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VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor (filing room)
PO Box 3265
Harrisburg, PA 17105-3265

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

Dear Secretary Chiavetta:

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

If you have any questions concerning this filing, please do not hesitate to contact my office.

Very truly yours,

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

TSS/jld/152169.1

Enclosures

cc: ALJ Katrina L. Dunderdale (via email and first class mail)
Per Certificate of Service
OSA (via email – ra-OSA@pa.gov)

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CERTIFICATE OF SERVICE

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

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Dated: December 17, 2012

**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 DOMINION RETAIL, INC.
AND INTERSTATE GAS SUPPLY, INC.
TO EXCEPTION OF OTHER PARTIES**

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 Reply to the Exceptions of Duquesne Light Company (“Duquesne” or the “Company”), the Office of Consumer Advocate (“OCA”), and the Retail Energy Supply Association (“RESA”) in the above-captioned matter.

On November 15, 2012, the Pennsylvania Public Utility Commission (“Commission”) issued the Recommended Decision (“RD”) of Administrative Law Judge (“ALJ”) Katrina L. Dunderdale in the above-captioned matter. Exceptions were filed by a number of parties on December 5, 2012. The EGS Parties also filed Exceptions, taking issue with the RD’s conclusion that EGSs should be totally responsible for all of the costs of the retail market enhancement (“RME”) programs adopted in that RD, and approving Duquesne Light Company (“Duquesne”) approach of assessing such costs to suppliers through the POR discount. The EGS Parties continue to disagree with those portions of the ALJ’s Order, but generally agree with the remainder.

Other parties to this proceeding have Excepted to the RD on various bases, including the procurement plan, customer participation caps for the Retail Opt-in program, and other issues. The EGS Parties offer their specific Replies to those Exceptions below:

I. REPLIES TO EXCEPTIONS OF THE OFFICE OF CONSUMER ADVOCATE (“OCA”)

Reply to OCA Exception No. 2

The ALJ correctly rejected the OCA’s twenty percent (20%) customer participation cap. (RD pp. 82-87; OCA Exceptions pp. 7-9).

The OCA Excepts to the ALJ’s Recommendation of a fifty percent (50%) customer participation cap. The basis of the OCA’s Exception is its belief that a fifty percent (50%) customer participation cap could place too much risk on the wholesale suppliers that supply default service power for Duquesne and thereby increase the PTC, since risk is always included in the price. The countervailing argument; that without sufficient critical mass of customers participating in the wholesale market, we would enshrine default service as the primary electricity supply option for customers in Pennsylvania, seems to be the more pressing need to be addressed here. It was on this basis that the Commission has twice rejected the OCA’s proposed 20% cap.¹

The OCA’s un-quantified concern that default service prices may be incrementally increased to address the incremental migration risk associated with a fifty percent (50%) customer participation cap as opposed to a twenty percent (20%) customer participation cap does not stand up in the face of the Commission’s desire to move more customers voluntarily into the competitive market. Limiting participation to twenty percent (20%) of customers will not

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”).

provide a sufficient number available customers to even entice suppliers to participate in a program, particularly if the Commission adopts the sort of aggregation program as it has done elsewhere. The tranches of customers could be very small under a 20% cap, which will not serve to entice suppliers. (Thomas J. Butler Statement No. 1-R, p. 7:8-10). Ultimately, the OCA's proposal is a recipe for a program failure and should be rejected outright.

II. REPLIES TO EXCEPTIONS OF RESA

Response to RESA Exception Nos. 1 and 2

The ALJ correctly and appropriately approved Duquesne's residential procurement program. (RD pp. 28-34; RESA Exceptions pp. 3-11)

RESA takes issue with the ALJ's approval of Duquesne's proposed procurement plan for residential customers that would exclusively employ twelve (12) month, full requirements contracts purchased in two (2) separate procurements for each of the two (2) years of Duquesne's default service plan. This also includes an annual price change at the end of each of the two (2) years and annual reconciliation. What this means in real terms is that Duquesne's transitional default service plan PTC would change only twice during the two (2) year program. This annual price change meshes with Duquesne's proposed retail enhancement programs that would operate on a one (1) year basis and would allow for the price of stability that is apparently important to the OCA with regard to the guarantee of discounts.

RESA's concern is that price stability is not a valid argument or a valid basis upon which to approve a default service plan, and does not comport with RESA's believe that the overarching purpose of the procurement plan is to provide market responsive prices to customers. What RESA fails to acknowledge, however, is that when one states that prices should be "market responsive", one must consider the relevant market. That is, if one wishes prices to be reflective of the instantaneous wholesale market price, the obvious solution would be

to put all customers on real-time pricing - which is the only price that includes no risk premium to account for future change and which will provide customers with the most market reflective price. At some point, however, the regulator must exercise judgment and determine what level of volatility is appropriate for a default service plan - particularly for residential customers whose tolerance for risk may be considerably less than that of commercial or industrial customers.

RESA has proposed including ninety (90) day procurements as a way of injecting obvious and unnecessary volatility into default service prices in the guise of adding market reflectivity. While it is true that quarterly reconciliation and quarterly PTC changes have been the norm for some time now, the procurements themselves have been a much more diversified mix which does not always mesh well with the inherent volatility of the ninety (90) day reconciliation process employed under the current regulations. It also is true, that under the current scheme, shopping is not stellar. The primary cause of the shopping levels however, is the competitive benchmark itself, a reconciled default service price, not the underlying procurement methodology.

The default service PTC appears to be the benchmark by which competitive offers are measured. The reconciliation of the default service PTC, which eliminates all recovery risks from the utility, is what insulates those rates from the wholesale market, because EDCs are free to offer a quarterly price which could diverge dramatically from the market. With an annual price that would be based upon annual fixed-price contracts, and the prices of the products will be known. There will be no spot market volatility included in these products, and, therefore, the utility should have no problem setting an accurate price for the coming year.

In the market for one (1) year products, it is likely that the PTC will be reflective of the actual market for those products. The same cannot be said for hybrid products, such as for those that are offered now that include block, spot, short-term and long-term contracts which all have

dramatic impacts upon default service prices, and which would pull those prices in directions that differed from the actual market price, depending upon which market one used.

The EGS parties believe that the balance point for all of the various products is the one near fixed price, full requirements product which, can be more readily compared, on an apples to apples basis, with the types of product that most suppliers offer in the marketplace, i.e., one-year fixed price product. In that market, EGSs should have the ability to deliver value to customers, even if the utilities' price to compare is fixed for the same period. Accordingly, the EGS parties reject RESA's approach to inject volatility into the process by switching to ninety (90) day procurements.

Reply to RESA Exception No. 7

The ALJ correctly recommended Duquesne's retail opt-in to include a twelve (12) month fixed price offering with a fifty (\$50.00) dollar bonus to be paid after three months (R.D. pp. 72-82, RESA Exceptions pp. 21-24).

RESA takes exception with the ALJ's approval of Duquesne's one-year fixed price product for its retail opt-in program. RESA would instead have the Commission impose the 4-month/8-month product that was approved in First Energy and PECO. While the EGS parties support the Commission's efforts in those service territories to create a one-year product which has less long term price risk for suppliers, the EGS parties nonetheless believe in large part – because of Duquesne's proposed annual procurements – that the risk to suppliers and participants in Duquesne's program would be minimalized. This would be true even if the program were recast as an opt-in aggregation as opposed to an auction, which the EGS Parties would not oppose. That is due to the nature of Duquesne default service procurement plan which, in itself is logical in this context.

The annual one-year discount will provide guaranteed savings for the majority of the program in any event. This should provide substantial certainty – which should satisfy the OCA

– while at that same time providing no little additional risk to suppliers. That is, the default service price to compare will be established at the time suppliers make their offers to customers. Accordingly, the EGS parties reject RESA’s argument and believe that Duquesne’s program should be approved as presented.

Reply to RESA Exception No. 20

The ALJ correctly rejected RESA’s quarterly price change proposal and appropriately approved Duquesne’s annual price change. (R.D. p. 187, RESA Exceptions pp. 37-38).

RESA excepts to the ALJ’s proposal to approve Duquesne’s annual change for the PTC, along with annual reconciliation. While it is true that in other default service plans, the EGS parties have supported quarterly price changes and quarterly reconciliations, none of those price changes included annual procurements in the manner that has been proposed by Duquesne in this case. As Mr. Butler stated in his testimony, based solely upon Duquesne’s procurement plan, he can agree with annual price changes and annual reconciliation. (Thomas J. Butler Statement No. 1, pp. 3-4). The EGS parties believe that this is appropriate under the circumstances of Duquesne’s plan. Switching to a more volatile quarterly price change regiment overnight (from Duquesne’s current two-year plus fixed price) certainly would cause large sale dissatisfaction among default service customers, and could cause them to react negatively toward the retail market. Accordingly, the EGS parties support Duquesne’s program and suggest that RESA’s quarterly price changes be rejected in this case.

III. REPLY TO DUQUESNE’S REQUEST FOR CLARIFICATION. (R.D. pp. 155-156, Duquesne Exceptions pp. 6-7).

Duquesne Light Requests at pp. 7-8, that the Commission clarify and amend the ALJ’s Recommended Decision to approve the Company’s amended cost recovery structure for the Retail Enhancement programs. The EGS parties agree with Duquesne’s proposed amended cost recovery proposal in that it would purport to recover the entire cost of the retail opt-in program

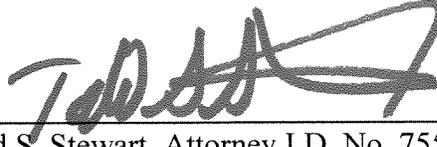
only from participating suppliers, and in so much as it would purport to recover the entire cost of the customer referral program from participating suppliers on a per-switch basis, with customers paying any remainder. The EGS Parties continue to believe, however, that customers should be asked to pay for some portion of the opt-in program, particularly if it remains as an auction program which could cost significantly more to implement.

To the extent that Duquesne has proposed to recover any cost of these two programs from suppliers using the purchase of receivables (“POR”) discount, the EGS parties violently object. To the extent that the ALJ’s Decision would initiate Duquesne’s proposed cost recovery split as between customers and suppliers, the EGS parties support Duquesne’s request. To the extent that Duquesne’s request for clarification would have the EGS (particularly EGSs that don’t participate in the opt-in or the referral program) be responsible for the cost of those programs, such a result is opposed by the EGS parties. It is simply not fair for the non-participating EGSs to be taxed for the purposes of paying for programs that directly benefit their competitors.

IV. CONCLUSION

The EGS Parties respectfully submit these Replies to Exceptions of other parties and urge the Commission to refine the ALJ’s Recommended Decision to make it consistent with the Exceptions already filed by the EGS Parties and in these Replies.

Respectfully submitted,



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