

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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May 12, 2014

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 Plan for the
Period June 1, 2015 through May 31, 2017
Docket No. P-2014-2418242

Dear Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Answer in the above-referenced proceeding.

Copies have been served as indicated on the enclosed Certificate of Service.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Kristine E. Robinson".

Kristine E. Robinson
Assistant Consumer Advocate
PA Attorney I.D. # 316479

Enclosures

cc: Office of Administrative Law Judge
Office of Special Assistants
Certificate of Service

182571

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Duquesne Light Company	:	
For Approval of Default Service Plan	:	P-2014-2418242
For the Period June 1, 2015	:	
Through May 31, 2017	:	

ANSWER OF THE
OFFICE OF CONSUMER ADVOCATE

I. INTRODUCTION

On April 24, 2014, Duquesne Light Company (Duquesne Light or Company) filed a Petition with the Pennsylvania Public Utility Commission (Commission) seeking: (i) approval of a default service plan (DSP) for the period June 1, 2015 through May 31, 2017, (ii) approval of a Time-of-Use (TOU) Program, and (iii) other approvals required for the implementation of the DSP. This filing has been made pursuant to the requirements of Act 129 of 2008 (Act 129), the Commission's Default Service Regulations, the Commission's Policy Statement on Default Service, and related Commission Orders. The Office of Consumer Advocate (OCA) files this Answer to the Company's Petition to ensure that a reasonable DSP is approved that fully complies with Act 129 and the Commission's Regulations.

In its Petition, Duquesne Light proposes that default service for residential customers be supplied primarily through 12-month, laddered supply contracts. Petition at ¶ 6. Additionally, there will be one 6-month contract at the beginning of the DSP. Petition at ¶ 6. All supply contracts will be fixed-priced, full requirements contracts, procured by third party suppliers through semi-annual competitive requests for proposals (RFPs). Petition at ¶¶ 6, 16.

One 12-month contract will have a delivery period that extends six months beyond the end of the DSP period. Petition at ¶ 11. All of the procurements will be held within three months of the start of delivery, except for the 6-month “out of cycle” contract, which will be procured in February 2015, four months from the start of delivery. Petition at ¶ 7. Additionally, Duquesne Light proposes to use the standard default service supply master agreement (SMA), with a few modifications, for its wholesale power procurement under the DSP. Petition at ¶ 19.

In its Petition, the Company proposes specific competitive procurement guidelines. Petition at ¶¶ 38-42. Specifically, Duquesne Light proposes that no one supplier should be awarded more than 50% of the tranches available for the residential procurement class in any RFP. Petition at ¶ 38. Moreover, Duquesne Light proposes to engage an independent third party for assistance in qualifying bidders; conducting bidder information sessions; and receiving all bids, ranking bids, and determining winning bids for all three procurement groups. Petition at ¶ 39. All winning bids will be submitted to the Commission for approval prior to award. Petition at ¶ 40.

Within fifteen calendar days from the closing of each solicitation, Duquesne Light will post the weighted average winning bid price and a default service rate calculation model on its website. Petition at ¶ 41. The Company will also post the PTC 45 days in advance of each change in default service rates, with the exception of the application periods beginning June 1 of each year. Petition at ¶ 41.

In the event that an RFP fails to attract a sufficient volume of bidders, or the Commission does not approve the submitted bids, or an accepted supplier defaults, Duquesne Light proposes to procure supply on an interim basis through purchases in the PJM spot market and to recover all costs from Medium Commercial and Industrial (C&I), Small C&I, and/or

Residential customers. Petition at ¶ 42. Within 15 days after any such occurrence, Duquesne Light will submit to the Commission a contingency plan to handle any default service shortfall. Petition at ¶ 42.

The RFPs for Residential customers will include the procurement of energy, capacity, ancillary services, losses, alternative energy requirements, and other costs and risks. Petition at ¶ 52. Duquesne Light proposes that it will recover these costs, gross receipt taxes, and the costs of administering the RFPs and hiring the independent monitor through fully reconcilable cost recovery mechanisms for each class. Petition at ¶ 52. Duquesne Light proposes to continue to recover the DSP proceeding costs in base rate. Petition at ¶ 54. Moreover, the Company proposes to expand Rider No. 1, the Consumer Education Surcharge, to include recovery of all Commission-mandated expenses associated with retail market initiatives, not solely consumer education costs. Petition at ¶ 55.

In its Petition, the Company requests a waiver of 52 Pa. Code Section 54.187 to allow for six-month residential supply rate changes. Petition at ¶¶ 10, 73. Duquesne Light also proposes semi-annual reconciliation of Residential procurement group default service costs and revenues. Petition at ¶ 14.

Additionally, Duquesne Light makes several modifications to its current Standard Offer Customer Referral Program (CRP or Program). Petition at ¶¶ 57-61. Duquesne Light proposes to alter its current CRP by providing for enrollment of customers by third party vendors. Petition at ¶ 60. Additionally, rather than continue with its current fixed Acquisition Fee of \$25 per customer enrolled in the Program, Duquesne Light proposes to initially adjust this expense based upon actual program costs, with a floor of \$0 and a cap of \$30 per customer enrolled, effective September 1, 2015. Petition at ¶ 59. Beginning on June 1, 2015, however, the

Company will increase the Customer Acquisition Fee to \$30 per customer enrolled in the Program. Petition at ¶ 61. If the revenues from the Customer Acquisition Fee are insufficient to fully recover the DSP costs, Duquesne Light proposes to recover 50% of the excess costs from the Purchase of Receivables (POR) discount and 50% from Residential and Small C&I default service customers. Petition at ¶ 61.

In its Petition, the Company also proposes its plan to bid out its TOU obligation to EGSs. Petition at ¶ 62. The Company proposes to issue two RFPs, one for TOU supply during June 2015 - May 2016 and one for TOU supply during June 2016 - May 2017. Petition at ¶ 66. TOU rates will be established by the winning EGS and will be distinguished by three time periods throughout the year: the Summer On-Peak Period, the Summer Off-Peak Period, and the Non-Summer Period. Petition at ¶ 65. Each RFP will be conducted before the start of the Summer On-Peak and Summer Off-Peak Periods. Petition at ¶ 66. Customers will be able to elect TOU service over a roughly four-to-five month period starting soon after the TOU supplier has been selected and until July 31 each year. Petition at ¶ 67. TOU service enrollment will follow the applicable switching protocols in the Company's Supplier Tariff and Electric Service Schedule of Rates Tariff. Petition at ¶ 67. At the end of the TOU program year, absent an affirmative customer election for some other service, a customer that elected TOU service under the program will remain with its EGS. Petition at ¶ 68. At the end of the First TOU Program Year, the new prices charged by the TOU Supplier through the end of the Second TOU Program Year must be differentiated solely by the calendar periods corresponding to the Summer On-Peak Period, Summer Off-Peak Period, and Non-Summer Period. Petition at ¶ 68.

If no EGS submits qualifying bids in a given TOU RFP or if no bid is accepted, the Company will offer TOU service for the applicable TOU program year to eligible TOU

customers. Petition at ¶ 69. The Company will set the prices for the Summer-On Peak and Summer-Off Peak periods by applying TOU factors to the default service supply rates. Petition at ¶ 69. The factors will be based on the June through September load shapes and PJM pricing and will be applied to the default service supply rates in the calculation step prior to adjusting the default service supply rates to recover the Gross Receipts Tax (GRT). Petition at ¶ 69. The TOU factor for the Non-Summer period would be equal to one. Petition at ¶ 69.

The TOU customers under this contingency scenario would be considered default service customers. Petition at ¶ 71. The revenues, expenses, and sales associated with these customers would be included in the reconciliation calculations for their applicable customer class. Petition at ¶ 71. After the TOU year for which the Company provided default service, any customer that had received TOU service provided by the Company will be provided standard default service, unless he/she affirmatively elects another service. Petition at ¶ 70. In its Petition, the Company proposes to file annual reports on its TOU program, beginning November 30, 2015, which will include information regarding the number of customers enrolled, costs, and customer feedback. Petition at ¶ 72.

Additionally, Duquesne Light proposes to continue its current POR plan for Residential customers. Petition at ¶ 62. The Petition also addresses how Duquesne Light intends to provide information to EGSs and customers. Petition at ¶ 62.

II. ANSWER

The OCA has preliminarily reviewed the Company's Petition and identified a number of significant issues presented by the filing. The OCA anticipates that additional issues will arise as a more comprehensive review of the Company's filing is undertaken and after discovery is conducted. The preliminary issues identified by the OCA include the following:

A. Procurement Methodology

As detailed above, the Company proposes that default service for residential customers be supplied primarily through 12-month, laddered supply contracts, with one 6-month contract at the beginning of the DSP. Petition at ¶ 6. The OCA submits that further consideration must be given as to whether the proposed purchasing plan will provide the least cost over time for residential customers in accord with the requirements of Act 129. The OCA intends to examine the type and mix of resources being procured to ensure that the products and plan are designed to meet the requirements of Act 129.

The OCA further submits that the Company's proposed choice of residential products and the Company's proposed procurement methods must be thoroughly reviewed in the hearing process. The Commission must ensure that the procurement methodology adopted in this proceeding is consistent with the Public Utility Code and is designed to provide the least cost reliable supply, taking into account price stability for customers over time.

B. Contingency Plan

In the event that the Company's plan to bid supply contracts to third party suppliers fails, Duquesne Light proposes to procure supply on an interim basis through purchases in the PJM spot market and to recover all costs from Medium C&I, Small C&I, and/or Residential customers. Petition at ¶ 42. The OCA submits that this contingency plan must be thoroughly reviewed in the hearing process to ensure that it does not rely too heavily on spot market purchases.

C. Rate Design and Cost Recovery

In its Petition, Duquesne Light requests a waiver of 52 Pa. Code Section 54.187 to allow for six-month residential supply rate changes. Petition at ¶¶ 10, 73. Duquesne Light also

proposes semi-annual reconciliation of Residential procurement group default service costs and revenues. Petition at ¶ 14. The OCA submits that the reasonableness of these proposals, the necessity of waiver, and the impacts on consumers must be carefully examined.

Duquesne Light further proposes that it will recover the costs included in the RFPs, gross receipt taxes, and the costs of administering the RFPs and hiring the independent monitor through fully reconcilable 66 Pa. C.S. Section 1307(e) cost recovery mechanisms for each class. Petition at ¶ 52. Duquesne Light proposes to continue to recover the DSP proceeding costs in base rate. Petition at ¶ 54. The Company also proposes to expand Rider No. 1, the Consumer Education Surcharge, to include recovery of all Commission-mandated expenses associated with retail market initiatives. Petition at ¶ 55. The OCA submits that these modifications and adjustments must be reviewed.

D. Supplier Master Agreement

Duquesne Light proposes to use the standard default SMA, with a few modifications, for its wholesale power procurement under the DSP. Petition at ¶ 19. The OCA submits that the proposed SMA must be thoroughly analyzed to ensure its compliance with the Public Utility Code and to ensure that such a plan does no harm to default service, consumers, or the retail competitive market.

E. Standard Offer Customer Referral Program

Duquesne Light makes several modifications to its current CRP. Petition at ¶ ¶ 57-61. Of particular importance, Duquesne Light proposes to alter its current CRP by providing for enrollment of customers by third party vendors in a way that substantially changes the cost structure of the program. Petition at ¶ 60. Duquesne Light also proposes to ultimately adjust the Customer Acquisition Fee to \$30 per customer enrolled in the Program. Petition at ¶ 61. If the

revenues from the Customer Acquisition Fee are insufficient to fully recover the DSP costs, Duquesne Light proposes to recover 50% of the excess costs from the POR discount and 50% from Residential and Small C&I default service customers. Petition at ¶ 61.

The OCA submits that the Commission should review the proposed CRP and the costs that may arise from the CRP to ensure that such a program is still reasonable, cost-justified, and that the costs are still allocated appropriately among stakeholders.

F. Time of Use Rates

In its Petition, the Company proposes its plan to bid out its TOU obligation to EGSs. Petition at ¶ 62. Duquesne Light proposes that it will assume responsibility for providing TOU service if this plan fails. Petition at ¶ 69. The OCA submits that the Company's proposed TOU program must be examined in order to ensure that it meets the needs of ratepayers while maintaining compliance with existing laws and the Commission's regulations.

WHEREFORE, the Office of Consumer Advocate respectfully submits that the Company's default service filing must be thoroughly reviewed to ensure that the default service rates that will be charged starting June 1, 2015, and all other programs proposed in the Petition, are just and reasonable and otherwise consistent with Pennsylvania law.

Respectfully Submitted,



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Dated: May 12, 2014

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CERTIFICATE OF SERVICE

Petition of Duquesne Light Company :
for Approval of a Default Service : Docket No. P-2014-2418242
Plan for the Period June 1, 2015 :
Through May 31, 2017 :

I hereby certify that I have this day served a true copy of the foregoing document, the Office of Consumer Advocate's Answer, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 12th day of May 2014.

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