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September 15, 2014

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

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

Dear Secretary Chiavetta:

Enclosed for filing is the Main Brief of Duquesne Light Company in the above-referenced proceeding:

Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Anthony D. Kanagy

ADK/jl
Enclosures

cc: Honorable Katrina L. Dunderdale
Certificate of Service

CERTIFICATE OF SERVICE

Docket No. P-2014-2418242

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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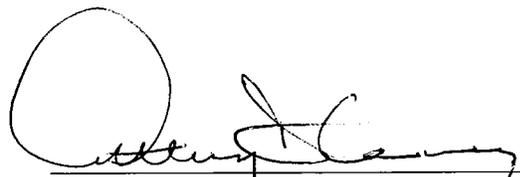
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**MAIN BRIEF OF
DUQUESNE LIGHT COMPANY**

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I. PROCEDURAL HISTORY

Duquesne Light Company (“Duquesne Light” or the “Company”) is a public utility as that term is defined under Section 102 of the Public Utility Code, 66 Pa.C.S. § 102, certified by the Commission to provide electric service in the City of Pittsburgh and in Allegheny and Beaver Counties in Pennsylvania. Duquesne Light is also an electric distribution company (“EDC”) and a default service provider (“DSP”) as those terms are defined under Section 2803 of the Public Utility Code. 66 Pa.C.S. § 2803. Duquesne Light provides electric distribution service to approximately 590,000 customers.

On April 24, 2014, Duquesne Light filed the above-captioned Petition with the Pennsylvania Public Utility Commission (“Commission”). Therein, Duquesne Light requested Commission approval for a Default Service Plan for the period June 1, 2015 through May 31, 2017 (“Default Service Plan” or “DSP VII”). In the Default Service Plan, Duquesne Light proposed separate default supply procurements for: (1) Residential and Lighting (“Residential”) default service customers, (2) Small Commercial and Industrial (“Small C&I”) default service customers with monthly metered demands less than 25 kW, (3) Medium Commercial and Industrial (“Medium C&I”) default service customers with monthly metered demands equal to or greater than 25 kW and less than 300 kW, and (4) Large Commercial and Industrial (“Large C&I”) default service customers with monthly metered demands equal to or greater than 300 kW. Duquesne Light proposed to procure supplies for Residential, Small C&I and Medium C&I default service customers through fixed-price full requirements contracts. Duquesne Light proposed to continue to procure supplies for Large C&I default service customers through the PJM Interconnection, LLC (“PJM”) day-ahead hourly spot market.

In addition, the Company proposed to revise its Standard Offer Program (“SOP”) to provide for third party enrollment as employed by other EDCs in Pennsylvania in order to

enhance competition in its service territory. The Company also proposed a Time-of-Use (“TOU Program”) under which electric supply for TOU customers would be provided by an electric generation supplier (“EGS”) selected through a competitive Request for Proposal (“RFP”) process.

The Commission’s Bureau of Investigation and Enforcement (“I&E”) filed a Notice of Appearance in the proceeding. In addition, the Office of Consumer Advocate (“OCA”) and Office of Small Business Advocate (“OSBA”) filed Notices of Intervention and Answers to the Petition.

Petitions to Intervene were filed by Citizens for Pennsylvania’s Future (“PennFuture”), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”), Exelon Generation Company, LLC (“ExGen”), Duquesne Industrial Intervenors (“DII”), FirstEnergy Solutions Corp. (“FES”), NextEra Energy Power Marketing, LLC (“NextEra”), Noble Americas Energy Solutions, LLC (“Noble”) and the Retail Energy Supply Association (“RESA”).

This proceeding was assigned to Administrative Law Judge Katrina L. Dunderdale (the “ALJ”). On May 7, 2014, the ALJ issued a Prehearing Conference Order which set forth certain rules for the prehearing conference and for the proceeding in general. In response to the Prehearing Conference Order, parties filed Prehearing Memoranda.

A Prehearing Conference was held on June 2, 2014. At the Prehearing Conference, the parties agreed to a litigation schedule and discovery rules for the proceeding. In addition, the ALJ granted the Petitions to Intervene that were filed by the parties. On June 12, 2014, the ALJ issued a Prehearing Order which memorialized the actions taken during the Prehearing Conference.

On July 8, 2014, I&E, OCA, OSBA, ExGen, NextEra, PennFuture and RESA served direct testimony. On August 1, 2014, Duquesne Light, OCA, OSBA, and RESA served rebuttal testimony. On August 15, 2014, Duquesne Light, I&E, OCA, OSBA, NextEra, PennFuture and RESA served surrebuttal testimony. On August 21, 2014, Duquesne Light served rejoinder testimony.

A hearing was held on August 25, 2014. All parties waived cross-examination. At the hearing, parties stipulated to the admission of the previously served testimony and exhibits. In addition, the ALJ directed the Company to send a Common Brief outline to the parties. Pursuant to the ALJ's direction, the Company sent a Common Brief Outline to parties, and is following the Common Brief Outline herein.

On September 15, 2014, Duquesne Light entered into a Stipulation with I&E, OCA, CAUSE-PA, ExGen, NextEra and RESA, which resolved issues regarding the Residential Procurement Plan, the SOP, the TOU Program, the Supply Master Agreement ("SMA") and unbundling of default service costs (the "Settlement Stipulation"). The Settlement Stipulation also reserves for litigation issues regarding the Small C&I procurement plan, the Medium C&I procurement plan, the Large C&I procurement plan, procurement of alternative energy credits ("AECs") and the methodology for recovering certain PJM transmission charges. The Settlement Stipulation has been agreed to or not opposed by all Parties in this proceeding and is being filed contemporaneously with Parties' Main Briefs. As directed by the ALJ, the Parties will file Statements in Support with respect to the settled issues on September 30, 2014, contemporaneously with Reply Briefs.

Pursuant to the litigation schedule adopted in this proceeding, the Company hereby submits its Main Brief. In addition, Proposed Findings of Fact related to the disputed issues, Conclusions of Law and Ordering Paragraphs are provided as Appendix A hereto.

II. SUMMARY OF ARGUMENT

As explained above, Duquesne Light has entered into a Settlement Stipulation with Parties that resolves issues regarding the Residential Procurement Plan, the SOP, the TOU Program, the SMA and unbundling of default service costs. Duquesne Light will explain why the Settlement Stipulation is in the public interest in its Statement in Support that will be filed on September 30, 2014. Duquesne Light is addressing the issues that have been reserved for litigation in this Main Brief.

Duquesne Light has been a leader among utilities across the country in developing default service plans that both promote high levels of competition and provide reasonable default service rates, along with appropriate levels of rate stability for customers that do not choose to shop. Duquesne Light currently has one of the most successful retail access programs in the country, with 75% of the Company's load receiving supply from an EGS, as of March, 2014. Duquesne Light is among the top electric utilities in the United States in terms of percentage of load receiving service from a competitive supplier.

Duquesne Light was one of the first utilities in the nation to offer hourly priced default service to all customers with demand equal to or greater than 300 kW, and has one of the lowest kilowatt demand thresholds for hourly priced default service for Large C&I customers in the United States. Moreover, 96% of the Company's Large C&I load is being served by an EGS. Duquesne Light's success in promoting customer shopping is not limited to larger customers. As of March 2014, approximately 46.5% of the Company's Residential load, 48% of the Company's Small C&I load and 72% of the Company's Medium C&I load was being served by an EGS.

Under all of its prior default service plans, the Company has attempted to account for the interests of default service customers that have not yet chosen to shop and to incorporate programs to promote competition. This Default Service Plan is no different. For various reasons, some customers choose not to shop. Duquesne Light is required to provide these customers reasonable default service rates that reflect appropriate levels of rate stability. In general, larger customers are more sophisticated than smaller customers and are more attuned to changing energy prices. Therefore, it is appropriate to provide larger customers with less rate stability than smaller customers. In addition, it is appropriate to consider current levels of rate stability when determining the levels of rate stability in the proposed plan and to make reasoned movements to more market responsive prices where appropriate.

Duquesne Light has considered these and other factors in developing its Default Service Plan. Duquesne Light has moved Residential customers to more market responsive rates over time, from 36-month fixed rates under DSP IV, to 29-month fixed rates under DSP V, to 12-month supply rate changes in DSP VI, and proposes to move to laddered 12-month contracts in DSP VII that will provide 6-month supply rate changes for Residential customer rates.

Duquesne Light is proposing to maintain its DSP VI procurement plan for Small C&I customers (laddered 12-month supply contracts and 6-month supply rate changes) to maintain the current level of rate stability and market responsiveness for Small C&I customers. Small C&I customers have similar shopping levels as Residential customers which provides evidence that these two customer classes have similar levels of market sophistication.

The OSBA supports Duquesne Light's proposal to maintain 12-month laddered contracts for Small C&I customers. The OSBA believes that the Company's proposal provides Small C&I customers with a reasonable level of price stability. This approach matches the proposed DSP

VII plan for Residential customers, who have similar profiles and shopping levels to Small C&I customers. RESA opposes the Company's proposed Small C&I procurement plan and proposes to replace certain of the Company's proposed 12-month supply contracts with 6-month and 3-month contracts. RESA's proposal includes two "hard stops" of supplies in the procurement plan. One hard stop would eliminate the overhang contract that procures a portion of supplies for the first six months of DSP VIII. Both "hard stops" would require Duquesne Light to procure 100% of default supplies for the beginning of a delivery period within a short period of time. This exposes customers to unnecessary rate instability and risk of a market disruption that could significantly increase default service prices.

For Medium C&I customers, the Company is proposing to move from 6-month rates derived from 6-month supply contracts under DSP VI, to 3-month rates derived from 3-month supply contracts. This procurement plan reflects a measured approach to moving Medium C&I customer classes to more market responsive prices for default service. Duquesne Light has gradually moved Medium C&I customers to more market responsive default service pricing over time as these customers have become more familiar with competitive markets and there has been greater shopping in this class.

The OSBA proposes that the Company maintain its currently effective procurement plan for Medium C&I customers. The Company does not oppose the OSBA's proposal, but notes that it is a matter of judgment whether the Medium C&I procurements should be shortened to make default service rates more market responsive or remain as is to provide greater price stability.

RESA proposes to modify the Company's Medium C&I procurement plan to require hourly priced default service for all Medium C&I customers above 100 kW of monthly metered demand. Both the Company and the OSBA oppose this proposal. Based upon the Company's

experience, Medium C&I customers above 100 kW do not desire to receive hourly priced default service. In addition, the Company's proposed plan already increases the market responsiveness of default service rates for Medium C&I customers by moving from six-month to three-month contracts. Moreover, if RESA's proposal is adopted, approximately 42% of the Medium C&I load will be carved out of each Medium C&I procurement because Duquesne Light would then be procuring default supplies through the PJM day-ahead hourly spot market for Medium C&I customers above 100 kW of demand, leaving a small amount of remaining load for the Medium C&I customers at or below 100 kW. The remaining load may not be sufficient to attract wholesale suppliers. Further, the Company would be required to update its billing processes and manually perform certain billing functions at additional cost to customers. These issues have not been fully evaluated and would take time to implement. Finally, Duquesne Light already has one of the lowest kilowatt demand thresholds (300 kW) for hourly priced service. For these reasons, and as explained in more detail in this Main Brief, RESA's Medium C&I procurement plan should not be adopted.

Duquesne Light proposes to continue to procure default supplies for Large C&I customers through the PJM day-ahead hourly spot market, to procure capacity through PJM's Reliability Pricing Model auction construct and to pass through these costs to Large C&I customers with no mark-up. Duquesne Light also proposes to continue to charge Large C&I default service customers a Fixed Retail Adder of \$4.49 per MWH to recover the Company's administrative costs of providing hourly priced service to these customers.

RESA argues that Large C&I hourly default service should be bid out to third parties and not be provided by Duquesne Light. RESA's proposal should be rejected because it will provide no benefits to Large C&I customers. Moreover, Large C&I customers will not be able to avoid

the Fixed Retail Adder because Duquesne Light will still be required to provide Large C&I default service billing services.

In this proceeding, Duquesne Light proposes to have wholesale suppliers provide AECs for Residential, Small C&I and Medium C&I customers in the full requirements supply contracts. Duquesne Light will also acquire AECs for Large C&I customer load to meet AEC obligations for Large C&I customers. This is the same methodology that Duquesne Light uses to procure AECs under its currently effective DSP VI plan that was approved by the Commission. PennFuture argues that Duquesne Light should enter into long-term 10 or 20-year contracts to procure AECs. PennFuture's proposal should be rejected for several reasons. First, neither Act 129 nor the AEPS Act require long-term AEC contracts. Second, PennFuture has not provided a specific proposal in its testimony for how many AECs Duquesne Light should procure. Third, it would be very risky for Duquesne Light to enter into long-term AEC contracts due to customer migration risk, including the uncertainty associated with potential changes to the EDCs future role as a default service provider and who would bear the costs of such contracts if Duquesne Light was no longer the default service provider. Additional risks include recovery of costs as shopping levels increase and the risk that AEC prices will vary from the market price over the long-term contract. Fourth, entering into long-term AEC contracts could increase AEC costs for customers. There is too much risk associated with entering into long-term AEC contracts and neither Duquesne Light nor its customers should be required to bear this risk. In summary, PennFuture is asking Duquesne Light and its customers to assume potentially significant risk in exchange for questionable benefits. Duquesne Light currently acquires AECs under its full requirement contracts in DSP VI and proposes to continue to do so under DSP VII.

RESA and ExGen also argue that Duquesne Light should recover non-market based PJM transmission charges for all customers, including shopping customers. This proposal also should be rejected. The cost-recovery methodology for these costs was fully litigated in the Company's DSP VI proceeding, and the Commission denied parties' requests that Duquesne Light should recover PJM transmission costs for shopping customers. In addition, the Commission again rejected a proposal made by parties in the recent FirstEnergy Companies' default service proceeding that the FirstEnergy Companies recover Network Integration Transmission Service charges for all customers.

For these reasons, RESA and ExGen's proposal regarding recovery of non-market based transmission charges should be rejected again in this DSP VII proceeding.

The Company has proposed a reasoned default service plan that continues to promote competition in its service territory and meets the statutory requirements for providing default service. For the reasons explained herein and in the Company's testimony and exhibits presented in this proceeding, the Company's default service plan, as modified by the Settlement Stipulation agreed to or not opposed by all Parties, should be approved.

III. ARGUMENT

A. LEGAL STANDARDS

1. Burden Of Proof

Pursuant to Section 332(a) of the Public Utility Code, 66 Pa.C.S. § 332(a), Duquesne Light, as the Petitioner, has the burden of proof with respect to its proposals in this proceeding:

“Except as may be otherwise provided in Section 315 (relating to burden of proof) or other provisions of this part or other relevant statute, the proponent of a rule or order has the burden of proof.”

It is to be emphasized, however, that the burden of proof, also known as the burden of persuasion, means a duty to establish a fact by a preponderance of the evidence. *Se-Ling Hosiery*

v. Margulies, 364 Pa. 45, 70 A.2d 854 (1950). If the Company presents evidence found to be of greater weight than the other parties, then the Company will have carried its burden of proof. *Morrissey v. Commonwealth of Pennsylvania*, 424 Pa. 87, 225 A.2d 895 (1986); *Burleson v. Pa. P.U.C.*, 501 Pa. 433, 436, 641 A.2d 1234, 1236 (1983); *V.J.R. Bar Corp. v. P.L.C.B.*, 480 Pa. 322, 390 A.2d 163 (1978); *Milkie v. Pa. P.U.C.*, 768 A.2d 1217, 1220 (Pa. Cmwlth. 2001).

Although Duquesne Light bears the burden of proving that its proposals are in the public interest, a party that makes a proposal that is not included in a public utility's case bears the burden of proof as to its proposal. For example, in *Pa. P.U.C. v. Metropolitan Edison Company, et al.*, Docket Nos. R-00061366, *et al.*, 2007 Pa. PUC LEXIS 5 (January 11, 2007), a party offered proposals that were not included in the public utilities' filings. The ALJ held that, as the proponent of a Commission order with respect to the offered proposals, the party bears the burden of proof as to proposals that are not included in the companies' filings. The Commission agreed and adopted the ALJ's conclusion that the Public Utility Code cannot reasonably be read to place the burden of proof on the utility with respect to a proposal that the utility did not include in its filing and which, frequently, the utility would oppose. *Id.* at *184-87. *See also Joint Default Service Plan for Citizens' Electric Company of Lewisburg, PA and Wellsboro Electric Company for the Period of June 1, 2010 through May 31, 2013*, Docket Nos. P-2009-2110798, *et al.*, 2010 WL 1259684 at *2, 19-20 (February 25, 2010) (the companies had the burden of proof as to the proposed plan, but other parties that had submitted their own proposals bore the burden of proof with respect to their proposals).

2. Legal Standards Applicable To Default Service

As an EDC and DSP, Duquesne Light's default service obligations are set forth in Act 129 of 2008, Oct. 15, P.L. 1592, No. 129 ("Act 129"), codified in Chapter 28 of the Public Utility Code, 66 Pa.C.S. Ch. 28.

Duquesne Light is obligated to provide electric generation supply service to both customers that do not choose an EGS and to customers that contract with an EGS for supply service if the chosen EGS does not provide the service. 66 Pa.C.S. § 2807(e)(3.1).

Act 129 requires that power “shall be procured through competitive procurement processes” (including auctions, requests for proposals and/or competitively procured bilateral agreements procured at no greater than the cost of obtaining generation under comparable terms in the wholesale market), and such procurement must be a “prudent mix” of spot market purchases, short-term contracts and long-term purchases. *Id.* at 2807(e)(3.1)-(3.2). Act 129 also requires that a default service plan ensures “adequate and reliable service” at the “least cost to customers over time.” 66 Pa.C.S. § 2807(e)(3.4). Moreover, the preamble to Act 129 specifically provides that one of the objectives of the Act is to take into account any benefits of price stability over time, stating as follows:

- (1) The health, safety and prosperity of all citizens of this Commonwealth are inherently dependent upon the availability of adequate, reliable, affordable, efficient and environmentally sustainable electric service at the least cost, taking into account any benefits of price stability over time and the impact on the environment.

See Historical and Statutory Notes to 66 Pa.C.S. § 2806.1.

As explained below, Duquesne Light’s procurement plan meets all of the statutory requirements. All default service supplies are procured through competitive procurement processes. Duquesne Light is proposing a prudent mix of contracts for customers that will provide least cost to customers over time, while taking into account the benefits of price stability for customers.

B. DEFAULT SUPPLY PROCUREMENT ISSUES

1. Residential Procurement Issues

The Residential procurement issues have been resolved by the Settlement Stipulation of the Parties.

2. Small C&I Procurement Issues

i. Company Proposal

Duquesne Light's Small C&I customers are non-residential customers with monthly metered demands less than 25 kW. Duquesne Light proposes to obtain default service supply for Small C&I customers through 12-month, laddered full requirements supply contracts from third party suppliers obtained through semi-annual RFPs. A full requirements contract requires a supplier to provide energy, capacity, ancillary services, AECs and any other services or products necessary to serve a specified percentage of default service load 24 hours a day, for the term of the contract. Because the contract is "load-following," the amount of energy and other services and products a supplier must provide will vary depending upon Duquesne Light's actual default service load. Initially, Duquesne Light proposed to procure one 6-month full requirements contract at the beginning of the DSP VII period. Duquesne Light Exh. No. 1, p. 9. However, on June 5, 2014, Duquesne Light filed a Petition with the Commission requesting to extend the final Small C&I procurement term under DSP VI by 6 months so that the DSP VI contract would extend through November 2015 and replace the 6-month contract scheduled to be procured in February 2015. The Commission granted this Petition on by Order entered September 11, 2014 at Docket No. P-2012-2301664.

The 12-month default service supply contracts for Small C&I customers will be "laddered" contracts, in that they will have delivery periods that overlap. For example, 50 percent of the load for a given six-month period will be acquired under one twelve-month

contract that ends at the end of the six-month delivery period and the remaining 50 percent will be acquired under a second twelve-month contract that commences at the beginning of the six-month delivery period.

The table below shows the RFP Date, Procurement Amount, Contract Term and Delivery Period for each procurement under DSP VII, reflecting the DSP VI modifications approved by the Commission on September 11, 2014.

RFP Date	Procurement Amount	Contract Term	Delivery Period
March 2015	50%	12 months	June 2015 – May 2016
September 2015	50%	12 months	December 2015 – November 2016
March 2016	50%	12 months	June 2016 – May 2017
September 2016	50%	12 months	December 2016 – November 2017

Duquesne Light Exh. No. 1, p. 9.

The Company is not revising the proposed procurement plan for Small C&I customers and is proposing the same procurement program for Small C&I and Residential customers because both classes have similar switching levels and market sophistication. As of March 2014, 48.3% of Duquesne Light's Small C&I load and 46.5% of Residential load was being served by alternative suppliers. See Exhibit NSF-1, pp. 2-3.

Similar to the procurement plan for Residential customers, Duquesne Light's procurement plan for Small Commercial and Industrial customers is designed to provide for some rate stability in the transition from the end of the DSP VII period on May 31, 2017 to the commencement of the DSP VIII period. This is achieved by the procurement of full requirements contracts for delivery of 50% of default service load in September 2016 for the

delivery period of December 2016 through November 2017. The last six months of this supply contract will extend beyond the DSP VII period.

Duquesne Light's Small C&I procurement plan is supported by the OSBA in this proceeding. OSBA St. No. 1, p. 2. The only party that filed testimony in opposition to the Company's Small C&I procurement plan was RESA.

ii. RESA's Proposal

RESA proposes to replace two of the four Small C&I 12-month procurement contracts with a blend of 6-month and 3-month contracts. RESA St. No. 1-R, p. 2. RESA's proposal would also eliminate the overhang contract between DSP VII and DSP VIII which was designed to provide Small C&I customers with rate stability between default service plan periods. RESA argues that the Company's Small C&I procurement plan is a step backwards in terms of market responsiveness because the Company currently uses a mix of 12 and 6-month contracts, but under DSP VII would move to only 12-month contracts by December 2015. RESA St. No. 1, p. 13.

iii. RESA's Small C&I Procurement Proposal Should Be Denied

RESA's assertion that the Company's Small C&I procurement plan is a step backwards in terms of market responsiveness is incorrect. The Company's witness Mr. Fisher explained as follows:

Q. RESA also argues that, for the Small C&I class, Duquesne Light's DSP VII Plan is actually a step backwards in terms of market responsiveness. How do you respond?

A. RESA states that Duquesne Light currently uses a mix of 12 and 6 month contracts, but plans to move exclusively to 12-month products by December 2015 to justify its position. Both the DSP VI and the proposed DSP VII delivery periods start with an initial six-month supply contract in order to start the contract laddering process in

an effort to increase price stability for Small C&I customers. The only difference is that instead of coming to a “hard stop” with the use of one six-month contract at the end of the DSP VII period, Duquesne Light proposes to continue to offer Small C&I customers default service supply rates that adjust every six months based on laddered twelve-month contracts. Recently, the Company filed with the Commission for approval to extend by six months the contract term of the final Small C&I procurement under the DSP VI Plan, essentially making the DSP VI plan identical to the proposed DSP VII Plan. For the reasons described earlier in my rebuttal testimony, the Company does not support the use of a “hard stop.” In my view, the Company has proposed the same default pricing structure for Small C&I customers, has not taken a step backwards, and actually has made an improvement with respect to the transition from one default service plan to the next. I do not believe it is in the Residential and Small C&I customers’ interests to completely “stop” all supplies and “start” purchases all over again at the conclusion of every default service period every two years. I believe a smooth transition from one default service plan to the next is preferable, and “hard stops” should be avoided.

Duquesne Light St. No. 3-R, pp. 29-30.

Duquesne Light’s Small C&I procurement plan is not a step backwards in providing market responsive rates for Small C&I customers. The Company further notes that on September 11, 2014, the Commission granted the Company’s proposal to extend by six months the contract term of the final Small C&I procurement under the DSP VI plan. *Petition of Duquesne Light Company for Approval of Revisions to its Approved Default Service Plan VI*, Docket No. P-2012-2301664. Therefore, the DSP VII procurement plan for Small C&I customers is the same procurement plan that Small C&I customers are currently being offered under DSP VI.

In addition, RESA’s Small C&I procurement plan will inject two “hard stops” of supplies in the procurement plan, which includes eliminating the overhang contract that provides a portion of supplies for DSP VIII. The Company’s DSP VII plan avoids purchasing 100% of the

supply at one point in time or even within a short, few-month period of time. As explained by Mr. Fisher, RESA's proposal does not do this:

In contrast, RESA's recommended plan (see RESA Exhibit RJR-6) would subject Residential and Small C&I customers to a "hard stop" with regard to their supply products at the end of the DSP VII period, requiring all of the Residential and Small C&I default service supply for delivery starting in June 2017 to be procured in a short period of time near the end of the DSP VII period. In addition, RESA's proposal for Residential and Small C&I customers would inject another "hard stop" within the DSP VII period, requiring the Company to procure 100% of the default service supply in March 2016 for contracted supply to be delivered beginning June 1, 2016.

Duquesne Light St. No. 3-SR, p. 7.

Imposing "hard stops" exposes customers to unnecessary rate instability and risk. If a "hard stop" was implemented, requiring all of the default service load to be solicited at one time or within a short period of time, customers would be fully exposed to the impacts of significant market disruptions, such as the recent "Polar Vortex." Such impacts may include sudden and significant increases in resultant default service rates, or the possibility that the solicitation is not subscribed, leaving the customers fully exposed to further market price changes. See Duquesne Light St. No. 3-R, pp. 14-18. In addition, Mr. Fisher presented an analysis which demonstrated that RESA's procurement plan would double rate instability as compared to the Company's plan. See Duquesne Light St. No. 3-R, pp. 13-14; 3-RS, pp. 13-15.

Moreover, RESA's proposed three and six month supply products are not necessary to support sustainable retail competition. As explained by Mr. Fisher:

This proceeding addresses Duquesne Light's seventh default service plan. The Company has a long history with default service. Duquesne Light has offered the majority of its customers fixed price default service supply rates for many years. During this time, Duquesne Light has achieved some of the highest levels of customer load switched in the United States and has consistently been among the top electric utility service areas in the United States

in terms of percentage of total load receiving service from a competitive supplier.

... The fundamental premise underlying RESA's supply portfolio recommendations is unsubstantiated. There is no convincing evidence that further shortening the term lengths of the default service products would better facilitate the development of the competitive retail market. In fact, the greater price stability provided by Duquesne Light's proposed Residential supply product portfolio will facilitate retail competition by providing a more predictable and stable default service rate, making it easier for EGSs to market savings off of the default service rate, and making it easier for customers to compare EGS offers with default service rates and more confidently make retail supply decisions.

Duquesne Light St. No. 2-R, p. 20 (footnote omitted).

Finally, RESA's sole focus on enhancing the retail market through short-term supply products ignores other important responsibilities of the Commission in setting default service supply rates, such as considering price stability. For example, RESA's proposal ignores price stability by imposing two "hard stops" in the procurement plan. As explained by Mr. Fisher, default service still plays a valuable role in providing stable rates at market-based levels for Residential customers. Duquesne Light St. No. 3-SR, p. 2.

For the reasons explained above and in the testimony of Mr. Habberfield and Mr. Fisher, RESA's proposed Small C&I procurement plan should be rejected.

3. Medium C&I Procurement Issues

i. Company Proposal

Duquesne Light's Medium C&I customers are those customers with monthly metered demands equal to or greater than 25 kW and less than 300 kW. Duquesne Light Ex. No. 1, p. 11. Duquesne Light proposes to obtain default service supply for Medium C&I customers through full requirements contracts with three-month terms, with no laddering. The proposed RFP Date,

Procurement Amount, Contract Term and Delivery Period for Medium C&I customers under DSP VII is set forth below:

RFP Date	Procurement Amount	Contract Term	Delivery Period
March 2015	100%	3 months	June 2015 – August 2015
June 2015	100%	3 months	September 2015 – November 2015
September 2015	100%	3 months	December 2015 – February 2016
December 2015	100%	3 months	March 2016 – May 2016
March 2016	100%	3 months	June 2016 – August 2016
June 2016	100%	3 months	September 2016 – November 2016
September 2016	100%	3 months	December 2016 – February 2017
December 2016	100%	3 months	March 2017 – May 2017

Duquesne Light Exh. No. 1, p. 11.

Duquesne Light’s proposed procurement methodology for Medium C&I customers for DSP VII is more market responsive than under the currently effective DSP VI Plan. The supply plan for Medium C&I customers would move from six-month contracts without laddering under DSP VI to three-month contracts without laddering under the DSP VII Plan, making default service rates for Medium C&I customers more responsive to market changes during the DSP VII default service period. Duquesne Light Exh. No. 1, p. 12. In support of its proposal, the Company noted that approximately 72% of Medium C&I customer load is being served by an EGS as of March 2014. See Exhibit NSF-1, p. 3.

ii. OSBA’s Proposal

The OSBA disagrees with the Company’s proposed procurement methodology for Medium C&I default service customers and proposes that the Company continue to acquire

default service supply for Medium C&I customers in DSP VII through six-month (non-laddered) contracts. OSBA St. No. 1, p. 7. According to the OSBA, the intent of its proposed plan is to provide greater rate stability for Medium C&I customers. OSBA St. No. 1, p. 2.

In rebuttal testimony, the Company stated that it did not oppose the OSBA's proposal to maintain six-month, non-laddered, full-requirements contracts for Medium C&I customers. OSBA's proposal does have certain benefits, including longer term price stability and eliminating RFPs, which would produce cost savings. As explained by the Company's witness Mr. Habberfield, the OSBA's recommendation for Medium C&I customers is reasonable, and the degree to which procurement periods should be shortened to make default service rates more market responsive needs to be balanced with the benefits of price stability. The proper balance in this instance, where a large portion of Medium C&I customers have already switched to a competitive supplier, is a matter of judgment. Duquesne Light St. No. 2-R, p. 8.

iii. RESA's Proposal

RESA proposes to modify the Company's proposed procurement plan for Medium C&I customers. RESA proposes to split the Company's existing Medium C&I class of customers with monthly metered demands equal to or greater than 25 kW and less than 300 kW into two separate procurement groups. RESA's first group would be customers with monthly metered demands between 25 kW to 100 kW. RESA St. No. 1-R, p. 7. RESA proposes that the Company acquire default supply for this group through three-month, non-laddered, full-requirements contracts. RESA's second group of Medium C&I customers would be those customers with monthly metered demands greater than 100 kW and less than 300 kW. RESA proposes that all of those customers be provided hourly priced default service in the same manner as Duquesne Light's Large C&I customers. RESA St. No. 1-R, p. 7. RESA's proposal

would reduce the threshold for hourly priced service in Duquesne Light's service territory from 300 kW to 100 kW.

(A) RESA's Proposal To Reduce The Hourly Priced Service Threshold From 300 kW to 100 kW Should Be Denied

The Company disagrees with RESA's proposal to lower the hourly priced service threshold from 300 kW to 100 kW. In the *Default Service End-State Order*, the Commission noted its preference that customers with demands of 100 kW or greater that have interval meters be offered hourly default service products. *Investigation of Pennsylvania's Retail Electricity Market: End State of Default Service*, Docket No. I-2011-2237952, Order entered February 15, 2013 ("*Default Service End-State Order*") p. 31. However, the Commission further acknowledged that directing an hourly default service product for such Medium C&I customers may raise legal questions about compliance with the Competition Act and that the Commission preferred to pursue legislative amendments that would provide for such authority before mandating an hourly priced product for Medium C&I customers. *Id.* at 45. These changes have not been adopted by the General Assembly. The Company also believes that it is premature to adopt such changes at this time for several additional reasons.

First, the Company does not believe that Medium C&I customers above 100 kW desire to receive hourly priced default service. Duquesne Light St. No. 2-R, p. 9.

Second, the representative of this class, OSBA, opposes providing hourly priced service for Medium C&I customers, because it provides insufficient rate stability. OSBA St. No. 2, pp. 3-4.

Third, the Company's proposed plan already increases the market responsiveness of default service rates for Medium C&I customers by moving from six-month to three-month procurements.

Fourth, if RESA's proposal were adopted, approximately 42% of the Medium C&I load would be carved out of the Medium C&I procurement class because it would remove the load for customers with demands from 100 kW to 300 kW. Duquesne Light St. No. 2-SR, p. 3. The remaining load for the Medium C&I customers with demands equal to or greater than 25 kW to 100 kW will be small and may not be sufficient to attract potential RFP suppliers. Duquesne Light St. No. 2-SR, p. 3. The potential for failed RFPs should be evaluated in more detail before the hourly priced service threshold is reduced from the current 300 kW threshold.

Further, Duquesne Light's witness Mr. Pfrommer explained that RESA's proposal would present several billing and reconciliation issues that have not been resolved at this time. Mr. Pfrommer explained as follows:

Q. Do you agree with Mr. Hudson's recommendation?

A. No. First, the Company explained in its response to RESA I-5 (attached to Mr. Hudson's rebuttal testimony as Exhibit RJH-7) that in order to provide an hourly priced service ("HPS") to these customers the Company would be required to manually perform certain billing functions at additional costs to customers. The Company has not determined the additional costs and the effect this might have on changing the adder.

Second, there are currently 900 large C&I customers greater than 300 kW eligible for HPS as shown in the response to RESA I-5. RESA's proposal would nearly triple the amount of customers eligible for HPS because an additional 1,702 medium C&I customers, also shown in the response to RESA I-5, would be eligible. The Company would need to update its billing processes to be able to bill 2,602 HPS customers. For example, the Company would need to put a process in place to switch from pulling monthly register reads to hourly meter reads from its meter data management system. Similarly, the Company would need to program a process to identify when a customer would be eligible for HPS, or switch from HPS back to fixed price if the customers demand fell below 100 kW, much like it did when it established the 25 kW procurement threshold. All of this change would require a change in

program for reporting purposes as well as more time to process the higher number of hourly billing items. Finally, more customers would mean more data, more data storage, and more processing for checks and validation.

Third, the Company currently has 63 large C&I customers on hourly price service. There were 400 medium C&I default service customers 100 kW to 300 kW as of April 2014 as shown in the response to OSBA I-2 which is provided as Exhibit WVP-ISR. The manual work that I previously described would increase over seven-fold with such a change. The risk of introducing billing errors would increase as would the cost to the customer for this manual work.

Duquesne Light St. No. 4-SR, pp. 2-3.

Finally, Duquesne Light already has one of the lowest kilowatt demand thresholds for hourly priced default service in the country. Duquesne Light St. No. 3, p. 5. For all the reasons stated above, it is premature to reduce the hourly priced threshold at this time, and Duquesne Light's proposed plan for quarterly procurements should be adopted if the Commission desires to make Medium C&I default service rates more market responsive.

4. Large C&I Procurement Issues

i. Company Procurement Methodology

Duquesne Light's Large C&I customer class consists of customers with demand equal to or greater than 300 kW. Duquesne Light St. No. 2, p. 6. As explained by Mr. Fisher, Duquesne Light was one of the first EDCs in the country to offer hourly priced service to all customers equal to or greater than 300 kW, and still has one of the lowest kilowatt demand hourly priced service thresholds for Large C&I customers in the United States. Duquesne Light St. No. 3, p. 5. Currently, approximately 96% of Large C&I load is being served by an EGS. Duquesne Light St. No. 2-R, p. 9.

Duquesne Light procures default supplies for Large C&I customers through the PJM day-ahead hourly spot market. Capacity is procured through PJM's Reliability Pricing Model auction construct. All of these costs are passed through to Large C&I customers with no mark-up by Duquesne Light. Duquesne Light does charge Large C&I default service customers a Fixed Retail Adder of \$4.49 per MWH to recover the Company's administrative costs for providing hourly priced service, which includes PJM related costs, billing costs, Information Technology ("IT") costs, accounting costs and other related costs to provide this service. A description of the costs and scope of work required to provide hourly priced service to Large C&I customers is provided in Duquesne Light St. No. 4-R, p. 17.

ii. RESA Proposal

RESA argues that hourly priced service should be bid out to third parties. RESA St. No. 1, p. 19. RESA proposes to maintain the existing price and cost collection structure with the only difference being that Duquesne Light competitively bid out the hourly priced service. See Exhibit NSF-5, RESA response to Duquesne Light Interrogatory Set I, question 3. RESA argues that competitive bidding "is the best way to ensure that the resulting rates are reflective of all of the costs and risks involved in providing default service to customers." RESA St. No. 1, p. 20. RESA also argues that Duquesne Light's Fixed Retail Adder of \$4.49 per MWH is a proxy figure.

iii. RESA's Proposal To Bid Out Hourly Priced Service Should Be Denied

RESA's proposal to bid out hourly priced service will unnecessarily increase costs for Large C&I default service customers without providing any benefits and should be denied. Duquesne Light passes through its supply costs for providing hourly priced service to Large C&I customers (including PJM spot energy costs, PJM capacity costs, spot ancillary service costs,

AEC requirements, and other PJM direct charges). In addition, Large C&I customers will not be able to avoid the Fixed Retail Adder if the hourly priced service is bid out. As explained by Duquesne Light witness, Mr. Pfrommer, the Company's administrative costs for providing hourly priced service are largely tied to PJM interface and billing related costs that would remain even if a third party provided hourly priced service, and Duquesne Light continued to do the billing and reconciliation. Duquesne Light St. No. 4-R, p. 18. Mr. Pfrommer further demonstrated that the \$4.49 per MWH cost is not a proxy figure but reasonably reflects Duquesne Light's actual costs for providing hourly priced service.¹ Duquesne Light St. No. 4-R, p. 17. No party in this proceeding disputed Mr. Pfrommer's cost analysis.

RESA's proposal also should be denied because certain Large C&I customers have indicated that they desire to receive hourly priced service from Duquesne Light. Mr. Habberfield stated as follows:

The Large C&I customers that remain on default service have expressed to Duquesne Light in the past their desire to receive power from Duquesne Light at PJM spot market prices, rather than through an alternative supplier.

Duquesne Light St. No. 2-R, p. 10.

Mr. Fisher also stated that he has worked on the development of hourly priced service since it was first offered, and throughout the process, Large C&I customers have expressed a desire for Duquesne Light to provide hourly priced service. Duquesne Light St. No. 3-R, p. 7.

In addition, RESA's hourly priced service proposal should be denied because it is not clearly defined and would provide no benefits to Large C&I customers. Duquesne Light's witness, Mr. Fisher, stated as follows:

¹ Mr. Pfrommer explained that an update to the Fixed Retail Adder would support a cost of \$4.66 per MWH. Duquesne Light St. No. 4-R, p. 17.

Q. Is RESA proposing that the third party supplier bid a fixed price adder on top of the charges included in Rider No. 9?

A. It is unclear. Rider No. 9 passes through PJM spot energy costs, PJM capacity costs, spot ancillary service costs, alternative energy portfolio requirements, and other PJM direct charges. Basically, HPS supply costs are based on competitive wholesale market prices that are transparent and objective costs that are billed directly to retail customers.² If RESA is not proposing that the third party supplier bid a fixed price adder on top of the charges included in Rider No. 9, this raises a question of why a third party supplier would be interested in this type of arrangement, where the third party supplier could charge customers essentially spot market prices with no additional “compensation.” In fact, a third party supplier could sell these supply products today in the competitive market without being an HPS supplier.

If RESA is proposing that the third party supplier bid a fixed price adder on top of the charges included in Rider No. 9, this raises a question of what benefits a third party supplier would provide HPS customers? Exactly what is it that the third party supplier would offer customers that they are not getting today?

Q. Is RESA proposing that the third party supplier continue to offer HPS customers the same scheduling flexibility they have today under Rider No. 9?

A. It is unclear. Rider No. 9 provides HPS customers with considerable flexibility, offering customers with the option of buying spot energy in either the day-ahead and/or real-time energy markets. Energy in a day-ahead schedule, subject to modification by each customer, is purchased in the day-ahead energy market with differences between the scheduled load and actual consumption settled in the real-time market. These purchases in the day-ahead and/or real-time energy markets are tracked on a customer-by-customer basis. It is unclear from RESA’s proposal

² As Duquesne Light witness Pfrommer describes in his rebuttal testimony, Duquesne Light’s administrative costs related to providing hourly priced service are largely tied to PJM interface and billing related costs that would remain even if a third party provided supply for hourly priced service and Duquesne Light continued to do the billing and reconciliation.

whether this purchasing flexibility could be continued if a third party supplier were to provide HPS.

RESA does not offer any specifics on how its proposal could be implemented or why third party suppliers would want to participate under the current program's terms and conditions. RESA also fails to take into account the current benefits provided to customers under Duquesne Light's HPS tariff.

Duquesne Light St. No. 3-RJ, pp. 4-5.

For the reasons explained above, and in the testimony of Mr. Habberfield and Mr. Fisher, RESA's request that Duquesne Light bid out hourly priced service for Large C&I default service customers should be denied.

5. Miscellaneous Procurement Issues

No comment.

C. ALTERNATIVE ENERGY CREDIT PROCUREMENT ISSUES

i. Company Proposal

As explained in this proceeding, Duquesne Light proposes to acquire default supplies for Residential, Small C&I and Medium C&I customers through full-requirements contracts of different lengths depending on the class. Duquesne Light St. No. 2, p. 4. Under the Company's proposal, wholesale suppliers providing default service supplies as the winning bidders in RFPs will also provide the AECs that are required for the Company to comply with the Alternative Energy Portfolio Standards Act of 2004, 73 P.S. § 1648.1 - 1648.8 ("AEPS Act") for the load that each wholesale supplier is providing. For Large C&I customers, Duquesne Light proposes to acquire default service supplies through the day-ahead market directly from PJM. Duquesne Light will acquire AECs to meet the AEPS obligation associated with default service for Large

C&I customers.³ Duquesne Light St. No. 2, pp. 6-7. Duquesne Light is proposing in DSP VII to use the same methodology for procuring AECs for Residential, Small C&I, Medium C&I and Large C&I customers that is currently is using for the DSP VI procurements. This same methodology was approved as part of the Company’s DSP VI plan. *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-2012-2301665, Order entered January 25, 2013 (“*DSP VI Order*”).

ii. PennFuture Proposal

In its testimony, PennFuture argues that the Company should “enter into long-term contracts for a portion of their AEPS obligation in DSP VII.” PennFuture St. No. 1, p. 15. PennFuture does not make a specific recommendation in its testimony regarding how many AECs should be procured under what length of contract, but rather generally suggests that the Company could procure its entire Tier I obligation through “contract strips for ten to twenty years.” PennFuture St. No. 7, p. 15.

(A) The Commission Should Deny PennFuture’s Long-Term AEC Acquisition Proposal

(1) PennFuture Has Not Provided a Specific Proposal

PennFuture’s request that the Company acquire AECs through ten to twenty year contracts should be denied for several reasons. First, PennFuture has not provided a specific proposal in its testimony for AEC procurement. PennFuture suggests that the Company “could” procure its entire Tier I obligation through contract strips for ten to twenty years, but PennFuture

³ AECs required to meet the AEPS Act will be purchased by Duquesne Power, LLC (“Duquesne Power”) on behalf of Duquesne Light. Duquesne Power, an affiliate of Duquesne Light, has energy traders who routinely procure AECs. These AECs will be transferred to Duquesne Light in an at-cost manner from Duquesne Power. Duquesne Light St. No. 2, pp. 6-7.

does not make a specific recommendation for how many AECs it proposes the Company acquire through ten-year contracts or twenty-year contracts. It does not state whether the Company should acquire its projected Tier I AEC requirements for the first year of DSP VII under a ten or twenty year contract or whether the Company should attempt to project its Tier I AEC requirements ten years into the future and acquire this amount under a 10 or 20 year contract or acquire some other amount. PennFuture's proposal lacks necessary specificity and should be rejected on that basis alone.

(B) There is Uncertainty Regarding the Future Role of EDCs as Default Service Providers as Well as the Level of Load Even if This EDC is Default Service Supplier

PennFuture's proposal should also be denied due to the uncertainty associated with customer migration and whether the EDC will remain as the default service provider. In the *Default Service End State Order*, the Commission indicated that it was currently retaining the EDC in the DSP role. *Default Service End State Order*, p. 20. However, the Commission indicated that its decision in the *Default Service End State Order* did not preclude a future change in the DSP providers. The Commission stated as follows:

In the future, the Commission may revisit the concept and merits of adopting an alternative DSP or DSPs. *Id.*

The Commission further directed the Office of Competitive Market Oversight ("OCMO") to convene a working group to identify issues associated with implementation of a default service model in which an alternative entity, or multiple entities, provide default service to customers. *Id.* Given this uncertainty regarding the future role of the EDC in providing default service, there is considerable risk for Duquesne Light to enter into ten or twenty-year contracts for AECs. Long-term contracts present substantial risks that the prices paid for AECs under the long-term contracts are substantially higher than market prices in later years. In the event that

Duquesne Light is required to stop providing default service, there is substantial uncertainty regarding who would be responsible for the costs of such contracts, whether the cost responsibility would fall on the new default service provider, distribution customers, default service customers or if some party would argue that Duquesne Light should be responsible for such costs. In testimony, Duquesne Light's witness Mr. Habberfield stated as follows:

Recently, there has been much debate about the future of default service in the State of Pennsylvania, specifically on whether EDCs such as Duquesne Light will continue to serve that role. The Company believes that entering into long-term contracts for AECs would not be prudent given the unknown future of default service.

Duquesne Light St. No. 2-R, p. 15.

Moreover, it is entirely speculative that any change in the default service role would include provisions that would insulate Duquesne Light or its customers from the risks associated with long-term AEC contracts. See Duquesne Light St. No. 3-R, p. 45. Duquesne Light is not willing to accept the risk associated with long-term AEC contracts at this time.

Even if Duquesne Light were to remain the Default Service Supplier for the term of any long term AEC contract, there is a risk that the amount of the AECs procured will exceed the amount required to serve remaining load if the number of customers switching continues to increase. PennFuture has provided no effective solution to this potential problem. Further, there is substantial risk that contract prices will diverge from the market, requiring sales of excess AEC credits at a loss. Further, even if the level of AEC contract volumes does not exceed that required to serve default service load, the long-term contract prices could significantly exceed future AEC market prices. PennFuture provides no solution to how such costs would be recovered and from what set of customers.

**(C) Neither Act 129 Nor the AEPS Act Require
Long-Term AEC Contracts**

Act 129 requires a prudent mix of spot market purchases, short-term contracts and long-term contracts for acquiring default supplies. 66 Pa.C.S. § 2807(e)(3.2). The same prudent mix standard for acquiring default supplies also applies to the acquisition of AECs. Act 129 provides as follows:

. . . the provisions of this Section [which includes the prudent mix requirements of Section 3.2] shall apply to any type of energy purchased by a default service provider to provide electric generation supply service, including energy or alternative energy portfolio standards credits required to be purchased under the act of November 30, 2004 (P.L. 1672 No. 213), known as the Alternative Energy Portfolio Standards Act.

66 Pa.C.S. § 2807(e)(3.5) footnote omitted.

During the past several years, the Commission has discouraged EDCs from entering into long-term contracts for default supplies. In the December 16, 2011 Commission Order in the Retail Markets Investigation, the Commission recommended that the use of long-term contracts be limited in future default service plans, stating as follows:

[T]he Commission continues to recommend the following . . . that EDCs limit the proportion of long-term contracts that make up their default service plan energy portfolios, and consider using already existing long-term contracts from previous or presently effective default service plans.

Investigation of Pennsylvania's Retail Electricity Market: Recommendations Regarding Upcoming Default Service Plans, Docket No. I-2011-2237952, Order entered December 16, 2011, p. 19.

The Commission also has approved Duquesne Light's DSP VI procurement plan, and it does not include long-term contracts for either energy or AECs. *DSP VI Order*.

In addition, in the recent *Default Service End State Order*, the Commission requested comments on whether EDCs should file a procurement plan for Tier I, Tier II and Solar AECs with the Commission. Comments were also requested on whether the procurements should include a mix of short-term (one year or less), medium-term (one to five years) and long-term (six to ten years) contracts, or whether procurements should be EDC territory fact-specific. *Default Service End State Order*, p. 86. The Commission did not require EDCs to procure long-term AEC contracts or adopt a prescriptive AEC procurement methodology, stating as follows:

Given the multitude of comments in opposition, the Commission, at this time, will not adopt a prescriptive AEC procurement methodology. Rather, we believe that this subject would be more appropriately addressed by the Legislature, if they so desire.

Default Service End State Order, p. 10

Based upon the Commission's interpretation of the Act 129 prudent mix requirement, the Commission's approval of Duquesne Light's DSP VI plan and the Commission statements in the *Default Service End State Order*, it is clear that long-term AEC contracts are not required by Act 129.⁴

Long-term AEC contracts also are not required by the AEPS Act. Under the *AEPS Act*, the Commission can reduce EDC' and EGS' AEC requirements if the Commission makes a *Force Majeure* determination that there are not sufficient alternative energy resources reasonably available in the marketplace. Under the *Force Majeure* provisions of the AEPS Act, one of the conditions that the Commission considers in determining *Force Majeure* is whether EDCs or EGSs have sought to acquire AECs through long-term contracts. 73 P.S. § 1648.2. However,

⁴ PennFuture also cites the use of long term contracts by other EDCs. However, these contracts were approved before the conclusion of the Commission's Retail Market Investigation and recent determinations. See, PennFuture St. No. 1, pp. 5-6, contracts approved from 2007 – 2011.

this is only a factor for the Commission to consider, and the AEPS Act does not require long-term contracts.

(D) Entering Into Long-Term AEC Contracts Could Increase AEC Prices for Duquesne Light's Customers

PennFuture argues that entering into long-term contracts will reduce overall AEC prices for Duquesne Light's customers. PennFuture Statement No. 1, p. 7. As support, PennFuture argues that failing to meet increasing demand will increase AEC prices. PennFuture Statement No. 1, p. 11. PennFuture's statement that entering into long-term AEC contracts will reduce AEC prices is speculative at best. As explained by Duquesne Light's witness Mr. Fisher,

Predicting future electricity and AEC market prices ten and twenty years into the future is inherently uncertain and speculative. Because we do not know what future load levels will be, nor what fuel prices will be – to say nothing of changes in technology and environmental requirements – investments in long-lived generation assets or utility contracts are inherently risky. We can “centrally plan” these decisions, and impose the risks on retail customers, but we should not be surprised when things turn out badly.

Furthermore, even if PennFuture's claim about future AEC prices is correct, then it would be reasonable to assume that any prices obtained for long-term contracts to provide AECs would reflect this AEC price expectation. There is no reason to believe that bidders in any long-term AEC solicitation would bid a price that does not reflect the value that the bidders believe they could otherwise achieve by selling their AECs in the market in the future.

Duquesne Light St. No. 3-R, pp. 45-46.

Moreover, while PennFuture's witness Mr. Speerschneider recommended that the Company enter into ten and twenty-year contract strips for Tier I AECs, he admitted that there were no such products on the market. See Exhibit NSF-2, PennFuture response to Duquesne Light's First Set of Discovery Questions, Number 14. This further demonstrates the speculative

nature of PennFuture's claims that entering into long-term AEC contracts will reduce customers' AEC costs.

(E) Long-Term AEC Contracts Will Not Provide Rate Stability

Mr. Speerschneider also contended that long-term AEC contracts for fixed amounts of credits will provide rate stability for customers. Mr. Fisher explained that AEC credits are a small percentage of default service costs, which largely consist of energy and capacity costs, and are unlikely to affect rate stability. Furthermore, unlike full requirements default supply contracts, the AEC quantities procured under PennFuture's recommended long-term AEC contracts would not vary with the changing quantities of the default service load obligation, thereby increasing the chance of being stuck with a disproportionate quantity of above-market AECs under contract. Moreover, PennFuture's recommendation would do very little, if anything, on its own to mitigate overall rate volatility. Duquesne St. No. 3-RJ, p. 12. If further rate stability is desired, longer term contracts for energy, capacity and AECs should be sought using full requirement contracts.

(F) Long-Term AEC Contracts Do Not Increase Demand For AECs

Long-term demand for AECs does not increase with long-term contracts. The demand for AECs is determined based upon the specific AEC requirements set forth in the AEPS Act, which increases over a fifteen year period. 73 P.S. § 1648.3. Simply entering into long-term contracts for AECs will not increase demand for AECs in the market because the demand is set by the AEPS Act. Therefore, entering into long term contracts will not enhance the development of economic alternative energy projects.

**(G) Duquesne Light's AEC Procurement Plan Meets
The Act 129 Prudent Mix Requirements**

In testimony, Mr. Speerschneider argues that Duquesne Light did not consider long-term AEC contracts and that this raises questions regarding the Company's ability to comply with the prudent mix standards of Act 129. PennFuture St. No. 2, p. 5. This argument should be denied.

Duquesne Light considered the Act 129 prudent mix standard for its procurement plan as a whole which includes energy, capacity and AECs. In direct testimony, both Mr. Habberfield and Mr. Fisher explained how the Company's default service procurement plan meets the prudent mix requirements of Act 129. Duquesne Light St. No. 2, p. 13-14; Duquesne Light St. No. 3, pp. 19-30. Under Act 129, the same prudent mix requirements apply to the acquisition of energy, capacity and AECs. See, 66 Pa.C.S. § 2807(e)(3.5). Since Duquesne Light's acquisition of energy and capacity meets the Act 129 prudent mix standards, its acquisition of AECs also meets the prudent mix standards.

In testimony, Mr. Fisher explained that the Commission has interpreted the prudent mix standard to allow for a class-specific product mix that best matches the needs of each DSP class. Mr. Fisher further explained how the plan meets the prudent mix standard. Duquesne Light St. No. 3, p. 22. Mr. Fisher explained that the procurement plan includes tailored and separate supply portfolios for each customer class, taking into account the benefits of price stability, the different shopping propensity of each customer class, and the desire to further develop the competitive market. Duquesne Light St. No. 3, p. 22. Mr. Fisher further explained that the Company elected not to rely on long-term contracts due to the Commission's preference to rely on shorter-term products. Duquesne Light St. No. 3, pp. 24-25.

It also is noted that the Commission approved Duquesne Light's DSP VI procurement plan, which did not include long-term energy, capacity or AEC contracts. *DSP VI Order*.

As explained herein and in the Company's testimony, Duquesne Light's AEC procurement plan meets the Act 129 prudent mix requirements.

(H) If PennFuture's Proposal Is Adopted, Duquesne Light Must Be Permitted To Recover All Of Its AEC Costs From Customers

Duquesne Light does not believe that it is reasonable to adopt PennFuture's long-term AEC contract proposal. However, if it is adopted, Duquesne Light must be guaranteed full cost recovery of all AEC costs from customers.

D. STANDARD OFFER PROGRAM

1. Continuation of the SOP

The SOP issues have been resolved by the Settlement Stipulation of the Parties. At the hearing, the Company indicated that it intended to submit the SOP RFP and the results of the RFP that the Company received on September 10, 2014 as attachments to the Company's Main Brief and would request that these attachments be admitted into evidence. Tr. 39-40. Because the SOP issues have been resolved by the Settlement Stipulation, it is no longer necessary to include the SOP RFP and the RFP results as attachments to the Company's Main Brief, and the Company will address these issues in the SOP collaborative agreed to under the Settlement Stipulation.

2. SOP Collaborative

The SOP issues have been resolved by the Settlement Stipulation of the Parties.

3. Use of a Third Party Vendor to Enroll SOP Customers

The SOP issues have been resolved by the Settlement Stipulation of the Parties.

4. SOP Scripting

The SOP issues have been resolved by the Settlement Stipulation of the Parties.

5. SOP Cost-Recovery

The SOP issues have been resolved by the Settlement Stipulation of the Parties.

6. SOP Analysis and Customer Surveys

The SOP issues have been resolved by the Settlement Stipulation of the Parties.

7. Miscellaneous SOP Issues

No comments.

E. RATE DESIGN

1. Default Service Cost Unbundling Issues

The default service cost unbundling issues have been resolved by the Settlement Stipulation of the Parties.

2. Non-Bypassable Charge to Recover PJM Charges

i. Company Proposal

The Company currently recovers PJM Interconnection, LLC (“PJM”) charges, including Network Integration Transmission Service (“NITS”), Regional Transmission Expansion (“RTEP”), Generation Deactivation Charges and Unaccounted for Energy (“UFE”) charges from default service customers through the Company’s Transmission Service Charge (“TSC”). The cost-recovery methodology for these costs was fully-litigated in the Company’s DSP VI proceeding. In that DSP VI proceeding, the Commission approved recovery of these costs only from default service customers through a bypassable charge. *DSP VI Order*, pp. 221-222. The Company has proposed to continue this same Commission-approved cost recovery methodology for these transmission costs for default service customers under the DSP VII plan.

ii. RESA and ExGen Proposal

Both RESA and ExGen again propose that Duquesne Light recover certain transmission costs for both shopping and default service customers. RESA requests that the Company recover

NITS, RTEP, Generation Deactivation and UFE costs for shopping customers. RESA St. No. 1, p. 22. ExGen requests that the Company recover NITS, Transmission Enhancement charges, RTEP and Generation Deactivation charges for shopping customers. ExGen St. No. 1, p. 4. RESA and ExGen refer to these transmission charges as non-market based charges. Hereafter, the Company refers to these costs as “NMB Transmission Costs.”

iii. RESA and ExGen’s Proposal Is Contrary to Recent Commission Decisions

RESA and ExGen’s proposal to require the Company to recover NMB Transmission Costs for shopping customers should be denied. This exact issue was litigated in Duquesne Light’s DSP VI proceeding, and the Commission denied other parties’ requests for Duquesne Light to recover NMB Transmission Costs for shopping customers. In the *DSP VI Order*, the Commission stated as follows:

Upon our review and analysis of the evidence of record, and consistent with our prior determinations on this issue in the *FirstEnergy DSP* and *PECO DSP Orders*, we agree with the recommendation of the ALJ on this issue. We believe that Duquesne’s position that EGSs should continue to recover transmission and transmission-related costs, such as PJM’s RTEP costs, NITS costs, expansion costs, generation deactivation costs and ELR costs, from their own customers is reasonable and should be approved. We agree with Duquesne that it appropriately recovers these costs only from default service customers, and that EGSs should recover these costs from their customers. We believe that this cost recovery process is consistent with the Commonwealth’s continued migration to a more competitive retail market, and that RESA’s proposal would be a step backward because it would result in the rebundling of transmission costs with distribution rates. Accordingly, we shall adopt the recommendation of the ALJ and deny the Exceptions of RESA on this issue.

DSP VI Order, pp. 221-222.

In addition, in the recent FirstEnergy Companies’⁵ default service proceeding, certain parties argued that the Commission should reconsider its prior decision that the FirstEnergy Companies should not recover NITS charges for shopping customers. *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 No. P-2013-2391368, et al. Order entered July 24, 2014, p. 56. (“*FirstEnergy DSP Order*”). The Commission denied the parties’ proposal that the FirstEnergy Companies recover NITS costs through a non-bypassable charge for all customers, stating as follows:

However, we shall adopt the ALJ’s recommendation that under existing Commission precedent, the proposal to include NITS in the non-bypassable DSSR should be denied. We acknowledge that, while we are not bound by the rule of *stare decisis*, we must render consistent opinions and should either follow, distinguish, or overrule our precedent. *See, Bell Atlantic – Pennsylvania, Inc. v. Pa. PUC*, 672 A.2d 352, 354 (Pa Cmwlth. 1995). In this case, we determined that it was appropriate to follow our precedent. Accordingly, based upon the evidence of record, we shall deny the Exceptions filed by FES, RESA and FirstEnergy on this issue.

FirstEnergy DSP Order, p. 53.

RESA’s and ExGen’s proposals regarding recovery of NMB Transmission Costs is contrary to the Commission’s decision in Duquesne Light’s DSP VI proceeding and in the recent FirstEnergy DSP decision and should be denied.

iv. Duquesne Light’s NMB Transmission Cost Recovery Methodology Is Not Anti-Competitive

RESA argues that the Company’s NMB Transmission Cost recovery methodology is anti-competitive because these costs are significant and volatile, which creates risk of non-recovery by EGSs. RESA St. No. 1-SR, pp. 23-24. Duquesne Light disagrees with this

⁵ The FirstEnergy Companies are Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company.

assertion. As explained in the Company's Rejoinder Testimony, NITS cost make up the majority of the NMB Transmission costs, and NITS costs are fixed on a yearly basis from June 1 – May 31 of each year. Duquesne Light St. No. 4-RJ, pp. 5-6. Furthermore, there is nothing to prevent EGSs from providing for variable recovery of these costs in their contracts with customers.

RESA also argues that the Commission's recent *Fixed Price Order*⁶ justifies recovery of NMB Transmission Costs by the EDC on a non-bypassable basis. RESA St. No. 1, p. 25. With respect to recovery of NITS costs, the Commission specifically rejected these arguments in the *FirstEnergy DSP Order*, stating as follows:⁷

We find that neither our *Fixed Price Order*, entered in November of 2013, nor the single, alleged incident of volatile NITS costs in a neighboring jurisdiction amount to "changed circumstances" which would warrant the requested non-bypassable collection of NITS costs as proposed by FES et al. We further conclude that the FES et al. arguments as to the volatility issue are simply unconvincing as only one, single instance was offered as evidence. We do not agree that this one instance of volatility would lead to the inference that all NITS costs are now unpredictable and should be collected via the EDCs' non-bypassable DSSR.

FirstEnergy DSP Order, pp. 31-32.

RESA's arguments that Duquesne Light's NMB Transmission Cost recovery methodology is anti-competitive should be denied for the same reasons the Commission denied these arguments in the FirstEnergy DSP proceedings.

⁶ *Guidelines for Use of Fixed Price Labels for Products with a Pass-Through Clause*, Docket No. M-2013-2362961, Final Order entered November 14, 2013

⁷ In the FirstEnergy DSP proceeding, the parties agreed in a partial settlement that the FirstEnergy Companies could recover "New NMB Charges" including new reliability must run unit declarations and deactivations of plants costs, historical out of market tie line, generation and retail customer meter adjustments and UFE costs through a non-bypassable rider. However, it is important to note that the partial settlement in the FirstEnergy DSP proceeding is not precedential and should not be considered as such in this proceeding.

v. RESA's Alternative Recommendation Should Be Denied

In surrebuttal testimony, RESA recommends for the first time that if the Commission does not adopt its recommendation for Duquesne Light to assume responsibility for NMB Transmission Costs for all load (including shopping customers), then the Commission should require Duquesne Light to modify its SMA to require wholesale default service suppliers to assume cost responsibility for the same charges EGSs are responsible for. RESA St. No. 1-SR, p. 23. This proposal should be denied for several reasons. First, it was only proposed in RESA's surrebuttal testimony, so no party, and particularly wholesale suppliers, besides Duquesne Light had the opportunity to respond to it in testimony. Second, even RESA admits that it is not an "ideal outcome." RESA St. No. 1-SR, p. 23, line 5. Third, Duquesne Light is proposing that wholesale suppliers assume the same responsibility for costs as under the DSP VI proceeding. Duquesne Light St. No. 4-RJ, p. 5. As explained by Mr. Pfrommer:

This methodology was approved in DSP VI, is working now, and should be approved in DSP VII.

Duquesne Light St. No. 4-RJ, p. 5.

vi. If RESA's Recommendation Is Adopted, Duquesne Light Must Be Guaranteed Full Cost Recovery of All NMB Transmission Costs

As explained above, Duquesne Light does not believe that RESA's proposal for Duquesne Light to recover NMB Transmission costs for shopping customers should be adopted. However, if RESA's proposal is adopted, Duquesne Light must be guaranteed full recovery of all NMB Transmission costs, including costs for shopping customers. This would require changes to Duquesne Light's existing TSC and/or the creation of a new fully reconcilable NMB Transmission Rider.

F. TIME-OF-USE PROGRAM

The TOU issues have been resolved by Stipulation of the Parties.

G. SUPPLY MASTER AGREEMENT ISSUES

The SMA issues have been resolved by Stipulation of the Parties.

**H. REQUEST FOR PROPOSAL AND INDEPENDENT EVALUATOR
PROCESS ISSUES**

ExGen has agreed not to pursue its request for proposal and independent evaluator process issues pursuant to the Settlement Stipulation of the Parties.

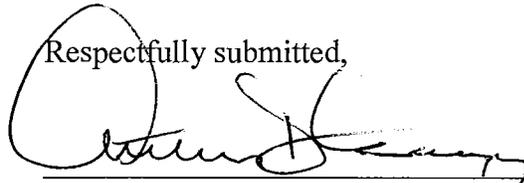
I. GENERAL MISCELLANEOUS ISSUES

No comment.

IV. CONCLUSION

For all the foregoing reasons, Duquesne Light Company respectfully requests that the Pennsylvania Public Utility Commission approve the Default Service Plan as proposed by the Company and as modified by the Settlement Stipulation that was filed on September 15, 2014, authorize the Company to file on one day's notice the tariff sheets set forth in the Tariff Supplement provided with the filing to be modified to reflect the Settlement Stipulation, grant the approvals for Duquesne Light Company to procure power as set forth in this proceeding, including, if needed, credit support from its parent, approve the Supply Master Agreement and related attachments, including the Non-Disclosure Agreement, for procuring power for Residential and Lighting customers, Small C&I customers and Medium C&I customers as modified by the Settlement Stipulation, approve the Company's Retail Market Enhancement Surcharge, make the specific findings required under 66 Pa.C.S. § 2807(e)(3.7), and grant such other relief just and reasonable under the circumstances.

Respectfully submitted,



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Date: September 15, 2014

APPENDIX A

I. PROPOSED FINDINGS OF FACT

Duquesne Light Company (“Duquesne Light” or the “Company”) proposes the following findings of fact:

1. On April 24, 2014, Duquesne Light filed its Default Service Petition (“Default Service Plan” or “DSP VII”) with the Pennsylvania Public Utility Commission (“Commission”). Therein, Duquesne Light requested Commission approval for a Default Service Plan for the period June 1, 2015 through May 31, 2017. (Duquesne Light Ex. No. 1, p. 1.)

2. In the Default Service Plan, Duquesne Light proposed separate default supply procurements for: (1) Residential and Lighting (“Residential”) default service customers, (2) Small Commercial and Industrial (“Small C&I”) default service customers with monthly metered demands less than 25 kW, (3) Medium Commercial and Industrial (“Medium C&I”) default service customers with monthly metered demands equal to or greater than 25 kW and less than 300 kW, and (4) Large Commercial and Industrial (“Large C&I”) default service customers with monthly metered demands equal to or greater than 300 kW. Duquesne Light proposed to procure supplies for Residential, Small C&I and Medium C&I default service customers through fixed-price full requirements contracts. Duquesne Light proposed to continue to procure supplies for Large C&I default service customers through the PJM Interconnection, LLC (“PJM”) day-ahead hourly spot market. (Duquesne Light Ex. No. 1, pp. 3-19.)

3. In addition, the Company proposed to revise its Standard Offer Program (“SOP”) to provide for third party enrollment as employed by other EDCs in Pennsylvania and to enhance competition in its service territory. The Company also proposed a Time-of-Use (“TOU Program”) under which electric supply for TOU customers would be provided by an electric

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generation supplier (“EGS”) selected through a competitive Request for Proposal (“RFP”) process. (Duquesne Light Ex. No. 1, pp. 23-26.)

4. On September 15, 2014, Duquesne Light entered into a Stipulation with I&E, OCA, CAUSE-PA, ExGen, NextEra and RESA, which resolved issues regarding the Residential Procurement Plan, the SOP, the TOU Program, the Supply Master Agreement (“SMA”) and unbundling of default service costs (“Settlement Stipulation”). The Settlement Stipulation also reserves for litigation issues regarding the Small C&I procurement plan, the Medium C&I procurement plan, the Large C&I procurement plan, procurement of alternative energy credits (“AECs”) and the methodology for recovering certain PJM transmission charges. The Settlement Stipulation has been agreed to, or not opposed by, all Parties in this proceeding.

5. Duquesne Light proposes to obtain default service supply for Small C&I customers, which are non-residential customers with monthly metered demands less than 25 kW, through 12-month, laddered full requirements supply contracts from third party suppliers obtained through semi-annual RFPs. (Duquesne Light Ex. No. 1, p. 9.)

6. A full requirements contract requires a supplier to provide energy, capacity, ancillary services, AECs and any other services or products necessary to serve a specified percentage of default service load 24 hours a day, for the term of the contract. Because the contract is “load-following,” the amount of energy and other services and products a supplier must provide will vary depending upon Duquesne Light’s actual default service load. (Duquesne Light Ex. No. 1, p. 3.)

7. On June 5, 2014, Duquesne Light filed a Petition with the Commission requesting, in part, to extend the final Small C&I procurement term under DSP VI by 6 months to a one-year term so that the DSP VI contract would extend through November 2015 and

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replace the 6-month contract scheduled to be procured in February 2015. The Commission granted this Petition on September 11, 2014. *See Petition of Duquesne Light Company For Approval of Revisions to Its Approved Default Service Plan VI*, Docket No. P-2012-2301664.

8. The Company is proposing the same procurement program for Small C&I and Residential customers because both classes have similar shopping levels and market sophistication. As of March 2014, 48.3% of Duquesne Light's Small C&I load and 46.5% of Residential load was being served by alternative suppliers. (Ex. NSF-1, pp. 2-3.)

9. Similar to the procurement plan for Residential customers, Duquesne Light's proposed procurement plan for Small C&I customers is designed to provide for some rate stability in the transition from the end of the DSP VII period on May 31, 2017 to the commencement of the DSP VIII period. This is achieved by the procurement of full requirements contracts for delivery of 50% of default service load in September 2016 for the delivery period of December 2016 through November 2017. The last six months of this supply contract will extend beyond the DSP VII period. (Duquesne Light St. No. 2, pp. 5, 10-11.)

10. The DSP VII procurement plan for Small C&I customers is the same procurement plan that Small C&I customers are currently being offered under DSP VI. Duquesne Light's Small C&I procurement plan is not a step backwards in providing market responsive rates for Small C&I customers. (Duquesne Light St. No. 3-R, pp. 29-30.)

11. The Company's DSP VII plan avoids purchasing 100% of the supply for Small C&I customers at one point in time or even within a short, few-month period of time. (Duquesne Light St. No. 3-SR, p. 6.)

12. RESA's Small C&I procurement proposal will inject two "hard stops" of supplies in the procurement plan. (Duquesne Light St. No. 3-SR, p. 7.)

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13. Imposing “hard stops” exposes customers to unnecessary rate instability and risk. (See Duquesne Light St. No. 3-R, pp. 14-18.)

14. RESA’s procurement plan would double rate instability as compared to the Company’s plan. (See Duquesne Light St. No. 3-R, pp. 13-14; 3-SR, pp. 13-15.)

15. RESA’s proposed three and six-month supply products are not necessary to support sustainable retail competition. The greater price stability provided by Duquesne Light’s proposed Small C&I supply product portfolio will facilitate retail competition by providing a more predictable and stable default service rate, making it easier for EGSs to market savings off of the default service rate, and making it easier for customers to compare EGS offers with default service rates and more confidently make retail supply decisions. (Duquesne Light St. No. 3-R, p. 20.)

16. Duquesne Light’s Medium C&I customers are those customers with monthly metered demands equal to or greater than 25 kW and less than 300 kW. (Duquesne Light Ex. No. 1, p. 11.)

17. Duquesne Light proposes to obtain default service supply for Medium C&I customers through full requirements contracts with three-month terms, with no laddering. (Duquesne Light Ex. No. 1, p. 11.)

18. Duquesne Light’s proposed procurement methodology for Medium C&I customers for DSP VII is more market responsive than under the currently effective DSP VI Plan. The supply plan for Medium C&I customers would move from six-month supply contracts without laddering under DSP VI to three-month supply contracts without laddering under the DSP VII Plan, making default service rates for Medium C&I customers more responsive to market changes during the DSP VII default service period. (Duquesne Light Ex. No. 1, p. 12.)

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19. Approximately 72% of Medium C&I customer load is shopping as of March 2014. (Ex. NSF-1, p. 3.)

20. RESA's proposal to reduce the threshold for hourly priced service in Duquesne Light's service territory from 300 kW to 100 kW provides insufficient rate stability. (OSBA St. No. 2, pp. 3-4.)

21. If RESA's proposal were adopted, approximately 42% of the Medium C&I load would be carved out of the Medium C&I procurements because it would remove the load for customers with demands from 100 kW to 300 kW. (Duquesne Light St. No. 2-SR, p. 3.) The remaining load for the Medium C&I customers with demands between 25 kW to 100 kW will be small and may not be sufficient to attract potential RFP suppliers. (Duquesne Light St. No. 2-SR, p. 3.)

22. Duquesne Light already has one of the lowest kilowatt demand thresholds for hourly priced default service in the country. (Duquesne Light St. No. 3, p. 5.)

23. Duquesne Light's Large C&I customer class consists of customers with demand equal to or greater than 300 kW. (Duquesne Light St. No. 2, p. 6.)

24. Approximately 96% of Large C&I load is shopping with an EGS. (Duquesne Light St. No. 2-R, p. 9.)

25. Duquesne Light procures default supplies for Large C&I customers through the PJM day-ahead hourly spot market. Capacity is procured through PJM's Reliability Pricing Model auction construct. All of these costs are passed through to Large C&I customers with no mark-up by Duquesne Light. (Duquesne Light St. No. 3-RJ, p. 4.)

26. Duquesne Light does charge Large C&I default service customers a Fixed Retail Adder of \$4.49 per MWH to recover the Company's administrative costs for providing hourly

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priced service, which includes PJM related costs, billing costs, Information Technology (“IT”) costs, accounting costs and other related costs to provide this service. (Duquesne Light St. No. 4-R, p. 17.)

27. Large C&I customers will not be able to avoid the Fixed Retail Adder if the hourly priced service is bid out. The Company’s administrative costs for providing hourly priced service are largely tied to PJM interface and billing related costs that would remain even if a third party provided hourly priced service, and Duquesne Light continued to do the billing and reconciliation. (Duquesne Light St. No. 4-R, p. 18.)

28. The \$4.49 per MWH cost is not a proxy figure but reasonably reflects Duquesne Light’s actual costs for providing hourly priced service. (Duquesne Light St. No. 4-R, p. 17.)

29. Large C&I customers have expressed a desire for Duquesne Light to provide hourly priced service. (Duquesne Light St. No. 3-R, p. 7.)

30. Under the Company’s proposal, wholesale suppliers providing default supplies as the winning bidders in RFPs will also provide the AECs that are required for the Company to comply with the Alternative Energy Portfolio Standards Act of 2004, 73 P.S. § 1648.1 - 1648.8 (“AEPS Act”) for the load that each wholesale supplier is providing. For Large C&I customers, Duquesne Light proposes to acquire default supplies through the day-ahead market directly from PJM. Duquesne Light will acquire AECs to meet the AEPS obligation associated with default suppliers for Large C&I customers. (Duquesne Light St. No. 2, pp. 6-7.)

31. Duquesne Light is proposing in DSP VII to use the same methodology for procuring AECs for Residential, Small C&I, Medium C&I and Large C&I customers that is currently is using for the DSP VI procurements, and this methodology was approved as part of the Company’s DSP VI plan. *Petition of Duquesne Light Company for Approval of a Default*

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Service Program and Procurement Plan for the Period June 1, 2013 through May 31, 2015, Docket No. P-2012-2301665, Order entered January 25, 2013 (“*DSP VI Order*”).

32. PennFuture proposes that the Company “could” procure its entire Tier I obligation from AECs through contract strips for ten to twenty years, but PennFuture does not make a specific recommendation for how many AECs it proposes the Company acquire through ten-year contracts or twenty-year contracts. (See PennFuture St. Nos. 1 and 2.)

33. In the *Default Service End State Order*, the Commission indicated that it was currently retaining the EDC in the DSP role. *Default Service End State Order*, p. 20. However, the Commission indicated that its decision in the *Default Service End State Order* did not preclude a future change in the DSP providers. *Id.*

34. Given this uncertainty regarding the future role of the EDC in providing default service, it would create considerable risk for Duquesne Light and its customers to enter into ten or twenty-year contracts for AECs. Long-term contracts present substantial risks that the prices paid for AECs under the long-term contracts are substantially higher than market prices in later years. (Duquesne Light St. No. 2-R, p. 15.)

35. The Commission has approved Duquesne Light’s DSP VI procurement plan, and it does not include long-term contracts for either energy or AECs. *DSP VI Order*.

36. PennFuture’s claim that entering into long-term AEC contracts will reduce customers’ AEC costs is speculative. (Duquesne Light St. No. 3-R, pp. 45-46.)

37. AEC credits are a small percentage of default service costs and are unlikely to effect rate stability. (Duquesne St. No. 3-RJ, p. 12.)

38. Duquesne Light’s AEC procurement plan includes tailored and separate supply portfolios for each customer class, taking into account the benefits of price stability, the different

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shopping proponents of each customer class, and the desire to further develop the competitive market. (Duquesne Light St. No. 3, p. 22.)

39. The Company currently recovers PJM Interconnection, LLC (“PJM”) charges, including Network Integration Transmission Service (“NITS”), Regional Transmission Expansion (“RTEP”), Generation Deactivation Charges and Unaccounted for Energy (“UFE”) charges from default service customers through the Company’s Transmission Service Charge (“TSC”). The Company has proposed to continue this same Commission-approved cost recovery methodology for these transmission costs under the DSP VII plan. (Duquesne Light St. No. 4-RJ, p. 5.)

40. Duquesne Light’s non-market based transmission cost (“NMB Transmission Cost”) recovery methodology is not anti-competitive. (Duquesne Light St. No. 4-RJ, pp. 5-6.)

41. RESA admitted that its proposal that the Commission require Duquesne Light to modify its SMA to require wholesale default service suppliers to assume cost responsibility for the same charges EGSs are responsible for is not an “ideal outcome.” (RESA St. No. 1-SR, p. 23, line 5.)

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II. PROPOSED CONCLUSIONS OF LAW

Duquesne Light Company (“Duquesne Light” or the “Company”) proposes the following conclusions of law:

1. The Commission has jurisdiction over the subject matter and the parties to this proceeding. 66 Pa. C.S. §§ 501, et seq.
2. Duquesne Light, as the Petitioner, has the burden of proof with respect to its proposals in this proceeding. 66 Pa. C.S. § 332(a).
3. The burden of proof means a duty to establish a fact by a preponderance of the evidence. *Se-Ling Hosiery v. Margulies*, 364 Pa. 45, 70 A.2d 854 (1950).
4. A party that makes a proposal that is not included in a public utility’s case bears the burden of proof as to its proposal. *See Pa. P.U.C. v. Metropolitan Edison Company, et al.*, Docket Nos. R-00061366, *et al.*, 2007 Pa. PUC LEXIS 5 (January 11, 2007), *Joint Default Service Plan for Citizens’ Electric Company of Lewisburg, PA and Wellsboro Electric Company for the Period of June 1, 2010 through May 31, 2013*, Docket Nos. P-2009-2110798, *et al.*, 2010 WL 1259684 at *2, 19-20 (February 25, 2010).
5. As an EDC and DSP, Duquesne Light’s default service obligations are set forth in Act 129 of 2008, Oct. 15, P.L. 1592, No. 129 (“Act 129”), codified in Chapter 28 of the Public Utility Code, 66 Pa.C.S. Ch. 28.
6. Duquesne Light is obligated to provide electric generation supply service to both customers that do not choose an EGS and to customers that contract with an EGS for supply service if the chosen EGS does not provide the service. 66 Pa.C.S. § 2807(e)(3.1).
7. Act 129 requires that power “shall be procured through competitive procurement processes” (including auctions, requests for proposals and/or competitively procured bilateral

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agreements procured at no greater than the cost of obtaining generation under comparable terms in the wholesale market), and such procurement must be a “prudent mix” of spot market purchases, short-term contracts and long-term purchases. *Id.* at 2807(e)(3.1)-(3.2).

8. Act 129 also requires that a default service plan ensures “adequate and reliable service” at the “least cost to customers over time.” 66 Pa.C.S. § 2807(e)(3.4).

9. The Preamble to Act 129 provides that one of the objectives of the Act is to take into account any benefits of price stability over time.

10. Duquesne Light’s procurement plan meets all of the statutory requirements. All default service supplies are procured through competitive procurement processes.

11. Duquesne Light has proposed a prudent mix of contracts for customers that will provide least cost to customers over time, while taking into account the benefits of price stability for customers.

12. The Company’s default service procurement plan meets the prudent mix requirements of Act 129. (Duquesne Light St. No. 2, p. 13-14; Duquesne Light St. No. 3, pp. 19-30.)

13. The same prudent mix standard for acquiring default supplies also applies to the acquisition of AECs. 66 Pa.C.S. § 2807(e)(3.5).

14. In the December 16, 2011 Commission Order in the Retail Markets Investigation, the Commission recommended that “. . . EDCs limit the proportion of long-term contracts that make up their default service plan energy portfolios, and consider using already existing long-term contracts from previous or presently effective default service plans.” *Investigation of Pennsylvania’s Retail Electricity Market: Recommendations Regarding Upcoming Default Service Plans*, Docket No. I-2011-2237952, Order entered December 16, 2011, p. 19.

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15. In the recent *Default Service End State Order*, the Commission did not require EDCs to procure long-term AEC contracts or adopt a prescriptive AEC procurement methodology. *Default Service End State Order*, p. 10.

16. Long-term AEC contracts are not required by the AEPS Act. Under the *Force Majeure* provisions of the AEPS Act, one of the conditions that the Commission considers in determining *Force Majeure* is whether EDCs or EGSs have sought to acquire AECs through long-term contracts. 73 P.S. § 1648.2.

17. The demand for AECs is determined based upon the specific AEC requirements set forth in the AEPS Act, which increase over a fifteen year period. 73 P.S. § 1648.3.

18. RESA and ExGen's proposal to require the Company to recover NMB Transmission Costs for shopping customers raises the exact issue that was litigated in Duquesne Light's DSP VI proceeding, and the Commission denied other parties' requests for Duquesne Light to recover NMB Transmission Costs for shopping customers. *Duquesne Light Company DSP VI Order*, pp. 221-222.

19. In the recent FirstEnergy Companies' default service proceeding, the Commission denied the parties' proposal that the FirstEnergy Companies recover NITS costs through a non-bypassable charge for all customers. *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 No. P-2013-2391368, et al. Order entered July 24, 2014, p. 56. ("*FirstEnergy DSP Order*").

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III. PROPOSED ORDERING PARAGRAPHS

Duquesne Light Company (“Duquesne Light” or “the Company”) proposes the following ordering paragraphs:

1. The Default Service Plan as proposed by the Company and as modified by the Settlement Stipulation that was filed on September 15, 2014 is approved.
2. Duquesne Light’s Default Service Plan fully complies with all provisions of Act 129 and the Public Utility Code.
3. Duquesne Light is authorized to file on one day’s notice the tariff sheets set forth in the Tariff Supplement provided with the filing to be modified to reflect the Settlement Stipulation.
4. The approvals for Duquesne Light Company to procure power as set forth in this proceeding are granted, including, if needed, credit support from its parent.
5. The Supply Master Agreement as modified by the Settlement Stipulation and related attachments, including the Non-Disclosure Agreement, for procuring power for Residential and Lighting customers, Small C&I and Medium C&I customers are approved.
6. Duquesne Light’s Retail Market Enhancement Surcharge is approved.
7. Duquesne Light’s Default Service Plan includes prudent steps necessary to negotiate favorable generation supply contracts.
8. Duquesne Light’s Default Service Plan includes prudent steps necessary to obtain least cost generation supply contracts on a long-term, short-term and spot market basis.
9. Neither Duquesne Light nor its affiliated interests have withheld from the market any generation supply in a manner that violates federal law.
10. Such other relief as is just and reasonable under the circumstances is granted.

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11. The Commission's Secretary shall mark Docket No. P-2014-2418242 as closed.