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March 25, 2013

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
400 North Street, 2nd Floor, North
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RE:

Petition of PECO Energy Company for Approval of its Default Service Program II, Docket No. P-2012-2283641

Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company for Approval of Their Default Service Programs, Docket Nos. P-2011-2273650, P-2011-2273668, P-2011-2273669, P-2011-2273670

Petition of PPL Electric Utilities Corporation for Approval of a Default Service Program and Procurement Plan, Docket No. P-2012-2302074

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:

By this letter, Direct Energy Services, LLC provides its comments in response to the above-captioned Tentative Order. Copies of these comments have been provided in accordance with the attached Certificate of Service.

Sincerely,

A handwritten signature in cursive script that reads "Daniel Clearfield".

Daniel Clearfield

DC/jls

Enclosure

cc: Certificate of Service (w/enc)
Office of Special Assistants (w/enc)

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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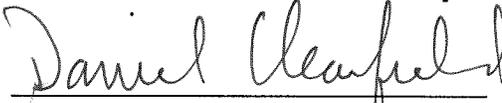
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Date: March 25, 2013

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PECO Energy Company for Approval of its Default Service Program II	:	Docket Nos.	P-2012-2283641
	:		
	:		
Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company for Approval of Their Default Service Programs	:		P-2011-2273650 P-2011-2273668 P-2011-2273669 P-2011-2273670
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Petition of PPL Electric Utilities Corporation for Approval of a Default Service Program and Procurement Plan	:		P-2012-2302074
	:		
	:		
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	:		P-2012-2301664

**COMMENTS OF
DIRECT ENERGY SERVICES, LLC
TO TENTATIVE ORDER ON RECONSIDERATION
DATED MARCH 14, 2013**

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I. INTRODUCTION

Direct Energy Services, LLC (“Direct Energy”) submits these Comments to the Tentative Order on Reconsideration (“Tentative Order”) issued on March 14, 2013 by the Pennsylvania Public Utility Commission (“Commission” or “PUC”). In the Tentative Order, the Commission expressed concern over the implementation of Retail Opt-In Aggregation Programs (“ROI Program”) by the major electric distribution companies (“EDCs”).

Direct Energy believes that, while the ROI Program, as originally ordered by the Commission, is a reasonable and fair way to introduce default service customers to the competitive market, if the Commission believes that the need exists to improve the ROI Program, modifications should be kept as narrow as possible. Significant modifications (or outright cancellation) could rob default customers of significant benefits. Each month that the ROI Program is delayed, customer will lose the opportunity for approximately \$1,350,000 in savings (based on the recommended 7% discount from the next available price to compare (“PTC”)).¹ In addition, Pennsylvania customers will be denied the benefit of approximately \$16 million that would result from the \$50 bonus.² These potential savings warrant the resolution of this matter in an expedient manner and the implementation of the ROI Program as soon as practical.

Significant changes in (or cancellation of) the ROI Program would negate the significant expenditures of time and effort that have already been made by EDCs and by electric generation suppliers (“EGSs”) to prepare for the ROI Program (as originally structured by the Commission). Moreover, the modifications should enhance the existing terms of the program, if possible, and

¹ This is assuming that 10% of customers remaining on default service participate in the opt-in program.

² This calculation is also based on a 10% participation rate.

increase the chances that customers who voluntarily elect to participate will have a positive shopping experience, and that the ROI Program will be viewed by all as in the public interest.

Direct Energy recommends the following modification to the discount structure of the ROI Program. The ROI Program should offer a 7% reduction from the PTC (at the time of the offer) for a 12-month period. This would be instead of the 5% reduction for a 4-month period followed by a fixed price for the an 8-month period. In addition, in order to assure the Commission that the benefits to the program will outweigh the costs, Direct Energy supports a directive that assigns 100% of the costs of the ROI Program to participating EGSs. Based on prior estimates by the EDCs, those costs should not exceed \$1 per customer. If the actual costs are more than \$1.00 per customer receiving an offer letter, Direct Energy would request that the additional costs be reviewed and confirmed as necessary by the Commission.

Direct Energy does not believe that the Commission needs to be concerned about the fact that, as presently constituted, the offer letter will be sent by the EDC. Other programs have utilized an EDC letter to provide EGS offers and have not elicited any negative reaction or confusion insofar as Direct Energy is aware. However if the Commission remains concerned about this point, it can order additional disclaimers on the offer letter, as well as in the course of any discussion by EDC (and PUC) customer service representatives, if customers call with questions. The letter could also be modified so that it comes from both the EDC and the Commission.

In summary, if the Commission is going to modify the ROI Program, it should: (a) eliminate the need for comparative calculations between the ROI Program and the Standard Offer Program by ordering that the ROI product be a 12 month, 7% discount from the PTC at the time of the offer; (b) continue to provide a “longevity” bonus of \$50 to customers who stay with

the ROI Program for the initial 4-month period; (c) order that EGSs will bear the costs of the ROI Program, assuming that the costs will be approximately \$1 per offer; (d) permit the ROI Program to be implemented prior to the start date of Standard Offer Program; (e) permit the ROI Program to be implemented as close as possible to the original start dates; and (f) utilize (to the fullest extent possible) the back room work already completed by EDCs and EGSs to implement the ROI Program by using the existing EDC letter framework but directing additional disclaimers in the customer letter making it clear that the offer is from an EGS and that if it is accepted the customer will be switched to the EGS listed in the letter, or consider having the letter come from the Commission and the EDC.

II. COMMENTS OF DIRECT ENERGY

In their respective default service proceedings, the Commission directed each EDC to implement a ROI Program and a Standard Offer Referral Program (“Standard Offer Program”) for residential and small commercial and industrial customers. Both programs have the same goals: “to provide residential and small commercial and industrial customers with appropriate incentives to participate in Pennsylvania’s retail electricity market and provide a positive shopping experience.”³

Each of these programs has a different structure. As presently constituted, the ROI Program is a one-time offer. It will be made by direct mail with a letter from the customer’s EDC, and will offer customers a four-month, 5% reduction from the EDC’s PTC, followed by an eight-month, fixed price product by participating EGSs. Customers participating in the program

³ Tentative Order at 2.

would receive a fifty dollar bonus if they remained in the program for the initial four months.⁴ The respective ROI Programs originally had established start dates of June 1 and July 1, 2013.

In comparison, the Standard Offer Program will be an on-going and continuous offer. It will be available to customers who call the EDC for moves, initiation of service and/or general billing inquiries, and will offer customers a 7% reduction from the EDC's PTC (at the time of the offer) and remains a fixed price for a 12-month period. The Standard Offer Program was schedule to start after the ROI Program.

These programs are compatible. The ROI Program is a one-time offer that will be made by direct mail. The Standard Offer Program is a continuous offer that will be made available to customers who call their EDC. The bonus is only available with the ROI Program, and not the Standard Offer Program. Moreover, as a direct mail offer, the ROI Program could be offered relatively quickly. This means the offers could be made and enrollments in ROI Program could be completed before the commencement of the Standard Offer Program, which by most accounts requires more operational changes by the EDC to fully implement.

A. The ROI Program Can Be Improved

It has been suggested that the currently structured ROI Program is potentially confusing. The concern is that a customer may receive the 5%/ 4 month offer in the mail and also be exposed to the 7%/12 month offer of the Standard Offer Program. This confusion might be heightened by the fact that the ROI offer letter is coming from the EDC, the “conduit” for the “standard offer.” But, this suggestion misses the fact that very few, if any customers will be exposed to both offers. The ROI offer will be made to existing default customers while the

⁴ See, e.g., *Petition of PPL Electric Utilities Corporation for Approval of a Default Service Program and Procurement Plan*, Docket No. P-2012-2302074 (Order entered January 24, 2013) (PPL DSP Order) at 139-140

Standard Offer will be made primarily to customers that are applying for service or who are moving their service from one location to another.⁵ Those different circumstances should help to assure that any customer who received the ROI offer and the Standard Offer will understand the different circumstances in which each will be made. In addition, the EDC and EGS customer service representatives (as well as the PUC representatives in the Bureau of Consumer Services) will be able to add sufficient clarity to explain the two programs and address any concerns.

Nevertheless, Direct Energy suggests that if the Commission believes that a need exists to improve the ROI Program, the modifications should be as narrow as possible to address the possible confusion created by the two programs and to enhance the programs both from a customer and public interest perspective. The details of Direct Energy's recommendations are set forth below:

1. Discount and Bonus Structure

To eliminate the possible concern about different offers available from the two different programs, and the need for comparative calculations, as well as to continue to incentivize customer shopping, Direct Energy recommends that the discount structure for the ROI Program be revised to more fully mirror the offer in the Standard Offer Program. Specifically, Direct Energy recommends that the ROI Program offer a 7% reduction from the PTC (at the time of the offer) for a 12-month period, plus a fifty dollar bonus after the customer has remained with the supplier for a period of four months.

This revised offer eliminates the need to compare potential savings between the ROI Program and the Standard Offer Program. But, to recognize the difficult task of convincing customers to respond to a direct mail solicitation, the ROI Program offer would continue to be a

⁵ As noted above, the Standard Offer will also be made to default customers who call with billing inquiries, but the primary recipients should be "new" or "moving" customers.

different and unique incentive – a \$50 bonus for customers who stay with the program for the initial 4-month period. (If the customer leaves the ROI Program in the initial 4-month period, they do not get the \$50). No “longevity” bonus exists in the Standard Offer Program. This added incentive is likely to encourage customers to participate in the ROI Program who may not otherwise shop or participate in the Standard Offer Program.

2. Direct Mail From The EDC (Or From The EDC & PUC) Should Continue To Be Used - But With Additional Disclaimers

Direct Energy recommends that the modified ROI Program should remain a direct mail program from the EDC. This will minimize costs of the ROI Program and will help the offer reach customer that are not likely to call their EDC. Having the letter come from the EDC will increase the percentage of customers who will open the envelope, and thus be in a position to consider the offer being made by the ROI Program. Additionally, Direct Energy submits that a direct mailing from an EDC does not raise any real concerns. First Energy has already implemented a direct mail program.⁶ And, to the best of Direct Energy’s knowledge, that direct mail program did not result in any customer complaints. Direct Energy has reviewed and helped edit the letters that the EDCs are planning to use for the ROI Program and believes that they accurately disclose that the offer will actually come from the (listed) EGS.⁷

If the Commission wishes to provide additional assurances that customers will not be confused it could also order that additional and prominently displayed disclaimers informing the customers that the product is not a product offered by the EDC be added. In addition, it can

⁶ See, e.g., *Joint Petition of Metropolitan Edison Company and Pennsylvania Electric Company for Approval of Their Default Service Programs* Docket Nos. P-2009-2093053 and P-2009-2093054, Opinion and Order entered November 6, 2009 at 20-21.

⁷ Direct Energy would note that all the letters were reviewed by both the OCA and the OSBA as well as other consumer parties, and were revised after their comments. Through that process, some of the companies (i.e., PPL) designed separate letters for CAP customers.

direct that when customers call with questions or inquiries about the program, the EDC (and PUC) customer service representatives who respond to such questions and inquiries could also provide the same disclaimer.

Finally, if the Commission remains concerned about confusion created by having the ROI offer letter come from the EDC, it could order that the letter be revised so that it states that the letter is being sent by both the Commission and the EDC. Having the Commission listed in the letter may eliminate any possible confusion that the EDC is going to be providing the generation service.

3. Allocation Of Costs To EGSs

To enhance the reasonableness of the program, Direct Energy is willing to accept a directive that the costs of the ROI Program shall be recovered from participating EGSs. Direct Energy can accept a program that would be paid solely by EGSs assuming that the costs will be approximately \$1 per customer mailing, as estimated by most of the EDCs. This would encourage supplier participation and success of the ROI Program and provide policymakers with additional assurances of reasonableness. Direct Energy is willing to make this offer because the cost that it would incur to participate in the program is reasonable in relation to the potential benefits. It would not be able to absorb a cost that was excessive or well above the benefit of getting the opportunity to serve a customer that might not otherwise participate in the competitive market.

If the costs end up being more than \$1.00 per customer receiving an offer letter, Direct Energy would request that the additional costs be reviewed and confirmed as necessary by the Commission.

B. The ROI Program Should Not Be Delayed

In each of the default service proceedings, the EDC was directed to stagger implementation of the ROI and the Standard Offer Programs on or before specific dates, approximately one month apart.⁸ The Tentative Order has postponed this schedule as well as for the purpose of collaborative implementation of the ROI Programs.

Direct Energy recommends that the ROI Program continue to be implemented prior to the start date of Standard Offer Program. Because it can be implemented on a short time frame, the ROI Program should be commenced as soon as possible, but before the Standard Offer Program so that customers can begin savings as soon as possible.

Direct Energy recognizes that it may no longer be possible to start the ROI Program on the original start dates. But, Direct Energy recommends that ROI Programs start as close to the original start dates (June 1 or July 1) as possible. And, if necessary, the ROI Programs could be given a universal start date. But, the start date for the ROI Programs should not be later than September 1, 2013.

There is a need for consistency and regulatory certainty regarding the Retail Market Enhancement (“RME”) programs. Consistency and regulatory certainty are needed so that EGSs will have the confidence to participate in, and fund the costs of these incentive programs. Without consistency and regulatory certainty, EGSs may find that the RME programs will be too costly to implement and these programs will fail to provide “appropriate incentives” or “a positive shopping experience.”

Undue delay will result in lost savings opportunities for residential and small business customers. The longer the implementation of the ROI Program is delayed, the longer

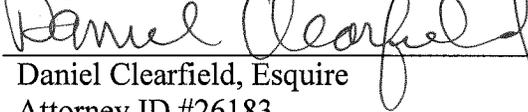
⁸ For example, PPL Electric Utilities Corporation was directed to implement its ROI Program no later than July 1, 2013, and its Standard Offer Program no later than August 1, 2013. *Id.* at 178.

Pennsylvania customers will be denied the full benefits and incentives of the retail electricity market. To promote a positive shopping experience, the Commission should reform the ROI Program without delay so as to effectively realize the benefits and values of the program.

III. CONCLUSION

For the reasons set forth above, Direct Energy respectfully requests that the Commission (a) revise the ROI Program structure as set forth above; (b) implement the ROI Program as soon as practical; and (c) grant additional relief as determined to be in the public interest.

Respectfully submitted,



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