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December 17, 2012

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
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 electronic filing are the Replies to Exceptions of Duquesne Light Company in the above-referenced proceeding. Copies will be provided as indicated on the certificate of service.

Respectfully Submitted,

Michael W. Gang

MWG/jl

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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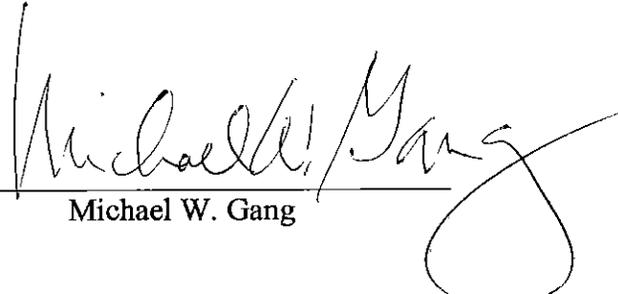
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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 :

REPLIES TO EXCEPTIONS OF DUQUESNE LIGHT COMPANY

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I. INTRODUCTION

Duquesne Light Company (“Duquesne Light” or the “Company”) files these Replies to the Exceptions of Retail Energy Supply Association (“RESA”), Office of Consumer Advocate (“OCA”), Office of Small Business Advocate (“OSBA”), FirstEnergy Solutions Corp. (“FES”) and Dominion Retail, Inc. and Interstate Gas Supply, Inc. (“Dominion/IGS”). The Company will briefly respond to the Exceptions of these parties given the page limitations permitted and requests that the Pennsylvania Public Utility Commission (“Commission”) review sections of the Company’s briefs identified herein for a more complete response to the parties’ arguments.

II. REPLIES TO SPECIFIC EXCEPTIONS

A. REPLIES TO EXCEPTIONS ON PROCUREMENT MATTERS

Administrative Law Judge Katrina L. Dunderdale (“ALJ”) recommended adoption of Duquesne Light’s proposed default service procurement plans for each procurement group. As recognized by the ALJ, the Company carefully balanced the Act 129 requirements for default service procurements with the Competition Act’s goal of advancing the availability of competitive options for customers. In this regard, the Company proposed changes in products procured for each group that would make default service rates under DSP VI more market responsive than its current default service plan (“DSP V”). For residential customers, the Company proposed one-year fixed-price full requirements products with corresponding annual rate changes, as compared to 29-month fixed rates under DSP V. For Small C&I customers (less than 25 kW), the Company proposed to move from one-year fixed-price full requirements products with annual rate changes to one-year fixed-price full requirements products that are laddered so that rate changes occur every six months. For Medium C&I customers the Company proposed to move from one-year laddered fixed-price full requirements products with six-month

rate changes to six-month fixed-price full requirements products procured 60 days in advance of the start of the delivery period.

Most parties and the ALJ recognize that the Company's procurement plan meets the competitive procurement requirements of Act 129 and will make the Company's DSP VI default service rates more market responsive than under DSP V. Indeed, OCA's exception to add two-year contracts to the Residential procurements and FES' exception proposing one-year contracts for Medium C&I customers instead of the six-month contracts proposed by the Company, would produce rates that would be less market responsive.

Under these circumstances, RESA's contentions that the ALJ relied solely on the need for price stability in recommending adoption of the Company's procurement plan are inaccurate and unfair to the ALJ. In fact, RESA's witness stated in her direct testimony that the Company's procurement proposals were a step in the right direction. RESA St. No. 1, p. 12. As will be explained briefly with regard to RESA's Exceptions, it is RESA that fails to balance the procurement requirements of Act 129 with the goal of advancing the competitive market, placing importance on only the latter objective. RESA's procurement exceptions and those of other parties would upset the Company's carefully crafted balance and should be rejected.

- 1. The ALJ's Recommendation To Adopt The Company's Residential Procurement Plan Is Well-Reasoned And Should Be Approved.**
 - a. The Commission Should Reject RESA's Proposal For 90-Day Supply Products. RESA Ex. 1.**

In its Exceptions, RESA presses its unprecedented proposal to employ 90-day supply products for half of the load of Residential default service customers. The effect of this proposal would be to move Duquesne Light's Residential default service rate from a 29-month fixed rate under DSP V to quarterly rates under DSP VI. In contrast, the Company proposes, and all other parties support, annual rate changes for the Residential customers, based primarily on one-year

full requirements products.¹ The determination of the term of the products and the frequency of rate changes for Residential customers is one of the critical issues before the Commission in this case. All parties other than RESA believe that annual rate changes for the Company's Residential customers are in the best interest of default service customers and the continued development of the competitive retail market in the Company's service territory, which has among the highest levels of shopping in the Commonwealth and in the nation. With regard to competition, the Company notes here, and will explain later, that annual Residential rate/PTC changes will permit the Company to provide an Opt-In Program in June 2013 that will guarantee savings to customers until June 1, 2014. As the ALJ recognized, such a program, which is supported by major EGSs serving Residential customers in the Company's service territory, is far more likely to attract customers to shop than RESA's proposal for 4 months of savings and an unknown price at the time of enrollment for a subsequent 8-month period. RD, p. 72.

RESA's principal argument in support of adding 90-day procurements is that this will avoid a boom or bust cycle in customer shopping. However, RESA has not shown in any manner that one-year procurements will be any less effective in advancing competition than RESA's combination of 90-day and one-year procurements.

RESA contends, incorrectly, that it has shown through evidence that quarterly procurements will increase shopping. To attempt to prove this point, RESA relied on an increase in shopping by Maryland Type II customers. RESA St. No. 1, p. 10. However, as recognized by the ALJ, these customers are equivalent to Duquesne Light's Medium C&I customers with demands over 300 kW. Evidence submitted by other parties demonstrated that the increases in shopping in Maryland had nothing to do with the frequency of default service price changes but

¹ As explained subsequently, OCA requests that two-year procurements be included in the Residential supply mix. However, doing so would not require changes in the PTC more frequently than annually.

was a result of increases in market prices. In fact, there were also significant increases in shopping for residential and smaller commercial customers over the same periods even though default service prices for those customers were based on one and two-year procurements, and there were less frequent price changes. RD, p. 26. The ALJ correctly concluded that the evidence does not support RESA's contention. RD, pp. 28-29.

RESA also has not explained how its proposal meets the standards of Act 129. In this proceeding, RESA advanced the proposition that the procurement requirements of Act 129 can be met by the competitive market. The Company has explained that such contention is erroneous as such requirements apply to default service and not to services provided by EGSs. Duquesne Light RB, pp. 5-8.

In its Exceptions, RESA argues that the ALJ placed sole reliance on Act 129 requirements for stable rates and that such requirement does not exist. The Company notes that the Commission has consistently placed reliance on one-year and two-year procurements to meet Act 129 requirements for Residential customers and to meet the Act 129 standard of least cost over time.² In fact, in the Commission's recent decisions involving FE Companies and PECO, the Commission approved the use of primarily one and two-year procurements to serve Residential customers. *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*"), pp. 25-26; *Petition of PECO Energy Company for Approval of its Default Service Program II*, Docket No. P-2012-2283641, Commission Order entered October 12, 2012 ("*PECO Order*"), pp.

² Contrary to the assertions in RESA's Exceptions, the ALJ acted appropriately in giving consideration to the Preamble to Act 129 which indicates that the Act was designed to permit consideration of the "benefits of price stability over time." Act 129, Public Policy Finding 2.

12-17. RESA advances the incongruous argument that more default service rate changes are needed in the Company's service territory because there is more shopping in this territory. The Company disagrees. Shopping is more likely to be enhanced by substantial savings. As recognized by the ALJ, a frequently changing default service price may cause small customer uncertainty about the ability to achieve savings in the competitive market, thereby discouraging small customers from shopping with a competitive supplier.

RESA argues that including 90-day products would avoid PTC prices that are below contemporaneous market price levels, and that this could cause a "boom/bust" cycle for competitive retail suppliers. However, in an attempt to refute the ALJ's concerns that volatility in the PTC caused by RESA's 90-day products would harm shopping, RESA inconsistently argues that customers do not always choose to shop based on price. RESA Ex., p. 7. Duquesne Light believes that one-year products and one-year default service price changes, will provide rates that are both market responsive and provide a clear benchmark of potential savings that can be achieved by customers when they are shopping.

Finally, RESA contends that its mix of 90-day and one-year products for Residential default service customers is a reasonable transition to all 90-day products for such customers as proposed in the Commission's Tentative Order concerning End State Default Service. Tentative Order of Nov. 8, at I-2011-2237952 ("End State Order"). Duquesne Light disagrees for several reasons. First, even if it is assumed that 90-day products for Residential customers is adopted as the End State, a better transition would be to move Residential customers from 29-month fixed rates in DSP V to one-year rates in DSP VI and then to quarterly rates in DSP VII. RESA's proposal to move from 29-month rates to quarterly rate changes in DSP VI is no transition at all.

Second, it is not appropriate to create a transition to an End State for default service when there is no final determination of the End State model.

For the foregoing reasons, and principally because one-year products and one-year rate changes for Residential customers are the best current balance of the procurement and competition requirements of the Competition Act and Act 129 for Duquesne Light's Residential customers, the Commission should affirm the ALJ's recommended approval of the Company's proposed Residential procurement plan.

b. The Commission Should Reject RESA's Exception to ALJ's Recommended Approval of Back-to-Back One-Year Residential Products and OCA's Request For Two-Year Products. RESA Ex. 2; OCA Ex. 1.

Duquesne Light considered including two-year contracts in its Residential procurement plan, to supply a portion of the default service load. However, the Company recognized that there is a known, significant increase in PJM capacity costs of about \$10/MWH on June 1, 2014, the start of the second year of DSP VI. This equates to about a 10% increase in retail prices on June 1, 2014. OCA St. 1-S, pp. 20-21. In order to make rates more market responsive, the Company innovatively proposed to obtain a portion of the DSP VI supply through simultaneously procured back-to-back one-year contracts rather than through two-year contracts. Under this approach, a one-year contract is obtained for each year of the two-year period at the same time. The benefits of this approach are to provide an energy hedge similar to that provided by two-year contracts while also creating more market responsive rates that reflect the known change in capacity prices at the beginning of the second year of DSP VI.

RESA opposes the simultaneous procurement of back-to-back one-year contracts because under this approach, the second contract is procured more than 60-days prior to the start of the delivery period. RESA argues that the approach has the effect of a two-year contract, failing to

note that the separation of the two years properly provides a price change for the change in capacity prices. RESA Ex., p. 10. RESA then argues inconsistently that the Commission in FE stated that procurements must be no earlier than five months prior to the delivery date, but fails to note that the Commission also approved two-year contracts for Residential customers in FE. *FE Order*, pp. 25-26. Whether a two-year contract is procured as in the case of the approved FE Companies plan, or whether simultaneous back-to-back contracts are procured as Duquesne Light proposes, the same aggregate supply is being procured at the same time, and Duquesne Light is proposing to procure this aggregate supply with a lead time of less than two months before delivery of the aggregate supply begins.³ Furthermore, the simultaneous procurement of back-to-back one-year contracts will provide for more market responsive rates than the procurement of two-year contracts would because of the known changes in capacity prices during the two-year period.

OCA contends that Duquesne Light's Residential procurement plan should include two-year contracts. OCA argues that the change in retail prices of 10% for the capacity change is not sufficient to justify use of back-to-back one-year contracts. OCA Ex., pp. 5-6.

The Company believes that its proposed back-to-back one-year contracts best balances the procurement and competition requirements of the Competition Act and Act 129. The proposal provides the hedging benefits of a two-year contract but provides for a market-based rate adjustment for known and significant capacity cost increases in the second year of DSP VI. A 10% increase in retail prices could significantly affect competition as EGSs will have to pay the higher capacity cost in year two. A two-year procurement would blend that cost over a two-

³ RESA also incorrectly asserts, as it has done in the past, that Duquesne Light's criticism of OCA's proposal for two-year contracts contradicts the Company's proposal for back-to-back one-year contracts. RESA MB, p. 27; RESA Ex., pp. 10-11. The Company has already explained on numerous occasions that RESA has incorrectly characterized Duquesne Light's argument. Duquesne Light St. No. 8-RJ, pp. 21-24. Duquesne Light RB, p. 14.

year contract price and be less market responsive. Duquesne Light's proposed back-to-back one-year contracts purchased at the same time provide an energy hedge similar to the two-year contracts approved by the Commission in the FE and PECO proceedings, and provides more market responsive rates to better track the market costs to serve customers in each year of the default service period.

The ALJ properly recognized the balance the Company sought to achieve and approved this proposal. Both RESA's and OCA's Exceptions should be denied.⁴

c. The Commission Should Reject RESA's Exception Concerning Contracts Extending Beyond DSP VI. RESA Ex. 5.

RESA excepts to the ALJ's recommended approval of the Company's proposal to acquire 25% of the Residential requirements of the first year of DSP VII (June 1, 2015 to May 31, 2016) in April, 2014. RESA argues that the DSP VII proceeding will not be concluded in time for the Commission to make a decision in that proceeding to cancel any such procurement, should it desire to do so in the future. The Company notes that the Commission does not need to take up such issue in the DSP VII proceeding; instead, it can take up such issue in a separate proceeding including in the RMI proceeding if it deems necessary. Consequently, RESA's contention that there is insufficient time for the Commission to modify the plan to procure any "overhang contracts" (*i.e.*, contracts with deliveries extending beyond May 31, 2015) is unsupported. Moreover, the Commission approved a similar overhang contract in PECO to provide some price

⁴ If the Commission were to adopt a requirement that all procurements be made within five months of the start of the delivery period, the Commission could substitute two-year contracts for the back-to-back one-year contracts as proposed by OCA (this simple substitution would satisfy the requirement that the procurement occur within five months of the start of the individual products' delivery periods). While another option is to move the procurement date for the second one-year contract to five months before that contract's delivery period begins, this would reduce the price stability benefit created by having either simultaneous procurement of back-to-back one-year contracts or procurement of a two-year contract.

stability for Residential customers into the next default service period. *PECO Order*, pp. 28-31. RESA's exception should be rejected.

2. The ALJ's Recommendation To Adopt the Company's Small C&I Procurement Plan Should Be Approved.

a. RESA's Proposal To Use 90-Day Products For Small C&I Customers Should Be Rejected. RESA Ex. 3.

RESA also proposes that the Commission direct that the Company use a mix of 90-day and one-year supply products for Small C&I customers. RESA's proposal should be rejected for the reasons addressed previously with regard to its Residential procurement proposal.

b. The Commission Should Reject RESA's Contention That Small C&I Products Should Not Extend Beyond May 2015. RESA Ex. 5

The Company proposed one-year contracts laddered every six months with six-month rate changes for Small C&I customers, which results in one contract extending six months into DSP VII. RESA's objections should be denied for the reasons explained as to Residential customers.

3. The ALJ's Recommendation To Adopt The Company's Medium C&I Procurement Plan Should Be Approved.

a. RESA's Proposal To Require 100% 90-Day Products and FES Proposal to Require One-Year Products For Medium C&I Customers Should Be Rejected. RESA Ex. 4, FES Ex. 6.

Duquesne Light proposed to move Medium C&I customers from one-year contracts laddered every six months to solely six-month contracts that are not laddered and that are procured no more than 60-days prior to the delivery date. This proposal was to make Medium C&I default service rates more market responsive than under DSP V. Duquesne Light MB, p. 37.

RESA wants to use 90-day contracts for Medium C&I customers and quarterly changes in rates. RESA Ex., pp. 12-14. FES proposes that Medium C&I contracts be one-year contracts with no laddering resulting in annual changes in rates. FES Ex., pp. 18-19.

The Company submits that its proposal continues to follow its long-term process of making default service rates for each group more market responsive over a series of default service plans. The process has contributed to high levels of customer confidence in competitive markets and high levels of shopping in the Company's service territory. RESA's proposal moves too quickly, and FES' position moves in the wrong direction. These exceptions should be rejected.

4. The ALJ Carefully Considered Other Procurement Issues And Her Recommendations Should Be Adopted.

a. FES' Exception To The Company's Proposed Supplier Load Cap Should Be Rejected. FES Ex. 2.

The Company proposed that no supplier be awarded more than 50% of the tranches in any RFP for default service procurement. FES Ex., pp. 5-9. Contrary to FES' contentions, the evidence establishes that there is no significant effect of load caps on default service prices and a lower load cap may actually lower prices by encouraging greater supplier participation and competition. Duquesne Light MB, pp. 40-41. FES offers no new argument to those rejected by the Commission in approving identical load caps in the FE and PECO cases. *FE Order*, p. 33; *PECO Order*, p. 41. FES' exception should be denied.

b. FES' Exception Concerning The SMA Should Be Granted.

FES is correct that the Company and FES worked out a solution to issues associated with the cross-default provisions of the SMA. Duquesne Light St. No. 9-R, pp. 3-4; FES St. No. 1-S, pp. 4-5. As a result, these issues were not a matter of major discussions in briefs. To confirm

the resolution, the Company does not oppose FES' exception but also believes that the RD effectively adopted the Company and FES' solution because it was uncontested.

c. FES' Exception Concerning Procurement Of TOU Supply Should Be Rejected. FES Ex. 3.

FES excepts to the ALJ's decision which recommends that the Commission approve the Company's procurement plan for TOU service. FES Ex., p. 13. As its first option, the Company proposes to bid out TOU supply to an EGS. In the unlikely event that an EGS does not provide a bid acceptable to the Commission to provide TOU service, the Company proposes to acquire TOU supplies from default service suppliers and pay them the actual revenues received for TOU service from TOU customers. Duquesne Light MB, pp. 80-83; Duquesne Light RB, pp. 50-52.

FES argues that Duquesne Light's proposal is vague and places too much risk on suppliers. FES Ex., pp. 13-14. Duquesne Light's proposal is clear and straightforward. Furthermore, the effects of the Company's backup proposal on default service suppliers would be small during DSP VI because very few of the Company's customers will have smart meters during the plan period. Duquesne Light MB, p. 80.

FES proposes that Duquesne Light pay wholesale suppliers the fixed price under the wholesale default service contract, as opposed to TOU prices billed to customers, and reconcile the difference between revenues and costs through the default service reconciliation process. FES Ex., p. 15. Duquesne Light explained that it was not opposed to this proposal if, and only if, the Commission specifically orders that Duquesne Light is authorized to reconcile TOU revenues billed to TOU customers against its costs under the fixed price full-requirements contracts. This would require a finding by the Commission that this methodology does not violate the Public Utility Code, including the prohibition against recovering lost or decreased revenues due to

reduced electricity consumption or shifting energy demands under 66 Pa.C.S. § 2807(f)(4).
Duquesne Light RB, pp. 51-52.

B. REPLIES TO EXCEPTIONS ON THE ROI PROGRAM

1. The ALJ's Recommendation To Adopt The Company's Proposed 12-Month ROI Term Should Be Approved. RESA Ex. 7.

RESA excepts to the ALJ's recommendation to adopt the Company's proposed 12-month ROI term. RESA Ex., pp. 21-24. RESA proposes that the Commission adopt an initial 4-month ROI term followed by an 8-month fixed price product that is unknown at the time customers select the ROI product.

The Company strongly supports the ALJ's decision for a 12-month ROI term and believes that this is a key issue in this proceeding. The Company has carefully designed its Residential procurement plan to work in combination with its ROI program so that both the residential default service rate and ROI program rate are fixed for a 12-month period of June 1, 2013 to May 31, 2014. The 12-month ROI term will produce savings off of the PTC for essentially a one-year period if the Company's one-year residential procurements are accepted. The Company believes that clear savings for an extended period and stable default service rates are more likely to encourage ROI program participation than short-term rates and savings. See Duquesne Light MB, pp. 48-50; Duquesne Light RB, pp. 22-26. Duquesne Light's customers are accustomed to long-term fixed default service rates and the ability to achieve identified savings for extended periods by shopping. Despite RESA's contentions to the contrary, these long-term fixed rates have encouraged customer shopping because customers can make a fair comparison over an extended period. Duquesne Light believes that this is a better model to encourage customer shopping than requiring customers to repeatedly check electric rates and switch EGSs every few months. As noted by the ALJ, many customers do not want to do this.

RD, p. 29. Therefore, the Company believes that the best approach to continue to encourage shopping in its service territory is to adopt both its Residential procurement plan with 12-month fixed rates and the proposed 12-month ROI term.

The Company also notes that RESA mischaracterizes the Company's 12-month ROI term as a guaranteed savings approach. RESA Ex., p. 21. This is an incorrect characterization. A "guaranteed savings" approach requires an EGS to change its price in response to changes in the PTC to ensure customers savings over an extended period. EGSs will not be required to change their ROI prices over the 12-month term. Therefore, the term "guaranteed savings" is misleading if applied to the Company's proposal. Customers will experience long-term savings over the ROI term if Duquesne Light's residential procurement plan is approved because residential customers will have one-year fixed default service rates.

RESA's primary opposition to the 12-month ROI term appears to be based upon its misconception that it is a "guaranteed savings" proposal. On pages 22-23 of its Exceptions, RESA stated as follows:

EGSs are generally comfortable producing a fixed 12-month price, as such offers can be hedged at the time that they are made. EGSs are generally not comfortable offering a mandated guaranteed savings against a price that might change any time in an unforeseeable manner.

(Footnotes omitted)

Under Duquesne Light's ROI proposal, EGSs are only asked to provide a 12-month fixed price. They are not required to provide a "guaranteed savings" offer that changes the EGS price with any changes in the PTC. The long-term savings that will be provided to customers under

Duquesne Light's proposal are a result of the residential default service rate design – not due to a requirement that EGSs change their ROI price over the 12-month term.⁵

It is important to note that the Commission's adoption of the RESA 4-month/8-month proposal in the FE and PECO cases is in the context of quarterly changes in the PTC by those companies. The concerns of EGSs about "guaranteeing" savings for a full year in that context are understandable as is the approval of RESA's 4-month/8-month proposal. However, the use of one-year procurements, fully supported by Dominion/IGS and FES as major Residential EGSs in the Company's service territory, provides an opportunity for a different and arguably simpler and more effective one-year ROI product in the Company's service area. The one-year procurements and one-year ROI product are also more consistent with the long-term fixed default service prices offered in the Company's service territory in the past and the competitive market that has developed. Finally, such an approach will allow the Commission to compare and contrast the results of different ROI products.

For the reasons explained herein and in the Company's Briefs, the Commission should adopt a 12-month ROI program term for Duquesne Light's customers. Duquesne Light MB, pp. 48-50. Duquesne Light RB, pp. 22-26.

2. The ALJ's Recommendation For An ROI RFP As Opposed To An ROI Aggregation Program Was Reasonable. RESA Ex. 6.

RESA excepts to the ALJ's recommendation to approve Duquesne Light's proposed ROI RFP as opposed to an ROI Aggregation program. RESA Ex., pp. 17-21. Duquesne Light understands that the Commission has adopted an ROI Aggregation program in both the FE Companies and PECO default service proceedings, and the Company is willing to adopt an ROI

⁵ If the Commission is concerned that a 12-month ROI term presents too much risk for EGSs, the Commission could eliminate the \$50.00 bonus payment, which would reduce EGS' risk. The Company would prefer this approach over a 4-month/8-month ROI program structure.

Aggregation program if that model is preferred by the Commission. However, the Company believes that an ROI RFP is a reasonable approach because: (1) the RFP proposed by the Company is low cost, (2) the RFP approach may produce greater savings for customers, (3) the RFP produces a competitive versus an administratively determined price, and (4) the proposed 50% load cap for the RFP will prevent a single EGS from dominating the program. See Duquesne Light MB, pp. 46-48; Duquesne Light RB, pp. 17-21. As noted in the next section of these Replies to Exceptions, the Commission should determine the rules of EGS participation and customer allocation if an ROI Aggregation program is adopted.

3. RESA's Proposal To Require Customers To Opt-In To The ROI Program Before The ROI Program Occurs Should Be Denied. RESA Ex. 8.

RESA argues that if an ROI RFP approach is adopted, customers should be enrolled in the ROI program before EGSs are required to commit to participating. RESA Ex., p. 25. The Commission rejected RESA's proposal in the Intermediate Work Plan Order and should reject it here as well. *Investigation of Pennsylvania's Retail Electricity Market: Intermediate Work Plan*, Docket No. I-2011-2237952, Order entered March 2, 2012, p. 55. As explained in the Company's Reply Brief, RESA's approach could encourage customers to sign up for a program that does not materialize if not enough EGSs choose to participate in the ROI program. Duquesne Light RB, p. 30.

RESA argues that this issue is moot if the RFP is eliminated. RESA Ex., p. 25. The Company remains concerned that soliciting customers before EGSs commit to participate could result in disappointment for customers if EGSs decline to participate. Even if the Commission directs that notice be sent before EGS commitment, there are still many related issues that must be resolved if the Commission adopts an ROI Aggregation program. These issues include: (1) whether EGSs would sign up to provide service to a specific number or specific percentage of

customers; (2) whether some customers would not be able to participate if not enough EGSs sign up; and (3) how customers would be assigned to participating EGSs. See Duquesne Light RB, p. 21. These issues should be addressed if an ROI Aggregation program is adopted.

4. The ALJ's Recommendation To Reject RESA's Proposal To Require An Additional Letter Prior To The RFP Is Reasonable. RESA Ex. 9.

RESA excepts to the ALJ's recommendation to deny RESA's request for an additional mailing from the Commission to customers for the ROI program. RESA Ex., p. 26. Duquesne Light agrees with the ALJ's recommendation to deny RESA's request for additional mailings because it is unnecessary and will increase costs. Duquesne Light has attempted to follow the Commission's guidelines with respect to customer mailings. Duquesne Light is willing to provide letters to customers about the ROI program as directed by the Commission but notes that mailings are expensive and requests that the costs of all mailings regarding the ROI program should be paid by EGSs. See Duquesne Light RB, p. 30.

5. The ALJ Properly Rejected OCA's Proposal To Impose A 20% Customer Participation Cap For The ROI Program. OCA Ex. 2.

In its Exceptions, OCA argues that the ALJ improperly rejected OCA's request for a 20% customer participation cap for the ROI Program. OCA Ex., p. 7. The Commission denied the OCA's proposal for a 20% ROI customer participation cap in both the FE and PECO default service proceedings, and the OCA's proposal should be denied in this proceeding as well. *FE Order*, p. 112; *PECO Order*, p. 95. See also, Duquesne Light MB, pp. 52-53; Duquesne Light RB, p. 20.

6. The ALJ's Recommendation Regarding The Opt-In Electric Generation Supplier Service Program RFP Agreement Between Duquesne Light and EGSs Should Be Adopted. RESA Ex. 10.

RESA argues that the ALJ erred in recommending that the Commission approve Duquesne Light's proposed Opt-In Electric Generation Supplier Service Program Request For

Proposals and Agreement Between Duquesne Light and EGSs (“ROI Agreement”). RESA Ex. P. 27. Duquesne Light believes that the ROI Agreement is reasonable and should be approved. Duquesne Light MB, pp. 55-56; Duquesne Light RB, pp. 31-32. Duquesne Light recognizes that the Commission has not adopted ROI agreements for the FE Companies and PECO. *FE Order*, p. 124; *PECO Order*, pp. 106-107. However, an ROI agreement between Duquesne Light and EGSs is necessary because nothing in the Company’s existing agreements with EGSs or tariffs govern ROI arrangements between Duquesne Light and EGSs or provide necessary rules for the ROI program.

If the Commission does not adopt the ROI Agreement, Duquesne Light requests that the Commission adopt a separate process to develop an agreement.

C. REPLIES TO EXCEPTIONS ON THE STANDARD OFFER PROGRAM

1. The ALJ’s Recommendation For A 12-Month SO Program Term Is Fully Consistent With Commission Precedent And Should Be Approved. RESA Ex. 11.

In its Exceptions, RESA argues that the ALJ erred in approving a 12-month fixed price SO Program term. RESA Ex., p. 28. RESA prefers a 4-month introductory rate followed by an 8-month variable rate or fixed price term. RESA Ex., p. 28. RESA also argues that a 4-month/8-month structure is “now the Commission’s apparent policy preference per the *FE* and *PECO* decisions, and there is no viable reason to treat Duquesne differently from those EDCs.” RESA Ex., p. 28.

RESA’s argument that the 4-month/8-month structure for the SO Program is Commission policy is completely incorrect and is contrary to the Commission’s decisions in the *FE* and *PECO* cases. In both of these cases, the Commission approved a fixed price for a 12-month SO Program term, not separate prices for 4-month/8-month terms as stated by RESA. *FE Order*, p. 146; *PECO Order*, p. 114.

In addition, RESA mischaracterizes the Company's proposal as a "guaranteed savings" proposal that will ensure customer savings for the entire 12-month period. See RESA Ex., 11. The Company's proposal is not a "guaranteed savings" proposal that will require EGSs to change their offer when the PTC changes. Rather, it will allow EGSs to offer a fixed-price for a 12-month period. It will provide assured savings only until the next PTC change. Duquesne Light's proposal is consistent with the Commission's decisions in the FE and PECO proceedings and should be adopted.

2. Duquesne Light Cannot Make The IT Changes Necessary To Implement The Standard Offer Program By June 1, 2013. RESA Ex. 12. FES Ex. 5.

In Exceptions, both RESA and FES except to the ALJ's recommendation that Duquesne Light implement its SO Program on June 1, 2014 and argue that the Company should implement the SO Program on June 1, 2013. RESA Ex., pp. 29-30; FES Ex., pp. 16-18. Both RESA and FES argue that Duquesne Light should be able to accommodate customer switching under the Standard Offer Program without IT changes just as the Company has accommodated customer switching for the past several years. RESA Ex., p. 29; FES Ex., p. 16.

The Company disagrees with RESA's and FES' assertions. Switching customers under the SO Program is more complicated than switching customers under normal procedures. There will be multiple suppliers participating in the SO Program, and the enrollment process must accommodate systematic and fair assignment of customers to EGSs. Customer service representatives cannot do this effectively without IT system changes. EGSs must be notified of customers that are assigned to them. It would be extremely ineffective and a waste of resources to do this manually, so IT changes are necessary to make this an automated process. In addition, the Company must keep records of customers' interest in participating in the SO Program and of customers that are assigned to EGSs under the SO Program. IT changes must be made to

automate this process. These processes would be extremely time intensive and costly to do manually. In his testimony, Mr. Wolfe clearly explained the information technology changes required to implement the Standard Offer Program. Duquesne Light St. No. 6-R, pp. 6-7; Duquesne Light St. No. 6-RJ, pp. 2-3; Duquesne Light MB, pp. 61-65. Moreover, Duquesne Light is currently replacing its Customer Information System (“CIS”) and the scope of work planned for replacing the CIS system does not include the IT development and activities necessary to implement the SO Program. Mr. Wolfe explained that it will take an additional 9-12 months from completion of the CIS system to complete the IT development and testing necessary to implement the SO Program. Under the Company’s schedule, the full IT development and testing necessary for the SO Program cannot reasonably be completed until the end of the first quarter of 2014. Duquesne Light St. No. 6-RJ, p. 2.

It is to be noted that these IT changes will also permit accelerated switching through switch on connect and seamless moves by June 1, 2014 if the technologies are developed at the same time. Duquesne Light St. No. 6-RJ, p. 2.

In summary, RESA’s and FES’ contentions that Duquesne Light can implement the IT changes necessary for the SO Program by June 1, 2013, are unsupported by factual evidence and directly contrary to the testimony provided by Duquesne Light’s Director of Technology. Duquesne Light cannot implement the necessary IT changes by June 1, 2013. For the reasons explained herein and in Duquesne Light’s Main and Reply Briefs, RESA’s and FES’ proposal to implement the SO Program on June 1, 2013, should be denied.

3. The ALJ Properly Adopted The Company’s Proposal To Refer High Bill Callers To The SO Program. OCA Ex. 3.

In Exceptions, OCA argues that the Company should not refer high bill callers to the SO Program. OCA Ex., p. 9. The Commission has rejected the OCA’s proposal in both the FE and

PECO cases. *FE Order*, p. 139; *PECO Order*, pp. 118-119. The Company supports the Commission's prior guidance and decisions on this issue. *Duquesne Light MB*, p. 66; *Duquesne Light RB*, p. 42.

4. The ALJ Properly Recommended That The Commission Approve Duquesne Light's Standard Offer Customer Referral Program Rules and Supplier Agreement. RESA Ex. 14.

RESA excepts to the ALJ's recommendation that the Commission approve the Company's Standard Offer Customer Referral Program Rules and Supplier Agreement Between Duquesne Light and EGSs ("Standard Offer Agreement"). RESA Ex., p. 31. The Standard Offer Agreement should be approved for the same reasons that the ROI Program Agreement should be approved, as explained in Section B(6), above, or a process should be provided to develop the necessary agreement.

D. REPLIES TO COST RECOVERY EXCEPTIONS

1. The ALJ's Cost Recovery Recommendations Are Reasonable And Should Be Clarified To Reflect The Company's Updated Proposals. RESA Ex. 15; FES Ex. 9; Dominion Ex. 2.

RESA, FES and Dominion argue that the ALJ erred in recommending that EGSs be required to bear all costs of the RME Programs. RESA Ex., p. 31; FES Ex., p. 9; Dominion Ex., p. 3. Duquesne Light believes that its final cost recovery proposals in this proceeding are consistent with Commission guidance on this issue and should be approved.

As a point of clarification, Duquesne Light will incur certain capital costs to implement the Retail Market Enhancement ("RME") programs and has proposed to recover these capital costs through base rates. See *Duquesne Light St. No. 4*, pp. 22-24; Exhibit WVP-3. Therefore, under the Company's proposals, EGSs will not bear all costs for implementing the RME programs. However, the Company believes that it is reasonable and appropriate for EGSs to bear all other, non-capital costs for the RME programs because the primary beneficiaries of

RME programs are EGSs. See Duquesne Light MB, pp. 68-71; Duquesne Light RB, pp. 44-45. As noted in the Exceptions, the Company modified its cost recovery proposals in this proceeding to recover costs of the operating costs from participating EGSs where possible. Duquesne Light Ex., p. 3. Duquesne Light's proposals are consistent with Commission guidance and should be approved.

In Exceptions, RESA also objects to paying the costs of Duquesne Light's Choice Referral Team, which Duquesne Light proposes to form to specifically address customer questions regarding the SO Program and assist enrollment. RESA Ex., p. 30. Duquesne Light disagrees with RESA's argument. The Choice Referral Team will specifically address SO Program issues for the benefit of EGSs, including assisting customers in enrolling in the SO Program on an ongoing basis. Therefore, EGSs should pay the operating costs of the Choice Referral Team. Capital costs will be recovered in base rates.

E. REPLIES TO MISCELLANEOUS EXCEPTIONS

1. The ALJ's Recommendation To Allow Annual Reconciliation of Default Service Costs Should Be Adopted. RESA Ex. 19.

RESA argues that if the Commission adopts RESA's procurement proposals, then the Commission should adopt RESA's proposal for quarterly reconciliation of default service costs. RESA Ex., p. 37. As explained above, the Commission should not adopt RESA's procurement proposals. However, if the Commission were to adopt RESA's procurement proposals, the Company would not oppose quarterly reconciliation, provided that the Company's reconciliations are only subject to annual hearings consistent with Section 1307(e) of the Public Utility Code, 66 Pa.C.S. § 1307(e).

2. The ALJ Properly Rejected RESA's Proposal To Require Duquesne Light To Provide A Final PTC 45 Days In Advance Of Each Application Period. RESA Ex. 20.

In its Exceptions, RESA continues to argue that Duquesne Light should provide a final PTC 45 days in advance of each change in the PTC. RESA Ex., P. 38. RESA argues that Duquesne Light has not indicated any technological or operational barriers to providing a final PTC 45 days in advance. RESA Ex., p. 38.

In making this argument, RESA ignores the clear and unrefuted testimony of Duquesne Light witness, Mr. Pfrommer, which explained that the Company cannot post the final PTC sooner than 15 days before the effective date because the Company needs to close its books for the prior month and needs 15 days to do this. In addition, the Company's Federal Energy Regulatory Commission ("FERC") formula filing is submitted on May 15 of each year, establishing new transmission rates to become effective on June 1. Duquesne Light St. 4-RJ, p. 3. Therefore, the Company does not know its June 1, transmission rates 45 days in advance. See also Duquesne Light MB, pp. 76-78; Duquesne Light RB, p. 48. Duquesne Light simply does not have final data to post the final PTC 45 days in advance of each application period. In addition, RESA ignores that Duquesne Light provides an estimated PTC seven days after determining winning bids for each RFP. Therefore, EGSs know the estimated PTC well in advance of the date that rates go into effect. Duquesne Light MB, p. 77. For these reasons, and the reasons explained in the Company's Briefs, the ALJ's recommendation should be adopted.

3. RESA's Arguments Regarding Shopping Customer Participation In RME Programs, 5 Mills/kW Charge To Recover RME Program Costs And Recovery Of PJM Charges Have All Been Rejected By The Commission In The FE and PECO Default Service Proceedings And Should Be Rejected In This Case. RESA Ex. 17, 18, and 21.

In its Exceptions, RESA argues that the ALJ erred in recommending that: (1) shopping customers should be permitted to participate in the RME programs; (2) RESA's proposal to

include a 5 mills/kWh charge for default service to pay for RME programs and other costs should be denied; and (3) RESA's proposal that Duquesne Light recover PJM related charges for all customers, including non-shopping customers, through a non-bypassable charge should be denied. RESA Ex., pp. 35, 39.

Contrary to RESA's assertions, the ALJ's decisions on these issues were not in error. The ALJ's decisions are consistent with the Commission's decisions in both the FE and PECO proceedings. *FE Order*, pp. 107, 62-63, 78-84; *PECO Order*, p. 76. RESA has offered no basis to distinguish Duquesne Light from FE and PECO on these issues. The ALJ's recommendations should be adopted.

III. CONCLUSION

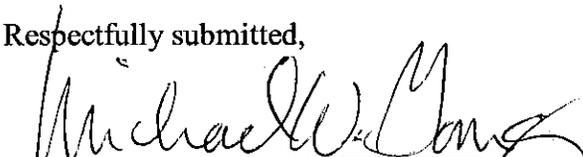
Duquesne Light's DSP VI plan carefully balances the Act 129 requirements for the competitive procurement of default service supply, and the continued development of the competitive retail market that was established by the Competition Act. The Company has carefully integrated its residential procurement plan and its RME programs to work together to continue to advance customers' comfort with participation in the competitive market. The Company has cooperated with major EGSs serving small customers in its service territory and consumer representatives to outline a reasonable template for RME cost recovery. For these reasons, the Company's DSP VI plan has received broad support from the parties. The ALJ correctly recognized the balance of the plan and efforts to resolve outstanding issues raised by the parties and appropriately recommended approval of most elements of the DSP VI plan. For these reasons, the Exceptions of objecting parties should be rejected.

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