



COMMONWEALTH OF PENNSYLVANIA  
OFFICE OF SMALL BUSINESS ADVOCATE

December 17, 2012

**E-FILED**

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

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

Dear Secretary Chiavetta:

Enclosed for filing are the Reply Exceptions, on behalf of the Office of Small Business Advocate, in the above-docketed proceeding. As evidenced by the enclosed certificate of service, two copies have been served on all active parties in this case.

If you have any questions, please contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "S. Webb".

Sharon E. Webb  
Assistant Small Business Advocate  
Attorney ID #73995

Enclosures

cc: Parties of Record

Brian Kalcic

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Petition of Duquesne Light Company for** :  
**Approval of Default Service Plan for the Period** : **Docket No. P-2012-2301664**  
**June 1, 2013 Through May 31, 2015** :

**CERTIFICATE OF SERVICE**

I certify that I am serving two copies of the Reply Exceptions, on behalf of the Office of Small Business Advocate, by e-filing, e-mail and/or first-class mail (unless otherwise noted) upon the persons addressed below:

Hon. Katrina L. Dunderdale  
Administrative Law Judge  
Pa. Public Utility Commission  
301 Fifth Avenue - #220  
Pittsburgh, PA 15222  
(412) 565-3550  
(412) 565-5692 (fax)  
[kdunderdal@pa.gov](mailto:kdunderdal@pa.gov)

Jennedy S. Johnson, Esquire  
David T. Evrard, Esquire  
Office of Consumer Advocate  
555 Walnut Street - 5<sup>th</sup> Floor  
Harrisburg, PA 17101-1923  
(717) 783-5048  
(717) 783-7152 (fax)  
[jjohnson@paoca.org](mailto:jjohnson@paoca.org)  
[devrard@paoca.org](mailto:devrard@paoca.org)  
**(E-mail and Hand Delivery)**

Michael W. Gang, Esquire  
Anthony D. Kanagy, Esquire  
Post & Schell, PC  
17 North Second Street - 12<sup>th</sup> floor  
Harrisburg, PA 17101-1601  
(717) 731-1970  
(717) 731-1985 (fax)  
[mgang@postschell.com](mailto:mgang@postschell.com)  
[akanagy@postschell.com](mailto:akanagy@postschell.com)

Gary A. Jeffries  
Dominion Retail, Inc.  
501 Martindale Street - #400  
Pittsburgh, PA 15212-5817  
[Gary.A.Jeffries@dom.com](mailto:Gary.A.Jeffries@dom.com)  
**(E-Mail Only)**

Charles Daniel Shields, Esquire  
Bureau of Investigation and Enforcement  
Pennsylvania Public Utility Commission  
P. O. Box 3265  
Harrisburg, PA 17105-3265  
(717) 787-1976  
(717) 772-2677  
[chshields@pa.gov](mailto:chshields@pa.gov)  
**(E-mail and Hand Delivery)**

Todd S. Stewart, Esquire  
William E. Lehman, Esquire  
Hawke McKeon & Sniscak, LLP  
100 North 10<sup>th</sup> Street  
P. O. Box 1778  
Harrisburg, PA 17101  
(717) 236-1300  
(717) 236-4841 (fax)  
[tsstewart@hmslegal.com](mailto:tsstewart@hmslegal.com)  
[welehman@hmslegal.com](mailto:welehman@hmslegal.com)

Kryisia Kubiak  
Duquesne Light Company  
411 Seventh Avenue  
Pittsburgh, PA 15219  
(412) 393-6924  
(412) 393-5897 (fax)  
[kkubiak@duqlight.com](mailto:kkubiak@duqlight.com)

Vince Parisi, Esquire  
Interstate Gas Supply  
6100 Emerald Parkway  
Dublin, OH 43016  
[vparisi@igsenergy.com](mailto:vparisi@igsenergy.com)  
**(E-Mail Only)**

Theodore S. Robinson  
Citizen Power  
2121 Murray Avenue  
Pittsburgh, PA 15217  
(412) 421-7029  
(412) 721-6162 (fax)  
[robinson@citizenpower.com](mailto:robinson@citizenpower.com)

Stephen L. Huntoon, Esquire  
NextEra Energy Resources, LLC  
801 Pennsylvania Avenue, N.W. - #220  
Washington, DC 20004  
(202) 349-3348  
[shuntoon@nexteraenergy.com](mailto:shuntoon@nexteraenergy.com)

Patrick M. Cicero, Esquire  
Harry S. Geller, Esquire  
Pennsylvania Utility Law Project  
118 Locust Street  
Harrisburg, PA 17101  
(717) 236-9486  
(717) 233-4088 (fax)  
[pulp@palegalaid.net](mailto:pulp@palegalaid.net)

Victor P. Stabile, Esquire  
Dilworth Paxson, LLP  
112 Market Street - 8<sup>th</sup> Floor  
Harrisburg, PA 17101  
(717) 236-4812 x 101  
(717) 236-7811 (fax)  
[vstabile@dilworthlaw.com](mailto:vstabile@dilworthlaw.com)

Steven Estomin  
Matthew Kahal  
Exeter Associates, Inc.  
10480 Little Patuxent Parkway - #300  
Columbia, MD 21044  
(410) 992-7500  
[mkahal@exeterassociates.com](mailto:mkahal@exeterassociates.com)  
[sestomin@exeterassociates.com](mailto:sestomin@exeterassociates.com)  
**(E-mail Only)**

Barbara R. Alexander  
83 Wedgewood Drive  
Winthrop, ME 04364  
(207) 395-4143  
[barbalex@ctel.net](mailto:barbalex@ctel.net)  
**(E-mail Only)**

Pamela C. Polacek, Esquire  
Teresa K. Schmittberger, Esquire  
McNees Wallace & Nurick  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
(717) 232-8000  
(717) 260-1730 (fax)  
[ppolacek@mwn.com](mailto:ppolacek@mwn.com)  
[tschmittberger@mwn.com](mailto:tschmittberger@mwn.com)

Charles E. Thomas III, Esquire  
Thomas T. Niesen, Esquire  
Thomas Long Niesen & Kennard  
P. O. Box 9500  
Harrisburg, PA 17108-9500  
(717) 255-7600  
(717) 236-8278 (fax)  
[cet3@thomaslonglaw.com](mailto:cet3@thomaslonglaw.com)  
[tniesen@thomaslonglaw.com](mailto:tniesen@thomaslonglaw.com)

Brian J. Knipe, Esquire  
Buchanan Ingersoll & Rooney, PC  
17 North Second Street - 15<sup>th</sup> floor  
Harrisburg, PA 17101-1503  
(717) 237-4280  
(717) 233-0852 (fax)  
[brian.knipe@bipc.com](mailto:brian.knipe@bipc.com)

Amy M. Klodowski, Esquire  
FirstEnergy Solutions Corp.  
800 Cabin Hill Drive  
Greensburg, PA 15601  
(724) 838-6765  
(234) 678-2370 (fax)  
[aklodow@firstenergycorp.com](mailto:aklodow@firstenergycorp.com)

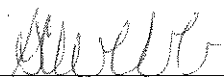
Brian R. Greene, Esquire  
The Greene Firm, LLC  
707 East Main Street - #1025  
Richmond, VA 23219  
(804) 672-4542  
(804) 672-4540 (fax)  
[bgreene@thegreenefirm.com](mailto:bgreene@thegreenefirm.com)

Edward Berzonsky  
Bureau of Technical Utility Services  
[eberzonsky@pa.gov](mailto:eberzonsky@pa.gov)  
**(E-mail Only)**

Stephen Bennett  
300 Exelon Way  
Kennett Square, PA 19348  
(610) 765-6594  
[stephen.bennett@exeloncorp.com](mailto:stephen.bennett@exeloncorp.com)

Divesh Gupta  
100 Constellation Way, Suite 500C  
Baltimore, MD 21202  
(410) 470-3158  
(443) 213-3556 (fax)  
[divesh.gupta@constellation.com](mailto:divesh.gupta@constellation.com)

Date: December 17, 2012

  
\_\_\_\_\_  
Sharon E. Webb  
Assistant Small Business Advocate  
Attorney ID No. 73995

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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**REPLY EXCEPTIONS  
ON BEHALF OF THE  
OFFICE OF SMALL BUSINESS ADVOCATE**

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**Sharon E. Webb  
Assistant Small Business Advocate  
Attorney ID No. 73995**

**For: Steven C. Gray  
Acting Small Business Advocate  
Attorney ID No. 77538**

**Office of Small Business Advocate  
300 North Second Street, Suite 1102  
Harrisburg, PA 17101  
(717) 783-2525**

**Dated: December 17, 2012**

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## **I. INTRODUCTION AND PROCEDURAL HISTORY**

On April 27, 2012, the Duquesne Light Company (“Duquesne” or “Company”) initiated the above-captioned proceeding by filing with the Pennsylvania Public Utility Commission (“Commission”) a Petition for Approval of a Default Service Plan for the period of June 1, 2013, through May 31, 2015 (“Petition” or “POLR VI”) pursuant to Section 2807(e) of the Public Utility Code, 66 Pa. C.S. §2807(e), and 52 Pa. Code §5.41, and the Commissions Retail Market Orders at Docket No. I-2011-2237952.

On May 17, 2012, the OSBA filed a Notice of Intervention, a Public Statement, an Answer to the Petition, and a Notice of Appearance.

An Answer and Notice of Intervention were also filed by the Office of Consumer Advocate (“OCA”) on May 14, 2012. A Notice of Appearance was filed by the Commission’s Bureau of Investigation and Enforcement (“I&E”) on May 14, 2012.

Interventions were filed by: Dominion Retail, d/b/a Dominion Energy Solutions and Interstate Gas Supply d/b/a IGS Energy (“Dominion/IGS”); Noble Americas Energy Solutions, LLC (“Noble”); Citizen Power, Inc. (“Citizens”); FirstEnergy Solutions (“FES”); Retail Energy Supply Association (“RESA”); Constellation New Energy, Inc., with Exelon Generation Corp., LLC (“Constellation and ExGen”); Duquesne Industrial Intervenors (“DIIP”); Coalition for Affordable Utility Services and Energy Efficiency of Pennsylvania (“CAUSE-PA”); NextEra Energy Services Pennsylvania and NextEra Power Marketing (“NextEra”).

A Prehearing Conference took place on June 8, 2012, before Administrative Law Judge (“ALJ”) Katrina L. Dunderdale, where the parties agreed to a procedural schedule and certain discovery modifications.

The OSBA submitted the Direct Testimony, Rebuttal Testimony and Surrebuttal Testimony of its witness, Brian Kalcic.

Evidentiary hearings were held in Pittsburgh, with many Harrisburg Parties appearing telephonically from the Keystone Building, on September 13, 2012. No cross examination was conducted after the parties reviewed the Rejoinder Testimony filed by the Company. The testimony and exhibits of the parties were entered into the record at the evidentiary hearing.

The OSBA submitted its Main Brief on October 5, 2012. The OSBA submitted a Reply Brief on October 22, 2012.

The Recommended Decision ("RD") of ALJ Dunderdale was issued on November 9, 2012. The OSBA filed an Exception to the RD in accordance with the Secretarial Letter on December 5, 2012. The OSBA submits the following Reply Exceptions in response to certain of the Exceptions filed by RESA, Dominion/IGS, and FES.

## II. REPLY EXCEPTIONS

### A. Procurement Mix

**Reply to RESA Exception No. 3: The ALJ erred in rejecting RESA's proposal to replace Duquesne's proposed small C&I portfolio of 100% 12-month contracts with 50% 12-month contracts and 50% 3-month contracts to ensure more market reflective pricing. (RD at 43), (RESA Exceptions at 11-12)**

Duquesne proposed to offer Small C&I customers a fixed-price default service option for the 2013-2015 default service period. Default service rates would be reset twice per year and reconciled on an annual basis. All Small C&I default service supply would be provided via one-year fixed price full requirements, load following contracts that would be awarded as the result of an RFP-based procurement.<sup>1</sup>

Under the Company's current default service program (POLR V), Duquesne is authorized to use a mix of full requirements load-following contracts ranging from 5 months to 17 months in length to serve Small C&I customers. Procurements generally take place between one and seven months prior to the delivery of energy, and the contracts are not overlapping (or laddered). Default service rates are currently reset once per year.<sup>2</sup>

As compared to POLR V, the Company has proposed to adjust Small C&I default service rates more frequently, and procure default service supply closer to the delivery

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<sup>1</sup> OSBA Main Brief at 7, *citing* OSBA Statement No. 1 at 2.

<sup>2</sup> OSBA Main Brief at 8, *citing* OSBA Statement No. 1 at 4.

date of the energy. Ultimately, the Company's proposal is to make Small C&I default service rates more market responsive under POLR VI.<sup>3</sup>

Duquesne also recognizes the need to provide Small C&I customers "some level of rate stability moving from one default service plant to another."<sup>4</sup> Laddering the Small C&I procurement contracts will limit the turnover in default service supply to 50% (of the total supply) at each procurement. The OSBA continues to believe that price stability should remain an important consideration in the design of a default service procurement plan, and the OSBA believes that Duquesne's proposed approach should result in reasonable price stability for Small C&I default service customers over the 2013-2015 default service period. The ALJ agreed and recommended the approval of Duquesne Light's proposed procurement plan for small C&I noting that, "[t]he plan will provide price stability while moving this load towards greater market responsiveness."<sup>5</sup>

RESA objected to the Company's proposal and recommends that Duquesne be directed to modify its proposed portfolio for Small C&I to consist of "50% 12-month contracts, 50% quarterly contracts, with the PTC being adjusted quarterly."<sup>6</sup> RESA rationalizes its recommended modifications to the Company's procurement for Small

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<sup>3</sup> OSBA Main Brief at 8, *citing* OSBA Statement No. 1 at 4.

<sup>4</sup> OSBA Main Brief at 8, *citing* OSBA Statement No. 1 at 4, and Duquesne Statement No 2 at 13.

<sup>5</sup> Recommended Decision at 43.

<sup>6</sup> RESA Exceptions at 11.

C&I, in part, based on the Commission's RMI End State Proposal set forth in the Commission's *November 2012 Tentative Order*.<sup>7</sup>

The OSBA's objection to RESA's proposal is twofold. First, as OSBA witness Mr. Kalcic testified, RESA's proposal "would deemphasize and/or minimize price stability in favor of making default service rates more reflective of current market prices."<sup>8</sup> As set forth in more fully in the OSBA's Main Brief, Act 129 of 2008 replaced the "current market price" standard with the requirement that an EDC's procurement plan is to ensure adequate and reliable service through a "prudent mix of contracts...designed to ensure...the least cost to [default service] customers over time."<sup>9</sup> RESA's narrow focus on current market prices when procuring default supply is misplaced.

Second, as justification for its drastic modifications to Duquesne's proposed procurement strategy for Small C&I customers, RESA cites to the RMI End State Proposal in the Commission's *November 2012 Tentative Order*. However, the End State Proposal with which RESA seeks to conform, is a tentative proposal which may be further modified after vetting by interested parties, and is not supposed to become effective in whatever final form until "after the expiration of the current default service plans that are currently pending review/approval by the Commission" in 2015.<sup>10</sup>

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<sup>7</sup> RESA Exceptions at 12.

<sup>8</sup> OSBA Statement No. 2 at 10.

<sup>9</sup> 66 Pa. C.S. §2807(e)(3,4). See OSBA Main Brief at 4 for a general discussion of the change in legal standards applicable to default service. See also OSBA Statement No. 2 at 10.

<sup>10</sup> November 8, 2012 Order at 12, Docket No. I-2011-2237952.

RESA's proposed procurement mix must be rejected. As set forth herein above, as well as in in the OSBA's Main Brief, the OSBA agrees with the Company's proposed procurement strategy for the Small C&I procurement group because it continues to provide reasonable price stability for Small C&I default service customers. The Small C&I procurement group would continue to include all customers with peak demands of less than 25 kW taking service on Duquesne's Rate GS/GM – General Service Small and Medium or Rate GMH – General Service Heating rate schedules and should be approved.<sup>11</sup>

For the reasons set forth above, the Commission should deny RESA's Exception No. 3, and adopt the ALJ's recommendation.

**Reply to RESA Exception No. 4: The ALJ erred in rejecting RESA's proposal to replace Duquesne's proposed medium C&I portfolio of 100% 6-month contracts with 100% 3-month contracts. (RD at 48), (RESA Exceptions at 12-13)**

Duquesne proposed to offer Medium C&I customers a fixed-price default service option for the 2013-2015 default service period. Default service rates would be reset twice per year and reconciled on an annual basis. All Medium C&I default service supply would be provided via six-month fixed price full requirements, load following contracts that would be awarded on an RFP-based procurement.<sup>12</sup>

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<sup>11</sup> OSBA Main Brief at 7.

<sup>12</sup> OSBA Main Brief at 10, and OSBA Statement No. 1 at 3.

The Company argued that Medium C&I customers exhibit growing sophistication with regard to competitive options, as evidenced by the fact that electric generation suppliers (“EGSs”) are now providing 66% of the total Medium C&I load. Duquesne claims that Medium C&I customers do not require as much price stability in their default service rates as they did under POLR V. As such, the Company’s proposed modifications are intended to deemphasize price stability in favor of making Medium C&I default service rates more reflective of current market prices.<sup>13</sup>

As OSBA witness Mr. Kalcic testified, the continued development of a competitive retail supply market in the Company’s service territory does not obviate the need for price stability for Duquesne’s Medium C&I default service customers. Certainly, as the retail market for electric supply matures, Medium C&I customers may be expected to have more options to remaining on default service, and therefore more opportunities to purchase energy at a (longer term) fixed rate, if desired. However, as Mr. Kalcic also testified, not all customers chose to shop. Some customers may look to shop but end up staying with default service because they do not receive an attractive offer. Whatever their reasons for not shopping with an alternative supplier, those customers that remain on default service should not be saddled with an unnecessarily volatile rate.

Price stability should remain an important consideration when designing a default service procurement plan.<sup>14</sup> Duquesne’s proposal for POLR VI would have 100% of the default service supply for Medium C&I customers turn over every six months beginning

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<sup>13</sup> OSBA Main Brief at 10, and OSBA Statement No. 1 at 5.

<sup>14</sup> OSBA Main Brief at 10, and OSBA Statement No. 1 at 6

in December 2013. Such a complete turnover could lead to unreasonable default service price volatility, depending on the movement in market prices.

As an alternative, the OSBA recommended a compromise in which Duquesne would utilize one-year (non-laddered) contracts to acquire 100% of the Medium C&I default service supply. This approach is similar to procurement plan approved in POLR V, except for the elimination of laddered contracts. Under the OSBA's alternative proposal, all procurements should generally take place no more than two months prior to delivery of the default supply just as under Duquesne's proposal.

In its Exceptions, just as in its Main Brief, RESA recommends procuring 100% of the default supply for Medium C&I customers through three-month (quarterly) supply contracts because it would be more "market reflective."<sup>15</sup> As it did with Small C&I, RESA rationalizes its recommended modifications to the Company's procurement for Medium C&I, in part, based on the Commission's RMI End State Proposal set forth in the Commission's September 27, 2012 Secretarial Letter, and November 8, 2012 Tentative Order.<sup>16</sup>

The OSBA's objection to RESA's proposal for Medium C&I procurements is twofold and largely mirrors the arguments set forth above relative to Small C&I. First, as OSBA witness Mr. Kalcic testified, RESA's proposal "would deemphasize and/or minimize price stability in favor of making default service rates more reflective of current market prices."<sup>17</sup> Act 129 of 2008 replaced the "current market price" standard with the

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<sup>15</sup> RESA Main Brief at 31.

<sup>16</sup> *Id.*

<sup>17</sup> OSBA Reply Brief at 8, and OSBA Statement No. 2 at 10.

requirement that an EDC's procurement plan is to ensure adequate and reliable service through a "prudent mix of contracts...designed to ensure...the least cost to [default service] customers over time."<sup>18</sup> RESA's narrow focus on current market prices when procuring default supply is again misplaced.

Second, as justification for its drastic modifications to Duquesne's proposed procurement strategy for Medium C&I customers, RESA cites to the RMI End State Proposal in the Commission's September 27, 2012 Secretarial Letter. However, the End State Proposal with which RESA seeks to conform, is a tentative proposal which may be modified after vetting by interested parties, and is not supposed to become effective in whatever final form until "after the expiration of the current default service plans that are currently pending review/approval by the Commission."<sup>19</sup>

As set forth in the OSBA's Main Brief, the continued development of a competitive retail supply market in the Company's service territory does not obviate the need for price stability for Duquesne's Medium C&I default service customers. Certainly, as the retail market for electric supply matures, Medium C&I customers may be expected to have more options to remaining on default service, and therefore more opportunities to purchase energy at a (longer term) fixed rate, if desired. However, not all customers chose to shop. Some customers may look to shop but end up staying with default service because they do not receive an attractive offer. Whatever their reasons for

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<sup>18</sup> 66 Pa. C.S. §2807(e)(3.4). *See* OSBA Main Brief at 4 for a general discussion of the change in legal standards applicable to default service. *See also* OSBA Statement No. 2 at 10.

<sup>19</sup> September 27, 2012 Secretarial Letter, Docket No. I-2011-2237952.

not shopping with an alternative supplier, those customers that remain on default service should not be saddled with an unnecessarily volatile rate.

Price stability should remain an important consideration when designing a default service procurement plan.<sup>20</sup> RESA's proposal for POLR VI would have 100% of the default service supply for Medium C&I customers turn over every three months beginning in December 2013. Such a complete turnover could lead to unreasonable default service price volatility, depending on the movement in market prices.

The OSBA respectfully requests that Duquesne's Medium C&I Procurement Plan be modified consistent with the OSBA's recommendations in which Duquesne would utilize one-year (non-laddered) contracts to acquire 100% of the Medium C&I default service supply. This approach is similar to procurement plan approved in POLR V, except for the elimination of laddered contracts. Under the OSBA's alternative proposal, all procurements should generally take place no more than two months prior to delivery of the default supply just as under Duquesne's proposal.

For the reasons set forth above, the Commission should deny RESA's Exception No. 4, and adopt the ALJ's recommendation.

**Reply to RESA Exception No. 5: The ALJ erred in rejecting RESA's proposal to eliminate Duquesne's proposed procurement of residential and small C&I default service supply contracts beyond May 31, 2015. (RD at 53-57), (RESA Exceptions at 14-16)**

The OSBA will only respond to RESA's Exception relative to small C&I customers. The OSBA takes no position on procurements relating to residential customers.

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<sup>20</sup> OSBA Main Brief at 10.

Duquesne's proposed small C&I procurement methodology provided for the acquisition of 50% of its supply for Small C&I customers to extend through November 30, 2015, or six months beyond the POLR VI plan period. However, in the event that legal or regulatory developments preclude Duquesne from continuing to serve as the default service provider after May 31, 2015, the Commission can adjust the relevant (November 2014) Small C&I procurement solicitation, as necessary.

In its Exceptions, just as in its Main Brief, RESA objected to Duquesne's procurement proposal for Small C&I which extends 6 months beyond end of the proposed default service plan.<sup>21</sup> The Company did not propose to procure energy for Medium C&I customers beyond May 31, 2015. The Company's Small C&I procurement methodology provides for the acquisition of 50% of its supply for Small C&I customers to extend through November 30, 2015, or six months beyond the POLR VI plan period. However, as set forth in the OSBA's Main and Reply Briefs, in the event that legal or regulatory developments preclude Duquesne from continuing to serve as the default service provider after May 31, 2015, the Commission can adjust the relevant (November 2014) Small C&I procurement solicitation, as necessary.<sup>22</sup>

For the reasons set forth above, the Commission should deny RESA's Exception No.5, and adopt the ALJ's recommendation.

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<sup>21</sup> RESA Exceptions at 7, and RESA Main Brief at 34.

<sup>22</sup> OSBA Main Brief at 11, and OSBA Reply Brief at 8-9.

**B. Cost Recovery for Retail Market Enhancements**

**Reply to RESA Exception No. 15: The ALJ erred in recommending that EGSs be solely responsible for all costs associated with RME programs. (RD at 152), (RESA Exceptions at 31).**

**Reply to FES Exception No. 3: The RD's conclusion that Duquesne Light should recover the costs of the Retail Opt-In Program and the costs of the Standard Offer Program solely from EGSs and potentially through a discount on purchase of receivables is erroneous and unsupported by the evidence of record. (RD at 142-153), (FES Exceptions at 9).**

**Reply to Dominion/IGS Exception No. 2: The ALJ erred in approving without modification Duquesne's proposed cost recovery mechanism for the retail enhancements. (RD at 142-153), (FES Exceptions at 9).**

The OSBA notes at that outset that the only retail market enhancement program applicable to small business customers in Duquesne's proposed plan is the New/Moving Customer Referral Program, which should involve little or no costs to implement. As such, the OSBA addressed the recovery of program costs for retail market enhancements generally, rather than with respect to each specific program.<sup>23</sup>

The OSBA agreed with Duquesne's initial proposal to recover the costs associated with its retail market enhancements through a discount on its purchased EGS receivables. The Company's proposal was, and is, consistent with the Commission's directive in its Retail Market Order.<sup>24</sup> However, in testimony the EGSs expressed concern about the recovery of RME costs, Standard Offer Program ("SO") costs in particular, through the POR discount since that result would require non-participating

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<sup>23</sup> OSBA Main Brief at 16, *citing* OSBA Statement No. 1 at 8.

<sup>24</sup> See the *Investigation of Pennsylvania's Retail Electricity Market: Intermediate Work Plan*, Docket No. I-2011-2237952.

EGSs to pay a portion of the costs. In response, Duquesne indicated that it would accept a \$20 per customer acquisition fee for the SO Program as the primary costs recovery mechanism, with a back-up fee allocated evenly to all EGSs serving the applicable customer class for any unrecovered costs.<sup>25</sup>

RESA, in contrast, proposed to recover the costs of Duquesne's Opt-In and Standard Offer Programs from default service customers.<sup>26</sup> In the alternative, RESA argues, and FES agrees, that such costs should be recovered through a non-bypassable charge applicable to all distribution customers eligible for the enhancement programs.<sup>27</sup>

In support of that position, witnesses for both FES and RESA argued that Duquesne's retail market enhancements benefit default service customers because all customers benefit from the development of a more robust/competitive electricity market. The OSBA agreed that all customers benefit from a competitive electricity market, but all customers also benefit from Duquesne's default service procurement program. As the OSBA argued in its Main Brief, citing to the Rebuttal Testimony of Mr. Kalcic:

I agree that all customers benefit from a competitive retail electricity market. However, it is also true that Duquesne's default service procurement program benefits *all* customers since it provides shopping customer a viable option to EGS offers.

Furthermore, the costs of running the Opt-In auction are fundamentally no different than the RFP-related costs that Duquesne incurs to acquire electricity supply for

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<sup>25</sup> Duquesne Exceptions at 6, *citing* Duquesne Light St. No. 3-RJ at 32.

<sup>26</sup> RESA Statement No. 2 at 5 and 23.

<sup>27</sup> RESA Statement No. 2 at 5 and 23, and FES Statement No. 1 at 18.

default service customers. Therefore, if default service customers are to share in the cost of Duquesne's RME programs (as Messrs. Butler and Banks suggest), then it is equally appropriate that shopping customers contribute toward the cost of Duquesne's default service program. In other words, cost sharing should be a two-way street.

On the other hand, if Duquesne's RFP-related procurement costs are the sole responsibility of default service customers (as is presently the case), then the costs of Duquesne's RME programs should be the sole responsibility of shopping customers (or their EGSs).<sup>28</sup>

RESA witness Mr. Kallaher goes even a step further, seeking to penalize default service customers who choose not to shop. He suggests that "the costs of the retail market enhancements RESA advocates are caused by the existence of default service, without which customers would all be on competitive supply, eliminating the need for measures to encourage them to move away from the utility."<sup>29</sup> RESA implies that if all Duquesne customers only had the good sense to shop, all of these costs would be avoided. However, just as it is inequitable to penalize non-participating suppliers for the costs of the SO Program, it is likewise inequitable to penalize default service customers who choose not to shop by forcing them to subsidize customer choice in the Commonwealth.<sup>30</sup>

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<sup>28</sup> OSBA Main Brief at 17, *citing* OSBA Statement No. 2 at 3.

<sup>29</sup> OSBA Main Brief at 17-18, *citing* RESA Statement No. 2 at 24.

<sup>30</sup> OSBA Main Brief at 18, *citing* OSBA Statement No. 2 at 3.

In its Exception, RESA cites to the Commission's recent ruling in PECO's default service proceeding.<sup>31</sup> The PECO DSP Order, however, is not controlling in this proceeding. If the Commission wanted to impose the exact same programs with the exact same parameters on all EDCs it could have. Rather, the Commission issued a set of directives for default service providers ("DSPs") to follow in the Retail Market Investigation Intermediate Work Plan Final Order ("Intermediate Work Plan Order"),<sup>32</sup> but left some discretion to DSPs to tailor their respective retail market enhancement programs to their individual situations.

Therefore the OSBA respectfully requests the Commission reject the Exceptions of RESA, FES, and Dominion/IGS, and adopt the ALJ's recommendation.

**Reply to RESA Exception No. 18: The ALJ erred in rejecting RESA's proposed 5 mills/kWh charge. (RD at 179), (RESA Exceptions at 35).**

RESA's has proposed that a new charge be added to the PTC in the amount of \$0.005/kWh. According to RESA, the additional charge would pay default service costs not otherwise collected by Duquesne as well as costs related to retail market enhancements. Duquesne would retain 10% of the remainder of the proceeds from the additional charge with the balance being returned to all distribution customers, despite being collected only from default service customers. The OSBA outlines in pp. 20-23 of its Main Brief, and pp. 14-15 of its Reply Brief why this proposed adder is unnecessary, contrary to law, and inequitable.

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<sup>31</sup> RESA Exceptions at 32, *citing Petition of PECO Company for Approval of its Default Service Program*, Docket No. P-2012-2283641, Opinion and Order at 15 (Order entered November 21, 2012).

<sup>32</sup> *Investigation of Pennsylvania's Retail Electricity Market: Intermediate Work Plan*, Docket No. I-2011-2237952 (Order Entered March 2, 2012).

By way of further argument against RESA's proposed adder, the OSBA notes that it is in direct contravention of many of the themes contained in RESA's Main Brief, specifically, RESA's views regarding the impropriety of cross-subsidization and distortion of the PTC.

In its Main Brief, RESA argues that the adder is appropriate based on unsubstantiated claims that shopping customers are paying for default service costs in distribution rates, *i.e.*, that Duquesne's rates are not fully unbundled, and thereby subsidize default service customers.<sup>33</sup> However, RESA then takes the exact opposite position that cross-subsidization of shopping customers by default service customers (through the adder) is appropriate. Although RESA argues that all customers will benefit from the retail market initiatives, RESA contends that only default service customers should pay for them, thus resulting in default service customers subsidizing shopping customers. RESA cannot have it both ways. As OSBA witness Mr. Kalcic explained, cost sharing should be a two-way street.<sup>34</sup>

In RESA's view, default service ratepayers should pay for all of the costs of providing default service, and then pay for the costs of EGS marketing efforts and RMI initiatives (through the adder). This approach is not consistent with cost causation and it is not equitable.

Similarly, RESA argues against annual reconciliation because the result "will be to divorce the default service rates from underlying wholesale costs...thus distorting [customers'] perception of the market price of energy."<sup>35</sup> But, RESA's proposed adder will do just that by

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<sup>33</sup> RESA Main Brief at 87. The OSBA disagrees with this after-the-fact justification for the adder and notes that if RESA had a genuine concern about default service costs being recovered in distribution rates, it should have raised the issue in Duquesne's most recent base rates case.

<sup>34</sup> OSBA Statement No. 2 at 3.

<sup>35</sup> RESA Main Brief at 72.

artificially inflating the PTC due to the fact that the surcharge is not based on the true cost of providing default service.

Lastly in its Exceptions, RESA acknowledges the Commission's recent rejection of a similar charge in the PECO Default Service proceeding but states that it believes the charge is appropriate and supported by the record in this case.<sup>36</sup>

As set forth herein above, RESA's proposed adder is inconsistent with its own arguments against cross-subsidization and distortion of the PTC.

Therefore the OSBA respectfully requests the Commission reject RESA's Exception and adopt the ALJ's recommendation.

### **C. Reconciliation of Default Service Costs**

**Reply to RESA Exception No. 19: The ALJ erred in recommending approval of Duquesne's proposal to reconcile default service supply costs annually and by rejecting RESA's proposal to reconcile quarterly. (RD at 183), (RESA Exceptions at 37).**

The Company proposed, and the OSBA supported, the reconciliation of over-collections and under-collections associated with the respective default service rates paid by Small C&I and Medium C&I customers on an annual basis.

Consistent with its procurement proposals, RESA again in its Exceptions, recommends that Duquesne reconcile its default service rates quarterly.<sup>37</sup> However, as noted in the OSBA's Reply Brief, RESA's quarterly reconciliation proposal is premised upon the Commission approving RESA's procurement plans. Absent such approval,

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<sup>36</sup> RESA Exceptions at 36.

<sup>37</sup> OSBA Reply Brief at 16.

there would be no cause for quarterly reconciliation of rates. Additionally, RESA has failed to provide any evidence that annual reconciliation would be inappropriate under Duquesne's Small C&I and Medium C&I procurement plans. The OSBA supports the Company's proposal for the reconciliation of over-collections and under-collections associated with the respective default service rates paid by Small C&I and Medium C&I customers on an annual basis.<sup>38</sup>

Therefore the OSBA respectfully requests the Commission reject RESA's Exception and adopt the ALJ's recommendation.

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<sup>38</sup> OSBA Reply Brief at 16, *citing* OSBA Statement No. 2 at 11.

### III. CONCLUSION

Wherefore, the OSBA respectfully requests that the Commission deny the foregoing Exceptions, and approve the Company's proposed Opt-In and Standard Offer Programs which limit participation to residential customers.

Respectfully submitted,



Sharon E. Webb  
Assistant Small Business Advocate  
Attorney ID No. 73995

For:

Steven C. Gray  
Acting Small Business Advocate  
Attorney ID No. 77538

Office of Small Business Advocate  
300 North Second Street, Suite 1102  
Harrisburg, PA 17101  
(717) 783-2525  
(717) 783-2831 (fax)

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