' could agree to the imposition of such a program in this case. However, under such a program, suppliers would have to post cash collateral to guarantee that they were capable of making the fifty dollar ($50) bonus payments and the prices they charge would have to be provided to customers and be transparent to the market. As to the issue of cost recovery, however, the record is clear, customers do benefit and should be asked to share the costs.

Exception No. 4: The ALJ erred in recommending the recovery of the costs of the Standard Offer Referral Program through the Purchase of Receivables ("POR") discount. (RD pp. 86).

In what may be the most obviously detrimental recommendation of the entire RD, the ALJ recommends that the costs of the Referral Program, which could be substantial, be

recovered from all suppliers through the POR discount, which is paid by all suppliers as a percentage of what they bill their customers, as opposed to being charged directly to the participating suppliers. This turn of events would cause suppliers that already have customers to subsidize the program - even if they did not participate. The larger the customer base a supplier has today, the larger its subsidy to other suppliers. The ALJ does not even address this blatant subsidy in the RD. The EGS' did not oppose recovering the costs of this program directly from suppliers, but rather the imposition of the costs on non-participating suppliers. (DES/IGS Main Brief at 15-18). Such a subsidy is plainly illegal and violates the Public Utility Code, 66 Pa. C.S. § 1304. It is hard to imagine a provision such as this one, that would create an inherent competitive disadvantage to existing suppliers and those who choose not to participate in the program. The saddest part is that the basis for PECO's insistence on the POR recovery is its own convenience, and the simple remedy is to charge suppliers a per switch fee as advocated by the EGS' witness, Mr. Barkas. The RD, should therefore be rejected on this point and PECO ordered to implement a per customer switch fee to recover the costs of the referral program.

III. CONCLUSION

Despite the fact that the EGS's objections to the RD are few, the implications of failing to address them could be a tragic failure of the Commission's effort to bring sustainable competition to the electricity markets in Pennsylvania. Misguided and mis-designed customer enhancements coupled with an oppressive reconciliation process will drive suppliers away from PECO's markets, not attract them. The Commission must reconsider its view on cost recovery, and allow customers to share the costs of programs that provide them with real benefits, and put an end, for now at least, to EDC efforts to modify reconciliation until the Commission has the final word. Finally, the Commission must understand that the POR discount is only an

appropriate vehicle to recover costs of POR. It is not appropriate to recover the costs of market enhancement programs, because doing so will cause cost shifting and subsidization that will kill the competitive market.

Respectfully submitted,

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Counsel for Dominion Retail, Inc. and Interstate Gas Supply, Inc.

Dated: September 10. 2012

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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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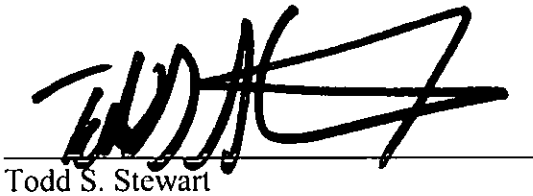

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