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December 5, 2012

VIA ELECTRONIC FILING

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

RE: Petition of PPL Electric Utilities Corporation for Approval Of a Default Service Program and Procurement Plan for the Period June 1, 2013 Through May 31, 2015: Docket No. P-2012-2302074; **EXCEPTIONS OF DOMINION RETAIL, INC. AND INTERSTATE GAS SUPPLY, INC.**

Dear Secretary Chiavetta:

Enclosed for filing with the Commission is the original Exceptions of Dominion Retail, Inc. and Interstate Gas Supply, Inc. to Recommended Decision in the above-captioned docket. Copies of the Exceptions have been served in accordance with the attached Certificate of Service.

Thank you for your attention to this matter. If you have any questions, please do not hesitate to contact the undersigned.

Very truly yours,

Todd S. Stewart
*Counsel for Dominion Retail, Inc. and
Interstate Gas Supply, Inc.*

TSS/jld/151950.1

Enclosures

cc: Honorable Susan D Colwell (via email and first class mail)
OSA (via email – ra-OSA@pa.gov)
Per Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the parties, listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a party).

VIA ELECTRONIC AND FIRST CLASS MAIL

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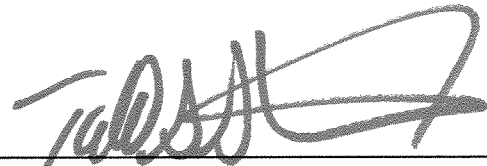
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A handwritten signature in black ink, appearing to read "Todd S. Stewart", written over a horizontal line.

Todd S. Stewart
*Counsel for Dominion Retail, Inc. and
Interstate Gas Supply, Inc.*

Date: December 5, 2012

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities Corporation :
for Approval Of a Default Service Program and : Docket No. P-2012-2302074
Procurement Plan for the Period June 1, 2013 :
Through May 31, 2015 :

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

AND NOW, come Dominion Retail, Inc. d/b/a Dominion Energy Solutions (“DES”) and Interstate Gas Supply, Inc. d/b/a IGS Energy (“IGS”) (collectively “the EGS Parties”) and hereby Except to the Recommended Decision (“RD”) issued by Presiding Administrative Law Judge Susan D. Colwell on November 15, 2012 in the above-captioned matter.

The RD would approve PPL Electric Utilities’ (“PPL” or the “Company”) proposed default service program (“DSP”) in almost every respect. The EGS Parties submit that there are a number of key problem areas with the RD’s approach, not the least of which are the rather substantial differences between the Company’s DSP and those of Pennsylvania’s other EDC. That is, it appears that the Commission’s recent decisions have charted a path for transitional DSPs that diverge significantly from that recommended in the RD¹. Moreover, it appears that many of the Commission’s obvious policy choices have largely been ignored by the RD. It is important that corrections be made to PPL’s plan to bring it into line with the rest of the

¹ *Joint Petition of Metropolitan Edison Co., Pennsylvania Electric Co., Pennsylvania Power Co., and West Penn Power Co. for Approval of their Default Service Plans*, Docket Nos. P-2011-2273650, et seq., (Revised Order on Reconsideration, entered October 11, 2012)(“FE Order”); *Petition of PECO Energy Company for Approval of its Default Service Program*, Docket No. P-2012-2283641 (Opinion and Order entered November 21, 2012)(“PECO Order”).

Commonwealth and to ensure that it has the best chances of producing the desired impact-transitioning customers into the competitive marketplace. As it stands now, the RD will not accomplish that fundamental task.

Exception No. 1: The RD errs by approving PPL’s proposal to abandon the current quarterly adjustment of the Price to Compare (“PTC”) and quarterly reconciliation. (RD pp. 56-66).

The ALJ recommends approval of PPL’s proposal to move from a quarterly pricing methodology to a semi-annual methodology. The theory is that semi-annual price changes will smooth out default service prices, giving customers known prices for longer periods of time, thus allowing for easier shopping decisions for customers. The RD asserts that limiting the frequency of price changes will give customers “greater assurance that the offers they consider under the opt-in and standard offer referral programs will result in real savings off the PTC rates.” (RD p. 57). The most significant difficulty with PPL’s approach is that the procurements proposed by PPL in this case do not mirror its semi-annual pricing methodology and will reconcile on a rolling twelve (12) month basis. That is, PPL has proposed a continuation of its laddering of products (albeit minus spot market purchases and with fewer block purchases over time) that will mean new sources of supply will be entering and leaving the mix at a frequency that is not synchronized to its semi-annual pricing/reconciliation proposal. This misalignment of retail pricing, in the form of the PTC, with the actual wholesale prices of the products will create the potential for significant swings at the semi-annual price change intervals. What this means in the real world is that it creates the significant possibility of a worsening boom and bust cycle, with significant price changes at the six (6) month interval, at increased potential that the changes could move in directions that would be opposite from the actual price moves in the wholesale market. (EGS Parties’ Main Brief, pp. 12-14).

One obvious solution to this problem would be to align the procurements so that the products included in the PTC calculation would be products that would be expiring or coming into the mix at the appropriate time interval, so that the actual prices of the products were reflected in the actual rate for the upcoming period. That is, PPL would not necessarily need to engage in six (6) month procurements, but procurements start and end dates should be synchronized with the same six (6) month increment so that a new price did not pop up in the middle of a six (6) month period thus potentially exacerbating reconciliation issues at the end of the semi-annual period.

Another obvious potential solution would be to move to six (6) month procurements which does not seem to be wise given the potential volatility this would inject into PPL's default service rates. The most practical solution, however, would be to require PPL to remain on the current quarterly reconciliation and price change regimen until such time as it aligned its procurement start and end dates with the six (6) month or longer interval period, *i.e.* six (6) months or even one (1) year. In any event, the rolling twelve (12) month average, which tends to smooth the price too much, must be eliminated. It is a vestige of regulation that provides no benefit to customers. Smooth default service rates that do not reflect market influences simply are a bad idea in a market that is seeking to become more competitive.

Rather than considering these alternatives, however, the RD simply approves PPL's plan without considering the volatility that will be injected into the process by semi-annual price changes, or the opposite effect of the twelve (12) month rolling average proposal, and the RD should be modified accordingly. The RD clearly seeks to place the burden of proof for this issue on the suppliers, and expects them to overcome PPL's proposal, which itself is contrary to Commission practice. This clearly is a departure from the Commission's current preferred methodology or quarterly price changes and reconciliation. While it is certainly true that the

EGS Parties believe that quarterly price changes and quarterly reconciliation are not the *sine qua non* of a competitive markets in the long run, the concept that there should be alignment between procurements and price changes/reconciliation is consistent with current Commission thinking on the end state of competitive markets, and is far more likely to produce default service rates that are reflective of market rates than PPL's proposal. Accordingly, the RD should be modified either to require PPL to align its procurements so that there are no mid-PTC supply changes, or otherwise, be required to continue the current quarterly reconciliation/price change regimen.

Exception No. 2: The RD erred in approving a six (6) month product term for the retail opt-in auction (RD pp. 113-118).

PPL proposed a retail opt-in program that would have EGSs offering customers a six (6) month fixed-price product at a minimum five (5%) percent discount off PPL's PTC, and including a fifty (\$50.00) dollar cash bonus paid by EGSs to customers who participate in the program for at least three (3) consecutive billing cycles. The ALJ would approve this program in its entirety, stating "there is no requirement in the law that all programs offered by the Commonwealth's EDCs be identical." (RD p. 117).

While it is true that there is no legal requirement that all EDC opt-in programs be identical, from a supplier perspective it is highly preferable to have consistency across EDC service territories. Moreover, while a six (6) month opt-in program may coincide with PPL's six (6) month reconciliation/price change regimen, it may also tend to dissuade EGSs from participating, due to the relatively short program period versus the significant costs of participation. (EGS Parties' Main Brief, pp. 16-18). The Commission recently has agreed, in the context of both the FE Order and the PECO Order. In both instances the Commission required a combined twelve (12) month opt-in program. While it is true that that approved programs consists of a four (4) month, five (5%) percent savings component and an eight (8) month

component at a non-specified fixed price, the combined one (1) year program seems to be a better fit in today's competitive market where many suppliers offer a one (1) year product.

In short, PPL has provided no evidence other than its own desire that the retail opt-in program match up with a six (6) month time period for its price change/reconciliation methodology, and its desire to avoid any negative customer feedback from this program. The six (6) month term, when compared to those of surrounding EDCs, which will be one (1) year, may be confusing to customers, particularly when one considers that the PPL service territory is largely surrounded by those of FirstEnergy and PECO. The EGS Parties submit that a better aligned program would be to mirror the terms and conditions already approved by the Commission.

Exception No. 3: The ALJ erred in rejecting the EGS Parties' proposal that customers be asked to opt-in before the final information is known. (RD pp. 123-124).

The ALJ accepts PPL's proposal that customers only be required to opt-in after being provided with the exact discount of the program, i.e., after the auction. This recommendation flies in the face of the Commission's previous resolution of this issue where the Commission removed the auction component, thus, creating certainty with regard to the price, terms and conditions of the product and, thus allowing for a single mailing, with adequate information to allow customers to make an informed decision, greater certainty for suppliers, and reduced costs by elimination of the auction proposal. By recommending approval of PPL's flawed program design in the face of these decisions, the RD errs and should be reversed.

Exception No. 4: The RD errs in failing to approve PPL's proposed cost recovery mechanism. (RD pp. 147-154).

PPL proposed to recover the costs of the opt-in auction directly from participating suppliers. Likewise, PPL proposed to recover the non-capital costs of the standard offer referral program from participating suppliers and to recover the capital costs of these programs from customers through base rates. The EGS Parties supported this cost recovery mechanism despite the fact that they believe that it is vital that customers share in these costs, particularly if PPL chooses the high cost auction option. The recovery of the capital costs of the referral program through base rates is an appropriate sharing of those costs with customers, particularly in a program where capital costs could be significant.

The RD would reject this proposal and require that all of the costs of both programs be borne by suppliers. In the recent decision on reconsideration, the Commission kept open the potential that customers could be asked to share the costs of these programs and evidenced particular concern with regard to the relatively high costs of referral programs, on a per-customer basis, and the potential for such costs to be a barrier to participation that results in program failure.² PPL's proposal is a fair way to address this problem by splitting the cost recovery into capital and non-capital components. Capital costs typically are borne by all customers through distribution rates while the operational costs of this operation could be recovered from participating suppliers on a per-switch basis or otherwise. Accordingly, the EGS Parties support this approach - if the Commission eliminates the auction concept so as to reduce the cost of the opt-in program. (EGS Parties' Main Brief, pp. 20-21).


The EGS Parties submit that the ALJ erred in rejecting PPL's approach on cost recovery, and by requiring an expensive auction rather than an aggregation program. Instead, the RD takes

² PECO Order, pp. 9-16.

the contrary approach that suppliers should bear every single dollar of cost of these programs, and imposes higher than necessary costs, which ignores the plain fact that customers do benefit from these competitive opportunities. The RD should be reversed on this point.

The EGS Parties Respectfully request that the Commission grant their Exceptions and revise the RD accordingly.

Respectfully submitted,



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