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October 5, 2012

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
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400 North Street, 2nd Floor North
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RE: Petition of Duquesne Light Company for Approval of Default Service Plan for the Period June 1, 2013 Through May 31, 2015 – Docket No. P-2012-2301664

Dear Secretary Chiavetta:

Enclosed for filing please find the Main Brief of Duquesne Light Company for the above-referenced proceeding. Copies will be provided as indicated on the certificate of service.

Respectfully Submitted,

Michael W. Gang

MWG/skr

Enclosures

cc: Honorable Katrina L. Dunderdale
Certificate of Service
Edward Berzonsky

CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing have been served upon the following persons, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant).

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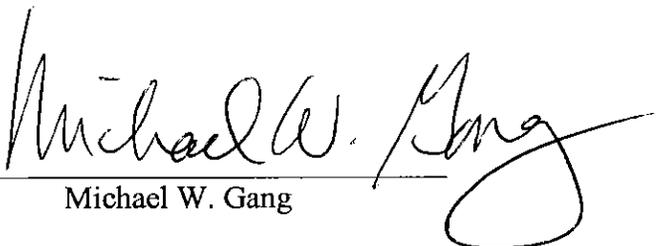
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of Duquesne Light Company for :
Approval of a Default Service Program and : Docket No. P-2012-2301664
Procurement Plan for the Period June 1, :
2013 through May 31, 2015 :
:

**MAIN BRIEF OF
DUQUESNE LIGHT COMPANY.**

TO ADMINISTRATIVE LAW JUDGE KATRINA L. DUNDERDALE:

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I. PROCEDURAL HISTORY

Duquesne Light Company (“Duquesne Light” or the “Company”) is a public utility as that term is defined under Section 102 of the Public Utility Code, 66 Pa. C.S. § 102, certified by the Commission to provide electric service in the City of Pittsburgh and in Allegheny and Beaver Counties in Pennsylvania. Duquesne Light is also an electric distribution company (“EDC”) and a default service provider (“DSP”) as those terms are defined under Section 2803 of the Public Utility Code. 66 Pa. C.S. § 2803. Duquesne Light provides electric distribution service to approximately 579,000 customers.

On April 27, 2012, Duquesne Light filed the above-captioned Petition with the Pennsylvania Public Utility Commission (“Commission”). Therein, Duquesne Light requested Commission approval for a Default Service Plan for the period June 1, 2013 through May 31, 2015 (“Default Service Plan” or “DSP VI”). In the Default Service Plan, Duquesne Light proposed separate default supply procurements for: (1) Residential and Lighting (“Residential”) default service customers, (2) Small Commercial and Industrial (“Small C&I”) default service customers with monthly metered demands less than 25 kW, (3) Medium Commercial and Industrial (“Medium C&I”) default service customers with monthly metered demands equal to or greater than 25 kW and less than 300 kW, and (4) Large Commercial and Industrial (“Large C&I”) default service customers with monthly metered demands equal to or greater than 300 kW. Duquesne Light proposed to procure supplies for Residential, Small C&I and Medium C&I default service customers through fixed-price full requirements contracts with varying terms for each class. Duquesne Light proposed to continue to procure supplies for Large C&I default service customers through the day-ahead spot market.

In addition, the Company proposed to implement several retail market enhancement (“RME”) programs, including a Retail Opt-In EGS Service Program (“ROI Program”) and a

Standard Offer Customer Referral Program (“SO Program”) (collectively “RME Programs”) to enhance competition in its service territory. The Commission has encouraged EDCs to adopt these RME Programs in the Commission’s Retail Markets Investigation proceeding at Docket No. I-2011-2237952. *See Investigation of Pennsylvania’s Retail Electricity Market: Recommendations Regarding Upcoming Default Service Plans*, Order entered December 16, 2011 (“*Default Service Plan Order*”); *Investigation of Pennsylvania’s Retail Electricity Market: Intermediate Work Plan*, Order entered March 2, 2012 (“*Intermediate Work Plan Order*”). Along with the Petition, Duquesne Light submitted the Direct Testimony and Exhibits of seven witnesses in support of its Default Service Plan.

The Commission’s Bureau of Investigation and Enforcement (“I&E”) filed a Notice of Appearance in the proceeding. In addition, the Office of Consumer Advocate (“OCA”) and Office of Small Business Advocate (“OSBA”) filed Notices of Intervention and Answers to the Petition.

Petitions to Intervene were filed by the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”), Citizen Power, Constellation NewEnergy, Inc. and Exelon Generation Corp. (collectively “Constellation”), Dominion Retail, Inc. and Interstate Gas Supply, Inc. (collectively “Dominion/IGS”), Duquesne Industrial Intervenors (“DII”), FirstEnergy Solutions Corp. (“FES”), NextEra Energy Services Pennsylvania, LLC (“NextEra”), Noble Americas Energy Solutions, LLC (“Noble”) and the Retail Energy Supply Association (“RESA”).

This proceeding was assigned to Administrative Law Judge Katrina L. Dunderdale (the “ALJ”). On May 16, 2012, the ALJ issued a Prehearing Conference Order which set forth

certain rules for the prehearing conference and for the proceeding in general. In response to the Prehearing Conference Order, parties filed Prehearing Memoranda.

A Prehearing Conference was held on June 8, 2012. At the Prehearing Conference, the parties agreed to a litigation schedule and discovery rules for the proceeding. In addition, the ALJ granted the Petitions to Intervene that were filed by the parties. On June 11, 2012, the ALJ issued a Prehearing Order which memorialized the actions taken during the Prehearing Conference.

On July 26, 2012, OCA, OSBA, CAUSE-PA, Constellation, Dominion/IGS, FES and RESA served direct testimony. On August 24, 2012, Duquesne Light, OCA, OSBA, Dominion/IGS, FES and RESA served rebuttal testimony. On September 7, 2012, Duquesne Light, OCA, OSBA, CAUSE-PA, Constellation, Dominion/IGS, FES and RESA served surrebuttal testimony. On September 12, 2012, Duquesne Light served rejoinder testimony.

Hearings were held on September 13, 2012. All parties waived cross-examination. At the hearings, parties stipulated to the admission of the previously served testimony and exhibits, along with several stipulations. In addition, the ALJ directed the Company to submit a Common Brief outline by September 21, 2012. Pursuant to the ALJ's direction, the Company submitted a Common Brief Outline on September 21, 2012.

Pursuant to the litigation schedule adopted in this proceeding, the Company hereby submits its Main Brief. In addition, Proposed Findings of Fact, Conclusions of Law and Ordering Paragraphs are provided as Appendix A hereto.

II. SUMMARY OF ARGUMENT

Duquesne Light has been a leader among utilities across the country in developing default service plans that both promote high levels of competition and provide reasonable default service prices, along with appropriate levels of rate stability for customers that do not choose to

shop. Duquesne Light currently has one of the most successful retail access programs in the country, with 74% of the Company's load receiving supply from an EGS, as of March 31, 2012. Duquesne Light is among the top ten elective service areas in the United States in terms of percentage of load receiving service from a competitive supplier. The Company has slightly higher levels of total shopping than two electric service areas in Texas and has higher levels of shopping than all of the service areas in New York.

Duquesne Light was one of the first utilities in the nation to offer hourly priced default service to all customers with demand equal to or greater than 300 kW, and has one of the lowest kilowatt demand thresholds for hourly priced default service for large C&I customers in the U.S. Moreover, 97% of the Company's large C&I load is shopping with an EGS.

Duquesne Light's success in promoting customer shopping is not limited to larger customers. As of March 2012, approximately 39% of the Company's residential load was being served by an EGS. As of July 2012, this percentage has increased to 43%. In addition, there are currently 34 active EGSs offering to provide service to residential customers in the Company's service territory. Moreover, customer shopping among Small C&I Customers (less than 25 kW) has increased from 34% in March 2012 to 42% as of August 2012.

Under all of its prior default service plans, the Company has attempted to balance the interests of default service customers that have not yet chosen to shop with programs to promote competition. This Default Service Plan is no different. For various reasons, some customers choose not to shop. Duquesne Light is required to provide these customers reasonable default service rates that reflect appropriate levels of rate stability. In general, larger customers are more sophisticated than smaller customers and are more attuned to changing energy prices. Therefore, it is appropriate to provide larger customers with less rate stability than smaller customers. In

addition, it is appropriate to consider current levels of rate stability when determining the levels of rate stability in the proposed plan and to make reasoned movements to more market responsive prices.

Duquesne Light has considered these and other factors in developing its Default Service Plan. Duquesne Light has moved Residential customers to more market responsive rates over time, from 36-month fixed rates under DSP IV, to 29-month fixed rates under DSP V, to proposed 12-month rates based on 12-month contracts in this proceeding. Likewise, Duquesne Light is proposing to move Small C&I customers from 12-month rates to rates that change every 6 months based on 12-month laddered contracts. For Medium C&I customers, the Company is proposing to move from 6-month rates derived from 12-month laddered contracts to 6-month rates derived from 6-month contracts, which are nearly all procured within 60 days of the start of the delivery period. This procurement plan reflects a measured approach to moving customer classes to more market responsive prices for default service. Duquesne Light believes that this gradual approach has contributed significantly to making customers comfortable with competitive markets and should be continued in this proceeding.

Most parties in this proceeding support Duquesne Light's general approach of gradually moving customer classes to more market responsive pricing. In contrast, RESA seeks to significantly shorten the term lengths of the supply products and the length of time between rate resets. Other parties, including other Electric Generation Suppliers ("EGS"), instead emphasize the need for more stable default service rates. FES St. No. 1-R, p. 5; Constellation St. No. 1-R, p. 10; Dominion/IGS St. No. 1, p. 3. Furthermore, OSBA seeks less market responsive rates than proposed by the Company for Medium C&I customers. The OCA seeks to introduce two-year full requirements supply products and a block-and-spot component into the residential

procurement plan. Given the considerations summarized above and described in more detail below, Duquesne Light believes that its proposal provides the appropriate balance between RESA's desire for significantly shorter-term products in order to make the default service rates even more market responsive, and providing customers with the benefits of rate stability contemplated in Act 129. The Company's plan provides a middle ground between the positions of the parties, thereby demonstrating that the Company has achieved the balance it intended.

For the convenience of the ALJ, Duquesne Light has prepared a table that sets forth each procurement issue, Duquesne Light's proposal, whether Duquesne Light's proposal is consistent with relevant Commission guidance, the degree to which other parties support the Company's proposal and a summary of reasons why the Company's proposal is appropriate. This table is provided as Appendix B to this Brief.

Duquesne Light's commitment to enhancing competition is demonstrated by its willingness to support RME Programs. It is important to note, however, that Duquesne Light specifically designed its RME Programs to work in conjunction with its Residential Procurement Plan. For example, Duquesne Light is proposing the Company's proposed ROI Program provides for a 12-month fixed rate. This 12-month period will effectively parallel the 12-month PTC for residential customers from June 1, 2013 through May 31, 2014 since the Company proposes 12-month procurements for residential default service. This design will guarantee savings to residential customers that choose the ROI Program for essentially a 12-month period and will make it easy for customers to understand that they will be guaranteed savings before enrollment. The 12-month ROI term also provides long-term rate certainty to customers that choose the ROI Program. The Company's experience with long-term default service prices for Residential customers and broad shopping in the residential market in its service territory

compels the conclusion that long-term guaranteed savings is important to encourage customers to participate in the competitive market. Duquesne Light's unique ROI Program is designed to encourage greater customer participation in the ROI Program and will benefit both customers and competitive suppliers. A broad group of parties agree with the Company, including the principal advocate for residential customers, OCA, and major EGSs in the Company's service area.

As explained in this Brief, Duquesne Light is proposing to conduct an RFP to determine winning bidders for the ROI Program, a fixed price for a 12-month period, a 5% minimum discount off of the PTC at the time of the offer, a \$50 bonus payment, a cap on customer participation of 50% of default service customers, and a supplier cap that prevents any EGS from obtaining more than 50% of customers that elect to participate. These proposals are consistent with the Commission's guidance in the *Intermediate Work Plan Order*. In addition, the Company's proposed ROI Program also has received broad support from most parties in this proceeding.

RESA disagrees with the Company's ROI Program proposal and instead proposes an ROI product that consists of a known price for a 4-month period and an unknown fixed price for a remaining 8-month period, that potentially may vary among EGSs. Duquesne Light understands that the Commission has adopted the RESA ROI Program for the FE Companies and for PECO. However, the Company believes that there are good reasons to adopt a different type of ROI Program in Duquesne Light's service territory. Unlike other EDCs, Duquesne Light is proposing a 12-month fixed PTC for residential customers which matches its proposed 12-month ROI term. The matching of these terms will provide customers the ability to achieve long-term guaranteed savings and should encourage greater customer participation than a program that only guarantees

customer savings over a 4-month period would. Moreover, the fact that the 8-month product offered by EGSs under RESA's proposal may be unknown and may vary among EGSs could discourage customer participation. Because the Commission and parties have had no experience with ROI Programs to date, it would be reasonable to adopt a different program for Duquesne Light to see what methodology fosters greater participation by customers and EGSs.

In compliance with the Commission's Retail Markets Investigation, the Company is also proposing an SO Program. Under the SO Program, EGSs can offer a 7% discount off of the PTC at the time of enrollment, for a 12-month term. The 12-month PTC proposed for Residential customers is also consistent with the 12-month SO term. If customers enroll in the SO Program on June 1, 2014, they will have guaranteed savings for a 12-month period. If they enroll later, they will have guaranteed savings through the end of the DSP VI term and a fixed rate thereafter. These features should encourage participation because they provide customers with known savings and an actual rate based upon market prices at the time of enrollment that will extend for a 12-month period. Duquesne Light will advise certain default service customers that call the Company of the Standard Offer. Again, there is broad support for the Company's proposed SO Program.

Duquesne Light is proposing to implement the SO Program on June 1, 2014. It is necessary for Duquesne Light to delay implementation of the SO Program because the Company is installing a new Customer Information System ("CIS") and the Information Technology ("IT") work necessary to implement the SO Program is not included in the scope of the CIS replacement. Implementing the SO Program on June 1, 2014 also will allow simultaneous implementation of accelerated switching of customers to EGS service. If an earlier date for SO service is required, accelerated switching will be delayed and require additional costs. In

addition, there are other potential benefits to implementing the SO Program on June 1, 2014, including lowering the potential risk premium associated with supplier bids for delivery on June 1, 2013 when suppliers will already include a risk premium for the ROI Program and preventing ROI customers from switching, en masse, to the SO Program to achieve the higher 7% discount after the ROI customers receive their \$50 bonus.

A primary issue of dispute in this proceeding has been related to recovery of RME program costs. The Commission has provided clear guidance with respect to this issue, stating that these costs should be recovered from EGSs that stand to benefit from the programs. Consistent with the Commission's direction, the Company has proposed to recover ROI Program costs directly from the winning EGSs and to recover SO Program costs predominantly through a customer acquisition charge. The Company originally proposed to recover SO Program costs through its Purchase of Receivables ("POR") discount but modified its proposal to address EGS concerns about cost recovery mechanisms tied to market share not related to the RME programs. Many of the EGSs in this proceeding do not agree that they should pay the costs of these programs, and in fact RESA argues that RME costs should be paid solely by default service customers through a 5 mil adder to default service rates and any excess that is recovered should flow through to all customers, including shopping customers that received the benefits of the RME programs but did not pay for any of the costs of the programs through the adder. Duquesne Light's cost recovery proposal is consistent with the Commission's direction in the Retail Market Investigation, assigns the costs to the EGSs that will benefit and should be approved.

Various parties have taken different positions concerning which customers are eligible to participate in the RME programs, including eligibility of CAP customers, shopping customers

and Small C&I customers. Duquesne Light's proposals are consistent with the Commission's *Intermediate Work Plan Order* and should be adopted. Duquesne Light notes that the Commission has recently held in the PECO default service proceeding that CAP customer benefits should be portable and that CAP customers should be able to participate in the RME programs. As explained in this proceeding, IT system limitations currently prevent Duquesne Light from making CAP benefits portable, and the Company will be required to implement significant IT changes before it could make CAP benefits portable and allow CAP customers to participate in the RME programs without experiencing significant harm. Therefore, if the Commission intends that its holding in PECO apply to Duquesne Light as well, Duquesne Light will work with the Commission Staff and interested parties to develop a plan to make CAP customer benefits portable by January 1, 2014, consistent with Commissioner Witmer's Motion in the PECO default service proceeding.

Several parties have also raised issues related to the Company's rate design. Specifically, Duquesne Light has proposed to reconcile its Residential, Small C&I and Medium C&I rates on an annual basis. RESA argues that the Company should reconcile rates on a quarterly basis. If the Company's proposal to procure supplies for customers through full-requirements contracts is adopted, RESA's proposal to reconcile rates on a quarterly basis is unnecessary.

In addition, RESA has requested that the Company provide a final PTC 45 days before the rates become effective. Duquesne Light cannot provide a final PTC this far in advance of the effective date of rates because the Company's books are not closed in time to do this and due to FERC formula rate filing constraints. However, the Company does provide an estimated PTC 7 days after each procurement. The only difference between the estimated and final PTC is the e-factor component, which is a very small component of the rate given that all supply for

reconcilable rates will be procured through full-requirements contracts under the Company's plan.

Certain parties also request that the Company recover certain PJM charges through a non-bypassable charge from all customers. The parties argue that these charges are "non-market based" and therefore should be recovered from all customers. These parties are making an artificial distinction between "non-market based" and competitive transmission charges. This is not an appropriate distinction. If a charge is a generation or transmission charge, it is recovered by the entity providing electric supply service. Moreover, the Commission has recently rejected parties' arguments that these types of charges should be recovered by the EDC from all customers in both the FE Companies and the PECO default service proceedings. There is no reason to reach a different result in this proceeding.

Another issue in dispute in this proceeding is the Company's TOU proposal. Under Act 129, the Company, as the DSP, is required to provide TOU and/or real time rates to customers that have smart meters. Under the Company's Final Smart Meter Plan, which is currently pending Commission approval, the Company will only have installed approximately 2,000 smart meters by June 2014 and 35,000 smart meters by June 2015. The Company is proposing to bid out the supply to customers who can elect to receive TOU service to a third party EGS. However, if the Company does not receive any bids or if the Commission does not approve such bids, the Company proposes to have the wholesale default service suppliers provide TOU supply and pay these suppliers the TOU rates charged to customers. Certain parties object to this approach. However, this is a reasonable approach because: (1) there is a small number of potential TOU customers; (2) wholesale default service suppliers bear the risk associated with

providing full requirements supply; and (3) it will allow Duquesne Light to fully recover its TOU costs.

Certain parties have raised various other issues in this proceeding with respect to the Company's Supply Master Agreement ("SMA"), data coordination issues and other issues. The Company has attempted to resolve these issues in its rebuttal testimony and the remaining issues are addressed in detail below.

As explained herein, the Company has proposed a reasoned default service plan that promotes competition in its service territory and meets the statutory requirements for providing default service. For the reasons explained herein and in the Company's testimony and exhibits presented in this proceeding, the Company's default service plan should be approved.

III. ARGUMENT

A. LEGAL STANDARDS

1. Burden Of Proof

Pursuant to Section 332(a) of the Public Utility Code, 66 Pa. C.S. § 332(a), Duquesne Light, as the Petitioner, has the burden of proof with respect to its proposals in this proceeding:

"Except as may be otherwise provided in Section 315 (relating to burden of proof) or other provisions of this part or other relevant statute, the proponent of a rule or order has the burden of proof."

It is to be emphasized, however, that the burden of proof, also known as the burden of persuasion, means a duty to establish a fact by a preponderance of the evidence. *Se-Ling Hosiery v. Margulies*, 364 Pa. 45, 70 A.2d 854 (1950). If the Company presents evidence found to be of greater weight than the other parties, then the Company will have carried its burden of proof. *Morrissey v. Commonwealth of Pennsylvania*, 424 Pa. 87, 225 A.2d 895 (1986); *Burleson v. Pa. P.U.C.*, 501 Pa. 433, 436, 641 A.2d 1234, 1236 (1983); *V.J.R. Bar Corp. v. P.L.C.B.*, 480 Pa. 322, 390 A.2d 163 (1978); *Milkie v. Pa. P.U.C.*, 768 A.2d 1217, 1220 (Pa. Cmwlth. 2001).

Although Duquesne Light bears the burden of proving that its proposals are in the public interest, a party that makes a proposal that is not included in a public utility's case bears the burden of proof as to its proposal. For example, in *Pa. P.U.C. v. Metropolitan Edison Company, et al.*, Docket Nos. R-00061366, *et al.*, 2007 Pa. PUC LEXIS 5 (January 11, 2007), a party offered proposals that were not included in the public utilities' filings. The ALJ held that, as the proponent of a Commission order with respect to the offered proposals, the party bears the burden of proof as to proposals that are not included in the companies' filings. The Commission agreed and adopted the ALJ's conclusion that the Public Utility Code cannot reasonably be read to place the burden of proof on the utility with respect to a proposal that the utility did not include in its filing and which, frequently, the utility would oppose. *Id.* at *184-87. *See also Joint Default Service Plan for Citizens' Electric Company of Lewisburg, PA and Wellsboro Electric Company for the Period of June 1, 2010 through May 31, 2013*, Docket Nos. P-2009-2110798, *et al.*, 2010 WL 1259684 at *2, 19-20 (February 25, 2010) (the companies had the burden of proof as to the proposed plan, but other parties that had submitted their own proposals bore the burden of proof with respect to their proposals).

2. Legal Standards Applicable To Default Service

As an EDC and DSP, Duquesne Light's default service obligations are set forth in Act 129 of 2008, Oct. 15, P.L. 1592, No. 129 ("Act 129"), codified in Chapter 28 of the Public Utility Code, 66 Pa. C.S. Ch. 28.

Duquesne Light is obligated to provide electric generation supply service to both customers that do not choose an EGS and to customers that contract with an EGS for supply service if the chosen EGS does not provide the service. 66 Pa. C.S. § 2807(e)(3.1).

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 purchases. *Id.* at 2807(e)(3.1)-(3.2). 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). Moreover, the preamble to Act 129 specifically provides that one of the objectives of the Act is to take into account any benefits of price stability over time, stating as follows:

- (1) The health, safety and prosperity of all citizens of this Commonwealth are inherently dependent upon 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 on the environment.

See Historical and Statutory Notes to 66 Pa. C.S. § 2806.1.

As explained below, Duquesne Light’s procurement plan meets all of the statutory requirements. All default service supplies are procured through competitive procurement processes. Duquesne Light is proposing a prudent mix of contracts for customers that will provide least cost to customers over time, while taking into account the benefits of price stability for customers.

In addition to the statutory procurement standards set forth in Act 129, the Commission has set forth guidelines for RME programs to be adopted by DSPs. These guidelines were primarily set forth in the *Intermediate Work Plan Order* in the Commission’s Retail Market Investigation proceeding.

As explained in detail below, the Company’s proposed RME Programs follow the Commission’s guidelines with only limited exceptions. In the instances where Duquesne Light has proposed slightly different terms or procedures than those proposed by the Commission, the

Company has shown good cause for these modifications and has supported them with substantial evidence in this proceeding.

Duquesne Light notes that the Commission has recently issued an Order with respect to the default service plan submitted by Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company (collectively the “FE Companies”) at Docket Nos. P-2011-2273650, et al. *Joint Petition of Metropolitan Edison Co. Pennsylvania Electric Co., Pennsylvania Power Co., and West Penn Power Co. For Approval of Their Default Service Programs*, Docket Nos. P-2011-2273650, et al; (Order entered August 16, 2012) (“*FE Order*”). In addition, the Commission recently conducted a binding poll with respect to PECO Energy Company’s (“PECO”) default service plan. *Petition of PECO Energy Company for Approval of its Default Service Program II*, Docket No. P-2012-2283641, Binding Poll Conducted on September 27, 2012 (“*PECO Binding Poll*”). The Commission’s *FE Order* and *PECO Binding Poll* have provided additional guidance concerning the Commission’s views on default service procurement and the RME Programs. Duquesne Light has re-evaluated certain of its proposals in light of the Commission’s further guidance. To the extent that Duquesne Light’s proposals are not consistent with the Commission’s *FE Order* and *PECO Binding Poll*, the Company has provided additional explanation of the reasons that its proposals are in the public interest and therefore should be considered.

B. DEFAULT SUPPLY PROCUREMENT ISSUES

1. Residential Procurement Issues

a. Product(s) and Product Terms

i. Company Proposal

Duquesne Light proposes to acquire default supplies for Residential and Lighting customers through 12-month full requirements supply contracts from third party suppliers

through 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 following table shows the proposed RFP Dates, Procurement Amounts, Contract Terms and Delivery Periods for Residential default service:

RFP Date	Procurement Amount	Contract Term	Delivery Period
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

See Duquesne Light Exhibit No. 1, p. 4.

The Company’s proposed Residential Procurement Plan will provide more market responsive rates than under its currently effective default service plan (also referred to as DSP V) which provides a fixed rate for a 29-month period. Residential default service rates will change every 12 months to be consistent with the annual procurements. In addition, Duquesne Light is proposing to bid out the supply for Residential customers as opposed to the administratively determined rate under DSP V. Both of these factors make Duquesne Light’s Residential default

service rate more market responsive than the rate under its currently effective default service plan. Duquesne Light Exhibit No. 1, p. 6.

Duquesne Light's Residential procurement plan also provides reasonable rate stability. For example, by simultaneously procuring some supply products for an upcoming 12-month period and products for the subsequent 12-month period, the plan incorporates a hedge against energy price movements which otherwise could result in large unanticipated increases in Residential customers' rates. Duquesne Light St. No. 2, p. 8. In addition, by not procuring all of the supply products within two months of the start of delivery, supply costs are locked in sooner leading to less uncertainty about customers' rates, and Duquesne Light avoids relying upon single solicitations, soon before delivery begins, to procure a very large amount of the necessary default service supply. Duquesne Light St. No. 8-SR, p. 11.

Price stability and transparency are important, and can promote retail competition. The price stability and transparency provided in Duquesne Light's current and prior default service plans has been very successful in promoting Residential customer shopping in the Company's service area, as EGSs currently serve approximately 43% of Residential customer load in Duquesne Light's service area. See Duquesne Light St. No. 8-R, p. 41.

ii. RESA's Proposal

The Company's proposal to provide rates that remain constant for a 12-month period is supported by OCA and several EGSs. Only RESA disagrees with the Company's proposal to provide annual rate stability for residential default service customers, and only RESA proposes to shorten the term lengths of the fixed-price full requirements supply products, as it specifically proposes to replace 50% of the Company's 12-month supply contracts with 3-month contracts. RESA St. No. 1, p. 3. RESA claims that its procurement proposal is necessary to create more market responsive default service rates that will eliminate "boom-bust" cycles that occur for

EGSs with long-term fixed rate default service prices. RESA St. No. 1-SR. RESA claims that shopping statistics in Maryland support its position. RESA St. No. 1, p. 10; RESA St. No. 1-SR, p. 7. RESA also argues that the Act 129 least cost standard can be met through the competitive market. RESA St. No. 1, p. 9.

Duquesne Light disagrees with RESA's proposal to acquire 50% of the residential default supply through 3-month supply contracts. As explained below, RESA has failed to demonstrate that its proposal is necessary to develop or maintain a competitive market for residential customers in Duquesne Light's service territory. Further, RESA makes no convincing argument that its plan balances the interests of default service customers with its desire to expose customers to more market responsive rates in an attempt to further enhance the competitive market. Finally, RESA's proposal will upset the Company's carefully crafted balance between residential default service rates and the RME Programs.

RESA claims that its proposal is necessary to create a sustainable, robust competitive market in Duquesne Light's service territory and to eliminate "boom-bust" cycles. RESA St. No. 1, p. 9; RESA St. No. 1-SR, p. 7. However, the Company's actual experience in Pennsylvania does not support RESA's argument. As explained by the Company's witness, Mr. Scott Fisher,

Contrary to Ms. Williams' claims, statistics from Duquesne Light's service area, as well as from other large EDC service areas in Pennsylvania, indicate that EGSs will enter markets and serve customers when they can provide added value for customers, regardless of whether or not the term lengths of the default service products or the frequency of the default service rate resets are what RESA would like them to be. For example, Duquesne Light's current residential default service rate is fixed for a 29-month period. During this time, the number of active EGSs serving Duquesne Light's residential load has grown to 34, and the percentage of residential load being served by EGSs has grown to approximately 43%, which is one of the highest residential customer switching percentages in the United States.

Duquesne Light St. No. 8-R, p. 41.

Thirty-four active EGSs serving 43% of the residential load in Duquesne Light's service territory certainly indicates that having a longer-term default service rate than RESA would like does not in any way discourage EGSs from making competitive offers to customers whenever they are able to add value for customers. As explained by Mr. Scott Fisher, this is one of the highest Residential customer switching percentages in the U.S. Duquesne Light St. No. 8-R, p. 41. In fact, Duquesne Light has had relatively high levels of residential shopping in its service area over many years, while offering customers fixed rates in prior default service plans.

RESA's claims are also contrary to actual experience in PECO's and PPL Electric Utilities Corporation's ("PPL Electric") service territories. In his rebuttal testimony, Mr. Scott Fisher explained as follows:

In PECO's service area, the current default service plan that has been implemented for residential customers predominantly includes a mix of 29-month, 24-month, 17-month, and 12-month FPFR supply products, some of which were procured over a year-and-a-half before delivery of the product began. PECO recently reported that there are 51 EGSs serving PECO's residential load, and the percentage of residential load in its service area being served by EGSs has grown to approximately 25%. Finally, the most significant growth in PPL Electric Utilities Corporation's ("PPL") residential customer switching occurred during 2010, when residential default service customers were supplied through 12-month calendar year 2010 FPFR products that were procured over time during the three-year period leading up to the 2010 delivery period. By the end of 2010, the percentage of PPL's residential load served by EGSs had already reached approximately 40%, making PPL's percentage one of the highest in the United States. In addition, PPL recently reported that the number of licensed EGSs serving residential customers in its service area had grown to 28.

Duquesne Light St. No. 8-R, pp. 41-42 (footnotes omitted).

As explained by Mr. Scott Fisher, the number of EGSs grew in Duquesne Light's, PECO's and PPL Electric's service territory during times that the term lengths (procurement lead times and delivery periods) were generally longer than the term lengths that Duquesne Light is

proposing in this proceeding. RESA's argument that even shorter procurement periods than those proposed in the Company's plan are necessary to create and sustain viable competitive markets is unsupported by actual experience in Pennsylvania.

In addition, RESA's claims are inconsistent with its own testimony. Mr. Kallaher states as follows:

EGSs are generally comfortable providing a fixed 12-month price, as such offers can be hedged at the time they are made.

RESA St. No. 2-R, p. 8. If EGSs are comfortable providing fixed 12-month prices, a 12-month default service PTC supports such contracts. These conclusions are supported by Dominion/IGS and FES' support for the Company's residential procurement plan. Dominion/IGS St. No. 1, p. 3; FES St. No. 1, p. 3.

In an attempt to support its argument for shorter procurement periods for Residential customers, RESA introduces a chart which shows load switching statistics for Type II customers in Maryland, RESA St. No. 1, p. 10. RESA argues that this chart demonstrates that more market responsive default service rates, achieved through shorter-term products, promote retail competition; however, this chart does not support RESA's claim. Along the same lines, this chart provides no support for RESA's argument that Duquesne Light should acquire 3-month contracts for residential customers.

There are several reasons why this chart does not support RESA's position. First, RESA's chart shows shopping statistics for Type II customers, which are non-residential customers from 25 kW to 600 kW of demand. RESA St. No. 1, p. 10. Therefore, the information in the chart is completely irrelevant to support the procurement proposal for Residential customers and should be disregarded for that reason alone. In fact, the overwhelming majority of residential and small non-residential (Type I) default service

customers in Maryland are supplied through portfolios consisting of two-year supply products, in which this supply is secured in solicitations held twice per year. Duquesne Light St. No. 8-RJ, p. 20. In other words, while RESA recommends that Duquesne Light significantly shorten the term lengths of the products in its Residential default service supply portfolios beyond what Duquesne Light has already proposed, the Maryland portfolios for analogous customers include products with generally longer term lengths than Duquesne Light proposes.

Finally, as explained by Mr. Fisher, Duquesne Light achieved a similar level of customer switching (about 70%) for even smaller customers (25 kW – 300 kW), using a default service supply product portfolio that includes no products with delivery periods that are less than one-year in duration. Duquesne Light St. No. 8-R, p. 44.

One of RESA’s primary arguments in this proceeding is that the “least cost” requirement under Act 129 should be met by creating a “sustainable and robustly competitive retail market.” RESA St. No. 1, p. 7. RESA relies on this argument as support for its attempts to introduce quarterly procurements for residential default service customers.

Duquesne Light agrees that a robust competitive retail market is beneficial to customers. However, Duquesne Light does not agree with RESA’s assertion that it is necessary to introduce 3-month supply products in the residential plan to advance competition in DSP VI.

Duquesne Light recognizes that the Commission recently issued its RMI End State Proposal which proposes that Residential customers be served by 90-day full requirements contracts after June 1, 2015. Duquesne Light is considering the impacts of this End State Proposal and will participate in the process set up by the Commission to provide input regarding this proposal. However, as an initial matter, Duquesne Light notes that the End State Proposal is to become effective on June 1, 2015. Duquesne Light does not believe that it is appropriate to

introduce 3-month products and rate changes for Residential customers in its service territory at this time. Duquesne Light's Residential customers have historically had long-term fixed rates; under DSP IV, the fixed rate term was 36 months; under DSP V, the fixed rate term was 29 months. Under DSP VI, the Company is proposing to move from a 29-month fixed rate to a 12-month fixed rate. Duquesne Light believes that going from a 29-month fixed rate to rates that change every 3 months is too big of a movement in frequency of rate changes for its Residential customers. The Company prefers a more gradual movement to 12-month price changes, with the supply products and procurement timings that it has proposed in this proceeding in order to balance various considerations. In this regard, there has been a great deal of success with respect to the retail market in the Company's service territory based on a fixed default service rate for an extended term. There is no basis to conclude that introduction of quarterly price changes and three-month supply products will be an improvement in Duquesne Light's service territory at this time.

RESA's proposal to introduce quarterly rate changes for residential default service customers would also disrupt the carefully crafted balance between Residential default service rates and the Company's proposed RME Programs, particularly the ROI Program. As explained in Section III(c)(1)(b), below, Duquesne Light is proposing an ROI Program term of 12-months.

As explained by the Company's witness, Mr. Neil Fisher:

For example, if the OCA's "block and spot" procurement approach or RESA's recommendation for quarterly product procurements were adopted, the PTC would not be known for the entire 12-month term of the program. In this situation, it would be impossible to offer a fixed price product and to guarantee savings at the same time over the same time period. Duquesne Light has consciously tried to align the wholesale supply products (and PTC price signal) in its procurement plan and the structure of its Opt-In EGS Service Program. This alignment of supply procurement and the Opt-In EGS Service Program is not an accident. Rather, it is designed to provide EGSs and customers with a predictable

PTC that reflects the energy and capacity costs for delivery over the June 2013 through May 2014 delivery period. Thus, the one-year procurement products and the term of the Opt-In EGS Service Program are carefully aligned so that the PTC is known in advance for the 12-month period and the PTC price signal closely matches the energy and capacity costs of prospective Opt-In Suppliers at the time of their bid.

Duquesne Light St. No. 3-R, p. 24, footnotes omitted.

Likewise, the 12-month rate for Residential default service was carefully crafted in conjunction with the 12-month SO Program term. As explained by Mr. Neil Fisher:

Again, it is important to recognize that the known PTC for a 12-month period (June 2014 through May 2015) and guaranteed savings aspect of the Standard Offer product – is closely tied to both the start date of the Standard Offer Program and the procurement products in Duquesne Light’s DSP VI plan. If either is altered, the PTC will not be known and the guaranteed savings aspect of the Standard Offer will be affected. Duquesne Light aligned its procurement and retail market initiatives in a manner that provides reasonable levels of rate stability for residential customers, while providing appropriate PTC market price signals in each year of the DSP VI plan.

Duquesne Light St. No. 3-R, p. 47.

RESA’s proposal to include 3-month supply contracts in the residential default service portfolio will disrupt the balance between the 12-month residential PTC, the 12-month ROI Program term and the 12-month SO term. Disrupting this balance will make it more difficult for Residential customers to compare the ROI Program rates and the SO rates to the default service rates. This is yet another reason to deny RESA’s proposal to include 3-month supply contracts in the Residential default service plan.

RESA’s proposal to introduce quarterly rate changes for Residential customers into DSP VI through 3-month supply contracts should not be adopted in this proceeding. RESA has not met its burden to prove that its proposal is necessary to continue to develop or support a competitive retail market for Residential customers in the Company’s service area, and its proposal is not supported by any credible evidence. Moreover, RESA’s proposal will disrupt the

balance created between Duquesne Light's proposed 12-month PTC, 12-month ROI Program term and 12-month SO term, thereby harming competition by making it more difficult for customers to compare the ROI and SO rates to default service rates.

iii. OCA Proposal

While OCA generally supports the Company's 12-month rate proposal and annual procurements, OCA proposes to modify some of the Company's procurements for residential customers to provide that 25% of residential default supply be acquired through block and spot purchases. OCA St. No. 1, p. 9. In addition, OCA proposes that 25% of the Company's default supplies be acquired through two-year full-requirements contracts. OCA St. No. 1, p. 9. According to OCA, its procurement methodology is more consistent with Act 129 because it provides a greater mix of products. OCA St. No. 1, p. 15. OCA argues that block and spot purchases do not include a volume-related risk premium. OCA St. No. 1, p. 16. Finally, OCA argues that its proposal that Duquesne Light acquire 2-year full-requirements products is reasonable because current forward market prices are favorable in relationship to historical experience. OCA St. No. 1, p. 15.

The Company does not agree with OCA's proposal to modify the Company's proposed residential procurement plan. As explained below, OCA's proposal to adopt a block and spot component is not consistent with the Commission's interpretation of Act 129. In addition, a block and spot component will impose additional risks on residential default service customers. Moreover, adding a block and spot component will disrupt the balance created between the Company's proposed 12-month PTC, the 12-month ROI Program term and the 12-month SO term. Finally, incorporating two-year contracts in the procurement plan is unnecessary given the fact that the plan already includes simultaneous procurements of consecutive one-year supply products. The simultaneous procurements of these products provides similar hedging benefits as

two-year products do, and they allow default service rates to track expected market prices from year to year more closely than they would if the simultaneous procurements of consecutive one-year supply products were replaced with two-year products procured at a single fixed-price.

**(A) OCA's Block and Spot Procurement Proposal
Should Be Rejected**

The OCA argues that its block and spot proposal is more compliant with Act 129 than the Company's proposal because it includes an "additional product element." OCA St. No. 1, p. 15. Duquesne Light disagrees with this argument. Act 129 does not require that a procurement plan include any specific number of different products nor does it provide that a greater number of different products is better than a smaller number of different products. Rather, Act 129 requires a "prudent mix" of contracts.

In addition, the "prudent mix" requirement does not mean that there must be more than one type of supply product for a given customer class. In the *Final Rulemaking Order* amending the default service regulations to be consistent with Act 129, the Commission stated as follows:

We do reject the positions of those parties that "prudent mix" be defined to always require a specific mix or percentage of types of contract components in each default service plan or a minimum of two types of products.

Implementation of Act 129 of October 15, 2008; Default Service And Retail Electric Markets, Docket No. L-2009-2095604, Order entered October 4, 2011, p. 60 ("*Final Rulemaking Order*").

The Company's reliance on full requirements contracts for Residential customers is prudent because it provides significant price stability benefits, which is consistent with one of the Legislature's stated objectives of Act 129. Duquesne Light St. No. 8-R, p. 11. Moreover, the Commission has clearly indicated its preference for DSPs to rely on full-requirements products as opposed to a managed portfolio that includes block and spot purchases. In the *Final Rulemaking Order*, the Commission stated as follows:

Consequently, we will not require nor do we specifically endorse the use of the [managed portfolio] approach at this time. We do express a preference for continued reliance by DSPs on the [full requirement] approach to the extent this method best suits the DSP's particular procurement needs.

Final Rulemaking Order, p. 56.

Duquesne Light's proposal to acquire default supplies for Residential customers through full requirements contracts is clearly consistent with Act 129 and the Commission's Final Rulemaking Order interpreting Act 129.

The OCA also argues that adding a block and spot component is advantageous because no volume-related risk premium is added to the bids. OCA St. No. 1, p. 16. Duquesne Light agrees that no volume-related risk premium is added to bids for block and spot purchases. However, this misses the point: costs and additional risks would be directly transferred to, and borne by, customers under the block-and-spot approach. As explained by Mr. Scott Fisher, these costs and risks include:

- The potential for significant customer switching which could require Duquesne Light to sell excess supply back into the market at a loss.
- Unexpected weather patterns, changes in customer usage patterns, plant outages or transmission line outages, fuel price increases, unexpected economic growth levels, or unanticipated ancillary service costs.
- The risk of potentially large deferral balances.

Duquesne Light St. No. 8-R, pp. 12-15.

Mr. Scott Fisher's statements regarding the costs and risks associated with block and spot purchases are not mere conjecture. Mr. Fisher cited several real-life examples where a block and spot, or a similar approach in that it involves cost commitments that do not vary with the load levels, resulted in adverse unexpected consequences for customers, including Wellsboro Electric

Company customers in Pennsylvania and Public Service of New Hampshire customers in New Hampshire. See Exhibit SGF-3R. In addition, Mr. Fisher performed a comprehensive study which found that a block and spot component adds unnecessary risk to a residential default service portfolio. Mr. Fisher described this study as follows:

In addition, a recent analysis of the relative costs and risks of the FPCR product approach and the block-and-spot procurement approach, which I performed for PECO Energy Company (“PECO”) and presented in that EDC’s default service proceeding, illustrated the costs and risks described above. The analysis involved the application of various default service approaches to 1,000 different market scenarios that reflect complex real-world market dynamics, consistent with the volatilities, correlations, and mean reversion of market price and load changes observed historically. The analysis showed that replacing some or all of the FPCR products with a block-and-spot component in a residential default service supply portfolio would likely expose customers to considerably more risk with regard to rate volatility, supply cost uncertainty, and deferred cost recovery balances than a procurement approach consisting entirely of FPCR products would. The analysis also showed that these increases in risk to residential customers are not balanced by a proportionate decrease in the expected default service rate level.

Duquesne Light St. No. 8-R, p. 16. Mr. Fisher also referred to the 2010 Procurement Structure Analysis, of which he was one of the authors and which Constellation entered into the record in this proceeding as Exhibit A of Constellation St. No. 1R. Mr. Fisher explained that this study found that a block-and-spot approach is likely to result in greater risks being allocated to customers, higher unexpected supply costs, larger cost recovery balances, and greater internal resources than a procurement approach involving the exclusive use of fixed-price full requirements products, while resulting in only a slightly lower expected (i.e., probability-weighted average) default service rate. Duquesne Light St. No. 8-RJ, pp. 2-5.

OCA’s argument that incorporation of a block-and-spot component would be advantageous ignores the fact that costs and additional risks would be directly transferred to, and borne by, customers. Forcing default service customers to bear this risk is not advantageous.

In addition to the added risk, the OCA's proposal to add a block-and-spot component to the residential supply portfolio will also disrupt the carefully crafted balance between Residential default service rates and the Company's RME Programs because block and spot products will cause over and undercollections and would require more frequent rate changes. Duquesne Light St. No. 4-SR, p. 5. As explained above, under the Company's residential procurement plan, the PTC will be known for a 12-month period. The 12-month PTC is consistent with the term of the ROI Program and with the 12-month SO Program term. The 12-month PTC will make it easier for customers to compare default service rates to the ROI Program terms and the SO terms and ensure long-term savings to customers that participate in these programs.

(B) OCA's Two Year Procurements Should Be Rejected

OCA also proposes that Duquesne Light replace four of its 24 tranches of one-year products with two-year products. OCA St. No. 1, p. 15. The OCA claims that the approach is more consistent with Act 129 because it provides an additional type of product in the supply mix and because current forward market prices are low. OCA St. No. 1, p. 15. The Company disagrees with this recommendation for several reasons.

As explained above, adding two-year contracts to the residential supply portfolio will not make it more compliant with Act 129. The Commission has held that the Act 129 standards can be met with a single type of product, and simply adding another type of product does not in and of itself make the portfolio more prudent. *Final Rulemaking Order*, p. 60.

Also, Mr. Scott Fisher explained that the Company's supply portfolio is specifically designed to provide a hedge against future market price increases that is very similar to the hedge provided by the two-year products requested by the OCA. Mr. Fisher explained this as follows:

Duquesne Light's proposed supply portfolio already incorporates a mechanism which provides a similar type of hedge against

uncertain future market price movements as that provided by a two-year FPFR product. Specifically, 50% of the supply portfolio will be served through consecutive one-year FPFR products (in aggregate covering the two-year Plan period) that are all procured simultaneously in April 2013, before the Plan period begins. The simultaneous procurements of FPFR supply for the first and second year in the form of separate products hedges against the uncertainty about future market price movements just as the procurement of a single FPFR product procured at the same time and covering both years would because, in both cases, FPFR supply is “locked-up” for the entire two-year period at the same time.

Duquesne Light St. No. 8-R, p. 31.

Moreover, Duquesne Light’s proposal to simultaneously acquire two back-to-back one-year, full requirements contracts will result in more market responsive rates than simply acquiring a two-year contract would. Mr. Fisher explains this as follows:

Furthermore, by simultaneously procuring the two years’ supply in the form of two separate one-year products (each corresponding to a different year of the two-year period), default service rates will track expected market prices from year to year more closely than they would if a two-year product were procured at a single fixed price. This is especially notable, because capacity market prices are much higher for the second year than for the first. Specifically, as Duquesne Light witness Neil Fisher explains in Duquesne Light Statement No. 3-R, the cleared market price for capacity in Duquesne Light’s service area for the June 2014 – May 2015 period is about \$13 per residential megawatt-hour, roughly \$10 per residential megawatt-hour higher than the price for the June 2013 – May 2014 period. If two-year products were included in the supply portfolio (having a single fixed price for both years), the very different market capacity costs pertaining to each year of the two-year period would be blended, making the default service rate in each of the two years less reflective of the respective year’s contemporaneous market price.

Duquesne Light St. No. 8-R, p. 31.

As explained above, Duquesne Light’s proposal to simultaneously acquire back-to-back, one-year contracts provides the same hedge against unexpected price increases as a two-year

contract provides, but is more market responsive, especially considering the known increase in capacity prices scheduled for June 2014.

b. Procurement Dates

In this proceeding, RESA argues that the Company's procurement schedule should be modified such that the time between procurement and the start of the delivery period is no more than 60 days. RESA St. No. 1, p. 4. RESA's proposal should be rejected.

As explained by Mr. Scott Fisher, the Company's procurement dates were carefully integrated with the product delivery periods in a way that provides specific hedging and price stability benefits for customers. Duquesne Light St. No. 8-R, p. 47. For example, having some consecutive one-year products procured on the same date (e.g. some June 2013 – May 2014 products and some June 2014 – May 2015 products are procured on the same day in April 2013) is an especially important aspect to retain in order to provide certain price stability benefits for customers. Mr. Fisher explained this in more detail:

For example, the April 2013 procurement of one-year Residential default service supply products for the June 2014 – May 2015 delivery period is linked to the fact that an equal amount of supply simultaneously will be procured for the June 2013 – May 2014 delivery period. By procuring both simultaneously, Duquesne Light's proposed supply portfolio incorporates a mechanism which provides a similar type of hedge against uncertain future market price movements to that which would be provided by a two-year supply product. Specifically, the simultaneous procurements of FPFRR supply for the first and second year in the form of separate products hedges against the uncertainty about future market prices just as the procurement of a single FPFRR product covering both years would because, in both cases, FPFRR supply is "locked-up" for the entire two-year period at the same time. Furthermore, by simultaneously procuring the two years' supply in the form of two separate products (each corresponding to a different year of the two-year period), default service rates will track expected supply costs from year to year more closely than they would if a two-year product were procured at a single fixed price.

Duquesne Light St. No. 8-R, pp. 47-48.

Finally, if RESA's proposal is adopted, the Company more likely will be required to rely on a single solicitation, soon before a given delivery period, for large amounts of default supply, and this could have adverse consequences for customers under unforeseen circumstances. Duquesne Light St. No. 8-SR, p. 12.

The Commission should reject RESA's proposal. However, if the Commission accepts RESA's proposal to reduce the procurement lead times to no more than 60 days from the start of the delivery period, the Commission should treat the two April 2013 procurements of supply for the June 2013 – May 2014 period and the June 2014 – May 2015 period as a single 24-month "product" and retain the April 2013 procurement date for these products. See Duquesne Light Exh. No. 1, p. 4. As noted earlier, these two procurements have the effect of a 24-month procurement. Similarly, if the Commission accepts RESA's proposal to reduce the procurement lead times to no more than 60 days from the start of the delivery period, then the Commission should also treat the two April 2014 procurements of supply for the June 2014 – May 2015 period and the June 2015 – May 2016 period as a single 24-month "product" and retain the April 2014 procurement date for these products.

If the Commission rejects the Company's back-up proposal described above to treat simultaneous one-year procurements as one "product," then Duquesne Light recommends that the simultaneously procured one-year products be replaced with two year products. This also would satisfy both RESA's recommendation to reduce the procurement lead time to no more than 60 days, and the OCA's request for two-year products. In addition, it would also ensure that the price stability benefits of these carefully planned procurement timings in Duquesne Light's Plan would be retained. It also is to be noted that 24-month products were approved for

Residential customers in the FE Order (*FE Order*, at 26) and in the PECO Binding Poll (*PECO Binding Poll*, Issue No. 1).

For the reasons explained above, the Company's proposal to have some back-to-back 12-month products procured at the same time will produce more market responsive rates than inclusion of two-year products would, while providing a similar hedge against unexpected increases in energy prices. The Company's proposal to procure some back-to-back 12-month products at the same time balances OCA's interest in hedging against uncertain future market price movements with two-year contracts and RESA's interest in having more market responsive rates. Duquesne Light's plan allows the PTC to reflect market energy and capacity prices in each year of the plan while providing a reasonable level of rate stability. Consequently, Duquesne Light's proposal should be approved.

c. Reserving Supply For Retail Opt-In Customer Participation

OCA recommends that the Company reduce the number of 12-month residential tranches by 20% in the first year of the plan to account for potential ROI Program load. OCA St. No. 1, p. 17. OCA claims that if the ROI Program is fully subscribed (under the OCA's proposed customer participation cap), the Company would have the appropriate amount of supply for the remaining residential default service customers. If the ROI Program is not fully subscribed and Duquesne Light requires additional default supplies, OCA proposes that the Company ask full requirements bidders to provide additional supplies or meet its needs through additional block and spot supplies. OCA St. No. 1, p. 23.

There are several reasons to reject OCA's proposal. First, the OCA made a similar proposal in the FE Companies' recent default service proceeding and it was rejected by the Commission. In the *FE Order*, the Commission stated as follows with respect to rejecting the OCA proposal:

We will adopt the ALJ's recommendation to reject the OCA's proposal. Our decision, *supra*, to include twelve-month contracts in the residential default service auctions should mitigate some of the risks associated with the one-year initial duration of the RIO Aggregation Program. Moreover, our decision not to require the Companies to meet a portion of their default service supply through block procurements will eliminate the risk that the Companies are saddled with unneeded supplies in the event that participation in the ROI Program is greater than expected and the Companies' default service requirements are less than expected. Accordingly, the OCA's Exceptions on this issue are denied.

FE Order at 29. Furthermore, it does not appear that a similar proposal made by the OCA was approved in the PECO Binding Poll. *PECO Binding Poll*, Issue No. 1.

OCA's proposal to hold back 20% of residential default supplies to account for potential ROI Program participation should be rejected for the same reasons it was rejected in the FE proceeding. Duquesne Light's proposal to include twelve-month full requirements contracts in the residential default service plan will mitigate risks associated with the one-year duration of the ROI Program. In addition, Duquesne Light is not proposing to acquire block supplies so it will not have unneeded supplies if ROI Program participation is greater than expected.

Mr. Scott Fisher also explained several reasons why the OCA proposal should not be adopted, including that:

- It will leave a significant amount of default service load completely unhedged for an extended period of time;
- It could lead to substantially higher supply costs if market prices increase during the unhedged period;
- It could lead to significant over/under collections balances;
- It unreasonably shifts risks to default service customers; and
- It reduces the compatibility between the residential default service rate and ROI Program offering by making it impossible to offer both a fixed price ROI product and guaranteed savings over the ROI Program term.

Duquesne Light St. No. 8-R, pp. 12-21 *and* Duquesne Light St. No. 8-RJ, p. 12.

For the reasons explained by the Commission in the *FE Order* and for the reasons explained by Mr. Fisher, the OCA’s proposal to hold back 20% of default supplies for ROI Program participation should be rejected.

2. Small C&I Procurement Issues

a. Product(s) and Product Terms

i. Company Proposal

Duquesne Light proposes to acquire default supplies for Small C&I customers with monthly metered demands less than 25 kW through 12-month, laddered full requirements contracts. There will be one 6-month contract for supply delivered from June 2013 – November 2013 that will start the laddering process.

The following table shows the proposed RFP Dates, Procurement Amounts, Contract Terms and delivery periods for Small C&I default service:

RFP Date	Procurement Amount	Contract Term	Delivery Period
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

Duquesne Light Exh. No. 1, p. 9.

Like the Company’s residential procurement plan, the Company’s Small C&I procurement plan provides a balance between providing customers stable rates and providing market responsive pricing. The Small C&I procurement plan will provide Small C&I customers with 6-month rate changes and therefore will allow rates to change more frequently in response to changes in market prices. The proposed procurement approach for Small C&I customers is

similar to the approach that is currently being used for Medium C&I customers under DSP V and is part of the Company's transition to more frequent rate adjustments for smaller customers. Duquesne Light St. No. 2, p. 12.

Duquesne Light's Small C&I procurement plan is supported by the OSBA in this proceeding and was not opposed by Dominion/IGS, FES or Constellation. Duquesne Light St. No. 8-R, p. 33.

ii. RESA Proposal

Similar to its proposal for the Residential procurement plan, RESA proposes to replace 50% of the Company's proposed 12-month procurement contracts for Small C&I customers with 3-month procurement contracts. RESA St. No. 1, p. 4. RESA's argument in support of this change is its claim that more market responsive rates will cause shopping levels to increase.

For the reasons explained above in Section B(1)(a), Duquesne Light disagrees with RESA's proposal to add 3-month contracts to the Small C&I procurement plan, because it would significantly reduce the price stability benefits incorporated into the plan. The Commission has held that the least cost standard does not mandate short-term supplies to create a "market-responsive" default service rate. *Final Rulemaking Order* at 41. The Commission has expressly recognized the need to protect customers from price instability. *Final Rulemaking Order* at 41.

RESA also has failed to provide any convincing evidence of any benefits to the competitive market, or to customers, of adopting its proposed plan for Small C&I customers. In order to support its contention that more frequent rate changes or shorter-term products would cause shopping levels to increase, RESA again refers to its chart showing shopping statistics for customers in Maryland. The reasons why RESA's Maryland shopping statistics do not provide any actual relevant evidence to support RESA's argument have already been discussed in Section B(1)(a).

In addition to Duquesne Light, several other parties are directly opposed to RESA's proposal to replace 50% of the 12-month contracts with 3-month contracts. The OSBA's witness, Mr. Kalcic, states that RESA's proposals would de-emphasize and/or minimize price stability. OSBA St. No. 2, p. 10. Likewise, FES also disagrees with RESA's proposal and notes that price stability benefits would be lost. FES St. No. 1-R, p. 7.

For these reasons and for the reasons explained above in Section B(1)(a), RESA's proposal to replace 50% of the 12-month contracts for Small C&I contracts with 3-month contracts should be rejected.

b. Procurement Dates

As noted in Section B(1)(b), RESA argues that all procurements should be conducted within 60 days of the start of the respective product's delivery period. RESA St. No. 1, p. 16. With respect to the Small C&I procurements, RESA notes that the November 2012 procurement is approximately 6 months before the June 2013 delivery period.

As an initial matter, it must be noted that Duquesne Light proposed five dates for the Small C&I procurements. Duquesne Light St. No. 1, p. 9. The only procurement that has more than a 60 day lead time prior to the start of the delivery period is the November 2012 procurement. All of the other four procurements are consistent with RESA's proposal. Moreover, based upon the timing of this proceeding, the Commission will not enter a final order until January 2013. Therefore, Duquesne Light will not be able to meet the November 2012 procurement date and will need to wait to do this procurement until after the Commission's final order is entered. As a result, the procurement that was initially planned for November 2012 will likely be moved to February 2013 which is only 3 months prior to the start of the delivery period.

Therefore, RESA’s proposal that all procurements for default service supply for Small C&I customers occur approximately 60 days before the delivery date is effectively moot.¹

3. Medium C&I Procurement Issues

a. Product(s) and Product Terms

i. Company Proposal

Duquesne Light’s Medium C&I customers are those customers with monthly metered demands equal to or greater than 25 kW and less than 300 kW. Duquesne Light Ex. No. 1, p. 11. Duquesne Light proposes to obtain default service supply for Medium C&I customers through full requirements contracts with six-month terms, with no laddering.

The following table shows the proposed RFP Dates, Procurement Amounts, Contract Terms and Delivery Periods for Medium C&I default service:

RFP Date	Procurement Amount	Contract Term	Delivery Period
November 2012 ²	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

Duquesne Light Ex. No. 1, p. 12.

The procurement methodology for Medium C&I customers is more market responsive than under the DSP V Plan. The supply plan for Medium C&I customers moves from one-year

¹ If Duquesne Light delayed the planned November 2012 procurement even later than February 2013, it would be procuring all default service supply for Small C&I customers for the 6 month period of June 2013 – November 2013 at the same or nearly the same time. In order to mitigate the effect of potential price spikes, Duquesne Light seeks to avoid a situation where all default supplies for Small C&I customers for a given period are acquired at the same time.

² The procurement is provided for under Duquesne Light’s current POLR V default service plan.

contracts under DSP V to 6-month contracts under this Plan and removes laddering that was offered in DSP 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.

ii. Other Parties' Proposals

The OSBA disagrees with the Company's proposed procurement methodology for Medium C&I default service customers and proposes that the Company acquire default service supply for Medium C&I customers through one-year (non-laddered) contracts. OSBA St. No. 1, p. 6. According to the OSBA, the intent of its plan is to provide greater rate stability for Medium C&I customers.

In contrast to the OSBA proposal, RESA proposes that Duquesne Light acquire default service supply for Medium C&I customers solely through 3-month contracts. RESA St. No. 1, p. 19. RESA's proposal would introduce quarterly rate changes for Medium C&I default service customers, and would result in less default service rate stability for customers.

Duquesne Light's proposal to acquire default supplies for Medium C&I customers through 6-month contracts is essentially a middle-ground position between the OSBA (12-month contracts with annual rate changes) and RESA (3-month contracts with quarterly rate changes) positions. Mr. Scott Fisher explained as follows:

Given the competing proposals and the development of the competitive retail market for Medium C&I customers, I believe that Duquesne Light's proposed Medium C&I default service supply portfolio strikes a reasonable balance between providing default service rates that reflect contemporaneous market prices and providing an appropriate level of default service rate stability. Duquesne Light's proposal already represents a shortening of the term lengths of the Medium C&I default service supply products versus the twelve-month products that are currently used to supply these customers, and I am not persuaded by RESA's argument that its Maryland data indicates that Duquesne Light's supply product term lengths should be shortened even more, as RESA recommends. RESA explains that a similar supply approach was

adopted in Maryland for somewhat similarly-sized customers when a similar percentage of those customers had elected service from EGSs, and the percentage of those customers electing service from EGSs since that time has remained relatively stable at that level. However, this observation does not justify RESA's proposal; the same chart, to which RESA refers, shows that the percentage of customers electing service from EGSs reached that same level and remained relatively stable after semiannual default service supply products and default service rates were established, an approach akin to Duquesne Light's proposal for its Medium C&I customers. In fact, RESA's Maryland data shows that the effect on customer switching levels was not noticeably different whether semiannual or quarterly supply products were included in the supply portfolio, and it therefore indicates that switching to quarterly products only served to make the default service rates potentially more volatile. In sum, I recommend that Duquesne Light's proposed Medium C&I default service supply portfolio be approved.

Duquesne Light St. No. 8-R, pp. 53-54 (footnote omitted). Duquesne Light's proposal balances rate stability with market responsive rates and is a reasonable compromise between the OSBA and RESA positions. For these reasons, the Company's Medium C&I procurement plan should be adopted without modification.

b. Procurement Dates

In this proceeding, RESA proposed that all procurements be conducted within 60 days of delivery. RESA St. No. 1, p. 4. Under the Company's POLR VI Medium C&I procurement plan, all procurements will be conducted within 60 days of the delivery date.

4. Large C&I Procurement Issues

No party raised any Large C&I procurement issues in their testimony in this proceeding. Large C&I default service customers will continue to receive day ahead spot prices.

5. Default Service Supply Load Cap Issues

In this proceeding, Duquesne Light proposed a 50% load cap on the supply contract that any supplier could be awarded in an RFP. Under this proposal no more than 50% of the tranches available for any procurement class (Residential, Small C&I or Medium C&I) can be awarded to

any supplier in any RFP. Duquesne Light Ex. No. 1, p. 14. Duquesne Light proposed a 50% load cap to ensure a diversity of default service suppliers and to reduce the impact of any single supplier's default.

FES disagrees with the Company's proposed 50% load cap. FES argues that the load cap under DSP V was 75% and that a 50% load cap will increase default service rates. FES St. No. 1, pp. 8-9.

Duquesne Light disagrees with FES's position for several reasons. First, Duquesne Light's proposed 50% load cap is consistent with the recent decision in the FE Companies' default service proceeding. Therein, the Commission directed the FE Companies to lower the load cap to 50%. *FE Order*, p. 33. The Commission stated as follows:

By ensuring that there is a healthy level of supplier diversity, we believe that the competitive auctions will result in the lowest supply prices over the long run.

FE Order at 33. Similarly, a 50% load cap was approved by the Commission in the PECO Binding Poll. *PECO Binding Poll*, Issue No. 5.

The Company's witness, Mr. Neil Fisher, demonstrated that in nine of the Company's ten DSP V RFPs in which a 75% load cap applies, there either would have been no change in the average clearing price or there would have been a change of less than 1% if the Company had applied a 50% load cap as opposed to a 75% load cap to the amounts that were bid. In addition, the other RFP's average clearing price would have been less than 2% higher. This potential minimal price difference is justified to ensure wholesale supplier diversity and minimize the risk associated with potential supplier default. Duquesne Light St. No. 3-RJ, pp. 34-35. It also is to be noted that this analysis assumes that lowering the current 75% load cap to a 50% load cap would not have encouraged more supplier participation and competition and produced lower bid

prices. As noted by the Commission in the *FE Order* quoted above, a lower load cap could increase competition and lower bid prices, thereby eliminating any price differential.

6. Procurements for Delivery Beyond May 31, 2015

Under its procurement plan, Duquesne Light proposed to acquire a limited amount of default supplies for delivery after May 31, 2015. Specifically, Duquesne Light proposed to acquire 25% of the default service supply for residential customers for the June 2015 – May 2016 period and to acquire 50% of the default service supply for Small C&I customers for a 6-month period past June 2015 or through November 2015. Duquesne Light explained that acquiring a portion of supplies past June 2015 would provide additional rate stability for Residential and Small C&I default service customers. In its Petition, Duquesne Light noted that these procurements could be revised by the Commission at a later date in the event of legal or regulatory changes that would change the nature of default service or change Duquesne Light's role as DSP. Duquesne Light Ex. No. 1, p. 6.

RESA opposes Duquesne Light's proposal to acquire a minimal portion of default supplies past May 31, 2015 and instead prefers a hard stop with all contracts expiring on this date. RESA St. No. 1, p. 4.

Duquesne Light does not believe that RESA's proposal is prudent given the conditions under which Duquesne Light has proposed to acquire default service supplies past May 31, 2015. First, Duquesne Light has limited the amount of supplies that it will acquire past May 31, 2015. This will provide some rate stability for customers and at the same time allow considerable flexibility after May 31, 2015. Second, the Commission could modify these procurements in 2014 if the regulatory model changes significantly between now and then. Third, Duquesne Light's Supply Master Agreement includes provisions under which its obligations may be transferred. Duquesne Light Ex. JEW-1, Section 16.7.

It is to be noted that the Commission rejected the use of contracts that extend beyond May 2015 in the *FE Order*, but it accepted the use of contracts that extend beyond May 2015 in the *PECO Binding Poll*. *FE Order* at 27; *PECO Binding Poll*, Issue No. 4. In the *FE Order*, the OCA and OSBA proposed to include supply contracts that extended beyond May 2015, which was contrary to the FE Companies' procurement plan, and the OCA and OSBA proposals were denied. In the PECO proceeding, PECO's procurement plan included contracts that extended beyond May 2015, and the Commission accepted PECO's proposals.

7. Miscellaneous Procurement Issues

None.

C. RETAIL MARKET ENHANCEMENT PROGRAMS

1. Retail Opt-In EGS Service Program

As with the Company's proposed procurement plans, Duquesne Light carefully designed its proposed RME Programs to balance interests of customers and the benefits that such programs could produce in further enhancing the already highly successful competitive marketplace in its service territory.

In the *Intermediate Work Plan Order*, the Commission provided the following guidelines for ROI Programs:

- ROI Programs should be open to both residential default service and residential shopping customers. *Intermediate Work Plan Order*, p. 42.
- All marketing efforts should be targeted to non-shopping, residential default services customers. *Id.*
- Small C&I customers should not be eligible to participate in the ROI Program. *Id.*
- CAP customer participation should be determined within each EDC's default services proceeding. However, CAP customers should not be subject to harm if they are eligible to participate. *Id.*
- The Commission recommended an ROI Program term of 6 months. *Id.* at 50.

- Customer participation should be capped at 50% of the EDC's default service customer base. *Id.* at 60.
- Supplier participation should be capped at 50% of participating customer accounts. *Id.* at 63.
- RIO Programs should include a \$50 bonus payment or at least 5% off of the default PTC at the time of the auction. *Id.* at 70.
- Customers are to remain with the EGS after the ROI Program if the customer takes no affirmative action. *Id.* at 74.
- EDCs should either use a sealed bid process or a descending clock auction to determine the ROI discount. *Id.* at 77-78.

As explained in the direct testimony of Mr. Neil Fisher, the Company and Mr. Fisher designed its ROI Program to follow the guidelines provided by the Commission in the *Intermediate Work Plan Order*, noting that the Commission authorized variances from the guidelines for good reason. *Intermediate Work Plan Order*, pp. 6-7. Duquesne Light's proposal provides for: (1) an RFP to determine the winning EGS bidders for 10 tranches of supply to serve customers that elect to participate; (2) a fixed price for a 12 month period; (3) a minimum discount of 5% off the PTC at the time of the offer; (4) a \$50 bonus payment; (5) a cap on customer participation of 50% of default service customers; and (6) a limit that prohibits any EGS from obtaining more than 50% of the customers that elect to participate. Duquesne Light St. No. 3, pp. 14-28. The only component that deviates from the Commission guidelines is the 12 month term, for reasons explained in subsection (b) *supra*.

It is to be noted that the proposed program has elicited wide support from most parties in this proceeding, including EGSs and OCA. In contrast, RESA proposed broad changes to Duquesne Light's proposed plan. The merits of Duquesne Light's proposed program as compared to the program proposed by RESA, based upon a 4-month initial product followed by

an 8-month product at a price not known to the customer at the time of enrollment, is summarized in the following table in Mr. Neil Fisher’s rejoinder testimony:

Key Features	Duquesne Light Proposal	RESA’s Alternative Proposal
Provides customers with guaranteed savings for a longer period of time?	✓ • 12 months	• 4 months
Provides greater price transparency to customers at time of enrollment?	✓ • Known fixed rate for 12 months	• Unknown fixed rate for 8 months
Provides easier product for customers to understand at the time of enrollment?	✓ • Single “opt-in” product • Known fixed rate for 12 months	• Two different products; “opt-in” 4-month, “opt-out” 8-month • Unknown fixed rate for 8 months
Relies on competitive market to establish pricing?	✓ • Discount determined by competitive bids • At least 5%	• Discount administratively determined at 5%
Offers \$50 rebate?	✓ • Yes, after 3 months	• Yes, after 4 months; But potential for customer confusion that \$50 rebate could somehow be tied to accepting new 8-month fixed rate
Provides greater customer protection against “bait and switch” tactics?	✓ • A typical residential customer would have “no harm” protection over the entire 12-month term	• Potential harm if customer does not re-evaluate options after 4 months
More likely to encourage customer participation?	✓ • Greater savings guaranteed for longer period of time with simple product	• Temporary benefit with potential harm if customer does not re-evaluate options after 4 months

Key Features	Duquesne Light Proposal	RESA's Alternative Proposal
Favors market-based allocation of customers and program costs to EGSs?	<p style="text-align: center;">✓</p> <ul style="list-style-type: none"> • Determined by competitive market based on number of tranches won • EGSs have flexibility to choose bid quantities (1-5 tranches) 	<ul style="list-style-type: none"> • Administratively determined • No EGS flexibility; Potential customer and cost allocation depends on number of other EGSs that choose to participate
Provides uniform EGS product over the entire 12-month period known at the time of enrollment?	<p style="text-align: center;">✓</p> <ul style="list-style-type: none"> • Uniform rate among EGSs during the defined 12-month contract period • Avoids Duquesne Light having to assign customers to EGSs with different rates resulting in "winners and losers" 	<ul style="list-style-type: none"> • Discriminatory rates during 12-month contract term • Customers participating in the same utility program very well could face different fixed rates after 4 months
Support from customer advocates?	<p style="text-align: center;">✓</p> <ul style="list-style-type: none"> • OCA supports with annual PTC and guaranteed savings 	<ul style="list-style-type: none"> • OCA opposes if no guaranteed savings

Duquesne Light St. No. 3-RJ, pp. 4-5.

As explained in the following subsections of this Brief, Duquesne Light has proposed program components which it believes better serve and protect the interests of customers than RESA's proposals and that are more likely to generate customer interest in shopping. The Commission appears to have concluded in the FE and PECO cases that a shorter initial period for ROI service is more likely to attract EGSs to this program. However, the record evidence in this proceeding is that major EGSs serving residential customers in the Company's service area support the Company's proposed fixed rate for a 12-month term and will participate in the proposed program. By adopting Duquesne Light's ROI Program components, the Commission will implement a program that is both likely to be successful and that will provide customers that have not been inclined to shop with a positive experience in the competitive market. Unlike other EDC default service plans that do not have a fixed annual PTC for residential customers,

Duquesne Light has designed a ROI Program that allows EGSs to offer and customers to receive “guaranteed savings” over a 12-month period. Duquesne Light believes that this is the best path to enhancing competition and advancing the interests of both customers and EGSs.

a. RFP ROI Program vs. Aggregation ROI Program

Consistent with the guidelines set out in the *Final Intermediate Work Plan Order*, Duquesne Light proposed that EGSs bid for the right to sign up customers in the ROI Program by responding to a competitive Request for Proposals (“RFP ROI Program”). *Intermediate Work Plan Order*, pp. 77-78; Duquesne Light St. No. 3, p. 12. Duquesne Light supports bids because bids establish a market determined price for the service, which is appropriate for a “competitive offer.” In the FE and PECO cases, the Commission has directed that RFPs not be conducted and that the discount be administratively set at 5% off the PTC (“Aggregation ROI Program”). *FE Order* at 117-118; *Petition of PECO Energy Company for Approval of its Default Service Program II*, Docket No. P-2012-2283641, Motion of Commissioner Pamela A. Witmer dated September 27, 2012. The basis for the Commission’s decision on use of bidding in the FE and PECO cases is not clear. However, in this case, potential bases for rejecting use of bids have not been demonstrated, and the benefits of the Company’s approach have been demonstrated.

The principal benefit of a bid process is that it establishes a market determined price, which is appropriate for competitive markets. EGSs will be required to bid a price that is at least 5% off the PTC at the time of the bids. The lowest bid price that clears all the 10 tranches will be the price for all customers and all suppliers. Accordingly, a discount greater than 5% off the PTC can potentially be established for the ROI Program price, thereby benefiting customers, if competition is allowed to set the price.

In addition, as noted in the table above, a competitive RFP process provides a market-based solution to the issues of how customers and program costs are allocated to EGSs. This is

because an RFP process provides EGSs with the flexibility to choose bid quantities (1-5 tranches) and bid prices, which ultimately will determine winning bids and the process for allocating customers and program costs to EGSs. In contrast, an administratively determined aggregation program presumably would allocate customers and costs based on the number of EGSs that choose to participate in the program, which is not within the control of an individual EGS.

The potential criticisms of an RFP process have been refuted. First, the Company is not proposing a relatively expensive descending clock auction proposal as in the FE Companies case, but rather a simpler and less expensive RFP process. Therefore, the costs of the RFP process are expected to be low. Indeed, Duquesne Light's estimated costs for the entire program are only \$355,000, and these costs are overwhelmingly mailing costs to provide the offer to customers post RFP. Duquesne Light St. No. 4, p. 21. The low costs of the RFP are not a basis to reject this approach.

Another potential criticism of an RFP process is that it may be dominated by one EGS. The Company has addressed this issue by adopting a tranche structure and a 50% cap on the number of tranches that any one EGS can win in the RFP, consistent with the Commission's *Intermediate Work Plan Order*. Duquesne Light St. No. 3, p. 21. These provisions are further explained in subsection C.1.g of this Brief, *supra*.

It is to be noted that the RFP is supported by OCA, the principal advocate for residential customers. OCA St. No. 2, pp. 5-6. Similarly, both Dominion/IGS and FES support the use of an RFP for the Opt In Service Program, and can be expected to participate in the Company's proposed RFP ROI Program. Dominion/IGS St. No. 1, pp. 5-6; FES St. No. 1, p. 3. RESA has offered no basis to reject use of an RFP that is supported by the record in this proceeding.

Duquesne Light believes that the RFP process it has proposed addresses all of the concerns that have been identified. In contrast, the Aggregation ROI Program adopted by the Commission in the FE and PECO cases would permit all EGSs to elect to participate in the program without definition of how EGSs would identify the number of customers that each EGS would be required to serve, whether EGSs as a group would be required to serve all customers or how customers would be assigned to participating EGSs. Although the Duquesne Light believes that use of a properly structured RFP is superior to the administratively determined price under the Aggregation ROI Program, the administratively determined ROI approach can be used based upon an administratively established price, if the issues identified above have been resolved. However, even if the RFP process were eliminated, as explained below, the Company continues to believe that its proposed ROI product is preferable to RESA's proposed alternative.

b. Term of Offer

The Company proposes a one-year term contract for the ROI Program. Mr. Fisher explained that the use of a one-year term for a product commencing in June 2013 will produce savings off the PTC set for one year from June 1, 2013 to May 31, 2014. As a result, customers electing the ROI Program will receive essentially guaranteed savings for a one year period if Duquesne Light's one-year opt in service product term and one year residential procurements are accepted. Duquesne Light St. No. 3-R, pp. 21-22.³ Duquesne Light believes that the clear savings for an extended 12-month period and stable rates is more likely to encourage default service customers that have not shopped to participate as compared to RESA's alternative proposal based on 4-month savings followed by uncertain and potentially higher rates.

³ Customers that sign up for the ROI Program in June 2013 commence opt in service at their next meter reading, which may be in June or July 2013 and run for 12 months. Therefore, there is no guaranteed savings after June 1, 2014, when the PTC will change to reflect the annual procurements for default service commencing June 1, 2014.

RESA proposes in its testimony that customers be provided an initial 4-month price at a savings off the PTC, followed by an 8-month contract. RESA St. No. 2, p. 20. RESA makes it clear that the customer will not know the eight month price when the customer enrolls and there is no guarantee that the eight month price will even be below the current PTC at the time the eight month price is quoted to the customer. RESA St. No. 2-SR, pp. 18-19.

Duquesne Light has significant concerns about the RESA proposal, which has been adopted in the FE and PECO cases. It could be characterized as a 4-month “Opt In” program followed by an 8-month “Opt Out” program because the customer must opt out if he/she discovers that the 8-month price is above the PTC or other offers then available in the market. Further, customers that elect ROI service will be provided a uniform initial price for four months but potentially receive different 8-month prices depending on which EGS they are assigned under the program. In this regard, RESA has indicated that the 8-month price need not be uniform. RESA St. No. 2-SR, p. 10. The Commission has indicated that it will review EGSs offers to establish the 8-month price but has not indicated that this price will be uniform among participating EGSs in a particular service territory. The Company does not know how it could explain such distinctions to customers when they discover that they are paying different rates under a program sponsored by the Company, particularly where enrollment involves the Company.

RESA does not clearly explain why its proposed product term is better for customers or for competition. RESA states that it is necessary to encourage EGSs to participate. RESA St. No. 1, p. 20. However, two of the EGSs with the largest residential customer bases in Duquesne Light’s service territory, Dominion Retail and FES, support the Company’s proposal and can be expected to participate in the ROI program as designed by the Company if it is approved.

Dominion/IGS St. No. 1, p. 5; FES St. No. 1, p. 3. Moreover, even RESA's witness Mr. Kallaher admitted that EGSs are "generally comfortable providing a fixed 12-month price, as such offers can be hedged at the time they are made." RESA St. No. 2-R, p. 8. Therefore, EGSs should not be discouraged from providing a 12-month, fixed rate ROI product that guarantees savings to customers relative to the Company's one year PTC. Duquesne Light believes that its program will encourage default service customers that have not shopped to participate in a new retail market initiative.

RESA points to the Commission's decision in the FE cases as support for its position. For the reasons noted above, the Company's 12-month term clearly provides superior benefits for customers when combined with one-year residential procurements. It is noted that both PECO and FE proposed residential default service price changes that are more frequent than the annual changes proposed by the Company. The PECO and FE residential price changes provide a basis for a different approach to the ROI Program term than the approach proposed by the Company for its service territory, as does the high levels of residential shopping in Duquesne Light's service territory. Finally, well-established EGSs in the Company's service territory support the 12-month term.

Duquesne Light also notes that its residential default service customers have had long term stable prices for 3 years in DSP III, 3 years in DSP IV and 29 months in DSP V. It is questionable whether customers that remain on default service will shop if anything less than a known one-year price with guaranteed savings is offered.

For the foregoing reasons, the one-year product term proposed by the Company both best serves residential customers and is the most constructive approach to enhancing competitive markets in Duquesne Light's service territory.

c. Discount Percentage

Dominion suggested that the ROI minimum percentage discount of 5% be lowered to 2%. Dominion/IGS St. 1, p. 5. The only other issue concerning the discount percentage is whether it should be administratively set by the Commission at 5% or established at or above 5% by through an RFP. Again, the Company chose to follow the guidelines provided by the Commission in its *Intermediate Work Plan Order*, and for reasons explained in section C.1.a., the discount percentage should be established by the Company's proposed RFP.

d. \$50 Bonus Payment

The Commission recommended that residential customers electing the Opt In Service Program be provided a \$50 bonus payment. *Intermediate Work Plan Order*, p. 70. Duquesne Light proposed a \$50 bonus payment be paid after the customer remained with the Opt In Service for 3 months. Duquesne Light St. No. 3, p. 23.

However, Duquesne Light is concerned about the use of a \$50 bonus payment in conjunction with RESA's proposal for an initial 4-month price followed by an 8-month product with disclosure of the price after initiation of service. Specifically, RESA indicates that the customer must stay for 4 months to receive the bonus. If this pricing approach were adopted, it must be made clear that the customer will receive the bonus if the customer opts out of the 8-month contract on receipt of notice of the 8-month contract price. The Company is concerned that the combination of a \$50 bonus payment with an initial 4-month price below the PTC followed by an 8-month price above the PTC could create customer confusion that the \$50 rebate is somehow tied to accepting the new 8-month fixed rate. Accordingly, if RESA's alternative proposal were adopted, assurances should be provided to customers that they will receive the \$50 payment as long as the customer remains with the EGS for 4 months regardless of whether or not they elect the 8-month price. In any event, the Company is concerned that temporary savings

over a 4-month period followed by higher rates than the PTC over an 8-month period also could be viewed by customers as a “bait and switch” tactic. That is why the Company recommends that the Commission approve a 12-month fixed-price product that offers customers guaranteed savings over the entire 12-month product term. This will provide better protection for participating customers and better promote customer shopping.

e. Guaranteed Savings

Duquesne Light believes that guaranteed savings are important for customers and for creation of confidence in competitive markets. As explained previously in section C.1.b., the twelve-month term of ROI service combined with 12-month procurements and price changes for residential customers provides the longest guaranteed savings. In contrast, the RESA proposal provides guaranteed savings for only 4 months. Duquesne Light’s current default service customers have fixed rates for 29 months. Duquesne Light believes that customers are less likely to shop for only 4 months of savings under RESA’s proposal. A key objective of the ROI Program is to promote customer participation. Duquesne Light’s proposal is more likely to encourage customer participation and result in customer satisfaction with competitive markets.

f. Customer Participation Cap

Duquesne Light again followed Commission guidance in proposing that all remaining default service customers, other than customers who have elected not to release customer information and CAP customers, should receive notice of the offer under the ROI Program. Duquesne Light St. No. 3, pp. 25-26.⁴ Duquesne Light proposed that a maximum number of customers that could elect ROI Service would be 50% of the customers receiving the offer.⁵

⁴ CAP customer participation is addressed in subsection C.4, *supra*.

⁵ RESA expressed its opinion that Duquesne Light was proposing to send the offer letter to only 50% of default service customers and allow only 50% of those customers to enroll. RESA St. No. 2, p. 10. Mr.

Duquesne Light St. No. 3, p. 25. The provisions are in accord with Commission guidance. *Intermediate Work Plan Order*, p. 60.

OCA challenged in its testimony the customer participation cap of 50% and proposed a 20% cap. OCA St. No. 1, p. 10. OCA contends that the potential for a significant shift in customers away from default service as a result of the ROI Program could have a significant effect on prices bid by wholesale suppliers for providing default service. OCA St. No. 1, p. 10. In contrast, FES argues that there will be minimal effect on wholesale bid prices resulting from customer participation.

As noted in Mr. Neil Fisher's rebuttal, the Commission recommended a 50% customer participation cap, because it believes that this provides for a large customer participation pool, while providing transparency to wholesale default service suppliers as they prepare their bids, and while providing some level of certainty to those EGSs opting to participate in the Opt-In EGS Service RFP. *Intermediate Work Plan Order*, p. 60. Duquesne Light St. No. 3-R, pp. 19-20. The Company has followed the guidance provided in the *Intermediate Work Plan Order* and the proposed cap is also consistent with the Commission's position in the *FE Order* and *PECO Binding Poll, Issue 15*. Therefore, the 50% customer participation cap should be approved.

g. Supplier Load Cap

Duquesne Light proposed that no EGS be permitted to obtain more than 50% of the customers electing to participate in the ROI Program. Duquesne Light St. No. 3, p. 21. As explained by Mr. Neil Fisher, qualified EGSs would be permitted to serve from one to five of the ten tranches of service under the program, thereby limiting any one supplier to half of the

Neil Fisher explained that RESA misunderstood the Company's position and that all default service customers other than those identified in the text would receive the offer and a customer participation cap of 50% would be applied to this group. Duquesne Light St. No. 3-R, pp. 20-21. RESA has confirmed there is no remaining issue on the customer participation cap. RESA St. No. 2-SR, p. 6.

electing customers. Duquesne Light St. No. 3, p. 21. Mr. Fisher also demonstrated how the bids would be awarded to multiple bidders and explained that the price for service to all customers would be the lowest price that covered all 10 tranches of service (the “clearing price”) which must be equal to or in excess of 5% lower than the current PTC. Duquesne Light St. No. 3, pp. 21-25.

FES recommends that there should be no supplier participation cap and that applying a participation cap could increase the clearing price. FES St. 1, p. 14. Mr. Neil Fisher explained that a supplier load cap provides for diversity of EGS participation and limits risk of a supplier default. Duquesne Light St. No. 3-R, pp. 27-30. It is to be noted that the Commission approved a 50% load cap in the FE case. *FE Order* at 115.

h. Enrollment Process

In its filing, Duquesne Light proposed that each of the customers receiving the Opt In Service Program offer letter be initially assigned one of the winning EGS bidders in proportion to the bids being awarded and that the offer letter identify the assigned EGS. Duquesne Light St. No. 6, pp. 3-4.

OCA proposed in its direct case that the Company identify all winning bidders in the offer letter and advise the customers that they would randomly be assigned one of the winning EGSs. OCA St. No. 2, p. 11. The Company agreed to OCA’s proposal in its rebuttal, because it would simplify procedures and because all customers would receive the same price for 12 months. Duquesne Light St. No. 6-R, p. 3. No party has objected to this change.

i. Mailings and Communications

Duquesne Light proposes to send one offer letter to customers following this selection of winning EGSs and establishment of price in the RFP. Duquesne Light St. No. 3, p. 27. The

offer letter is the vast majority of the expense for the program. Duquesne Light St. No. 4-R, p. 15.

RESA proposes another letter from the Commission prior to the RFP. RESA St. No. 2, p. 9. Duquesne Light has several concerns. First, if the RFP fails, or no suppliers participate even if no RFP is required, customers will be disappointed and frustrated. Second, a second letter effectively doubles the cost of a program which EGSs do not want to pay for at any level.

There is no demonstrated need or benefit from multiple communications to customers. In any event, if the Commission does want to send another letter to customers, Duquesne Light recommends that it do so only after it is known that EGSs will participate in the program and EGSs agree to pay for the additional marketing costs.

j. Opt-In Electric Generation Supplier Service Program Request for Proposals and Agreement Between Duquesne Light and EGSs

Duquesne Light proposed that participating EGSs be required to enter into an agreement with the Company to participate in the ROI Program and also proposed RFP procedures. Duquesne Light St. No. 3, p. 20. Duquesne Light provided a proposed agreement and RFP rules and procedures. Duquesne Light Ex. NSF-2.

RESA responded with a general contention that the agreement was one-sided and unnecessary, without providing proposed modifications to the agreement that would make it acceptable. RESA St. No. 1, p. 14. It is noted that the Commission typically reviews and approves agreements between wholesale default suppliers and EDCs and these documents were reviewed and commented on by wholesale suppliers in this proceeding. See e.g., Constellation St. No. 1, Attachment 1. Yet, EGSs have attempted to ignore the need for RME agreements despite being given opportunity to comment on such agreements in this proceeding.

The need for agreements is clear. For example, ROI EGS suppliers will have obligations to take customers that elect to participate at the stated or bid price and should be contractually obligated to live up to such obligations including the obligations to pay the \$50 bonus payment to customers. Although the Commission has declined the adjudication of these agreements in DSP proceedings, some system must be designed to enforce the obligations of EGSs under these programs. Therefore the EGSs' contentions that agreements are not necessary should be rejected. Neither the Company's Supplier Tariff nor the Company's Retail Tariff addresses the EGS obligations under this new ROI Program. Standardized rules and procedures are therefore necessary.⁶

2. Standard Offer Program

The Commission has provided guidelines to EDCs for adopting SO Programs, including but not limited to the following:

- The standard offer will target residential default service customers. However, residential shopping customers will not be excluded if they request to participate. *Intermediate Work Plan Order* at 31.
- CAP customers should be excluded from the SO Program at this time. *Id.*
- The standard offer should be comprised of a 7% reduction from the EDC's PTC. *Id.*
- The standard offer should be provided for a minimum of four months, but should not exceed 1 year. *Id.*
- Customers may choose to be assigned to an EGS of their choice or may choose a random assignment. *Id.*
- The SO Program should be presented during customer contacts to EDC call centers, other than calls for emergencies, terminations and the like. EDCs may present the SO Program to high bill callers after the customer's concerns are satisfied. *Id.* at 32.
- At the conclusion of the SO Program, the customer will remain with the EGS absent an affirmative choice to the contrary. *Id.*

⁶ In many respects, the ROI Program Agreement is much simpler (and shorter) than the Supply Master Agreement for wholesale default service, which has been developed without the need for a collaborative.

- The bulk of the SO Program costs should be the responsibility of the participating EGSs. In addition it is acceptable to recover SO Program costs through the POR discount. *Id.*

Consistent with the Commission's directives in the Retail Market Investigation, the Company has proposed a SO Program for customers that call the Company for certain types of transactions. As with its procurement plan and its ROI Program, the Company carefully designed the SO Program to balance customer interests and to further enhance competition in the Company's service territory.

Duquesne Light will offer the SO program to non-shopping customers that call the company about: (1) initiating or moving service; (2) choice questions; (3) high bill complaints; or (4) the SO Program. The SO product will be a 7% reduction off of the PTC at the time of the offer and be a fixed price for a 12-month period. Duquesne Light proposes to create a "choice referral team" to handle SO program calls after the initial customer inquiry has been processed. Duquesne Light St. No. 5, p. 10. For reasons explained in detail below, Duquesne Light proposes to implement the SO Program on June 1, 2014.

Most parties in this proceeding generally support the Company's proposed SO Program. There are a few issues in dispute which are addressed below.

a. Term of Offer

Duquesne Light proposes that the SO product be a 12-month fixed price product. Duquesne Light St. No. 3, p. 34. This is consistent with the Commission's *Intermediate Work Plan Order* which provided for a Standard Offer period of 4 to 12 months. *Intermediate Work Plan Order* at 31. In addition, a 12-month period is consistent with the Commission's Order in the FE Companies' default service proceeding. *FE Order* at 146. The 12-month term is also consistent with the Commission's Binding Poll in the PECO default service proceeding. *PECO Binding Poll*, Issue 18.

In this proceeding, both OCA and RESA argued that the Commission should adopt a 4-month SO period.⁷ OCA St. No. 2, p. 6; RESA St. No. 2, p. 20. The OCA and RESA proposals to shorten the SO product to a 4-month term should be denied. They are inconsistent with the Commission's approval of a 12-month offer in the *FE Order* and *PECO Binding Poll*. Moreover, as explained by Mr. Neil Fisher, a 12-month term is better for customers and more likely to encourage customer participation than a short-term, 4-month program. Duquesne Light St. No. 3-R, pp. 41-42. A 12-month term also will help alleviate customer concerns about a "bait and switch" offer whereby a customer is offered a short term low rate followed by a rate that is above the PTC and/or market prices. In addition, the 12-month SO term is consistent with the 12-month PTC that Duquesne Light is proposing to provide residential customers under the Company's procurement plan. For these reasons, the ALJ and Commission should deny the OCA and RESA's attempts to shorten the SO term to 4 months.

b. Discount Percentage

Duquesne Light is proposing to set the SO discount percentage at 7% off of the PTC at the time the offer is made for the 12-month term. Duquesne Light St. No. 3, p. 38. This is consistent with the Commission's *Intermediate Work Plan Order*, the *FE Order* and the *PECO Binding Poll*. *Intermediate Work Plan Order* at 31; *FE Order* at 146; *PECO Binding Poll*, Issue 18.

Dominion/IGS suggests that the Standard Offer discount be revised to 5%. Dominion/IGS St. No. 1, p. 7. Dominion believes that the discount should be reduced due to low current market prices for electricity. Dominion/IGS St. No. 1, p. 7. It is to be noted that a percentage discount automatically adjusts for changes in prices. The Dominion/IGS proposal

⁷ While OCA and RESA both recommended a 4-month term, there are significant structural differences between the two proposals.

also should not be accepted because it is inconsistent with Commission guidance in the *Retail Markets Investigation*, *FE Order* and *PECO Binding Poll*. Moreover, a 7% discount should encourage greater customer participation than a 5% discount.

c. Guaranteed Savings

Duquesne Light has proposed that the 7% discount be based off of the PTC at the time the offer is made and be fixed for the 12-month term of the Standard Offer. Duquesne Light St. No. 3, pp. 38-39. Under this proposal, if the PTC changes during the 12-month term, a customer is not guaranteed any level of savings once the PTC changes. Duquesne Light's proposed methodology is consistent with the *Intermediate Work Plan Order*, the *FE Order* and the *PECO Binding Poll*. *Intermediate Work Plan Order* at 31; *FE Order* at 146; *PECO Binding Poll*, Issue 18.

In this proceeding, the OCA proposes that SO customers be offered guaranteed savings off of the PTC for the term of the product. OCA St. No. 2, p. 6. RESA also takes this position. RESA St. No. 2, p. 5. The OCA and RESA proposals are inconsistent with the *Intermediate Work Plan Order* and also have been rejected by the Commission in the FE Companies' and PECO's default service proceedings. *Intermediate Work Plan Order* at 31; *FE Order* at 146; *PECO Binding Poll*, Issue 18. Therefore, the OCA and RESA proposals should not be adopted in this proceeding as well.

In addition, Mr. Neil Fisher explains how the Company's Standard Offer product is a combination of a "guaranteed savings" product and a "fixed rate" product, as follows:

Another way to think about Duquesne Light's Standard Offer product is a combination of "guaranteed savings" product (like OCA and RESA appear to support) and a "fixed rate" product (like FES and the Commission appear to support), where the guaranteed savings term and the fixed rate term vary depending on when a customer enrolls, but in all cases the term equals 12 months. Under Duquesne Light's proposed Standard Offer Program,

customers are guaranteed savings through 5/31/15 (ranging from 12 months to one month), followed by a fixed rate (ranging from zero months to eleven months) depending on when the customer enrolls in the program. Importantly, customers will be able to know the term of the 7% guaranteed savings period and the term and the ¢/kWh level of the fixed rate at the time when customers affirmatively enroll in the Standard Offer product. The table below illustrates the form of the Standard Offer product proposed by Duquesne Light:

Figure 6 Duquesne Light’s 12-Month Standard Offer Product Provides Customers with Guaranteed Savings and/or a Fixed Rate Known at the Time of Enrollment

Time of Customer Enrollment	Known 7% Guaranteed Savings through 5/31/15 (Approx. Term)	Known Fixed Rate after 5/31/15 (Approx. Term)	Total Term of Standard Offer
June 2014	12 months	0 months	12 months
July 2014	11 months	1 months	12 months
August 2014	10 months	2 months	12 months
September 2014	9 months	3 months	12 months
October 2014	8 months	4 months	12 months
November 2014	7 months	5 months	12 months
December 2014	6 months	6 months	12 months
January 2015	5 months	7 months	12 months
February 2015	4 months	8 months	12 months
March 2015	3 months	9 months	12 months
April 2015	2 months	10 months	12 months
May 2015	1 months	11 months	12 months

Where the SO product has the following features:

- A single constant fixed ¢/kWh rate for a 12-month period that is a 7% reduction from the EDC’s effective default service PTC on the date the SO is made (consistent with the Commission’s guidelines),
- A uniform product within Duquesne Light’s service area (consistent with the Commission’s guidelines),
- A customer remains with its EGS at the end of the 12-month term (consistent with the Commission’s guidelines), and

- A customer can switch at any time during the 12-month term and after the 12-month term without penalty unless a customer affirmatively elects other EGS terms and conditions (consistent with the Commission's guidelines).

Duquesne Light is able to provide SO customers this rate certainty due to the Company's proposal to offer residential customers a fixed PTC for 12-month periods. If the residential procurement plan is modified, the "guaranteed savings" benefits described above will not be achieved.

d. Program Start Date

Duquesne Light proposes to implement the SO Program on June 1, 2014. Duquesne Light St. No. 3, p. 35. Certain EGS parties have argued that the Commission should require Duquesne Light to implement the SO Program in June of 2013. RESA St. No. 2, p. 5; FES St. No. 1, p. 16. For the reasons explained below, the ALJ and the Commission should adopt Duquesne Light's proposal to implement the SO Program on June 1, 2014.

Duquesne Light recognizes that the Commission has directed the FE Companies to implement the SO Program in June 2013 and PECO to implement its SO Program one month after the ROI Program enrollment is complete. *FE Order* at 150; *PECO Binding Poll*, Issue 20. However, as explained below, Duquesne Light is distinguishable from the FE Companies and PECO and should be permitted to implement a later start date for the SO Program.

Duquesne Light cannot feasibly implement the SO Program on June 1, 2013 due to significant IT constraints. The Company is currently in the process of implementing a new Customer Information System ("CIS") and this project will not be completed until the second quarter of 2013. Duquesne Light St. No. 6-R, p. 6. The Company's witness, Mr. Wolfe, explained that the scope of work already planned for replacing the CIS system does not include the IT development and activities necessary to implement the SO Program. It will take an

additional 9-12 months from completion of the CIS system in the second quarter of 2013 to complete the IT development and testing necessary to implement the SO Program, including accelerated switching enhancements. Therefore, the IT development and testing necessary for the SO Program cannot begin prior to the third quarter of 2013, and will take approximately 9-12 months or mid 2014 to complete. Duquesne Light St. No. 6-RJ, p. 2.

Mr. Wolfe further explained that if the Company did not include the accelerated switching functionality in the scope of the SO Program IT changes, the Company could implement the SO Program at the end of the first quarter of 2014. However, it would then subsequently take an additional 6 months to implement accelerated switching primarily due to the redundant work and testing that would have to be performed. In addition, implementing the minimum SO Program functionalities and the accelerated switching functionalities on a separate basis would increase overall IT development and testing costs. Duquesne Light St. No. 6-RJ, p. 2. As noted below, the Company believes that it is better and less costly to implement the SO Program and accelerated switching together on June 1 2014, than to implement SO earlier and accelerated switching later than this date.

Duquesne Light further notes that the Commission's End State Proposal, OCMO is directed to provide the Commission with a recommendation to move forward with a plan that permits customers to switch to EGSs between meter reads by October 1, 2013. End State Proposal No. 7, Docket No. I-2011-2237952. Complying with this guideline requires accelerated switching capability. It is Duquesne Light's understanding that accelerated switching is a very important functionality for EGSs, and the Company does not want to delay this functionality.

In this proceeding, RESA argues that the Company was unclear as to why the Standard Offer functionality could not be offered on June 1, 2013. RESA St. No. 2-SR, p. 10. Contrary to

RESA's assertions, the Company clearly explained in discovery and in testimony why it could not implement the SO Program on June 1, 2013. In addition, the Company provided a specific list of IT revisions necessary to implement the SO Program. This list included:

- Enabling Customer Service Representatives in primary call center to systematically transfer calls to choice referral team and pre-populate a new Customer Care & Billing ("CC&B") Standard Offer Program enrollment screen with appropriate customer information.
- Enabling the choice referral team to update CC&B system to indicate customer's interest in participating in Standard Offer Program.
- Enabling the choice referral team to update CC&B system with selected EGS if specified by the customer.
- Enabling the sequential, systematic assignment of a customer to an EGS participating in the program.
- Enabling the daily emails to each EGS of the customers that were assigned to them the preceding day.

The Company also described the functionalities necessary to implement accelerated metering, as follows:

- Enabling "seamless move" functionality to provide the capability for an existing customer to retain their current alternate supplier rather than dropping back to default service when they move from one premise to another within the same EDC territory.
- Enabling "switch on connect" functionality, the EDC provides the capability for a new customer to select a supplier immediately upon moving into the EDC territory rather than being enrolled in default service for their first cycle bill.

In addition, the specific discovery response was provided for the record as Exhibit DGW-1RJ. The Company clearly explained why it cannot implement the Standard Offer functionality on June 1, 2013.

There are other policy and economic reasons for implementing the SO Program on June 1, 2014. First, as explained by Mr. Neil Fisher, implementing the Standard Offer Program at the same time as the ROI Program has the potential to increase the risk premiums included in the wholesale RFP bids. Duquesne Light St. No. 3-R, p. 51. Duquesne Light already has some of the highest shopping levels in the Commonwealth. Implementing both the ROI Program and SO Program in the same delivery period covered by default service bids compounds the risk to wholesale suppliers that the default customer base will significantly decrease during the delivery period and creates the possibility of increased risk premiums. Mr. Fisher notes that the combination of a fixed-price full requirements solicitation process followed shortly thereafter by an RFP for the ROI Program and then a SO Program is unprecedented in electric markets in the United States. Duquesne Light St. 3-RJ, p. 20. Sequencing the ROI Program and the SO Program as proposed by the Company will allow the Commission to more easily measure the relative benefits and costs of the two retail market initiatives. The costs related to the risk premiums in wholesale default service products would be difficult, if not impossible, to isolate if the two retail market initiatives were implemented simultaneously. Duquesne Light St. 3-RJ, p. 25.

Second, the Company has identified a serious problem for EGSs if the SO Program is commenced prior to June 1, 2014. As shown in Mr. Fisher's Figure 7 in rebuttal testimony, accelerating the start date of the SO Program could very well discourage EGS participation in the program during the first year of the plan due to the known increase in PJM capacity costs on June 1, 2014. Duquesne Light St. No. 3-R, pp. 54-56; Duquesne Light St. No. 3-RJ, pp. 24-25.

Third, having the ROI Program and SO Program operating concurrently creates substantial risks for ROI Program EGSs that customers will leave the ROI Program immediately after receiving the \$50 bonus. As explained by Mr. Neil Fisher:

If Opt-In Suppliers offer a 5% discount and Standard Offer Suppliers then offer a 7% discount, customers could easily migrate off the Opt-In EGS Service, especially after receiving the \$50 bonus payment. In this situation, it could be in the economic interest of Opt-In EGS Service Program customers actually to leave the Opt-In EGS Service Program after three billing cycles and to switch to the Standard Offer, effectively “cannibalizing” the Opt-In EGS Service Program. Sequencing these retail market initiatives may therefore help to reduce both wholesale default service supplier and EGS Opt-In Supplier risk premiums during the first year of DSP VI.

Duquesne Light St. No. 3-R, p. 52.

In addition to customers taking advantage of the two competing RME Programs, other customers may be confused and question why Duquesne Light is promoting a 5% discount program followed shortly by a 7% discount program.

For the reasons explained above, Duquesne Light should be permitted to implement the Standard Offer Program on June 1, 2014.

e. Program Suspension

Duquesne Light proposes to offer the SO Program on an ongoing basis from June 1, 2014 through the remainder of the DSP VI period on May 31, 2015. However, in the event that residential shopping levels reach 67% of residential customer accounts, the Company proposes to suspend new referrals to the SO Program through the end of the DSP VI period. Duquesne Light St. No. 3, p. 42. Duquesne Light proposes this program suspension to reduce wholesale supplier risk premiums. As explained by Mr. Neil Fisher, if residential shopping reached these levels, this would place Duquesne Light’s residential shopping levels within the top 5 in the U.S.

Therefore, the program cap serves a valuable purpose in reducing risk premiums without being too restrictive. Duquesne Light St. No. 3, p. 43.

RESA opposes the Company's proposal to suspend the SO Program if residential shopping loads reach 67%. However, RESA has not provided any evidence that this participation cap will inhibit competition. Duquesne Light has attempted to create a balance between EGS interests and default service customer interests by ensuring that a large number of customers will be able to participate in the SO Program and at the same time limiting the impact of the program on the residential default service rates. Duquesne Light St. No. 3-RJ, p. 27. Moreover, the cap was established to allow approximately 50% of currently eligible default service customers to participate in the RME programs.

For these reasons, the SO referral cap should be approved.

f. High Bill Callers

Duquesne Light proposes to refer customers with high bill inquiries to the SO Program after the callers' high bill issue has been resolved. Duquesne Light St. No. 5, p. 10. The OCA argues that customers with high bill inquiries should not be referred to the SO Program. OCA St. No. 2, pp. 6-7.

Duquesne Light's proposal to refer such callers to the SO Program after the high bill issue is addressed is consistent with the Commission's directives in the *Intermediate Work Plan Order*, the *FE Order* and in the *PECO Binding Poll*. For these reasons, Duquesne Light's proposal should be adopted.

g. Choice Referral Team

Due to the specialized nature of the SO Program, Duquesne Light proposes to create a Choice Referral Team to discuss the SO Program with customers. Duquesne Light St. No. 5, p. 10. OCA opposes this proposal, arguing that creating a separate Choice Referral Team will

increase costs and may result in customer dissatisfaction about the process. OCA St. No. 2-S, p. 8.

Duquesne Light disagrees with OCA's arguments regarding the Choice Referral Team. As explained by the Company's witness Ms. Sandoe, who is the Company's Vice President of Customer Care, creating a separate Choice Referral Team is in the public interest because it will: (1) allow the Company to provide detailed, specific training to a specific set of Customer Service Representatives ("CSRs"), (2) minimize the impact of the Standard Offer Program on existing call center operations, (3) allow Duquesne Light to accurately track the costs of the Program, and (4) create administrative efficiencies for the Company. Duquesne Light St. No. 5, p. 11; Duquesne Light St. No. 5-R, p. 16. For these reasons, the OCA's proposal to disallow the Choice Referral Team should be denied.

h. Standard Offer Customer Referral Program Rules and Supplier Agreement Between Duquesne Light and EGSs

Duquesne Light proposed that participating EGSs be required to enter into an agreement with the Company to participate in the SO Program. Duquesne Light St. No. 3, pp. 37-38. Duquesne Light provided a proposed agreement which set forth rules and procedures for the Program. Duquesne Light Ex. NSF-3.

RESA responded with a general contention that the agreement was one-sided and unnecessary, without providing proposed modifications to the agreement that would make it acceptable. RESA further argues that the Commission staff should facilitate a collaborative process for determining the legal requirements of the Program. RESA St. No. 2, p. 15. RESA's arguments should not be accepted.

It is noted that the Commission has typically reviewed and approved agreements between wholesale default service suppliers and EDCs in default service proceedings, and these

documents were reviewed and commented on in this proceeding. See e.g., Constellation St. No. 1, Attachment 1. Yet, EGSs have attempted to ignore the need for agreements in the context of the RME programs despite being given opportunity to comment on the agreements in this proceeding.

The need for agreements is clear. For example, SO suppliers will have obligations to take customers that elect to participate at the stated price and should be contractually obligated to live up to such obligations. The SO Agreement further sets forth the Terms and Conditions of Providing Service and other rules and obligations of providing service that are not contained in the Company's supplier tariff. Duquesne Light St. No. 3-R, p. 26.

EGSs' contentions that agreements are not necessary should be rejected. Moreover, all parties in this proceeding had an opportunity to propose revised terms and conditions to the SO Agreement. Therefore, it is unnecessary to create a separate proceeding for parties to resolve any issues that they may have with respect to the SO Agreement.

3. Market Enhancement Program Cost Recovery

In the *Intermediate Work Plan Order*, the Commission directed that participating EGSs be responsible for the costs of the RME Programs. *Intermediate Work Plan Order* at 84-85. Consistent with the Commission's direction, Duquesne Light has proposed to recover the costs of the ROI Program from participating suppliers. Duquesne Light St. No. 3, p. 32. In the event that no EGSs participate in the ROI Program, costs would be limited because no mailings would be made to customers and Duquesne Light would recover the very limited costs of the ROI Program through the POR discount. In addition, Duquesne Light proposes to recover the SO Program costs predominantly through a customer acquisition charge assessed to participating SO suppliers. The Company originally proposed to recover SO Program costs through its POR discount but modified its proposal to address EGS concerns about the POR cost recovery

mechanism. The Company recommended a customer acquisition fee of \$20 per customer in order to recover more of the estimated SO Program costs in a cost recovery mechanism that is acceptable to most of the parties. Duquesne Light St. No. 3-RJ, p. 32. Duquesne Light's proposal to recover RME Program costs from EGSs is consistent with the Commission's conclusion that these programs are intended to benefit EGSs by avoiding lower customer acquisition costs. Duquesne Light St. No. 3-R, p. 72.

In this proceeding, the OCA, OSBA and CAUSE-PA all supported the Company's proposal to recover RME program costs from EGSs. Duquesne Light St. No. 3-R, p. 70; OCA St. No. 2, p. 7; OSBA St. No. 1, p. 8; CAUSE-PA St. No. 1, p. 4. On the other hand, the EGS parties offered different proposals regarding cost recovery, all with the common theme that default service customers should bear some or all of the RME Program costs.

FES argues that all customers stand to benefit from the RME Programs and that RME Program costs should be recovered from all customers in classes eligible to participate in the programs. FES St. No. 1, p. 18. This argument is inconsistent with the Commission's direction that EGSs are responsible for RME cost recovery. It also is directly inconsistent with EDCs recovery of default service costs only from default service customers. All customers clearly stand to benefit from default service. For example, default service provides a backstop and safeguard for all shopping customers in case EGS price offers are not acceptable or an EGS defaults. Under FES logic, shopping customers should also be responsible for a portion of default service administrative costs because they stand to benefit from the service. However, this is not consistent with the Commission's policy for recovery of default service program costs. The same rationale should apply to both default service and RME Program costs.

In this proceeding, RESA has argued that Duquesne Light should recover RME program costs only from default service customers through a PTC adder of 5 mils/kWh. RESA then argues that any excess recovered over the RME costs be refunded to all customers, including shopping customers that did not pay the charge. RESA St. No. 7, p. 27. RESA's proposal would have default service customers pay not only for RME Programs they are not participating in but pay a further subsidy to shopping customers. As explained by Mr. Neil Fisher:

Finally, Mr. Kallaher's recommended disbursement of any excess proceeds from the PTC adder to all distribution customers is inequitable and would result in cross-subsidization. Although his PTC adder will apply only to default service customers under RESA's proposal, any remaining balance after payment of retail program costs and "uncollected" default service costs would be refunded to a much larger, different group of customers – distribution customers, including those shopping with an EGS. Thus, the PTC adder would result in cross-subsidization of Duquesne Light's shopping customers by its default service customers. Accordingly, the PTC adder proposed by RESA should be rejected.

Duquesne Light St. No. 3-R, p. 80. *FE Order*, p. 62. RESA's proposal is clearly inequitable and should be rejected. Importantly, the Commission has recently rejected RESA's proposal in two separate proceedings including the FE Companies' default service proceeding and in the binding poll conducted on September 27, 2012 in PECO's default service proceeding at Docket No. P-2012-2283641 (Issue No. 11). RESA's proposal should be denied here as well.

In this proceeding, Dominion/IGS proposed that the SO Program be paid for by participating suppliers on a "per customer acquired basis" with the upfront programming costs to be collected by Duquesne Light on a non-bypassable basis. Dominion/IGS St. No. 1, p. 8. Duquesne Light has indicated that it would be open to this type of proposal for SO Program costs, but that the customer acquisition fee would need to be \$20, rather than the \$10 proposed by Dominion, in order to recover more of the estimated costs. Duquesne Light St. No. 3-RJ, p.

32. However, the issue still remains what to do in the event that no EGSs and/or customers participate in the SO Program. For reasons described in testimony and consistent with the Commission's guidelines, the Company believes these SO Program costs should be recovered from EGSs and not customers. Duquesne Light St. No. 3-RJ, pp. 72-83. Therefore, another cost recovery mechanism – such as the Company's proposed POR discount or a flat fee for EGSs is necessary as a fallback cost recovery mechanism since the customer acquisition charge may be insufficient to fully recover SO Program costs. Duquesne Light St. No. 3-RJ, p. 32.

Duquesne Light notes that in the FE Companies' recent default service proceeding, the Commission has reasserted its conclusion that EGSs are responsible for these costs and directed the parties to submit RME Program cost recovery proposals within 60 days after the Commission's Order for Commission review. The Commission has further directed the parties attempt to reach an agreement as to how these program costs will be recovered. *FE Order* at 136; Commissioner Witmer Motion in the PECO proceeding. Consistent with the Commission's direction in these two proceedings, Duquesne Light requests that the ALJ confirm the responsibility of EGSs for these costs. The Company will continue to work with the parties to attempt to reach a mutually agreeable proposal for recovery of RME Program costs. The Company has expressed a willingness to accept alternative forms of cost recovery to collect program costs from EGSs, if EGSs can agree and it can be administered easily by Duquesne Light. Most importantly, the Company wants to ensure that the costs associated with the retail market initiatives are fully recovered from EGSs, regardless of the level of supplier and customer participation and the level of the customer acquisition fee. Duquesne Light St. No. 3-RJ, p. 33.

4. CAP Customer Participation in RME Programs

In this proceeding, Duquesne Light proposed that CAP customers not be allowed to participate in the RME Programs until the Commission sets rules and procedures for portability of CAP discounts. Duquesne Light's proposal was based on the following considerations:

- (1) CAP customer benefits are not portable and most CAP customers would pay higher rates by participating in the RME programs without portable benefits;
- (2) Current billing system limitations prevent the Company from issuing an integrated CAP bill with supplier charges; and
- (3) The Commission should first conduct a generic process to address issues regarding CAP customer shopping, portability of CAP benefits and participation in RME programs.

Duquesne Light St. No. 5-R, Exhibit MRS-2. Both OCA and CAUSE-PA supported Duquesne Light's proposal to exclude CAP customers from participating in the RME programs. However, RESA has argued CAP customers should be able to participate.

Based upon the recent Motion of Commissioner Witmer in the PECO default service proceeding and a Joint Statement by Chairman Powelson and Commissioner Witmer in the FE Companies default service proceeding, it is evident that the Commission has determined the CAP benefits should be portable, CAP customers should be permitted to shop and CAP customers should be permitted to participate in the RME Programs.

Duquesne Light supports the Commission's directives with respect to CAP customers. As the Company explained in this proceeding, it will be required to implement complex IT procedures and tracking mechanisms before it can comply with the Commission's directives. Duquesne Light St. No. 5-R, p. 5. In anticipation of this system being completed, Duquesne Light will work with the Commission Staff and interested parties to develop a plan to make CAP

customer benefits portable by January 1, 2014, consistent with Commissioner Witmer's Motion in the PECO default service proceeding and the commencement of its next Universal Service and Energy Conservation Plan.

5. Shopping Customer Participation in RME Programs

In this proceeding, Duquesne Light proposed that shopping customers would be eligible to participate in the RME Programs but that the Company would only focus its marketing and customer education efforts on default service customers. Duquesne Light St. No. 3, pp. 24, 28. This is consistent with the Commission's guidance set forth in the *Intermediate Work Plan Order*. *Intermediate Work Plan Order* at 42.

RESA argues that shopping customers should not be eligible to participate in the RME Programs. RESA St. No. 2, p. 4. RESA's position is contrary to the Commission's directives in its Retail Markets Investigation. *Intermediate Work Plan Order* at 42. RESA's position is also directly contrary to the Commission's recent Order in the FE Companies' default service proceeding where the Commission rejected RESA's proposal to exclude shopping customers from the RME Programs and also contrary to the recent binding poll taken by the Commission in PECO Energy Company's default service proceeding. *FE Order* at 107; *PECO Binding Poll*, Issue 13. For these reasons, the RESA proposal to exclude shopping customers from the RME Programs should be denied in this proceeding as well.

6. Small C&I Customer Participation in RME Programs

In this proceeding, Duquesne Light proposed to exclude Small C&I customers from participating in the RME Programs. Duquesne Light's proposal was based on the Commission's guidance in the Retail Market Investigation, whereby the Commission stated that Small C&I customers should not be eligible to participate in the SO Program. *Intermediate Work Plan*

Order at 31. In addition, the Company explained several reasons why it would be reasonable to maintain this position at this time, including:

- (1) It would be prudent to consider the benefits and costs of the residential RME Programs before expanding applicability to Small C&I customers;
- (2) Duquesne Light already has high levels of customer shopping in its service territory with 42% of Small C&I customers shopping as of August 2012; and
- (3) Duquesne Light is making its Small C&I procurement plan more market responsive under DSP VI than under DSP V.

Duquesne Light St. No. 3-RJ, pp. 21-23.

RESA has argued that the RME Programs should be expanded to Small C&I customers. RESA St. No. 2, pp. 4-5. In addition, Duquesne Light recognizes that the Commission has recently revised its guidance in the Retail Markets Investigation proceeding and expanded the scope of the FE Companies' and PECO's RME Programs to include Small C&I customers. The Commission appears to recognize that there are special challenges in designing a Small C&I program due to the load diversity in this class. Further, it is not clear that either PECO or FE have levels of Small C&I shopping that Duquesne has achieved for this particular set of customers. Further, the Company notes that the success of these new retail market initiatives in Duquesne Light's service area and the relative benefits and costs of these programs is dependent on many things and is uncertain. Duquesne Light St. No. 3-RJ, p. 16. The Commission should give consideration to these issues in determining whether the Company should offer Small C&I RME Programs given the relative high level of Small C&I shopping in the Company's service area.

7. Customer Status at the End of the RME Product

In this proceeding, Duquesne Light proposed that customers that elect to participate in the RME Programs remain with the EGS on a month-to-month contract unless the customer makes an affirmative choice to select another EGS or return to default service. This proposal is consistent with the Commission's Order in the Retail Markets Investigation and, is consistent with the Commission's recent Order in the FE Companies' default services proceeding. *Intermediate Work Plan Order* at 32; *FE Order* at 129.

OCA argues that if customers do not make an affirmative choice at the end of the term of the product under the RME Programs, they should be returned to default service. OCA St. No. 2-SR, p. 14. RESA has objected to this proposal. See RESA St. No. 2-R, p. 20. The Company notes that the Commission has recently held in the FE Companies proceeding that customers that participate in the RME Programs are to remain with the EGS after the expiration of the RME Programs unless the customer affirmatively selects a different alternative.

8. Miscellaneous Market Enhancement Program Issues

None.

D. RATE DESIGN

1. Reconciliation Issues

The Company has proposed annual separate reconciliation of default service costs and recoveries for each of the Residential, Small C&I and Medium C&I rate classes. As explained by the Company's witness, Mr. Pfrommer, if the Company's procurement plans for these classes are approved, the Company will not experience large over or under collections because all of the default supply procurements involve the exclusive use of fixed-price full requirements contracts and the default service rates are set after the supply solicitations for the applicable period are completed. Duquesne Light St. No. 4-R, p. 9. The exclusive use of full-requirements contracts

greatly reduces the risk of over/under collections. Duquesne Light St. No. 4-R, p. 10. Mr. Pfrommer further explained that the over/under collection component of the Company's default service rate has only deviated +/- 0.03 cents per kWh since the RFP process and reconciliation for Medium C&I customers was implemented.

RESA argues that the Commission should adopt quarterly reconciliation for all procurement groups. RESA St. No. 1, p. 20. The Company does not believe that RESA's proposal for quarterly reconciliation is necessary in this proceeding unless the procurement plan is revised to include block and/or spot purchases. As long as the procurement plan consists entirely of full requirements contracts, the default service price will be known and fixed before each application period. Duquesne Light St. No. 4-SR, p. 4. The Company will pay wholesale suppliers the fixed rate based on actual volumes sold. Therefore, the reconciliation amounts will be minimal, and it is unnecessary to adopt RESA's reconciliation proposal under such circumstances.

2. Price To Compare Calculation Date

RESA argues that Duquesne Light should calculate its PTC 45 days in advance of each rate change. RESA St. No. 1, p. 17. RESA requests that the PTC be published 45 days in advance to give customers information to make informed shopping decisions.

Duquesne Light understands the need to provide customers and EGSs PTC information as early as possible so that EGSs can make offers to customers and customers can have necessary information to make informed shopping decisions. In that regard, Duquesne Light posts an estimated PTC seven days after determining winning bids in the RFP. Duquesne Light St. No. 4-RJ, p. 2. The only difference between the estimated and final PTC is the final determination of the e-factor component. As explained by Mr. Pfrommer, the e-factor component is very small:

Since the Company is proposing fixed price, full requirements contracts in this proceeding, the e-factor component is expected to be very small. The e-factor has ranged from +/- 0.03 cents/kWh since the Company started the request for proposal (“RFP”) process for medium C&I customers as I stated in my direct testimony (Duquesne St. No 4, page 29). Therefore, based on historical data, all parties including electric generation suppliers (“EGSs”) will know the *estimated* PTC within 7 days of the bids which will be very close to the *final* PTC.

Duquesne Light St. No. 4-RJ, p. 2.

Therefore, the EGSs know the estimated PTC well in advance of the date rates go into effect. In addition, Mr. Pfrommer explained why the Company is not able to post the final PTC 45 days in advance.

Q. Is it possible to post the *final* PTC sooner than 15 days prior to the effective date?

A. Not really, for two reasons. First, as a practical matter, the Company works to close its books by the 10th day of the month. The Company requires five days to assemble final data, review and file the final rates (final PTC) with the Pennsylvania Public Utility Commission (“Commission”). Therefore, within reason, the Company submits the final PTC 15 days from the beginning of the month, which is 15 days prior to the effective date.

Second, the Company submits its’ FERC formula filing May 15 of each year establishing a new formula revenue requirement and a new network integration transmission service (“NITS”) rate effective June 1 of each year. The Company simultaneously files new retail transmission rates with the Commission also effective June 1 of each year. Since it is not possible to submit new transmission rates sooner than May 15, with the transmission rates being a component of the PTC, it is not possible to submit a final PTC prior to May 15 each year for rates to become effective on June 1.

Duquesne Light St. No. 4-RJ, p. 3.

Moreover, the Company is following Commission approved practice and procedure when posting its PTC. Duquesne Light St. No. 4-R, pp. 12-13. For these reasons, RESA's proposal to require Duquesne Light to post a final PTC 45 days in advance should be denied.

3. Non-Bypassable Charge To Recover PJM Charges

Various parties have proposed that Duquesne Light recover transmission and transmission-related charges for all customers, including shopping customers, through a non-bypassable charge. For example, Constellation proposes that Duquesne Light recover all transmission costs for all customers, including shopping customers, through the Company's Transmission Service Charge ("TSC"). Constellation St. No. 1, p. 30. In addition, RESA proposes that Duquesne Light recover PJM Regional Transmission Enhancement Plan ("RTEP") costs, PJM expansion costs, PJM generation deactivation costs and PJM Economic Load Response ("ELR") costs from all customers, including shopping customers through a non-bypassable charge. RESA St. No. 1, p. 4.

As an initial matter, electricity rates in Pennsylvania have been unbundled into distribution, generation and transmission charges pursuant to the Electricity Generation Customer Choice and Competition Act that became effective January 1, 1997. See 66 Pa. C.S. Chapter 28. As explained by Mr. Pfrommer, after unbundling, Duquesne Light recovers distribution charges from all customers. However, both generation and transmission charges are recovered by the entity providing the generation service. Duquesne Light St. No. 4-RJ, p. 4. Consistent with the Commission's recent order in the FE Companies default service proceeding and in the PECO binding poll, the ALJ and the Commission should deny the parties' attempts to have Duquesne Light recover transmission related costs for shopping customers. Duquesne Light responds to the parties arguments in more detail below.

First, Constellation argues that Duquesne Light should recover NITS charges from all customers. NITS charges are charges for basic transmission service. See *FE Order* at 83. Constellation's proposal is contrary to Commission precedent and should be denied. In the *FE Order*, the Commission stated as follows:

NITS costs are directly related to the transmission service offered to customers and should continue to be collected by the EGS instead of being collected for all customers through the DSS Rider, as proposed by the Companies.

FE Order at 83.

Likewise, in the *PECO Binding Poll*, the Commission rejected parties' arguments that PECO should recover NITS charges for shopping customers. *PECO Binding Poll*, Issue 7.

Certain parties also argue that Duquesne Light should recover other PJM "non-market based" costs, including PJM RTEP costs, PJM expansion costs, generation deactivation costs and ELR charges through a non-bypassable rider for all customers. See, e.g., RESA St. No. 1, p. 22. The parties argue that these charges are "regulated" or "administratively determined" and, therefore, should be recovered for all customers by Duquesne Light. As explained by Mr. Pfrommer, it is irrelevant whether a charge is regulated or administratively determined or whether the charge is competitively determined. The relevant distinction is whether the charge is a distribution charge, a generation charge or a transmission charge. If the charge is a generation or transmission charge, it is recovered by the entity providing the electricity supply service. Duquesne Light St. No. 4-RJ at p. 5. All of the charges in question, PJM RTEP, expansion costs, generation deactivation and ELR costs are generation or transmission charges. Therefore, it is appropriate for Duquesne Light to recover these costs only from default service customers, and for EGSs to recover these costs from shopping customers.

Moreover, Duquesne Light's position is fully consistent with the Commission's holdings in the *FE Order* and the *PECO Binding Poll*. See *FE Order* at 81; *PECO Binding Poll*, Issue 7. For these reasons, the parties' proposals to require Duquesne Light to recover PJM charges for shopping customers through a non-bypassable charge should be denied.

E. TIME-OF-USE PROGRAM

Under Act 129, Duquesne Light, as the DSP, is obligated to provide Time-of-Use ("TOU") and/or real time rates to customers that have smart meters. 66 Pa. C.S. § 2807(f)(5). As explained by Mr. Pfrommer, the Company currently has very few customers with smart meters. The Company has filed its Final Smart Meter Plan with the Commission, and the Plan is currently pending Commission approval. Duquesne Light St. No. 4-R, p. 4. Under the implementation schedule set forth in the Smart Meter Plan, the Company will have installed approximately 2,000 smart meters by June 2014 and approximately 35,000 smart meters by June 2015.

In this proceeding, the Company is proposing to bid out TOU load to EGSs after more of its customers have smart meters, after its current TOU pilot programs are completed and after the Company has had an opportunity to review the results of those pilot programs and develop a long-term TOU plan. The Company anticipates that an EGS will bid to provide TOU supply. However, if there are no bids or if the bids do not meet Commission approval, the Company proposes to require wholesale default service suppliers to provide TOU supply. Duquesne Light St. No. 4-R, p. 5. In such circumstances, Duquesne Light proposes to pay wholesale suppliers the actual TOU revenues received for the TOU portion of the load based on the TOU program on-peak and off-peak rates.

In his rebuttal testimony, Mr. Pfrommer explained why this approach was reasonable:

Q. Why is this a reasonable approach?

- A. This is reasonable for several reasons. First, in all likelihood, EGSs or wholesale suppliers will provide reasonable bids for TOU supply that will be approved by the Commission. Therefore, it is unlikely that Duquesne Light will call on wholesale suppliers to provide TOU service under the SMA in this proceeding.

Second, the Company will be installing a very limited number of smart meters during the term of this default service plan. As explained above, only 2,000 customers will have smart meters installed by June 2014 and 35,000 by June 2015. Assuming approximately 60% of these customers take competitive service from an EGS, and assuming 10% of the remaining customers select the TOU option (which is a very high assumption), only 80 customers would elect for the TOU option as of June 2014. Providing TOU supply to such a limited number of customers should present very little risk to wholesale suppliers.

Third, Duquesne Light is acquiring all of its default supply other than for very large customers through full requirements contracts from wholesale suppliers. Under full requirements contracts, wholesale suppliers assume all supply risks, including risks that default service customers use more electricity in on-peak periods, risks that default customers choose to shop, risks that shopping customers choose to return to default service, risks that customers use more electricity than normal due to weather or other reasons, risks that customers use less electricity than normal due to weather, conservation or other reasons and many other risks. These risks include the movement of usage within the hours of a day. Therefore, it is reasonable to require wholesale suppliers to also assume the risks associated with providing supply to the Company's default service TOU customers in the event that the Company is not able to acquire supply for TOU customers through separate bids.

Fourth, it is reasonable for the TOU rates to align with standard default service rates such that the on-peak rate is higher than the standard default service rates and the off-peak rate is lower than the standard default service rate. If both the on-peak and off-peak rates are above the standard default service rate, customers have no incentive to choose TOU rates because customers will not save money even if they shift all of their load to the off-peak periods. In

addition, if both the on-peak and off-peak TOU rates are lower than the standard default service rate, customers will have an incentive to choose the TOU rates because they are lower than the standard default service rate. However, these TOU customers will not have the appropriate incentive to shift usage to off-peak periods because even on-peak rates are lower than the standard default service rate. For these reasons, it is appropriate for the TOU rates to be aligned with the standard default service rates.

In the event that default service suppliers must supply TOU load, it is important that they be paid the actual amounts that Duquesne Light receives for TOU service. Under the Commission's interpretation of Section 2807(f)(4) of the Public Utility Code, Duquesne Light is not permitted to reconcile TOU revenues against fixed supply costs paid to wholesale suppliers under full-requirements contracts. *Pa. P.U.C. v. PPL Electric Utilities Corporation*, Docket No. R-2009-2122718, Order entered March 9, 2010. Without reconciliation, Duquesne Light may not be able to fully recover its default service costs in violation of Section 2807(e)(3.9). Accordingly, default service suppliers should bear this risk.

Constellation argues that Duquesne Light should not revise the price paid to wholesale suppliers but pay them their fixed contract rate. Constellation St. No. 1, p. 42. Duquesne Light would agree with this approach if it were allowed to reconcile the difference between the price paid to wholesale suppliers and the TOU rates, but as explained above, Duquesne Light is not permitted by the Commission's ruling to reconcile the TOU costs and recoveries. Therefore, payment of the fixed contract prices to wholesale suppliers would prevent the Company from fully recovering its TOU costs. Moreover, Duquesne Light's approach is reasonable because default service suppliers are bearing all of the other supply risks under the full requirements contracts. Duquesne Light St. No. 4-R, p. 7.

RESA argues that Duquesne Light should simply certify to the Commission that one or more EGSs have agreed to offer a TOU rate to residential customers in the Company's service

territory. RESA St. 2-R, p. 21. If RESA's position is intended to mean that Duquesne Light is relieved of TOU responsibility when there is no EGS bid, it does not comply with Act 129. Under Act 129, the DSP is required to offer TOU rates to customers with smart meters. 66 Pa. C.S. § 2807(f)(5). Act 129 specifically requires the "default service provider" to offer TOU rates and real-time rate plans to customers. Therefore, RESA's proposal is contrary to Act 129 and cannot be accepted.

FES argues that the TOU provisions of the Supply Master Agreement ("SMA") should be deleted or revised to state that the Company may request TOU supply through a separate addendum. FES St. No. 1, p. 12. As explained above, the TOU provisions of the SMA should not be deleted. The TOU provisions allow Duquesne Light to separately bid out TOU service to an EGS or wholesale supplier. In addition, the TOU provisions of the SMA allow Duquesne Light to acquire TOU supplies from the default service suppliers in the event that an EGS does not separately bid to provide TOU service or the Commission rejects the bid. Therefore, the TOU provisions of the SMA are necessary and reasonable and should not be revised.

F. SUPPLY MASTER AGREEMENT ISSUES

In its testimony, Constellation provided a list of default service plan revisions that it was proposing in this proceeding. Constellation St. No. 1, Attachment 1. Many of these proposals include revisions to the Company's proposed SMA. To the extent that Constellation's proposed revisions to the SMA are not addressed in another Section of this Brief, Duquesne Light will address them here.

i. Unsecured Credit Thresholds

In this proceeding, Constellation argued that Duquesne Light should revise its unsecured credit thresholds to give unsecured credit to non-investment grade entities. Constellation St. No. 1, p. 36; Duquesne Light St. No. 9-R, p. 5. Constellation argued that this was necessary to

ensure a large pool of wholesale suppliers. Constellation St. No. 12, p. 37. Constellation also argued that Duquesne Light's proposed credit thresholds were inconsistent with other EDCs. Constellation St. No. 1, p. 36.

Duquesne Light disagrees with Constellation's proposal because it would require the Company to provide unsecured credit to wholesale suppliers that do not have an investment grade credit rating. It is very important to limit the amount of unsecured credit provided to default service suppliers in order to protect customers in the event of supplier default. Higher amounts of unsecured credit reduce, or even eliminate, the collateral that suppliers must post. Therefore, higher amounts of unsecured credit provide less protection for default service customers against financial damage in the event of supplier default. Duquesne Light St. No. 9-R, p. 6.

Moreover, Constellation's argument that Duquesne Light's unsecured credit thresholds are inconsistent with other EDCs is incorrect. Mr. Milligan explained as follows:

Duquesne Light developed its unsecured credit thresholds by conducting a review of multiple utility companies to determine the industry standards. For example, both PECO and PPL have very similar unsecured credit standards, with neither company granting unsecured credit to companies with credit ratings below BBB-/Baa3/BBB-. Duquesne Light's proposed unsecured credit dollar limits are the same as PECO's, except that Duquesne Light's dollar limit for the lowest investment grade rated entities is \$5 million more than PECO's.

Duquesne Light St. No. 9-R, p. 5.

Duquesne Light also disagrees with Constellation's argument that the pool of wholesale suppliers available to bid in default service RFPs may shrink if Duquesne Light does not revise its unsecured credit limits. Duquesne Light St. No. 9-R, p. 7. As explained by Mr. Milligan, there have been many solicitations for competitive supply in recent years, and it has been repeatedly confirmed that it is not necessary to provide unsecured credit to sub-investment grade

entities in order to have robust participation. Duquesne Light St. No. 9-R, pp. 7-8. For the reasons explained herein and in Mr. Milligan’s testimony, Constellation’s proposal should not be adopted.

ii. Evergreen Language

Constellation argues that it is not appropriate for Duquesne Light to include an “evergreen” clause in the “Definitions” section of the SMA for its Letter of Credit. Constellation further states that an autorenewal clause is more appropriate for a Letter of Credit in this situation, rather than an evergreen clause, because the term of the SMA will not extend beyond 2015 and because the terms of any Letter of Credit will be limited by the terms of the credit facilities held by any particular DS supplier. Constellation St. No. 1, p. 37. Constellation also states that the sample Letter of Credit includes the autorenewal language that it believes is more appropriate.

Duquesne Light believes that Constellation’s argument may be a distinction without a difference in this proceeding. As explained by Mr. Milligan:

The term "evergreen" means that the Letter of Credit has an expiration date but automatically rolls over for indefinite periods until the issuing bank notifies the Company as the beneficiary of the Letter of Credit's final expiration. The use of the term cements the issuing bank's obligation to keep the Letter of Credit in place so long as necessary to secure damages in the event that the EGS defaults at any point during the term of the contract and ensures also that the Letter of Credit cannot be canceled without notice to the Company.

The characterization “evergreen” in the “Definitions” section of the SMA of the Letter of Credit requires that the amounts authorized under the Letter of Credit remain continuously available up to the Aggregate Amount. The issuing bank is required to maintain the available funds until notified by Duquesne Light that the Letter of Credit need not be extended even if that date would be 2015 or thereafter. This also is consistent with the express terms of the Letter of Credit itself.

Duquesne Light St. No. 9-R, pp. 9-10. As explained by Mr. Milligan, the term “evergreen” in the definitions section of the SMA is consistent with the Letter of Credit itself. Moreover, PPL Electric’s approved Letter of Credit is characterized as “evergreen.” For these reasons, Constellation’s proposal to remove the term “evergreen” from the SMA should be denied.

iii. Venue Designation

In the SMA, Duquesne Light designed Pittsburgh as the appropriate venue for disputes arising under the contract. Constellation argues that this designation is too restrictive. Constellation St. No. 1, pp. 38-39. As explained by Ms. Creahan, Duquesne Light Company’s territory is solely in and around Pittsburgh, Pennsylvania. Suppliers that bid on RFPs for the default supply in the Company’s territory are choosing to do business with the customers in Pittsburgh, and to engage in commerce in Pittsburgh. A venue designation of the city where the services are performed is reasonable and will allow Duquesne Light to minimize litigation fees in the event there is a dispute regarding the SMA.

iv. Language Regarding New FERC Charges

Constellation proposes that Duquesne Light add language to its SMA addressing new PJM charges. Constellation St. No. 1, p. 39. Specifically, Constellation requests that Duquesne Light as the buyer under the SMA be required to file a request for approval to recover new charges that the default service supplier believes Duquesne Light should recover from all retail customers.

Mr. Pfrommer explained that this language is unnecessary because Section 2.3 of the SMA clearly states that the Buyer is responsible for future PJM charges assessed to network transmission customers, and Section 2.5 clearly states that the Seller is responsible for any other changes in PJM products and pricing during the term of the SMA. Duquesne Light St. No. 4-R, p. 32.

Moreover, Mr. Pfrommer explained why it would be unwise to adopt this language:

Incorporation of Mr. Bennett's proposed language would open the door for protracted litigation any time that PJM established a new charge, or any time that a PJM charge is changed enough to possibly be considered to be "new." If Mr. Bennett's language were to be incorporated, then any time in which any one of the default service suppliers believes that any such "new" PJM charge should not be the responsibility of the default service supplier, Duquesne Light would be forced to file with the PUC a request not to have the default service suppliers be responsible for the charge, and instead have customers directly absorb the cost of the charge, regardless of whether Duquesne Light actually believes that the charge should be the responsibility of the default service suppliers. The filing of this request, the subsequent consideration of it, and the possible associated litigation, could equate to unnecessary and excessive legal and administrative costs that customers would ultimately bear.

Constellation's recommendation should not be accepted.

G. DATA/EGS COORDINATION ISSUES

In direct testimony, Constellation argued that Duquesne Light should make certain data and EGS coordination changes in this proceeding. Constellation St. No. 1, Attachment 1. These changes included:

- (1) Discontinuing the practice of requiring EGSs to send signed copies of Letters of Authority prior to receiving access to customer data;
- (2) Implementing EDI capabilities for EGS requests for access to customer data;
- (3) Adopting an EDI process for notifying an EGS that a net meter is present;
- (4) Refraining from collecting PJM residual charges through EDI transactions;
- (5) Remitting actual charges to EGSs rather than budget billing charges;
- (6) Offering EGSs the option for bill ready billing;

- (7) Building into the Company's system the ability to accept and manage multiple EGS scheduling coordinators and DUNS numbers, without charging EGSs' administrative fees; and
- (8) Providing customer sync lists to all customers at no charge.

See Constellation St. No. 1, Attachment 1. In Rebuttal Testimony, Duquesne Light offered clarification and additional explanation regarding these issues. Based upon Constellation's Surrebuttal Testimony, Constellation accepts Duquesne Light's clarification or explanation with respect to Issues 1, 7 and 8. However, Constellation argues that Duquesne Light should commit to adopt Constellation's other proposals when the Company implements its new billing system. Constellation St. No. 1-SR, p. 15. As explained below, the Company disagrees with Constellation's argument and will address the outstanding Issues 2-6.

Issues 2 and 3 above involve Electronic Data Interchange ("EDI") issues. As explained by Mr. Wolfe, the Company works with the Commission EDEWG leadership team to address EDI issues. Duquesne Light St. No. 6-R, p. 8. EDI issues raised by Constellation are better addressed through the specialized EDEWG team than in this proceeding because any related issues or problems can be addressed by a team with specialized knowledge.

With respect to issue 4 above, Mr. Wolfe explained that the Company's new CIS system eliminates the collection of PJM residual amounts through EDI transactions and this will be implemented prior to June 1, 2013. Duquesne Light St. No. 6-R, p. 9.

With respect to Issue No. 5, Mr. Wolfe explained that the Company plans to replace its existing CIS and CC&B system during the second quarter of 2013. The new CIS provides enhanced functionality where customers will affirmatively elect to join the budget billing program, and once they elect, they will only have the option to pay the budget bill every month.

Duquesne Light St. No. 6-R, p. 10. This change in policy should alleviate the problems that the suppliers are facing with this issue.

With respect to Issue Number 6, Duquesne Light would incur substantial costs to implement Bill Ready functionality in its existing CIS. This new CC&B system will be Bill ready capable but the functionality will not be available upon implementation because it was not part of the scope of the initial project. Additional system development work cannot begin until the new CIS is implemented and operating seamlessly. Therefore, this functionality, which requires significant EDI mapping and COS integration work cannot be implemented until 2014. Duquesne Light St. No. 6-R, p. 11. Given the substantial costs and work involved in this project, it is premature for Duquesne Light to commit to it at this time.

H. GENERAL MISCELLANEOUS ISSUES

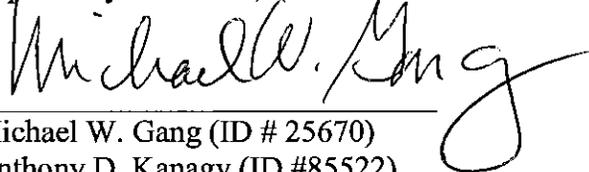
Under the Default Service Plan, Duquesne Light is proposing to change rates on an annual basis for Residential customers and to change rates every six months for Small C&I and Medium C&I customers. Duquesne Light notes that the Commission's regulation at 52 Pa. Code § 54.187 requires quarterly or more frequent changes for customers up to 500 kW. However, this regulation 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. § 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 requested, in its Petition, a waiver of 52 Pa. Code § 54.187 to allow annual rate changes for Residential customers and 6-month rate changes for Small C&I and Medium C&I customers to the extent deemed necessary by the Commission. See Duquesne Light Exh. No. 1, ¶ 80. Duquesne Light also requested additional waivers, if necessary, of the

Commission's Orders or Regulations to allow Duquesne Light to implement its Default Service Plan as described in the Petition and in the Testimony and Exhibits. No party commented on Duquesne Light's request for waivers in this proceeding. Duquesne Light requests that the ALJ and the Commission grant the Company's requested waivers to the extent necessary.

IV. CONCLUSION

For all of the foregoing reasons, Duquesne Light Company respectfully requests that the Pennsylvania Public Utility Commission approve the Default Service Plan as proposed by the Company, approve the proposed tariff sheets set forth in the Tariff Supplement provided with the filing, grant the approvals for Duquesne Light Company to procure power as set forth in this proceeding, including, if needed, credit support from its parent, approve the Supply Master Agreement for procuring power for Residential and Lighting customers, the Small C&I and Medium C&I customers, approve the ROI Program RFP and Agreement, approve the SO Program rules and Agreement, make the specific findings required under 66 Pa. C.S. § 2807(e)(3.7), and grant such other relief just and reasonable under the circumstances.

Respectfully submitted,



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APPENDIX “A”

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I. PROPOSED FINDINGS OF FACT

Duquesne Light Company (“Duquesne Light” or the “Company”) proposes the following findings of fact:

1. On April 27, 2012, Duquesne Light filed its Default Service Petition (“Default Service Plan” or “DSP VI”) with the Pennsylvania Public Utility Commission (“Commission”). Therein, Duquesne Light requested Commission approval for a Default Service Plan for the period June 1, 2013 through May 31, 2015. (Duquesne Light Ex. No. 1.)

2. In the Default Service Plan, Duquesne Light proposed separate default supply procurements for: (1) Residential and Lighting (“Residential”) customers, (2) Small Commercial and Industrial (“Small C&I”) customers with monthly metered demands less than 25 kW, (3) Medium Commercial and Industrial (“Medium C&I”) customers with monthly metered demands equal to or greater than 25 kW and less than 300 kW, and (4) Large Commercial and Industrial (“Large C&I”) customers with monthly metered demands equal to or greater than 300 kW. Duquesne Light proposed to procure supplies for Residential, Small C&I and Medium C&I default service customers through fixed-price full requirements contracts with varying terms for each class. Duquesne Light proposed to continue to procure supplies for Large C&I default service customers through the day-ahead spot market. (Duquesne Light Ex. No. 1.)

3. The Company also proposed to implement several retail market enhancement programs, including a Retail Opt-In EGS Service Program (“ROI Program”) and a Standard Offer Customer Referral Program (“SO Program”) (collectively “RME Programs”) to enhance competition in its service territory. (Duquesne Light Ex. No. 1, pp. 18-25.)

4. The Commission has encouraged EDCs to adopt RME Programs in the Commission’s Retail Markets Investigation proceeding at Docket No. I-2011-2237952. *See Investigation of Pennsylvania’s Retail Electricity Market: Recommendations Regarding*

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Upcoming Default Service Plans, Order entered December 16, 2011 (“December 16 Retail Markets Order”); *Investigation of Pennsylvania’s Retail Electricity Market: Intermediate Work Plan*, Order entered March 2, 2012 (“*Intermediate Work Plan Order*”).

5. Duquesne Light proposes to acquire default supplies for Residential customers through 12-month full requirements supply contracts from third party suppliers obtained through semi-annual competitive requests for proposals (“RFP”). (Duquesne Light Ex. No. 1, p. 4.)

6. 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. (Duquesne Light Ex. No. 1, p. 4.)

7. Residential default service rates under DSP VI will change every 12 months to be consistent with the annual procurements. (Duquesne Light Ex. No. 1, p. 6.)

8. Duquesne Light’s current default service plan (“DSP V”) provides Residential customers with a 29-month fixed rate for the duration of the plan. (Duquesne Light St. No. 2, p. 7.)

9. 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 while at the same time considering the benefits of rate stability for residential customers. (Duquesne Light Ex. No. 1, p. 6.)

10. Duquesne Light’s Residential default service rate is more market responsive than the rate under its currently effective default service plan. (Duquesne Light Ex. No. 1, p. 6.)

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11. Price stability and transparency are important, and can promote retail competition. The price stability and transparency provided through the 29-month DSP V rate was very successful in promoting Residential customer shopping in the Company's service area, as EGSs currently serve approximately 43% of Residential customer load in Duquesne Light's service area. (Duquesne Light St. No. 8-R, p. 41.)

12. Thirty-four active EGSs serve 43% of the residential load in Duquesne Light's service territory, which is one of the highest Residential customer switching percentages in the U.S. (Duquesne Light St. No. 8-R, p. 41.)

13. Transitioning from a 29 month fixed rate to a 3-month rate would be a significant change in the frequency of rate changes for the Company's Residential customers. (Duquesne Light St. No. 8-R, p. 36.)

14. Including 3-month supply contracts in the residential default service portfolio will disrupt the balance between the 12-month residential PTC, the 12-month ROI Program term and the 12-month SO term, and will make it more difficult for residential customers to compare the ROI Program rates and the SO rates to the default service rates. (Duquesne Light St. No. 3-SR, p. 3; Duquesne Light St. No. 3-R, p. 47.)

15. A block and spot component will introduce additional risks on residential default service customers. (Duquesne Light St. No. 8-R, p. 12.)

16. Adding a block and spot component will disrupt the balance created between the Company's proposed 12-month PTC, the 12-month ROI Program term and the 12-month SO term. (Duquesne Light St. No. 8-R, pp. 20, 27.)

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17. The Company's reliance on full requirements contracts for residential customers is prudent because it provides significant price stability benefits, which is consistent with one of the Legislature's stated objectives of Act 129. (Duquesne Light St. No. 8-R, p. 11.)

18. The Commission has indicated its preference for DSPs to rely on full-requirements products as opposed to a managed portfolio that includes block and spot purchases. (*Final Rulemaking Order*, p. 56.)

19. Adding two-year contracts to the procurement plan will distort the increase in capacity prices that is scheduled for June 2014, making the default service rate less market responsive. (Duquesne Light St. No. 8-R, p. 31.)

20. The Company's residential default service supply portfolio was specifically designed to provide a hedge against future market price increases. (Duquesne Light St. No. 8-R, p. 31.)

21. Duquesne Light's proposal to acquire two back-to-back one-year, full requirements contracts for residential default service is more market reflective than simply acquiring a two-year contract. (Duquesne Light St. No. 8-R, p. 31.)

22. The Company's residential procurement dates were carefully aligned with the product delivery periods in a way that provides specific hedging and price stability benefits for customers. (Duquesne Light St. No. 8-R, p. 47.)

23. Certain of the procurement dates are necessary to achieve the hedge against price increase that would be achieved through a two-year fixed price full requirements contract. (Duquesne Light St. No. 8-R, pp. 47-48.)

24. Reducing the residential tranches by 20% will leave a significant amount of default service load completely unhedged for an extended period of time, and could lead to

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substantially higher supply costs if market prices increase during the unhedged period, as well as a significant over/under collections balances. (Duquesne Light St. No. 8-R, pp. 12-21.)

25. Reducing the residential tranches by 20% would unreasonably shift risks to customers, and would reduce the compatibility between the residential default service rate and ROI program offering by making it impossible to offer both a fixed price ROI product and guaranteed savings over the ROI program term. (Duquesne Light St. No. 8-R, pp. 12-21).

26. Duquesne Light proposes to acquire default supplies for Small C&I customers, which are non-residential customers with monthly metered demands less than 25 kW through 12-month, laddered full requirements contracts. There will be one 6-month contract for supply delivered from June 2013 – November 2013 that will start the laddering process. (Duquesne Light Ex. No. 1, pp. 8-9.)

27. The Small C&I procurement plan provides Small C&I default service customers with 6-month rate changes. (Duquesne Light Ex. No. 1, p. 10.)

28. The proposed procurement approach for Small C&I default service customers is similar to the approach that is currently being used for Medium C&I customers under DSP V and is part of the Company's transition to more frequent rate adjustments for smaller customers. (Duquesne Light St. No. 2, p. 12.)

29. RESA's proposal to replace 50% of the 12-month contracts for Small C&I default service customers with 3-month contracts would reduce price stability. (OSBA St. No. 2, p. 10.)

30. Duquesne Light proposed five dates for the Small C&I default service procurements. (Duquesne Light St. No. 1, p. 9.) The only procurement that has more than a 60 day lag time is the November 2012 procurement. (Duquesne Light St. No. 1, p. 9.) Based upon

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the timing of this proceeding, the procurement that was initially planned for November 2012 will likely be moved to February 2013 which is only 3 months prior to the delivery period.

31. Duquesne Light's Medium C&I customers are those customers with monthly metered demands equal to or greater than 25 kW and less than 300 kW. (Duquesne Light Ex. No. 1, p. 11.)

32. Duquesne Light proposes to obtain default service supplies for Medium C&I customers through full requirements contracts with six-month terms, with no laddering. (Duquesne Light Ex. No. 1, pp. 11-12.)

33. The supply plan for Medium C&I default service customers moves from one-year contracts under DSP V to 6-month contracts under this Plan, and removes laddering that was offered in DSP V. (Duquesne Light Ex. No. 1, p. 12.)

34. These changes are made to reflect the growing sophistication of Medium C&I customers with competitive options, where 66% of the load is already receiving supply from an EGS. (Duquesne Light Ex. No. 1, p. 12.)

35. Duquesne Light's proposal to acquire default service supplies for Medium C&I customers through 6-month contracts balances rate stability with market responsive rates. (Duquesne Light St. No. 8-R, pp. 53-54.)

36. Under the Company's DSP VI Medium C&I default service procurement plan, all procurements will be conducted within 60 days of the delivery date. (Duquesne Light Ex. No. 1, p. 12.)

37. Duquesne Light proposed a 50% load cap such that no supplier could be awarded more than 50% of the tranches available for any procurement class (Residential, Small C&I or

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Medium C&I) in any RFP in order to ensure a diversity of wholesale suppliers and to reduce the impact of any single supplier's default. (Duquesne Light Ex. No. 1, p. 14.)

38. In nine of the Company's ten DSP V RFPs, there would have been no change in the average clearing price or there would have been a change of less than 1% if the Company had a 50% load cap as opposed to a 75% load cap. In addition, the other RFP's average clearing price would have been less than 2% higher. This analysis assumes that a 50% load cap would not have encouraged more supplier participation and lower bid prices (Duquesne Light St. No. 3-RJ, pp. 34-35.)

39. Duquesne Light proposed to acquire 25% of default service supplies for residential customers for the June 2015 – May 2016 period and to acquire 50% of default service supplies for Small C&I customers for a 6-month period past June 2015 or through November 2015. (Duquesne Light Ex. No. 1, pp. 6, 9.)

40. Acquiring a portion of default service supplies past June 2015 would provide additional rate stability for Residential and Small C&I customers. These procurements could be revised by the Commission at a later date in the event of legal or regulatory changes that would change the nature of default service or change Duquesne Light's role as DSP. (Duquesne Light Ex. No. 1, p. 6.)

41. Duquesne Light has limited the amount of default service supplies that it will acquire past May 31, 2015. This will provide additional rate stability for customers and at the same time allow considerable flexibility after May 31, 2015. (Duquesne Light Ex. No. 1, p. 6.)

42. Duquesne Light's Supply Master Agreement includes provisions under which its obligations may be transferred. (Duquesne Light Exh. JEW-1, Section 16.7.)

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43. Duquesne Light's ROI proposal provides for: (1) an RFP to determine the winning EGS bidders for 10 tranches of supply to serve customers that select the Retail Opt In Service; (2) a fixed price for a 12 month period; (3) a minimum discount of 5% off the Price to Compare ("PTC") at the time of the offer; (4) a \$50 bonus payment; (5) a cap on customer participation of 50% of default service customers; and (6) a limit that prohibits any EGS from obtaining more than 50% of the customers that elect retail opt in service. The only component that deviates from the Commission guideline is the 12-month term. (Duquesne Light St. No. 3, pp. 14-28.)

44. Major EGSs serving residential customers in the Company's service area support the Company's proposed fixed ROI price for a 12-month term. (Dominion/IGS St. No. 1, p. 5, FES St. No. 1, p. 3.)

45. Consistent with the guidelines set out in the *Final Intermediate Work Plan Order*, Duquesne Light proposed that EGSs bid for the right to sign up customers in the ROI Program by responding to a competitive Request for Proposals ("RFP ROI Program"). (*Intermediate Work Plan Order*, pp. 77-78; Duquesne Light St. No. 3, p. 12.)

46. Bids establish a market determined price for the service, which is appropriate for a "competitive offer." (Duquesne Light St. No. 3-SR, p. 8.)

47. Under Duquesne Light's ROI Program, EGSs will be required to bid a price that is at least 5% off the PTC at the time of the bids. The lowest bid price that clears all the 10 tranches will be the price for all customers and all suppliers. (Duquesne Light St. No. 3, p. 22.)

48. A discount greater than 5% off the PTC can potentially be established using an RFP to establish for the ROI price, thereby benefiting customers. (Duquesne Light St. No. 3-SR, p. 8.)

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49. Duquesne Light's estimated costs for the ROI program are only \$355,000, and these costs are overwhelmingly mailing costs to provide the offer to customers post RFP. (Duquesne Light St. No. 4 p. 21.)

50. The Company has addressed the issue of having the RFP dominated by a single EGS by adopting a tranche structure and a 50% cap on the number of tranches that any one EGS can win in the RFP. (Duquesne Light St. No. 3, p. 21.)

51. The Company proposes a one-year term contract for the ROI Program commencing in June 2013. This will produce savings off the PTC set for one year from June 1, 2013 to May 31, 2014. As a result customers electing the ROI Program will receive essentially guaranteed savings for a one year period. (Duquesne Light St. No. 3-R, pp. 21-22.)

52. Duquesne Light proposed a \$50 bonus payment be paid after the customer remained with the ROI service for 3 months. (Duquesne Light St. No. 3, p. 23.)

53. Duquesne Light proposed that a maximum number of customers that could elect ROI Service would be 50% of the customers receiving the offer. (Duquesne Light St. No. 3, p. 25.) The provisions are in accord with Commission guidance. *Final Intermediate Work Plan Order*, p. 60.

54. The Commission balanced the desire of EGSs for no caps to maximize enrollment and other parties that were concerned about the effects of customer shopping on default service bids in arriving at the guideline of 50% customer participation. (*Intermediate Work Plan Order*, p. 60; Duquesne Light St. No. 3-R, pp. 19-20.)

55. Duquesne Light proposed that no EGS be permitted to obtain more than 50% of the customers electing to participate in the ROI Program. (Duquesne Light St. No. 3, p. 21.)

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56. Under Duquesne Light's proposed ROI Program bids would be awarded to multiple bidders and the price for service to all customers would be the lowest price that covered all tranches of service (the "clearing price") which must be equal to or in excess of 5% lower than the current PTC. (Duquesne Light St. No. 3, pp. 21-25.)

57. Duquesne Light's proposed ROI Program contains a supplier load cap that provides for diversity of EGS participation and limits risk of a supplier default. (Duquesne Light St. No. 3-R, pp. 27-30.)

58. Each of the customers eligible for the ROI Program will receive an offer letter identifying all winning bidders and advising the customers that they will randomly be assigned one of the winning bidders. This will simplify procedures, and all customers will receive the same price for 12 months. (Duquesne Light St. No. 6-R, p. 3.)

59. Duquesne Light will send one offer letter to customers following this selection of bidders and establishment of price in the RFP. (Duquesne Light St. No. 3, p. 27.)

60. Duquesne Light provided a proposed ROI agreement and RFP rules and procedures. (Duquesne Light Ex. NSF-2.)

61. Duquesne Light has proposed to recover the costs of the ROI Program from participating EGSs. (Duquesne Light St. No. 3, p. 32.)

62. In the event that no EGSs participate in the ROI Program, costs would be limited because no mailings would be made to customers, and Duquesne Light would recover the very limited costs of the ROI Program through the POR discount. (Duquesne Light St. No. 4-R, p. 15.)

63. The Commission has provided guidelines to EDCs for adopting SO Programs. (*Intermediate Work Plan Order*, pp. 31-32).

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64. Consistent with the Commission's directives in the Retail Market Investigation, the Company has proposed a SO Program for customers. (Duquesne Light Ex. No. 1, p. 23)

65. Duquesne Light will offer the SO program to non-shopping customers that call the company about: (1) initiating or moving service; (2) choice questions; (3) high bill complaints; or (4) the SO Program. (Duquesne Light St. No. 5, p. 10.)

66. The SO product will be a 7% reduction off of the PTC at the time of the offer and be a fixed price for a 12-month period. (Duquesne Light St. No. 3, p. 34.) This methodology is consistent with the *Intermediate Work Plan Order*, the FE Order and the PECO Binding Poll. (*Intermediate Work Plan Order* at 31; *FE Order* at 146; *PECO Binding Poll*, Issue 18.)

67. An SO product that is a 12-month fixed price product is consistent with the Commission's *Intermediate Work Plan Order* which provided for a SO period of 4 to 12 months. (*Intermediate Work Plan Order* at 31.)

68. A 12-month SO product term is consistent with the Commission's Order in the FE Companies' default service proceeding. (*FE Order* at 146.)

69. The 12-month SO product term is consistent with the Commission's Binding Poll in the PECO default service proceeding. (*PECO Binding Poll*, Issue 18.)

70. A 12-month SO product term is better for customers and more likely to encourage customer participation than a short-term, 4-month program. (Duquesne Light St. No. 3-R, pp. 41-42.)

71. A 12-month SO product term will help alleviate customer concerns about a "bait and switch" offer whereby a customer is offered a short term low rate followed by a rate that is above the PTC and/or market prices. (Duquesne Light St. No. 3, p. 35.)

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72. The Company's SO product is a combination of a "guaranteed savings" product and a "fixed rate" product. Under Duquesne Light's SO Program, customers are guaranteed savings through May 31, 2015 (ranging from 12 months to one month), followed by a fixed rate (ranging from zero months to eleven months) depending on when the customer enrolls in the program. (Duquesne Light St. No. 3-R, pp. 33-34.)

73. Duquesne Light proposes to implement the SO Program on June 1, 2014. (Duquesne Light St. No. 5, p. 10.)

74. Duquesne Light cannot feasibly implement the SO Program on June 1, 2013 due to significant IT constraints. The Company is currently in the process of implementing a new Customer Information System ("CIS") and this project will not be completed until the second quarter of 2013. (Duquesne Light St. No. 6-R, p. 6.)

75. The scope of work already planned for replacing the CIS system does not include the IT development and activities necessary to implement the SO Program. (Duquesne Light St. No. 6-RJ, p. 2.)

76. It will take 9-12 months (until the end of the first quarter of 2014) from completion of the CIS system to complete the IT development and testing necessary to implement the SO Program, including accelerated switching enhancements. (Duquesne Light St. No. 6-RJ, p. 2.)

77. Implementing the SO Program at the end of the first quarter of 2014 would require the Company to leave out the accelerated switching functionality in the scope of the SO Program IT changes, and would then require an additional 6 months to implement accelerated switching. (Duquesne Light St. No. 6-RJ, p. 2.)

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78. Implementing the minimum SO Program functionalities and the accelerated switching functionalities on a separate basis would increase overall IT development and testing costs. (Duquesne Light St. No. 6-RJ, p. 2.)

79. Implementing the SO Program at the same time as the ROI Program has the potential to increase the risk premiums included in the wholesale RFP bids. (Duquesne Light St. No. 3-R, p. 51.)

80. Having the ROI Program and SO Program operating concurrently creates substantial risks for ROI Program EGSs that customers will leave the ROI Program immediately after receiving the \$50 bonus. (Duquesne Light St. No. 3-R, p. 52.)

81. The SO customer cap serves a valuable purpose in reducing risk premiums for default service RFPs without being too restrictive. (Duquesne Light St. No. 3, p. 43.)

82. This SO participation cap creates a balance between EGS interests and default service customer interests by ensuring that a large number of customers will be able to participate in the SO Program and at the same time ensuring that the impact of the program on the residential default service rate will be minimal. (Duquesne Light St. No. 3-RJ, p. 27.)

83. The SO participation cap was established to allow approximately 50% of currently eligible default service customers to participate in the RME programs. The customer participation cap is unlikely to be met, yet provides risk mitigation for wholesale default service suppliers. (Duquesne Light St. No. 3-R, p. 61.)

84. Duquesne Light proposes to create a Choice Referral Team to present the SO Program to customers. (Duquesne Light St. No. 5, p. 10.)

85. A separate Choice Referral Team is in the public interest because it will: (1) allow the Company to provide detailed, specific training to a specific set of Customer Service

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Representatives (“CSRs”), (2) minimize the impact of the SO Program on existing call center operations, (3) allow Duquesne Light to accurately track the costs of the Program, and (4) create administrative efficiencies for the Company. (Duquesne Light St. No. 5, p. 11; Duquesne Light St. No. 5-R, p. 16.)

86. Duquesne Light proposes to refer customers with high bill inquiries to the SO Program after the callers’ high bill issue has been addressed. (Duquesne Light St. No. 5, p. 10.)

87. Duquesne Light proposed that participating EGSs be required to enter into an agreement with the Company to participate in the SO Program. (Duquesne Light St. No. 3, pp. 37-38.)

88. Duquesne Light provided a proposed agreement which set forth rules and procedures for the SO Program. (Duquesne Light Ex. NSF-3.)

89. The SO Agreement sets forth the Terms and Conditions of Providing Service and other rules and obligations of providing service that are not contained in the Company’s supplier tariff. (Duquesne Light St. No. 3-R, p. 26.)

90. Duquesne Light revised its initial proposal to recover SO Program costs under the POR charge. Duquesne Light proposes to recover most SO Program costs through a \$20 per customer acquisition fee from participating EGSs and recover remaining costs through the POR discount or a flat fee. (Duquesne Light St. No. 3-RJ, p. 32.)

91. Duquesne Light proposed that shopping customers would be eligible to participate in the RME programs but that the Company would only focus its marketing and customer education efforts on default service customers. (Duquesne Light St. No. 3, pp. 24, 28.)

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92. Based on the Commission's guidance, Duquesne Light proposed to exclude Small C&I customers from participating in the RME programs. (Duquesne Light St. No. 3-RJ, pp. 21-23.)

93. Duquesne Light proposed that customers that elect to participate in the RME programs remain with the EGS on a month-to-month contract unless the customer makes an affirmative choice to select another EGS or return to default service. This proposal is consistent with the Commission's Order in the Retail Markets Investigation and, is consistent with the Commission's recent Order in the FE Companies' default services proceeding. (*Intermediate Work Plan Order* at 32; *FE Order* at 129.)

94. If Duquesne Light's procurement plans for Residential, Small C&I and Medium C&I rate classes are approved, the Company will not experience large over or under collections because all of the default supply procurements involve the exclusive use of fixed-price full requirements contracts and the default service rates are set after the supply solicitations for the applicable period are completed. (Duquesne Light St. No. 4-R, p. 9.)

95. The exclusive use of full-requirements contracts greatly reduces the risk of over/under collections. (Duquesne Light St. No. 4-R, p. 10.)

96. As long as the procurement plan consists entirely of full requirements contracts, the default service price will be known and fixed before each application period. (Duquesne Light St. No. 4-SR, p. 4.)

97. Duquesne Light understands the need to provide customers and EGSs PTC information as early as possible so that EGSs can make offers to customers and customers can have necessary information to make informed shopping decisions. Duquesne Light posts an

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estimated PTC seven days after determining winning bids in the RFP. (Duquesne Light St. No. 4-RJ, p. 2.)

98. The only difference between the estimated and final PTC is the final determination of the e-factor component. The e-factor component is very small. (Duquesne Light St. No. 4-RJ, p. 2.)

99. The Company is following Commission approved practice and procedure when posting its PTC. (Duquesne Light St. No. 4-R, pp. 12-13.)

100. Duquesne Light recovers distribution charges from all customers. However, both generation and transmission charges are recovered by the entity providing the generation service. (Duquesne Light St. No. 4-RJ, p. 4.)

101. It is not appropriate for Duquesne Light to recover non market based transmission charges for shopping customer. These costs should be the responsibility of EGSs. (Duquesne Light St. No. 4-RJ, p. 5.)

102. The Company currently has very few customers with smart meters. The Company has filed its Final Smart Meter Plan with the Commission, and the Plan is currently pending Commission approval. (Duquesne Light St. No. 4-R, p. 4.)

103. The Company is proposing to bid out TOU load to EGSs after more of its customers have smart meters and communication processing and other systems are operational. After its current TOU pilot programs are completed and the Company has an opportunity to review the results of those programs it will design a TOU program. (Duquesne Light St. No. 4-R, p. 5.)

104. The Company anticipates that an EGS will bid to provide TOU supply. However, if there are no bids or if the bids do not meet Commission approval, the Company proposes to

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require wholesale default service suppliers to provide TOU supply. (Duquesne Light St. No. 4-R, p. 5.)

105. Duquesne Light proposes to pay default service suppliers the actual TOU revenues received for the TOU portion of the load served by the default service supplier based on the TOU program on-peak and off-peak rates. (Duquesne Light St. No. 4-R, p. 5.)

106. Payment of the fixed contract prices to default service suppliers will prevent the Company from fully recovering its TOU costs. Duquesne Light's approach is reasonable because default service suppliers are bearing all of the other supply risks under the full requirements contracts. (Duquesne Light St. No. 4-R, p. 7.)

107. Duquesne Light developed its unsecured credit thresholds by conducting a review of multiple utility companies to determine the industry standards. (Duquesne Light St. No. 9-R, p. 5.)

108. Higher amounts of unsecured credit provide less protection for default service customers against financial damage in the event of supplier default. (Duquesne Light St. No. 9-R, p. 6.)

109. Duquesne Light's proposed unsecured credit dollar limits are the same as PECO's, except that Duquesne Light's dollar limit for the lowest investment grade rated entities is \$5 million more than PECO's. (Duquesne Light St. No. 9-R, p. 5.)

110. There have been many solicitations for competitive supply in recent years, and it has been repeatedly confirmed that it is not necessary to provide unsecured credit to sub-investment grade credits in order to have robust participation. (Duquesne Light St. No. 9-R, pp. 7-8.)

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111. The term "evergreen" in the SMA is consistent with the Letter of Credit itself, and means that the Letter of Credit has an expiration date but automatically rolls over for indefinite periods until the issuing bank notifies the Company as the beneficiary of the Letter of Credit's final expiration. (Duquesne Light St. No. 9-R, pp. 9-10.)

112. Duquesne Light designated Pittsburgh as the appropriate venue for disputes arising under the SMA, because it is where the services are provided. (Duquesne Light St. No. 10-R, p. 2.)

113. Section 2.3 of the SMA clearly states that the Buyer is responsible for future PJM charges assessed to network transmission customers, and Section 2.5 clearly states that the Seller is responsible for any other changes in PJM products and pricing during the term of the SMA. (Duquesne Light St. No. 4-R, p. 32.)

114. The Company works with the Commission EDEWG leadership team to address EDI issues, and EDI issues raised by parties in this proceeding are better addressed through the specialized EDEWG team. (Duquesne Light St. No. 6-R, p. 8.)

115. The Company's new CIS system eliminates the collection of PJM residual amounts through EDI transactions and will be implemented prior to June 1, 2013. (Duquesne Light St. No. 6-R, p. 9.)

116. The Company plans to replace its existing CIS and CC&B system during the second quarter of 2013. The new CIS provides enhanced functionality where customers will affirmatively elect to join the budget billing program, and once they elect, they will only have the option to pay the budget bill every month. (Duquesne Light St. No. 6-R, p. 10.)

117. The new CC&B system will be bill ready capable but the functionality will not be available upon implementation because it was not part of the scope of the initial project.

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Additional system development work cannot begin until the new CIS is implemented and operating seamlessly. (Duquesne Light St. No. 6-R, p. 11.)

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II. PROPOSED CONCLUSIONS OF LAW

Duquesne Light Company (“Duquesne Light” or the “Company”) proposes the following conclusions of law:

1. The Commission has jurisdiction over the subject matter and the parties to this proceeding. 66 Pa. C.S. §§ 501, et seq.

2. Duquesne Light, as the Petitioner, has the burden of proof with respect to its proposals in this proceeding. 66 Pa. C.S. § 332(a).

3. The burden of proof means a duty to establish a fact by a preponderance of the evidence. *Se-Ling Hosiery v. Margulies*, 364 Pa. 45, 70 A.2d 854 (1950).

4. A party that makes a proposal that is not included in a public utility’s case bears the burden of proof as to its proposal. *See Pa. P.U.C. v. Metropolitan Edison Company, et al.*, Docket Nos. R-00061366, et al., 2007 Pa. PUC LEXIS 5 (January 11, 2007), *Joint Default Service Plan for Citizens’ Electric Company of Lewisburg, PA and Wellsboro Electric Company for the Period of June 1, 2010 through May 31, 2013*, Docket Nos. P-2009-2110798, et al., 2010 WL 1259684 at *2, 19-20 (February 25, 2010).

5. As a Default Service Provider (“DSP”), Duquesne Light’s default service obligations are set forth in Act 129 of 2008, Oct. 15, P.L. 1592, No. 129 (“Act 129”), codified in Chapter 28 of the Public Utility Code, 66 Pa. C.S. Ch. 28.

6. Duquesne Light is obligated to provide electric generation supply service to customers that do not choose an alternative electric generation supplier (“EGS”) and to customers that contract with an EGS for supply service if the chosen EGS does not provide the service. 66 Pa. C.S. § 2807(e)(3.1).

7. Act 129 requires that power “shall be procured through competitive procurement processes” (including auctions, requests for proposals and/or competitively procured bilateral

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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).

8. 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).

9. The preamble to Act 129 provides that one of the objectives of the Act is to take into account any benefits of price stability over time.

10. Duquesne Light’s procurement plan meets all of the statutory requirements. All default supplies are procured through competitive procurement processes.

11. Duquesne Light has proposed a prudent mix of contracts for customers that will provide least cost to customers over time, while taking into account the benefits of price stability for customers.

12. Under Act 129, the “least cost” standard clearly applies to the mix of default supply contracts acquired by a DSP. 66 Pa.C.S. § 2807(e) 3, 4. The “least cost” standard under Act 129 does not mean that default service rates must change quarterly.

13. The least cost standard must be viewed together with the rest of Act 129, including rate stability benefits, in determining a reasonable procurement plan.

14. Act 129 does not require that a procurement plan include any specific number of different products nor does it provide that a greater number of different products is better than a smaller number of different products. Rather, Act 129 requires a “prudent mix” of contracts. *Implementation of Act 129 of October 15, 2008; Default Service And Retail Electric Markets*, Docket No. L-2009-2095604, Order entered October 4, 2011, p. 60 (“*Final Rulemaking Order*”).

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15. The “prudent mix” requirement does not mean that there must be more than one type of supply product for a given customer class. (*Final Rulemaking Order*, p. 60.)

16. Adding two-year contracts to the residential supply portfolio will not make it more compliant with Act 129. The Commission has held that the Act 129 standards can be met with a single product and simply adding another product does not in and of itself make the product more prudent. (*Final Rulemaking Order*, p. 60.)

17. The Commission has held that the least cost standard does not mandate short terms supplies to create a “market-reflective” default service rate. (*Final Rulemaking Order* at 41.)

18. The Commission has expressly recognized the need to protect customers from price instability. (*Final Rulemaking Order* at 41.)

19. The Commission’s guidelines for RME programs were primarily set forth in the *Intermediate Work Plan Order* in the Commission’s Retail Market Investigation proceeding.

20. In the *Intermediate Work Plan Order* the Commission authorized variances from the guidelines for good reason. (*Intermediate Work Plan Order*, pp. 6-7.)

21. A guaranteed savings off of the PTC for the term of the SO product is inconsistent with the *Intermediate Work Plan Order* and also was rejected by the Commission in the FE Companies’ and PECO’s default service proceedings. (*Intermediate Work Plan Order* at 31; *FE Order* at 146; *PECO Binding Poll*, Issue 18.)

22. Duquesne Light’s proposal to refer customers with high bill inquiries to the SO Program after the callers’ high bill issue has been resolved consistent with the Commission’s directives in the *Intermediate Work Plan Order*, the *FE Order* and in the *PECO Binding Poll*.

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23. In the *Intermediate Work Plan Order*, the Commission directed that participating EGSs be responsible for the costs of the RME Programs. (*Intermediate Work Plan Order* at 84-85.)

24. Electricity rates in Pennsylvania have been unbundled into distribution, generation and transmission charges pursuant to the Electricity Generation Customer Choice and Competition Act that became effective January 1, 1997. (See 66 Pa. C.S. Chapter 28.)

25. Duquesne Light, as the DSP, is obligated to provide Time-of-Use (“TOU”) and/or real time rates to customers that have smart meters. (66 Pa. C.S. § 2807(f)(5).)

26. Duquesne Light’s Default Service Plan includes prudent steps necessary to negotiate favorable generation supply contracts.

27. Duquesne Light’s Default Service Plan includes prudent steps necessary to obtain least cost generation supply contracts on a long-term, short-term and spot market basis.

28. Neither Duquesne Light nor its affiliated interests have withheld from the market any generation supply in a manner that violates federal law.

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III. PROPOSED ORDERING PARAGRAPHS

Duquesne Light Company (“Duquesne Light” or the “Company”) proposes the following ordering paragraphs:

1. The Default Service Plan as proposed by the Company is approved.
2. Duquesne Light’s Default Service Plan fully complies with all provisions of Act 129 and the Public Utility Code.
3. The proposed tariff sheets set forth in the Tariff Supplement provided with the filing are approved.
4. The approvals for Duquesne Light Company to procure power as set forth in this proceeding are granted, including, if needed, credit support from its parent.
5. The Supply Master Agreement for procuring power for Residential and Lighting customers, the Small C&I and Medium C&I customers is approved.
6. The ROI Program RFP and Agreement are approved.
7. The SO Program Rules and Agreement are approved.
8. Duquesne Light’s Default Service Plan includes prudent steps necessary to negotiate favorable generation supply contracts.
9. Duquesne Light’s Default Service Plan includes prudent steps necessary to obtain least cost generation supply contracts on a long-term, short-term and spot market basis.
10. Neither Duquesne Light nor its affiliated interests have withheld from the market any generation supply in a manner that violates federal law.
11. Duquesne Light’s requests for waivers of the Commission’s regulations to implement its Default Service Plan are granted, to the extent necessary.
12. Such other relief just and reasonable under the circumstances is granted.
13. The Commission’s Secretary shall mark Docket No. P-2012-2301664 as closed.

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Duquesne Light DSP VI – Procurement Issues Table

Issue	Duquesne Light's Proposal	Is Duquesne Light's Proposal Consistent with Relevant Commission Guidance?	Support for Duquesne Light's Proposal	Other Reasons Why Duquesne Light's Proposal Is Appropriate
<p>Should the Residential supply mix consist entirely of FPFR products, or should a block-and-spot component be included as the OCA suggests?</p>	<ul style="list-style-type: none"> The Residential supply mix should only include FPFR products¹ 	<p>Yes²</p>	<p>Support for Duquesne Light's proposal from:</p> <ul style="list-style-type: none"> Dominion-IGS³ FES⁴ Constellation⁵ RESA⁶ <p>Also, the OSBA supports a FPFR portfolio for the customer groups that it addresses⁷</p> <p>No party except the OCA proposes inclusion of a block-and-spot component⁸</p>	<ul style="list-style-type: none"> Block-and-spot transfers costs and risks to customers⁹ Examples of actual adverse situations under approaches similar to block-and-spot¹⁰ PECO analysis of FPFR vs. block-and-spot¹¹ "2010 Procurement Structure Analysis" that compares FPFR vs. block-and-spot¹² Additional implementation costs associated with block-and-spot¹³ Compatibility with Opt-In EGS Service Program¹⁴ FPFR product solicitations are the most prevalent form of default service procurement for smaller customers¹⁵ Other PUC statements of support for FPFR products¹⁶ Duquesne Light's proposal is consistent with the

¹ Duquesne Light St. No. 2, p. 4.

² Duquesne Light St. No. 8-R, pp. 9-12 and Duquesne Light St. No. 8-RJ, pp. 12-13.

³ Duquesne Light St. No. 8-R, pp. 7-8.

⁴ Duquesne Light St. No. 8-R, p. 8.

⁵ Duquesne Light St. No. 8-R, p. 8.

⁶ Duquesne Light St. No. 8-R, pp. 8-9.

⁷ Duquesne Light St. No. 8-R, p. 9.

⁸ Duquesne Light St. No. 8-RJ, p. 13.

⁹ Duquesne Light St. No. 8-R, pp. 12-15 and Duquesne Light St. No. 2, pp. 14-16 and Duquesne Light St. No. 8-RJ, pp. 7-8.

¹⁰ Duquesne Light St. No. 8-R, p. 15 and Exhibit SGF-3R and Duquesne Light St. No. 8-RJ, pp. 9-10.

¹¹ Duquesne Light St. No. 8-R, p. 16.

¹² Duquesne Light St. No. 8-RJ, pp. 2-5.

¹³ Duquesne Light St. No. 8-R, p. 21 and Duquesne Light St. No. 4-R, pp. 17-18 and Duquesne Light St. No. 8-RJ, p. 6.

¹⁴ Duquesne Light St. No. 8-R, pp. 20-21 and Duquesne Light St. No. 8-RJ, pp. 10-11.

¹⁵ Duquesne Light St. No. 2, p. 16.

¹⁶ Duquesne Light St. No. 8-R, pp. 19-20.

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Issue	Duquesne Light's Proposal	Is Duquesne Light's Proposal Consistent with Relevant Commission Guidance?	Support for Duquesne Light's Proposal	Other Reasons Why Duquesne Light's Proposal Is Appropriate
				Commission's order in the FirstEnergy PA EDCs' default service proceeding, which did not renew the block-and-spot component ¹⁷
Should the OCA's proposal to "hold back" procurement of Residential supply be adopted?	<ul style="list-style-type: none"> • No¹⁸ 	Yes ¹⁹	Several parties support Duquesne Light's basic FPFPR product approach, ²⁰ but no party voices support for the OCA's "hold back" proposal	<ul style="list-style-type: none"> • The OCA's proposal could contribute to rate shock and create a large deferred cost recovery balance²¹ • The OCA's proposal could impose additional costs²² • The OCA's proposal would reduce the compatibility with the Opt-In EGS Service Program²³ • Duquesne Light's proposal is consistent with the Commission's order in the FirstEnergy PA EDCs' default service proceeding, which did not approve a similar proposal by the OCA²⁴
Residential product mix	<ul style="list-style-type: none"> • One-year FPFPR products²⁵ • In some cases, consecutive one-year products will be procured simultaneously²⁶ 	Yes ²⁷	Support for (or no opposition to) Duquesne Light's proposal from: ²⁸ <ul style="list-style-type: none"> • Dominion-IGS • FES 	<ul style="list-style-type: none"> • Appropriately balances (1) RESA's desire for rates to reflect shorter-term market price volatility with (2) Act 129's required consideration of price stability benefits³⁰ • Balances RESA's desire for

¹⁷ *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 No. P-2011-2273650 et seq. (Order entered August 16, 2012), pp. 14-27.

¹⁸ Duquesne Light St. No. 8-R, p. 21.

¹⁹ Duquesne Light St. No. 2, pp. 21-22, 24-25.

²⁰ Duquesne Light St. No. 8-R, pp. 7-9.

²¹ Duquesne Light St. No. 8-R, pp. 24-25 and Duquesne Light St. No. 8-RJ, p. 12.

²² Duquesne Light St. No. 8-R, pp. 26-27.

²³ Duquesne Light St. No. 8-R, pp. 27-28 and Duquesne Light St. No. 8-RJ, pp. 10-11.

²⁴ *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 No. P-2011-2273650 et seq. (Order entered August 16, 2012), pp. 27-29.

²⁵ Duquesne Light St. No. 2, pp. 3-9 and Exhibit JEW-4.

²⁶ Duquesne Light St. No. 2, pp. 7-9 and Exhibit JEW-4.

²⁷ Duquesne Light St. No. 2, pp. 21-22, 24-25 and Duquesne Light St. No. 8-R, pp. 34-35 and Duquesne Light St. No. 8-SR, pp. 2-5 and Duquesne Light St. No. 8-RJ, pp. 14-16.

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Issue	Duquesne Light's Proposal	Is Duquesne Light's Proposal Consistent with Relevant Commission Guidance?	Support for Duquesne Light's Proposal	Other Reasons Why Duquesne Light's Proposal Is Appropriate
			<ul style="list-style-type: none"> • Constellation In addition, these EGSs recognize that there are significant benefits to customers of having stable default service rates, and the OCA also opposes RESA's proposal²⁹ 	<p>shorter-term products with the OCA's desire for longer-term products³¹</p> <ul style="list-style-type: none"> • Actual experience does not indicate that the proposed term lengths would threaten the long-term sustainability of the competitive retail market³² • Provides for rates that more consistently track market price changes than current default service rates³³ • Duquesne Light's proposed Residential product mix is similar to that approved by the Commission in the FirstEnergy PA EDCs' default service proceeding, as 90% of the FE Residential product mix consists of one-year and two-year supply products (instead of shorter-term products)³⁴

²⁸ Duquesne Light St. No. 8-R, p. 33 and Duquesne Light St. No. 8-SR, pp. 6-10.

²⁹ Duquesne Light St. No. 8-R, p. 33 and Duquesne Light St. No. 8-SR, pp. 6-10.

³⁰ Duquesne Light St. No. 2, pp. 3-9, 18-22 and Duquesne Light St. No. 8-SR, pp. 2-10.

³¹ Duquesne Light St. No. 8-R, pp. 28-29, 32-33 and Duquesne Light St. No. 8-SR, p. 6.

³² Duquesne Light St. No. 8-R, pp. 40-42.

³³ Duquesne Light St. No. 2, pp. 3-9 and Duquesne Light St. No. 8-R, p. 36.

³⁴ *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 No. P-2011-2273650 et seq. (Order entered August 16, 2012), pp. 14-27.

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Issue	Duquesne Light's Proposal	Is Duquesne Light's Proposal Consistent with Relevant Commission Guidance?	Support for Duquesne Light's Proposal	Other Reasons Why Duquesne Light's Proposal Is Appropriate
Residential procurement lead times (between solicitation and start of delivery)	<ul style="list-style-type: none"> • April solicitations are 1-2 months before the start of delivery of the aggregate supply procured (note: since the aggregate supply consists of simultaneously procured consecutive one-year supply products, the delivery of the second supply product starts 13-14 months after the solicitation)³⁵ • November solicitations are approximately six months before delivery³⁶ 	N/A	<p>No party except RESA supports shortening the procurement lead times</p> <p>Parties such as the OCA, Dominion-IGS, FES, and Constellation all recognize the benefits of Residential default service rate stability,³⁷ which would be significantly reduced by RESA's proposal to shorten the procurement lead times³⁸</p>	<ul style="list-style-type: none"> • Simultaneously procuring consecutive one-year products (and hence having a 13-14 month lead time for the second year's product) importantly provides the hedging benefits to customers of two-year products, while better reflecting each year's contemporaneous market price³⁹ • The November solicitations lock in supply costs sooner, thereby reducing rate uncertainty, and they help to avoid relying on a single solicitation soon before delivery begins for a very large amount of supply⁴⁰
Small C&I product mix	<ul style="list-style-type: none"> • Cycle of one-year FPFPR products with delivery periods that overlap on a semi-annual basis⁴¹ 	Yes ⁴²	The OSBA supports Duquesne Light's proposal, ⁴³ no party voices support for RESA's proposal, and FES opposes	<ul style="list-style-type: none"> • Appropriately balances (1) RESA's desire for rates to reflect shorter-term market price volatility with (2) Act 129's required consideration of price stability benefits⁴⁵ • Duquesne Light's proposed Small C&I product mix is

³⁵ Exhibit JEW-4.

³⁶ Exhibit JEW-4.

³⁷ Duquesne Light St. No. 8-SR, pp. 6-10.

³⁸ Duquesne Light St. No. 2, pp. 7-8 and Duquesne Light St. No. 8-R, pp. 30-32, 47-49 and Duquesne Light St. No. 8-SR, pp. 10-13.

³⁹ Duquesne Light St. No. 2, pp. 7-8 and Duquesne Light St. No. 8-R, pp. 30-32, 47-49 and Duquesne Light St. No. 8-SR, pp. 10-13.

⁴⁰ Duquesne Light St. No. 8-SR, pp. 10-13.

⁴¹ Duquesne Light St. No. 2, pp. 11-12 and Exhibit JEW-5.

⁴² Duquesne Light St. No. 2, pp. 21-22, 24-25 and Duquesne Light St. No. 8-R, pp. 34-35 and Duquesne Light St. No. 8-SR, pp. 2-5.

⁴³ Duquesne Light St. No. 8-R, p. 33 and Duquesne Light St. No. 8-SR, pp. 6-10.

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Issue	Duquesne Light's Proposal	Is Duquesne Light's Proposal Consistent with Relevant Commission Guidance?	Support for Duquesne Light's Proposal	Other Reasons Why Duquesne Light's Proposal Is Appropriate
			RESA's proposal ⁴⁴	similar to that approved by the Commission in the FirstEnergy PA EDCs' default service proceeding for those EDCs' smallest non-residential customers, as the FE product mix for such customers is predominantly composed of semi-annually overlapping one-year supply products ⁴⁶
Medium C&I product mix	<ul style="list-style-type: none"> • Cycle of six-month non-overlapping FPFRR products⁴⁷ 	Yes ⁴⁸	FES and the OSBA oppose RESA's proposal to have the product term lengths be shorter than Duquesne Light has proposed, and RESA opposes the OSBA's proposal to have longer product term lengths ⁴⁹	<ul style="list-style-type: none"> • Appropriately balances (1) RESA's desire for rates to reflect shorter-term market price volatility with (2) Act 129's required consideration of price stability benefits⁵⁰ • Balances RESA's desire for shorter-term products with the OSBA's desire for longer-term products⁵¹ • Provides for rates that more consistently track market price changes than current default service rates⁵²
Large C&I product mix	<ul style="list-style-type: none"> • Procurement of supply from the spot energy market⁵³ 	Yes ⁵⁴	No party opposes Duquesne Light's proposed plan	<ul style="list-style-type: none"> • 97% of Large C&I load has switched, and these customers have a propensity to elect competitive EGS offers⁵⁵ • Facilitates conservation efforts and load management⁵⁶

⁴⁴ Duquesne Light St. No. 8-SR, p. 8.

⁴⁵ Duquesne Light St. No. 2, pp. 3-6, 11-13, 18-22 and Exhibit SGF-1R and Duquesne Light St. No. 8-SR, pp. 2-10.

⁴⁶ *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 No. P-2011-2273650 et seq. (Order entered August 16, 2012), pp. 14-27.

⁴⁷ Duquesne Light St. No. 2, pp. 13-14 and Exhibit JEW-6.

⁴⁸ Duquesne Light St. No. 2, pp. 21-22, 24-25.

⁴⁹ Duquesne Light St. No. 8-R, pp. 50-54 and Duquesne Light St. No. 8-SR, pp. 7-8.

⁵⁰ Duquesne Light St. No. 2, pp. 3-6, 13-14, 18-22.

⁵¹ Duquesne Light St. No. 8-R, pp. 50-54 and Duquesne Light St. No. 8-SR, pp. 7-8.

⁵² Duquesne Light St. No. 2, pp. 13-14.

⁵³ Duquesne Light St. No. 2, pp. 16-17.

⁵⁴ Duquesne Light St. No. 2, pp. 21-22, 24-25.

⁵⁵ Duquesne Light St. No. 2, pp. 17.

⁵⁶ Duquesne Light St. No. 2, pp. 17.

APPENDIX B

Issue	Duquesne Light's Proposal	Is Duquesne Light's Proposal Consistent with Relevant Commission Guidance?	Support for Duquesne Light's Proposal	Other Reasons Why Duquesne Light's Proposal Is Appropriate
Should RESA's suggestion that no product delivery periods extend beyond 5/31/15 be adopted?	<ul style="list-style-type: none"> • No⁵⁷ • A limited amount of supply will be procured in April 2014 (for Residential) and November 2014 (for Small C&I) that will extend beyond 5/31/12⁵⁸ 	Yes ⁵⁹	No party expresses support for RESA's proposal	<ul style="list-style-type: none"> • Will avoid a "hard stop" that can result in rate volatility⁶⁰ • In the event that Duquesne Light is not the DSP after 5/31/12, there is time before April 2014 to adjust the solicitations (there are also contract assignment provisions)⁶¹
Default service supply load cap	<ul style="list-style-type: none"> • No one supplier can win more than 50% of the supply solicited for any given customer class in any given solicitation⁶² 	Yes ⁶³	Only FES objects to Duquesne Light's proposed 50% load cap ⁶⁴	<ul style="list-style-type: none"> • Designed to encourage participation in the solicitations⁶⁵ • Reduces the impact if any single supplier were to default on its obligation⁶⁶

⁵⁷ Duquesne Light St. No. 2, pp. 10-13.

⁵⁸ Duquesne Light St. No. 2, pp. 10-13.

⁵⁹ Duquesne Light St. No. 8-R, pp. 54-57.

⁶⁰ Duquesne Light St. No. 2, pp. 10-13 and Duquesne Light St. No. 8-R, pp. 56-57.

⁶¹ Duquesne Light St. No. 2, pp. 10-13 and Duquesne Light St. No. 8-R, pp. 56-57.

⁶² Duquesne Light St. No. 2, p. 17 and Exhibit SGF-2R.

⁶³ Duquesne Light St. No. 8-R, pp. 59-61.

⁶⁴ Duquesne Light St. No. 8-R, pp. 58-59.

⁶⁵ Duquesne Light St. No. 2, p. 17 and Duquesne Light St. No. 8-R, p. 60.

⁶⁶ Duquesne Light St. No. 2, p. 17 and Duquesne Light St. No. 8-R, p. 60-62.