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September 17, 2012

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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; **REPLY 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 Reply 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 Reply 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

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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

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NOW COME, Dominion Retail, Inc. d/b/a Dominion Energy Solutions (“DES”) and Interstate Gas Supply, Inc. d/b/a IGS Energy (“IGS”)(collectively “EGS Parties”) and hereby offer their Replies to the Exceptions filed by various parties in the above-captioned matter. The responded-to Exceptions were filed in response to the Recommend Decision (“RD”) of Presiding Administrative Law Judge Dennis J. Buckley (“ALJ”) of the Pennsylvania Public Utility Commission (“Commission”) which was issued on August 27, 2012, in the above-captioned matter.

I. INTRODUCTION

The EGS Parties have been active participants in this matter and filed Exceptions on September 10, 2012. A number of parties also filed Exceptions. While the EGS Parties supported a considerable portion of the outcome proposed in the RD, there were a few notable issues with which the EGSs had significant disagreement. Those Exceptions will not be repeated herein, except to state that without the adjustments discussed therein, and in these replies, the RD will be more of a setback than an advancement of the goal of greatly expanding competition on the PECO Energy Company (“PECO” or the “Company”) system.

The EGS Parties herein respond to the Exceptions filed by the Office of Consumer Advocate (“OCA”) with regard to the reconciliation of default service costs, and the OCA’s recommendation of a twenty percent (20%) customer participation cap for the Retail Opt-In (“ROI”) program. The EGS Parties also respond to the Exception of First Energy Solutions (“FES”) Exception No. 2 with regard to cost recovery for competitive enhancements and finally respond to Exception No. 1 of PPL Energy Plus (“PPL”) and Exception No. 5 of the Retail

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Energy Supply Association (“RESA”) which address the same issue, namely the recovery of certain PJM charges.

II. REPLIES TO EXCEPTIONS

A. Replies to Exceptions of OCA:

Reply to OCA Exception No. 1 - The OCA’s proposal to reconcile PECO’s default service costs and revenues using a twelve (12) month rolling average was appropriately rejected. (OCA Exceptions, pp. 5-7; RD 41-44).

The OCA takes exception to the ALJ’s refusal to implement a twelve (12) month rolling average as part of the recommended approval of PECO’s proposed twelve (12) month reconciliation process. (OCA Exception No. 1, p. 5, RD 41-44). In the case before the ALJ, the EGS Parties had recommended to maintain the current quarterly reconciliation process, particularly in light of the Commission’s now ongoing proceeding with regard to modifying the requirements for reconciliation. *Default Service Reconciliation Interim Guidelines*, Docket No. M-2012-2314313 (Order entered August 14, 2012). The OCA believes that the ALJ misconstrued the OCA’s position and assumed that the OCA was supporting a quarterly reconciliation process. While the ALJ appears to have been in error with regard to the attribution of the OCA’s position, the ALJ was correct to reject the OCA’s rolling twelve (12) month average process. Moreover, the ALJ should have rejected the annual reconciliation proposed by PECO at the same instance.

It is inappropriate at this juncture to approve a switch to annual reconciliation while the Commission presently is considering that very question in a generic process. Any departure from that status quo at this point, without the benefit of the comments and replies, and expected collaborative process, would render that process moot before it began. As discussed in EGS Parties’ Main Brief, annual reconciliation, whether on a straight annual basis or on a twelve (12)

month rolling average basis, leads to disassociation of market prices and rates customers pay and eliminates price signals to customers and erroneously educates customers that cost of default service energy are flat and continuous over time, when in fact they are not. For all of these reasons and some of those stated in the EGS Parties' Main Brief (DES/IGS Main Brief, pp. 7-9), the EGS Parties submit that the OCA's Exception should be denied and that the ALJ's decision to adopt an annual reconciliation process without the twelve (12) month rolling average also should be rejected in favor of maintaining PECO's current quarterly reconciliation.

Reply to OCA Exception No. 5 - The ALJ correctly rejected the OCA's twenty percent (20%) participation cap for the Retail Opt-In ("ROI") program. (OCA Exceptions, pp. 14-19; RD 60-61).

Beginning on Page 14 of its Exceptions, the OCA takes issue with the ALJ's rejection of its extremely low twenty percent (20%) customer participation cap for the ROI program. The OCA's arguments have been consistently rejected by the Commission, both in the RMI Work Plan Order¹ and the recently issued FirstEnergy Default Service Order.² The OCA's contention that the number of customers that should be allowed to participate in this program be limited to twenty percent (20%), in order to protect wholesale suppliers at the risk of causing the ROI program failure is untenable. The purpose of the ROI program is to encourage mass switching. It is not disputed that encouraging switching, if successful, will reduce the load responsibility of full requirements wholesale suppliers. It also is not disputed that any additional risk associated with that switching (such risk is borne by the full requirements suppliers today) is likely to be priced into the wholesale prices of suppliers in the next default service auction. Migration risk is

¹ *Investigation of Pennsylvania's Retail Electricity Market: Intermediate Work Plan*, Docket No. I-2011-2237952. (Order entered March 2, 2012)("IWP Order").

² *Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and WestPenn Power Company for Approval of their Default Service Programs*, Docket Nos. P-2011-2273650 et al. (Order entered August 16, 2012).

a cost of default service. The fact that there may be incremental risk and that the risk may be priced, does not negate the necessity of the program or require that the program be hamstrung. What has not been proven by any party, however, is the existence of incremental risk, and any evidence of the magnitude of such incremental risk. DES/IGS witness, Mr. Barkas, testified that such additional risk would be negligible. (DES/IGS Main Brief, pp. 12-13; DR. St. No. 1-R, pp. 6-7). The programs have to be designed to best suit the goal of moving many customers into the competitive market. The OCA has presented no evidence what magnitude this risk price may be, and accordingly, its fears appear to be significantly overstated. Moreover, it appears that the Commission has made the choice, that despite the risk, the benefits are worth it. Accordingly the EGS Parties submit that the OCA's argument with regard to the customer load cap must be rejected in favor of the fifty percent (50%) cap approved by the ALJ.

B. Response to the Exceptions of FirstEnergy Solutions

Reply to FES Exception No. 2 – It was wholly inappropriate for the ALJ to permit recovery of the costs of market enhancement programs from EGS' through the POR discount. (FES Exceptions, pp. 4-8; RD 85-86).

Beginning on page 4 of its Exceptions, FES takes exception to the ALJ's recommendation that PECO recover the cost of the ROI program through a discount on the purchase of EGS receivables under PECO's current POR program. In its Exceptions, FES contends that the ALJ's reliance on the IWP Order was in error, as that Order did not address the specific factual circumstances of PECO's proposal and because PECO's proposal was not supported by evidence. Finally, FES takes the ALJ to task for failing to approve its alternative recovery method.

The EGS Parties believe that the ALJ should have approved their proposed alternative recovery methodology which would recover the costs of the ROI from the suppliers who actually

win customers, and which would have recovered the costs of the referral program on a per customer switch fee basis from participating suppliers. (DES/IGS Main Brief at pp. 15-18). The ALJ's approval of recovery for any retail enhancement costs via the POR discount ignores the substantial evidence in the record of the deleterious effects on competition and suppliers presently serving customers on PECO's system. (*Id.*) Recovery through the POR discount would cause suppliers that have customers already in PECO service territory, and who participate in the POR program, to subsidize new market entrants in the form of higher POR costs. This would be true even if that supplier did not participate in the referral or ROI programs.

PECO presented no evidence with regard to the efficacy of this recovery methodology, other than it would be administratively easier for PECO to recover the cost in this fashion. Simply put, that is no basis to implement a cost recovery mechanism that ultimately results in currently active suppliers leaving PECO's service territory. Accordingly, FES' Exception should be granted and the ALJ's decision on this issue should be rejected to eliminate any potential for recovery of costs of retail market enhancement programs from suppliers through a POR discount.

C. Reply to Exceptions of PPL Energy Plus and RESA.

Reply to Exception No. 1 of PPL Energy Plus and No. 5 of RESA - The ALJ Should Have Considered RESA's Argument Regarding PJM Charges. (PPL Energy Plus Exceptions, pp. 2-5; RESA Exceptions, pp. 11-19; RD 46-47).

Beginning on Page 11 of its Exceptions, RESA takes the ALJ to task for failing to approve recovery of certain PJM charges including generation deactivation charges, network integration transmission service charges ("NITS"), regional transmission expansion plan costs ("RTEP"), and other expansion costs. Likewise, PPL Energy Plus' (PPL Energy Plus Exceptions, pp. 2-5) sole exception is that the RD erred in recommending that the Commission reject its proposal to shift responsibility of recovery of generation deactivation charges and

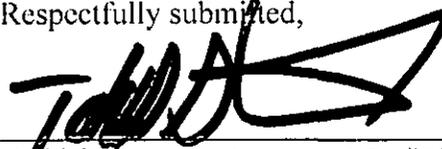
other PJM charges from EGS' to PECO. As stated in RESA's Exception, these costs are regulated, non-market based charges that are set or allocated based on administrative processes and formulas, are impossible for the suppliers to hedge, and are neither transparent nor predictable. (RESA Exceptions, p. 12). These charges could cause significant negative market impacts on all market participants if they are not recovered on an equitable basis from all customers. Accordingly, these Exceptions should be granted in the RD reversed on this point and these charges should be recoverable from all customers on a non-bypassable basis.

III. CONCLUSION

Wherefore, for the reasons set forth in their Main Brief and Reply Brief, in their Exceptions and these Replies, the positions of EGS Parties should be reflected in the Final Order of the Commission in this Matter and the respective portions of the RD that are contrary thereto should be rejected and/or reversed, so that competitive markets might thrive in PECO's service territory and Pennsylvania.

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Respectfully submitted,



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Dated: September 17, 2012

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

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Interstate Gas Supply, Inc.*

September 17, 2012