

DUQUESNE LIGHT STATEMENT NO. 4-R

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**REBUTTAL TESTIMONY OF
WILLIAM V. PFROMMER**

Dated: August 1, 2014

1 **Q. Please state your full name and business address.**

2 A. My name is William V. Pfrommer. My business address is Duquesne Light
3 Company, 411 Seventh Avenue, Pittsburgh, PA 15219.

4

5 **Q. What is your position at Duquesne Light Company?**

6 A. I am employed by Duquesne Light Company (“Duquesne Light” or “Company”)
7 as the Senior Manager, Rates and Tariff Services.

8

9 **Q. Did you previously submit direct testimony in this proceeding on behalf of**
10 **the Company?**

11 A. Yes. I submitted my direct testimony, Statement No. 4, on April 24, 2014, with
12 the Company’s initial filing.

13

14 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

15 A. My rebuttal testimony will respond to the following issues raised in the direct
16 testimony of intervening parties in this proceeding:

17 1. Time Of Use (“TOU”) cost recovery proposal of Bureau of Investigation and
18 Enforcement (“I&E”) witness Jeremy B. Hubert.

19 2. Reconciliation proposal presented by Office of Consumer Advocate (“OCA”)
20 witness Steven L. Estomin.

21 3. Standard Offer Program (“SOP”) cost issues raised by OCA witness Barbara
22 R. Alexander and Retail Energy Supply Association (“RESA”) witness
23 Richard J. Hudson, Jr.

1 **Q. Do you agree with Mr. Hubert's position?**

2 A. No. First, as Mr. Hubert states, Section 2805(f)(5) of the Public Utility Code
3 requires that the electric distribution company ("EDC") must offer a TOU
4 program and the default service supplier should prepare a report detailing the
5 results of the program (I&E St. No. 1, page 6, lines 3-17). The Company is still
6 the default service provider and still has the obligation to prepare this report. Mr.
7 Hubert agrees that the Company's plan to bid the TOU to EGSs meets the
8 statutory requirements (I&E St. No. 1, page 6, line 21). However, simply because
9 the customer is changed from a default service customer to an EGS customer does
10 not relieve the Company's reporting obligation on the TOU program. It merely
11 assigns the supply obligation to an EGS, not reassign the reporting obligation
12 because the EGS is not the default service provider.

13 Second, with respect to costs, the Company is requiring the EGS
14 providing TOU service to cooperate with the Company for compliance and
15 reporting requirements (DLC St. 2, Exhibit JH-5, page 10). The Company seeks
16 to recover only its costs for compiling the report from default service customers.
17 If no EGS submits a qualifying bid to provide the TOU program, then the TOU
18 program would be offered as a default service program, as Mr. Hubert suggests,
19 and Duquesne Light would recover the TOU costs from default service customers.

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2. RECONCILIATION

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Q. Please summarize the reconciliation proposal presented by OCA witness Estomin.

A. Dr. Estomin argues that if the OCA’s procurement proposal for residential customers in this proceeding is adopted, which includes a 5% spot market price component, or if the proposed procurement contingency plan is invoked which includes spot market purchases, then these circumstances could potentially result in higher amounts subject to reconciliation. Therefore, Dr. Estomin proposes that the reconciliation amounts for residential customers should be refunded or collected over a 12-month period instead of the 6-month period proposed by the Company. Dr. Estomin claims this will provide additional stability in rates and permit default service prices to be more reflective of market prices since the reconciliation amount would be lower (OCA St. No. 1, page 15, lines 5-25).

Q. What is your response to Dr. Estomin’s proposal?

A. First, the Company does not agree with Dr. Estomin’s proposal to include a spot market component in its residential procurement plan.¹ If it is adopted over the Company’s objection, I do not believe a 12 month amortization period to refund or collect reconciliation amounts would be appropriate. The OCA’s proposal would require the Company to estimate future spot prices and later reconcile that forecast with actual spot market costs. I agree with Dr. Estomin that injecting spot into the supply portfolio could potentially result in higher amounts subject to

¹ Duquesne Light witnesses Habberfield and Fisher address this issue in their rebuttal testimony.

1 reconciliation. However, amortizing over/under collections over 12 months
2 would put costs out of time with when they occurred. Refund or recovery of an
3 over- or under-collection could be as long as 18 months from when it occurred.

4 In addition, if the contingency plan is invoked, the Company will need to
5 act quickly to develop an alternative proposal. If the contingency plan does
6 involve spot purchases, the Company could seek a waiver of the reconciliation
7 period under those circumstances to allow for more frequent reconciliations.

8 Finally, I note that the reconciliation issues raised by Dr. Estomin could
9 largely be avoided simply by denying OCA's proposal to include a 5% spot
10 component in the residential supply portfolio. As I discussed in my direct
11 testimony, Duquesne Light's default service procurement, unlike the default
12 service supply portfolios of some other Pennsylvania EDCs, does not include a
13 spot component. Rather, Duquesne Light relies exclusively on fixed-price full
14 requirements products for all of the Residential, Lighting, Small C&I, and
15 Medium C&I customer default service supply. Therefore, the supplier costs and
16 customer revenues are closely aligned. As a result, the over/under collection
17 component of the rate has varied within a tight range during the Company's
18 previous and current default service plans, and the Company does not anticipate
19 meaningful variations in DSP VII since default service supply will be obtained
20 through full requirements contracts. The Company's reconciliation methodology,
21 combined with its full requirement contract portfolio, also prevents the
22 reconciliation component from significantly impacting the PTC, which EGSs
23 have argued is anti-competitive.

1 **3. STANDARD OFFER PROGRAM COSTS**

2 **Q. Please summarize OCA witness Alexander's presentation of SOP costs.**

3 A. Ms. Alexander presents the estimated \$4,709,500 SOP enrollment costs plus
4 \$100,000 capital costs as an impact to the customer to be \$4.42 per customer
5 enrolled. The \$4.42 is based on 50% of the incremental costs above the proposed
6 \$30 EGS enrollment fee (estimated at \$8.50 per customer enrolled) plus \$0.17 for
7 the additional capital expenditures. Ms. Alexander states that if 10,000 new
8 customers enroll into the SOP, the resulting costs to default service customers
9 would be \$44,200 (OCA St. No. 2, page 11, lines 5-20, page 12, lines 1-4).

10
11 **Q. What is your response to Ms. Alexander's statements?**

12 A. A couple points of clarification on the cost estimate are necessary. The \$4.7
13 million enrollment cost estimate is for the entire two year default service period
14 and assumes a total of 122,000 customers or 5,083 customers per month on
15 average will enroll in the SOP. In order to have an enrollment of 122,000 SOP
16 customers, 2% of remaining default service customers would have to enroll in the
17 SOP each and every month. This 2% assumption is relatively aggressive
18 considering only 5,100 customers have enrolled in the SOP program for the entire
19 period from August 2013 through June 30, 2014. Therefore the \$4.7 million is
20 considered by the Company to be a very high end estimate.

21 The \$4.7 million enrollment cost estimate is not the cost to the customer
22 but an estimate of total enrollment costs for the SOP program over the two-year
23 DSP VII period. The total enrollment cost assumes a \$38.50 fee charged by a

1 third party for each customer enrolled in the SOP multiplied by the high end
2 enrollment projections. Using these assumptions, the estimated expenses to be
3 recovered from customers would be about \$518,500 (122,000 enrollments times
4 \$4.25 per enrollment). As explained by witness Sandoe, the indicative pricing
5 from potential third party SOP vendors is expected to be lower than the \$38.50
6 assumption, therefore potentially lowering the cost to the customer. Of course, if
7 there are lower enrollments, the cost to default service customers will also
8 decline.

9 While Ms. Alexander correctly explains the response provided in OCA I-
10 13 (See Exhibit WVP-1R), a more granular analysis is needed with regard to bill
11 impact. The \$4.25 customer share of the enrollment cost would be recovered
12 through default service rates during each 6 month default service rate period.
13 Assuming 30,500 residential customers were enrolled during a 6-month period,
14 the cost to recover in the subsequent residential default service rate period would
15 be \$129,625 (6 months times 5,083 enrollments per month times \$4.25). The
16 number of residential default service customers at March 2014 was 299,110
17 (response to OCA III-1 provided in Exhibit WVP-1R). Assuming the same
18 number of default service customers at the beginning of the SOP program,
19 approximately 268,610 default service customers would remain after 6 months
20 (299,110 less 30,500) and 238,110 customers would remain after 12 months. The
21 average monthly bill impact to a residential customer over the subsequent 6
22 month period would be \$0.09 per month (\$129,625 divided by the average
23 monthly bills of 253,360 divided by 6 billing months). If the SOP vendor costs

1 are lower than the assumed \$38.50 enrollment fee, then the average monthly bill
2 impact will be even lower than \$0.09 per month.

3

4 **Q. Please summarize RESA witness Hudson's concerns regarding SOP cost**
5 **recovery.**

6 A. Mr. Hudson strongly opposes the use of the Purchase of Receivables ("POR")
7 discount rate to pay for any non-POR related cost. Mr. Hudson states that doing
8 so would impose costs on all EGSs serving customers on consolidated billing
9 although many such EGSs may not participate in the SOP. Moreover, Mr.
10 Hudson argues that this approach would impose a disproportionate share of SOP
11 costs on large volume customers. Mr. Hudson presents a table showing
12 calculations claiming a medium commercial customer at 100 kW using 44,150
13 kWh per month on average would pay 54 times the cost than a typical residential
14 customer using 750 kWh (RESA St. No. 1, page 28, lines 1-12).

15

16 **Q. Do you agree with Mr. Hudson's analysis?**

17 A. No. First, Mr. Hudson bases his argument by comparing a residential customer to
18 a medium commercial customer even though the SOP does not apply to medium
19 commercial customers. His claimed disproportionate inequity is exaggerated
20 based on the higher kWh usage he assumes for a medium commercial customer.
21 There will be no Medium C&I SOP charges under the POR because the Medium
22 C&I customers do not participate in the SOP. The average usage for a small

1 commercial and industrial customer in May 2014 was 1,200 kWh based on the
2 data shown in the response to RESA I-3 (See Exhibit WVP-1R).

3 The Company will design the POR administrative adder specific to each
4 customer class to recover the administrative fee (\$4.25 per enrollment in this
5 case) incurred within that customer class. This will ensure costs are assigned to
6 the appropriate class. Because only 86 small commercial and industrial customers
7 have enrolled in the SOP, it is likely the POR administrative adder for small
8 commercial and industrial customers will be proportionately lower than that for
9 residential customers, all else equal.

10 Finally, the customer enrollment fee implies 78% of the initial estimated
11 \$38.50 cost is recovered from successful SOP EGSs ($\$30 \div \38.50), with the
12 remaining costs (22%) split evenly between default service customers in the
13 applicable customer classes and EGSs who offer consolidated billing to those
14 customer classes. The allocation of excess costs above the \$30 per customer
15 enrollment fee was a hotly debated topic in the Company's previously litigated
16 DSP VI filing, and this issue could not be resolved among the stakeholders during
17 the subsequent collaborative process. This was one of the contributing factors
18 that led the Company to ultimately adopt a more stream-lined, lower cost SOP.
19 The Company's cost recovery proposal in DSP VII is a reasonable compromise,
20 and as I explained in my direct testimony on page 29, is consistent with the cost
21 recovery design approved by the Commission in the PECO proceeding for a
22 similar SOP.

23

1 **Q. Under the Company's proposed cost recovery plan for the SOP, can you**
2 **provide an estimate of the costs per kWh to be recovered in the POR?**

3 A. Assuming the two year SOP cost to recover through POR is \$518,500 (122,000
4 enrollments times \$4.25 per enrollment) as calculated above is entirely for
5 residential customers, the cost per kWh would be about \$0.00013 (\$518,500
6 divided by 2,000,000 consolidated bill EGS residential kWh). Further, as I
7 explained above, the indicative pricing from potential third party SOP vendors is
8 expected to be lower than the \$38.50 estimate used in my analysis. This, along
9 with potential for lower enrollments, indicates that the expenses recovered
10 through the POR mechanism, could be quite small on a dollars per kWh basis.

11

12 **Q. Witness Hudson states also that it is premature to adopt a revised cost**
13 **recovery plan until all of the SOP details are resolved. Please respond.**

14 A. The Company is proposing a cost recovery structure that has been previously
15 approved by the Commission. Specifically, this structure is already in place with
16 PECO's SOP, which is why the Company chose this structure. There is no reason
17 to delay adopting a SOP cost-recovery mechanism.

18

19 **4. DEFAULT SERVICE COST UNBUNDLING**

20 **Q. Please summarize RESA witness Hudson's proposal to unbundle default**
21 **service costs from base rates.**

22 A. Mr. Hudson recommends that Duquesne Light should be required to identify all
23 of its default service related costs and allocate them to bypassable default service

1 rates. Mr. Hudson states that Duquesne Light should be required to identify all of
2 its default service related administrative and other operational costs and allocate
3 them to default service rates because the magnitude of these costs could be quite
4 significant citing \$9 million in default service related working capital costs
5 (RESA St. No. 1, page 21, lines 5-18).

6

7 **Q. Do you agree with Mr. Hudson’s proposal to unbundle default service costs**
8 **from base rates?**

9 A. No. I do not believe that Mr. Hudson’s recommendation is appropriate, especially
10 in this default service proceeding, for several reasons. Many of the same
11 arguments that RESA is now making have been made before. During the
12 restructuring process and in subsequent orders, the Commission found that there
13 was insufficient evidence to warrant unbundling of customer services.
14 Experience suggests that attempting to unbundle these services would be difficult
15 and contentious. The negotiated Purchase of Receivables (“POR”) Settlement,
16 which I discuss below, was intended to replace the need to further unbundle
17 Duquesne Light’s default service costs from distribution rates. Also, as I explain
18 below, these costs are likely to have a minimal effect on the PTC. If such
19 unbundling is to be undertaken, utility costs also should be examined to determine
20 whether costs are incurred solely to assist shopping customers. In addition,
21 default service provides substantial protections and benefits to all customers.
22 Therefore, it is reasonable for all customers to pay for the minimal administrative

1 costs of providing this service that are not already directly charged to default
2 service customers.

3
4 **Q. Please describe the negotiated POR settlement.**

5 A. Issues with regard to unbundling were raised by EGSs in the Company's 2006
6 rate case. As part of the Settlement of the rate case, Duquesne Light and the
7 Parties agreed there would be no need to file an unbundling study and unbundle
8 costs if the Parties to the rate case agreed to a POR program. This agreement was
9 reached and executed on December 11, 2006, and is attached as Exhibit WVP-2R
10 to my rebuttal testimony. As part of a settlement, Duquesne Light agreed to
11 evaluate, and ultimately adopt the POR Program in response to parties'
12 contentions regarding default service cost unbundling in Duquesne Light's 2006
13 base rate proceeding at Docket No. R-00061346. The Settlement was filed and
14 approved in the Company's DSP IV proceeding, at Docket No. P-00072247.

15
16 **Q. What are the salient features of the POR agreement?**

17 A. First, the POR Agreement established the first POR program for a major
18 Pennsylvania electric company for residential and small C&I customers. Second,
19 it established a very low discount of 0.7% for purchase of receivables, 0.42% as
20 the discount to recover uncollectible accounts and 0.28% for administrative costs.
21 Subsequently, the 0.28% for administrative costs was reduced to 0.1% in the DSP
22 V proceeding at Docket No. P-2009-2135500, resulting in a total discount of

1 0.52% for purchased receivables and expanded to include medium C&I customers
2 with a total discount for such customers of 0.28%.

3 The POR settlement was designed to deal not only with regard to
4 unbundling of uncollectible accounts expense, but all administrative costs. As
5 part of the POR settlement, the parties agreed (RESA agreed not to oppose) that
6 there will be no further need to unbundle Duquesne Light's default service costs
7 from distribution rates.

8

9 **Q. Do you believe that additional unbundling of default service administrative**
10 **costs would have a meaningful impact on the Price-To-Compare (“PTC”)?**

11 A. No, the Company has not concluded a detailed study, but I believe that the impact
12 of any additional unbundling would not have a meaningful impact on the PTC for
13 several reasons. First, the Company's administrative costs directly related to
14 default service are minimal. The Company primarily relies on two employees, on
15 a very limited basis, to conduct default service procurements. Second, the
16 procurements are overseen by an independent evaluator, whose costs already are
17 included in default service rates. Third, the costs of procuring supplies for Large
18 C&I default service customers is recovered already in the fixed retail adder
19 included in their default service rates. Fourth, certain other costs cannot be
20 avoided by Duquesne Light if a customer shops, especially if Duquesne Light is
21 in the position of having to “stand ready” to serve customers that return from EGS
22 service. Given the statutory obligation to serve, which is imposed on EDCs, but

1 not on EGSs, it is not clear that any significant amount of costs should be
2 removed from distribution rates.

3
4 **Q. Mr. Hudson argues that the magnitude of costs could be significant, citing \$9**
5 **million in default service related working capital costs as an example. Do**
6 **you agree?**

7 A. I do not agree. It is important to clarify that \$9 million in working capital costs
8 does not equate to a \$9 million reduction to base rates and a \$9 million increase to
9 default service rates. In a base rate proceeding, working capital costs are added to
10 the Company's rate base, and the Company's revenue requirement for working
11 capital costs equals its overall return applied to those costs, as grossed up for
12 taxes. Assuming an overall tax-adjusted (pre-tax) return of 12.73% for illustrative
13 purposes applied to \$9 million of working capital costs would result in a revenue
14 requirement of approximately \$1,145,000. Adding \$1,145,000 to default service
15 rates would only increase the residential PTC by only about \$0.00036/kwh.
16 Further, I note that the overall tax-adjusted return of 12.73% was the return
17 proposed by the Company in its most recent base rate proceeding at Docket No.
18 R-2013-2372129. The Company entered into a black-box settlement at a
19 significantly lower rate increase than originally proposed. Therefore, the return
20 under the settlement is presumably lower than the Company's original request,
21 which would decrease the working capital revenue requirement.

1 **Q. What would the Company be required to do in order to unbundle default**
2 **service administrative costs?**

3 A. In order to reasonably estimate default service administrative costs, the Company
4 would be required to conduct a detailed, time-intensive study to identify such
5 costs as well as to determine the portion of costs that potentially could be avoided
6 if a customer switches to an EGS. If Duquesne Light cannot avoid costs if a
7 customer switches to an EGS, the costs should not be unbundled. However, I do
8 not believe that it is appropriate to conduct this study in this proceeding.

9

10 **Q. If the Commission were to require the Company to unbundle administrative**
11 **default service costs, how should this occur?**

12 A. Ideally this would occur in a base rate proceeding where all of the Company's
13 revenues and expenses can be reviewed. I note that the Company has had two
14 base rate proceedings since its POR was adopted and no party in those
15 proceedings argued that the Company should attempt to further unbundle default
16 service administrative costs.

17 The Commission also could open a generic proceeding to decide whether
18 EDCs should be required to unbundle administrative default service costs and
19 identify the types of costs to be unbundled, similar to how the Commission
20 proceeded to unbundle gas procurement related costs for natural gas distribution
21 companies from base rates.

22

1 **Q. If the Commission requires Duquesne Light to unbundle administrative**
2 **default service costs, are there other issues that the Commission should**
3 **consider?**

4 A. Yes. I note that the Company performs multiple activities to benefit EGSs,
5 including but not limited to operating and maintaining the Supplier Service Center
6 to support EGS functions (e.g. update the eligible customer list, respond to EGS
7 inquiries, educate EGSs on new EDI standards), accommodate up to five
8 scheduling coordinators at no cost to the EGS, providing customer load
9 information for up to five times per account at no charge and providing technical
10 support for 10 hours per month per EGS at no charge. The Company does not
11 currently recover the costs of performing these activities from EGSs. If
12 administrative default service costs are unbundled, the Company should also
13 unbundle costs for providing service to EGSs, and the Commission should require
14 EGSs to pay these costs.

15
16 **5. FIXED RETAIL ADDER FOR HOURLY PRICE SERVICE**

17 **Q. How do you respond to RESA’s concern about the level of the fixed retail**
18 **adder that Duquesne Light collects from Large C&I customers who receive**
19 **Hourly Price Service (“HPS”)?**

20 RESA argues that these other retail servicing costs are approximated through an
21 administratively set adder of \$4.49 per MWH, which is essentially a proxy figure
22 that was established through prior DSP cases and is not based on actual costs or

1 bid prices.² This is not correct. The fixed retail adder reflects costs that are
 2 incurred by Duquesne Light to provide HPS to Large C&I customers. The fixed
 3 retail adder was initially established in DSP III. These costs have been itemized
 4 and revised periodically as ongoing costs and projected default service volumes
 5 change. In fact, in the DSP VI proceeding, the Company provided an itemized
 6 list of all administrative costs to be recovered through the fixed retail adder. Each
 7 item that was identified is associated solely with the processes, calculations,
 8 reconciliation, PJM interface, billing, accounting, data storage and maintenance
 9 scope to provide HPS. These annual costs were forecast through the end of May
 10 31, 2015. The scope of work is based on the historic and current daily and
 11 monthly activities for the Company to provide HPS. Contrary to RESA's claim,
 12 the fixed retail adder is based on actual costs incurred by Duquesne Light. An
 13 update to the costs for the DSP VII period is below. The update would support a
 14 fixed retail adder of \$4.66 per MWh.

PJM Interface and Billing	Annual Hours	Hourly Rate	Annual Cost	Scope
PJM Functions	1,750	\$98.00	\$171,500	eSchedule preparation and reconciliation; calculate and aggregate ICP/SCP; download data and assign to customers; extract PJM billing determinants; download to PJM sub-account; incorporate changes in PJM settlements; adjust for PJM manual rebills
Billing Functions	1,734	\$98.00	\$169,932	Generate day-ahead demand bids for customers and post to website; generate day-after actuals; generate retail bill; manual retail bill adjustment for reconciliations
Technology Costs			\$180,000	Metering, telecommunications, data processing and storage
Non-Technology			\$24,000	Accounting, auditing, reporting, reconciliation, validation to general ledger
Total Costs			\$545,432	
Average Annual Forecast Large C&I POLR Sales			116,982	MWh - June 2015 to May 2017
Administrative Adder Large C&I POLR Sales			\$4.66	/MWh

² RESA Statement No. 1, Direct Testimony, p. 20.

1 **Q. Do you agree with RESA’s claim that “[c]ompetitively bidding out the hourly**
2 **price service would add a degree of objectivity to this retail adder?”**³

3 A. No. I believe RESA is under the false impression that the fixed retail adder
4 shown in Duquesne Light’s retail tariff could somehow be avoided if a third party
5 were to provide the supply for HPS. This assumption is incorrect. Duquesne
6 Light’s administrative costs related to providing HPS are largely tied to PJM
7 interface and billing related costs that would remain even if a third party provided
8 supply for HPS, and Duquesne Light continued to do the billing and
9 reconciliation.

10

11

6. PJM COST RECOVERY

12 **Q. Please summarize RESA’s and Exelon’s recommendations on cost recovery**
13 **of transmission and PJM related expenses.**

14 A. RESA witness Hudson recommends transferring cost responsibility for such cost
15 components as Network Integration Transmission Service (“NITS”), related
16 transmission charges such as Regional Transmission Expansion Plan (“RTEP”)
17 charges, and Unaccounted for Energy (“UFE”) to Duquesne Light. RESA
18 recommends that Duquesne Light assume these cost obligations on behalf of all
19 load in the Duquesne zone and recover these costs from all distribution customers
20 through a non-bypassable charge. Mr. Hudson argues that since these are non-
21 hedgeable wholesale cost obligations that all load serving entities are subject to in
22 the wholesale market, transferring these costs obligations to the EDC and

³ RESA Statement No. 1, Direct Testimony, p. 20.

1 recovering them through a non-bypassable charge would be reasonable and
2 efficient (RESA St. No. 1, page 21, lines 22-24, page 22, page 23 lines 1-4).
3 While Mr. Hudson acknowledges the Commission has rejected such proposals in
4 past proceedings, he argues the Commission's order regarding pass-through
5 clauses and fixed and variable priced products justifies his proposal (RESA St.
6 No. 1, page 25, lines 11-20).⁴ Additionally, Mr. Hudson argues that generation
7 deactivation charges should also be Duquesne Light's obligation and recovered on
8 behalf of all load through a non-bypassable charge to all distribution rate payers.

9 Exelon witness Campbell makes a similar argument and argues that
10 Duquesne Light should take responsibility for non-market based transmission
11 service and transmission related charges for all customers whether on default
12 service or shopping with an EGS. Witness Campbell also argues that the
13 Commission's order on fixed and variable price products justifies the change
14 (Exelon St. No. 1, page 4, lines 12-24, page 5).

15

16 **Q. Do you agree with RESA witness Hudson and Exelon witness Campbell's**
17 **recommendation that Duquesne Light should be responsible for NITS, UFE,**
18 **Reliability Must Run, etc. through a non-by-passable charge?**

19 A. No. First, customer choice was designed such that the transmission component of
20 the rates was unbundled and "portable." Customers switching to an EGS would
21 also purchase their transmission requirements from the EGS. Modifying the
22 Transmission Service Charge ("TSC") from bypassable to non-bypassable would

⁴ The referenced Commission order is: *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.

1 contradict the design of customer choice. RESA and Exelon apparently want to
2 return to bundled transmission and distribution rates.

3 Second, the Company has proposed to continue with the same
4 methodology to recover transmission costs for default service since customer
5 choice began. As transmission cost line items have changed over time, the
6 Company has relied upon Commission and/or FERC orders as guidance to define
7 what are transmission-related costs and what should be recovered from default
8 service customers through the TSC. The TSC has worked successfully since its
9 inception. Changing the content and structure of the TSC to a non-bypassable
10 charge will change the definition of the PTC. This change could create customer
11 confusion.

12 Third, changing the content and structure of the TSC would have a
13 negative impact on current shopping customers. Current shopping customers are
14 paying their EGS for applicable transmission charges through the rates charged by
15 the EGS. Implementing a non-bypassable charge could cause shopping customers
16 to pay twice for transmission service. Customers locked-in to EGS contracts
17 could be harmed for a significant length of time. This would create customer
18 confusion as well as problems between EGSs and the Company.

19 Fourth, EGSs should be able to address their concerns by making
20 additional pricing offerings available to customers. For example, EGSs could
21 offer to fix only the supply portion of their charges and pass through the
22 transmission charges in question. EGSs also could offer to fix some, but not all
23 charges. Allocating all of the transmission charges into a pass-through non-

1 bypassable charge for all customers is a “one-size fits all approach” that would
2 limit the breadth of options available to customers in the competitive market.

3 Finally, as Mr. Hudson admits, Commission orders have rejected recent
4 proposals to reassign these costs to all EDCs and recover such costs through non-
5 bypassable rates (RESA St. No. 1, page 25, lines 11-13). The Commission
6 rejected EGS proposals, including RESA, and agreed with the Company in its
7 DSP VI proceeding that the Company should recover these costs from default
8 service customers and EGSs should recover these costs from their customers:

9 Upon our review and analysis of the evidence of record, and consistent with
10 our prior determinations on this issue in the *FirstEnergy DSP* and *PECO*
11 *DSP Orders*, we agree with the recommendation of the ALJ on this issue.
12 We believe that Duquesne’s position that EGSs should continue to recover
13 transmission and transmission-related costs, such as PJM’s RTEP costs,
14 NITS costs, expansion costs, generation deactivation costs and ELR costs,
15 from their own customers is reasonable and should be approved. We agree
16 with Duquesne that it appropriately recovers these costs only from default
17 service customers, and that EGSs should recover these costs from their
18 customers. We believe that this cost recovery process is consistent with the
19 Commonwealth’s continued migration to a more competitive retail market,
20 and that RESA’s proposal would be a step backward because it would result
21 in the rebundling of transmission costs with distribution rates. Accordingly,
22 we shall adopt the recommendation of the ALJ and deny the Exceptions of
23 RESA on this issue.⁵
24

25 **Q. What is your response to RESA’s and Exelon’s argument that the**
26 **Commission’s November 14, 2013 order on fixed versus variable pricing**
27 **provides justification to change its cost recovery policies?**

28 A. The Commission’s order at Docket No. M-2013-2362961, entered November 14,
29 2013, provides guidance as to the appropriate use of the “fixed price” *label* when an

⁵ Commission order entered January 25, 2013, at Docket No. P-2012-2301664, pages 221-222.

1 EGS presents products with pass-through clauses to potential customers (emphasis
2 added). The order uses Unfair Trade Practices and Consumer Protection Law as
3 guidance, addresses policy and enforcement issues, establishes plain language
4 guidelines, product presentation, provides transparency regarding EGSs' fixed
5 and pass-through products and creates guidelines on disclosure, to name a few
6 issues that are resolved. The order focuses on clear communication and
7 disclosure with the customer and discloser of information, not cost recovery as
8 suggested by RESA and Exelon.

9 There is no language in that order to suggest that the Commission agreed
10 that transmission rates should be rebundled with distribution rates and the EDC
11 assume responsibility to recover all costs for the entire zone for the items
12 mentioned by RESA and Exelon. Rather, the Commission suggested several
13 mechanisms for EGSs to address their concerns regarding cost recovery,
14 including limiting the term of fixed-price offers, including regulatory out clauses
15 in shopping customers contracts or including risk-premiums in the prices offered
16 to shopping customers. (Order, p. 26).

17

18 **Q. What is your response to RESA witness Hudson's argument that the**
19 **Company should recover generation deactivation charges through a non-**
20 **bypassable charge?**

21 A. The Company recovers generation deactivation charges associated with default
22 service load in the same manner it recovers NITS charges, RTEP charges, and
23 deferred tax adjustment charges. These items are identified in Appendix D of the

1 Supply Master Agreement attached as Exhibit JH-3 to witness Habberfield's
2 direct testimony.

3

4 **Q. Why do you believe the Company should only be responsible for recovery of**
5 **transmission costs associated with default service load?**

6 A. The Competition Act requires the Company as the default service provider to
7 provide supply and transmission service for non-shopping customers. Since
8 restructuring, EGSs have provided both supply and transmission service for
9 shopping customers. Changing this requirement by requiring the Company to
10 recover these charges for shopping customers will significantly change the market
11 that has been in place since the beginning of customer choice.

12 The Company recovers PJM transmission charges associated with default
13 service through its TSC. These charges are FERC-approved and billed pursuant
14 to the PJM open access transmission tariff ("OATT"). For the same reasons,
15 recovering generation deactivation charges associated with default service load is
16 consistent with recovery of all transmission charges associated with default
17 service load through the TSC. The TSC provides the Company the opportunity to
18 recover its cost for transmission service associated only with *default service load*
19 and establishes the basis of the transmission component of the PTC.

20 I further note that the Commission's regulations define PTC as:

21 A line item that appears on a retail customer's monthly bill for default
22 service. The PTC is equal to the sum of all unbundled generation and
23 transmission related charges to a default service customer for that month of
24 service.
25

1 52 Pa. Code § 54.182. If RESA's proposal is adopted, transmission charges
2 would no longer be included in the PTC because they would be recovered by
3 Duquesne Light for all customers.

4 In the proposed default service plan, the Company proposes to continue
5 the same process with the TSC that has been in place and working successfully
6 since it first became effective in January 2007. The Company believes this
7 approach is compliant with the Competition Act and proposes to continue this
8 methodology until the Commission changes the market rules.

9

10 **Q. What is your recommendation in regard to the proposals by RESA witness**
11 **Hudson and Exelon witness Campbell to recover all transmission charges**
12 **through a non-bypassable charge?**

13 A. Exelon's and RESA's contentions that Duquesne Light should be responsible for
14 recovery of all transmission charges for the entire zone should be rejected.

15

16 **Q. Does this conclude your rebuttal testimony?**

17 A. Yes, it does.

18

Exhibit WVP-1R

Petition of Duquesne Light Company for Approval of Default Service Plan
Docket No. P-2014-2418242

Office of Consumer Advocate
Interrogatories Set I

Witness: Michele R. Sandoe

OCA I -13 Has Duquesne Light conducted a cost benefit analysis of the implementing of the third party vendor and internal IT costs to implement the proposed enhancements to the Standard Offer Program? If so, please provide such analysis. If not, why not?

Response: The following is an analysis based upon the current Price To Compare (PTC):

- The average residential customer's monthly usage is 650 kWh or 7,800 kWh annually.
- The default service price to compare as of June 1, 2014 is \$ 0.0808 per kWh. The standard discount of the Standard Offer Program is 7%. SOP Participants would receive a discount of \$0.00566 per kWh, calculated as $\$0.0808 * 7\% = \0.00566 .
- An average residential customer would benefit from an estimated annual kWh savings of \$44.15. This was calculated as $\$0.00566 * 7,800 \text{ kWh}$.
- At this time, the cost for the proposed Standard Offer Program is anticipated to be \$38.50. It is proposed that the amount above the \$30 Customer Acquisition Fee of \$30, estimated to be \$8.50, would be shared equally between Default Service Customers and EGS. The default service customer cost would then be \$4.25 per customer enrolled. Capital expenditure shared by all customers is expected to be \$100,000 or about \$0.17 per customer. The expected total cost is \$4.42 per customer. (Note that the Company has proposed to issue an RFP to ensure that the Standard Offer Program utilizes the most cost effective and qualified bidder.)
- Given an average customer benefit of \$44.15 for the first year in the Standard Offer Program and the customer cost of \$4.42 per customer, the net savings is expected to be \$39.73 per average customer for the first year.

Petition of Duquesne Light Company for Approval of Default Service Plan
Docket No. P-2014-2418242

Office of Consumer Advocate
Interrogatories Set III

Witness: William V. Pfrommer

OCA III -1 Please provide the following data items for Duquesne Light Company (“DLC” or “Company”) for each year, 2011-2013, and for the three-month period ending March 31, 2014:

- a. Number of residential default customers (year-end and March 31, 2014);
- b. Number of residential customers taking competitive generation service (year-end and March 31, 2014);
- c. Residential default service kWh sales;
- d. kWh sales for residential customers taking competitive service;
- e. Number of lighting default customers (year-end and March 31, 2014);
- f. Number of lighting customers taking competitive generation service (year-end and March 31, 2014);
- g. Lighting default service kWh sales; and
- h. kWh sales for lighting customers taking competitive service.

Response:

- a. Number of residential default customers (year-end and March 31, 2014);

Year End 2011	351,917
Year End 2012	297,259
Year End 2013	295,023
Year End March 2014	299,110

- b. Number of residential customers taking competitive generation service (year-end and March 31, 2014);

Year End 2011	173,439
---------------	---------

Petition of Duquesne Light Company for Approval of Default Service Plan
Docket No. P-2014-2418242

Office of Consumer Advocate
Interrogatories Set III

Witness: William V. Pfrommer

Year End 2012	229,322
Year End 2013	232,949
Year End March 2014	229,858

c. Residential default service kWh sales;

2011	2,981,012,174
2012	2,400,274,947
2013	2,094,047,568
Three Months 2014	604,625,861

d. kWh sales for residential customers taking competitive service;

2011	1,269,715,463
2012	1,768,323,077
2013	1,996,770,811
Three Months 2014	529,155,376

e. Number of lighting default customers (year-end and March 31, 2014);

Year End 2011	1,890
Year End 2012	1,702
Year End 2013	1,923
Year End March 2014	1,895

f. Number of lighting customers taking competitive generation service (year-end and March 31, 2014);

Year End 2011	268
Year End 2012	621
Year End 2013	779
Year End March 2014	818

g. Lighting default service kWh sales; and

Petition of Duquesne Light Company for Approval of Default Service Plan
Docket No. P-2014-2418242

Office of Consumer Advocate
Interrogatories Set III

Witness: William V. Pfrommer

2011	26,734,841
2012	18,004,400
2013	13,363,344
Three Months 2014	3,062,075

h. kWh sales for lighting customers taking competitive service.

2011	33,285,973
2012	39,575,525
2013	44,135,180
Three Months 2014	11,065,833

Petition of Duquesne Light Company for Approval of Default Service Plan
Docket No. P-2014-2418242

Retail Energy Supply Association
Set I

Witness: William V. Pfrommer

RESA I-3 For Duquesne Light Company's small commercial and industrial customers (defined as customers with monthly metered demands of less than 25 kWh), please provide the following data elements as of December 31, 2013, and for each month of 2014 to date:

- a. Number of small C&I customers;
- b. Number of small C&I customers taking competitive generation service;
- c. Percentage of small C&I customers taking competitive generation service;
- d. Amount of small C&I load taking competitive generation service;
- e. Percentage of small C&I load taking competitive generation service
- f. Amount of small C&I default service kWh sales;
- g. Amount of kWh sales for small C&I customers taking competitive generation service; and
- h. The number of licensed EGSs actively serving small C&I load.

Response:

3a-3h See Attachment RESA I-3.

Duquesne Light Company
Docket No. P-2014-2418242
Attachment RESA I-3
Small C&I Customer Data Elements

<u>Line No.</u>	<u>Description</u>	<u>Dec 2013</u>	<u>Jan 2014</u>	<u>Feb 2014</u>	<u>Mar 2014</u>	<u>Apr 2014</u>	<u>May 2014</u>
3a	Number of customers	44,221	44,261	44,313	44,324	44,336	44,339
3b	Number of customers taking competitive generation service	16,760	16,794	16,818	16,730	16,609	16,401
3c	Percentage of customers taking competitive generation service	37.9%	37.9%	38.0%	37.7%	37.5%	37.0%
3d	Amount of load (kW) taking competitive generation service	80,103	78,694	78,666	78,278	77,577	76,672
3e	Percentage of load taking competitive generation service	48.6%	48.2%	48.2%	48.0%	47.5%	47.0%
3f	Amount of default service kWh sales	31,293,529	36,055,936	31,125,722	31,954,128	26,262,724	28,051,205
3g	Amount of kWh sales taking competitive generation service	29,428,343	31,893,293	27,774,240	28,210,706	24,319,325	25,137,658
3h	Licensed EGSs actively serving load	61	62	64	64	64	64

Exhibit WVP-2R

Purchase Of Receivables Agreement

This Agreement is entered into this 11th day of December, 2006 a Purchase of Receivables ("POR program") in the Duquesne Light Company service territory consistent with the terms set forth below:

Background

- As part of the Duquesne Light Company settlement to the distribution rate case the Joint Petitioners¹ at Docket No. R-00061346 agreed to consider the development of a POR program for suppliers serving residential and small commercial and industrial customers (inclusive of customers served under Rates RS, RH, RA, GS/GM and GMH, hereinafter referred to as "Small Customers") in Duquesne's territory as a potential alternative to full unbundling of POLR costs in distribution rates. If unanimous agreement (or agreement not to oppose) by the Parties was achieved on a POR program, the Parties agreed that there will be no further need to unbundle Duquesne's POLR costs. In addition to the Joint Petitioners other interested parties participated in the discussions relative to the development of a POR Program (hereinafter referred to as "Parties"²).
- If unanimous agreement (or agreement not to oppose) among the Parties is not achieved:
 - The Parties agreed that issues concerning further unbundling of distribution costs will be addressed in the proceeding to establish Default Service rates effective January 1, 2008 and Duquesne will submit an analysis in that proceeding addressing the further unbundling of distribution costs, including the issue of further unbundling of uncollectible accounts expense and the potential of purchasing EGS account receivables.
 - All Parties reserved the right: (1) to claim that it was inappropriate to unbundle any cost that is not avoidable by Duquesne when a customer elects to obtain supply service from an EGS and to the timing of implementation; or (2) to assert that a POR plan should be implemented in lieu of full POLR cost unbundling.
 - Duquesne agreed that it would not contend in such proceeding that unbundling of distribution rates cannot be undertaken in such proceeding because it was not a general rate proceeding.

Overview of POR Program and General Purpose

- Duquesne will purchase the accounts receivable, without recourse, associated with electric generation supplier ("EGS") sales of retail electric commodity services to residential and

¹ The Joint Petitioners included the Office of Trial Staff of the Pennsylvania Public Utility Commission, the Office of Consumer Advocate, the Office of Small Business Advocate, Duquesne Industrial Intervenors, Pennsylvania Large Energy Users Coalition, International Brotherhood of Electrical Workers Local 29, Constellation NewEnergy, Inc., NRG Energy Center Pittsburgh LLC, Reliant Energy, Inc., Citizen Power, Inc., Citizens for Pennsylvania's Future, Community Action Association of Pennsylvania, Retail Energy Supply Association, Strategic Energy, LLC, Direct Energy, LLC, Comcast of California/Pennsylvania/Utah/ Washington, Inc., Wal-Mart Stores East, LP, and Duquesne Light Company.

² For purposes of the Agreement the term "Parties" includes both signing and non-opposing parties. Dominion Retail, Inc. was not a party in Docket No. R-00061346, however, actively participated in the development of and is a signatory to this Agreement.

small commercial and industrial customers ("Small Customers") within Duquesne's service territory.

- Under the POR program, Duquesne will reimburse EGSs for their customer billings regardless of whether Duquesne receives payment from the customer, subject to the limitations set forth below.
- Duquesne will seek to recover the EGS receivables from EGS customers consistent with Duquesne's existing collection procedures for recovery of billings to POLR customers, and incur any uncollectible costs related to billings for EGSs.
- The purpose of the POR program is to encourage the development of competitive retail electric markets for residential and small commercial and industrial customers in Duquesne's service area.
- EGSs participating in this POR program will "agree not to reject for enrollment" a new customer covered by the program based on credit-related issues. Any customer who wishes to be served by an EGS participating in the POR program will be accepted by the EGS if that EGS is actively serving the rate class to which that customer belongs. If after being served by an EGS, the customer defaults on its payment obligation in a manner that requires Duquesne to terminate the customer's service, or to otherwise write-off as a bad debt any EGS payment amount, then Duquesne will subject the customer to the same collection treatment as Duquesne applies to address Duquesne's own charges, subject to the limitations described in this Agreement.
- The signing parties anticipate that a POR program could provide customers with several potential benefits:
 - Increased access to competitive choices -- by encouraging EGSs to accept all residential and small C&I customers, not only those with good credit scores, the POR program facilitates the migration of customers who might otherwise be overlooked by EGSs due to poor credit scores or past financial troubles.
 - Better economies of scale -- by designating one party to handle all credit and collections and several consumer protection functions. Duplicating credit and collections functions at the utility, and at each EGS, needlessly creates costs ultimately borne by customers.
 - Simplification of security requirements -- a POR program frees residential and small C&I customers from potentially being required to post two separate security deposits, and allows customers previously terminated due to non-payment to avoid contending with two payment plans upon their return to service.
 - Expansion of EGS customer base -- the POR program is also intended to avoid the potential problem of EGSs serving only good credit customers, leaving the poor credit customers on utility default service where they will escalate costs to all remaining default service customers.

Eligibility Requirements

- EGSs that choose Duquesne's consolidated billing option for all or a portion of their small customer accounts will be required to sell their accounts receivable to Duquesne for those customers for whom Duquesne issues a consolidated bill. EGSs may continue to issue their

own bills (dual billing) for commodity service, for all or a portion of their customers, but will not be eligible to participate in the POR program for those customers that receive dual billing. EGSs may choose to participate in the POR program with consolidated billing at any time during the term of the POR program as long as the EGS does not remove customer accounts from consolidated billing and the POR program for 12 consecutive billing cycles. For the purposes of the last sentence, a customer whose service is terminated or who voluntarily switches from the EGS' service to another generation provider has not been removed by the EGS from consolidated billing and the POR program.

Purchase Price

- EGSs' electric commodity (which is comprised of generation and transmission service) receivables will be purchased at a discount. The discount rate will reflect the costs related to the estimated incremental EGS uncollectible expenses and to recover incremental initial and incremental ongoing operating and administrative costs associated with the POR program. The methodology for establishing and revising these discount rates is specified in Appendix A to this Agreement.
- The initial discount rates for electric commodity will be determined November 1, 2007 and shall equal: the sum of 0.42% (i.e., a negotiated rate in lieu of estimated incremental EGS uncollectible expenses which shall remain fixed throughout the three-year Pilot Program) plus expected total incremental administrative costs to implement and operate the POR program spread over a three year recovery period, divided by the actual EGS consolidated billings for the most recent 12 month period. See Appendix A.
- The initial administrative cost rate will be set at 0.28%. This is based on a program implementation cost estimate of \$750,000. Duquesne will keep the Parties to this document abreast of implementation costs by providing a quarterly summary of costs incurred to the parties. If at any time Duquesne believes that the total implementation costs will exceed \$750,000, Duquesne will convene a meeting of the Parties to this document to discuss overall project management issues, including a revised scope and project viability.
- During the term of the three-year Pilot Program, beginning in January, 2008, the discount rate may be adjusted twice – once on February 1, 2009 and again on February 1, 2010 – to reflect Duquesne's most recent experiences of the total administrative discount cost to implement and operate the POR program (including actual incremental costs already incurred), less the actual total dollar amount of discounts from the prior calendar year(s) related to the recovery of administrative costs, divided by the number of years remaining in the recovery period, divided by the actual EGS consolidated billings for the most recent 12 month period.
- Duquesne will provide the updated discount rates to all Parties of this Agreement, as well as to EGSs authorized to serve customers in the Company's service territory, 60 days before the effective date of the discount rate change. This information will be provided in the form of an update to Appendix A.
- Duquesne will monitor individual EGS uncollectible percentage rates (measured as any unpaid amounts 60 days or older divided by that EGS's total annual consolidated billings), to determine whether any individual EGS is engaging in Unusual Business Behavior that results in an increase to the total uncollectible percentage rate for the Duquesne System. If, based on this monitoring, Duquesne finds that an individual EGS's uncollectible percentage rate

exceeds 5% (which is significantly above Duquesne's uncollectible percentage rate), then Duquesne, at its discretion, may increase the discount rate for that individual EGS's accounts to reflect the increased costs associated with the EGS's uncollectible accounts by the difference between the EGS's uncollectible percentage rate and 2%.³ For purposes of this calculation, Duquesne shall rely on the most recent 12 month period (or shorter if the EGS is new to the POR program) to calculate the EGS's uncollectible percentage rate. For example, if an individual EGS has an uncollectible percentage rate of 5.4% over a 12 month period, Duquesne could increase that individual EGS's discount rate by 3.4 percentage points. Duquesne, in its discretion, may opt to waive the imposition of the additional discount if the increase in the uncollectible rate results primarily from providing service to previously poor paying customers currently on POLR service and the individual EGS is able to provide a reasonable explanation for the significant increase in its uncollectible rate is not the result of a particular price offering, marketing strategy or other actions of the individual EGS. If, however, Duquesne determines that an additional discount is appropriate, the EGS may challenge that determination pursuant to the dispute resolution procedures discussed below. Should the result of those procedures uphold the EGS's position, Duquesne will refund to the EGS the additional discount withheld from their receivables. In the course of the dispute resolution, the EGS may be called upon to provide customer payment history for the small customers it serves, commodity pricing, and other such information deemed appropriate, subject to confidentiality agreement. The discount will be lowered to the level applicable to other EGSs when and if the particular EGS's uncollectible percentage rate decreases to a level of 2% or below over a 12 month period. If the particular EGS stops providing service to a customer under the POR program, the EGS must pay to Duquesne an amount equal to the increase to the discount multiplied by that customer's prior year's billings, to the extent that such amount has not already been paid on the date the EGS stops providing service to that customer.

- Duquesne will not be permitted to recover retroactively from distribution ratepayers any difference between discounts applied to EGS receivables and uncollected amounts resulting from the purchase of EGSs' billings.
- Other payment provisions:
 - If the EGS customer is on a budget or levelized payment plan, Duquesne shall only be obligated to purchase each month the amount of the monthly installment under the budget or levelized payment plan. Duquesne shall also purchase accounts receivable of EGS's customers based upon an estimated bill.
 - Duquesne shall add to or deduct from any payments due to EGSs amounts that may result from reconciliations, adjustments or recalculations of budget or levelized plans, estimated readings, cancel and rebills, or any applicable billing adjustment.

³ Duquesne is concerned that total uncollectible costs could increase substantially if EGSs price significantly above existing POLR rates and customers fail to pay EGS supply charges. Duquesne reserves the right to monitor this situation and address possible "gaming" of the POR program if such instances occur.

Timing of Payments

- Payments to EGSs will occur electronically; 35 days after consolidated bills are issued, and will continue throughout the billing cycle. If the 35th day falls on a weekend or bank holiday, payments will occur on the next business day.

Transfer of Collection Responsibilities and Rights from EGS to Duquesne

- Duquesne is entitled to receive and retain all payments from customers under the POR program.
- Duquesne is authorized to conduct collection activities and, if necessary, terminate its delivery service and EGS commodity service to customers whose accounts receivables were purchased and who fail to make payment of amounts due on the consolidated bill, including the amount of the purchased EGS receivables (up to the amount the customer would have been billed for commodity service if the customer had received POLR supply from Duquesne during the non-payment period). Any such termination of service shall be in accordance with the service termination provisions contained herewith and consistent with the provisions of Chapter 14 of the Pennsylvania Public Utility Code and Chapter 56 (or a successor chapter) of the Commission's regulations. Duquesne shall be authorized to terminate commodity service to an EGS customer if the customer's payments do not cover the amount the customer would have been billed if the customer were on POLR service, as referenced above.
- To ensure that all residential and small commercial and industrial customers are provided notice of Duquesne's authority to conduct collection activities and, if necessary, to terminate its delivery service and EGS commodity service, 60 days prior to the implementation date Duquesne will notify its Small Customers via bill insert that those receiving consolidated billing for EGS services may be terminated consistent with the provisions of Chapter 14 of the Pennsylvania Public Utility Code and Chapter 56 (or a successor chapter) of the Commission's regulations. In addition, Duquesne will modify its 10-day notice letter sent to new EGS customers confirming the EDI 814 Enrollment transaction to include a notice of Duquesne's authority to discontinue service for a customer's default on payments for both its delivery service and the EGS commodity service. The Parties to this Agreement and licensed EGSs in Duquesne's service territory will have the right to review this letter before it is used by Duquesne.
- A residential customer terminated from utility service under the POR program shall be reconnected to service upon the payment of the arrears that were subject to the termination or a lesser amount as set forth below. The required payment may include both delivery and EGS commodity charges.
- An EGS customer in the POR program that has been terminated for non-payment may be reconnected upon paying the lesser of: a) the sum of unpaid distribution charges (plus any applicable reconnection fees or deposits) and the amount billed for EGS commodity service, (or a payment arrangement required by applicable law); or b) the sum of unpaid distribution charges (plus any applicable reconnection fees or deposits) and the amount the customer would have been billed for commodity service if the customer had received POLR supply from Duquesne during the non-payment period (or a payment arrangement required by applicable law). At the time of reconnection the customer will be reconnected to the EGS or the default service provider of record.

Effect of Agreement

- By this Agreement Duquesne agrees to file this POR program as part of its upcoming POLR IV filing for Commission review and approval. The parties also agree that Duquesne need not submit an analysis to address further unbundling of POLR costs in its POLR IV proposal. Further, the parties agree that, subject to Commission approval of the POR program and so long as this Agreement is being honored by Duquesne, it will not be required to unbundle its distribution rates to remove POLR-related costs prior to December 31, 2010.
- Each signing party to this Agreement has expressly conditioned its support upon the approval and adoption of this Agreement in its entirety by the Commission. If the Commission does not approve this Agreement in its entirety, or with modifications accepted by all Parties, then each of the Parties reserves the right to withdraw its acceptance or its non-opposition to this Agreement by serving written notice on the Commission.
- No provision of this Agreement, nor any methodology or principle utilized herein, nor any of the positions taken herein by any Party may be cited or relied upon as precedent in any other proceeding before the Commission, or any other regulatory agency or before any court of law for any purpose other than the furtherance of the purposes, results and disposition of matters expressly governed by this Agreement. Further, this Agreement does not supersede or alter any existing agreements by or among the Parties.
- It is intended by the Parties that this Agreement, including the establishment and operation of the Pilot POR program, should continue without modification until December 31, 2010.
- The signing parties agree to support the POR program and make reasonable and good faith efforts to obtain approval of the POR program by the Commission and to present testimony and/or briefs supporting the POR Program in response to any challenges submitted by non-parties challenging or questioning the appropriateness of the POR Program. The non-opposing parties will indicate their non-opposition by letter to Duquesne which Duquesne will file with this Agreement.

Term

- The POR program is a pilot program and will become effective January 1, 2008, with Duquesne using best efforts to implement the program at the earliest feasible date. Payments made to EGSSs related to billed supply charges on or after the implementation date will be subject to the purchase of receivables discount.
- The POR program will remain in effect as described through December 31, 2010 and will terminate on December 31, 2010.
- In its 2010 Performance and Monitoring report discussed below, Duquesne will either propose to continue the POR program under such terms and conditions as it deems appropriate or provide an explanation as to why the POR program should be discontinued.

Performance and Monitoring

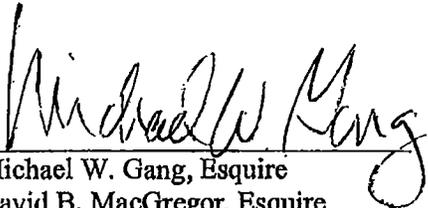
- Duquesne is required to file (and provide a copy to the parties) a performance report within 90 days following the end of each calendar year covered by the Term of the POR program. In addition, parties will have the opportunity to conduct a review of the program's performance within 90 days after Duquesne submits its performance report so that parties

may discuss the operation of the POR program and audit the calculation of the POR discount rate.

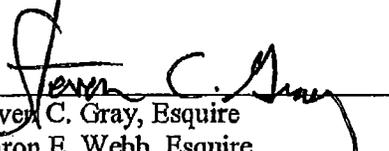
Dispute Resolution

- To the extent concerns arise regarding the implementation of the provisions of the POR program, parties shall attempt to resolve such disputes according to the informal, internal and/or external dispute resolution procedures described in Duquesne's Supplier Tariff.
- With respect to discounts subsequent to the initial discount, any party may invoke mediation with respect to any change in the discount rate (but not with respect to the preceding discount rates) if the party believes that the Company has not established the change reasonably in accordance with this Agreement.
- Parties shall also have the right to resolve such disagreements in the Commission's dispute resolution process.

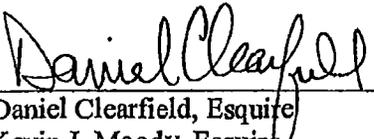
Respectfully submitted,


Michael W. Gang, Esquire
David B. MacGregor, Esquire
Andrew S. Tubbs, Esquire
Gary Jack, Esquire
For: *Duquesne Light Company*

Date: 12/11/06


Steven C. Gray, Esquire
Sharon E. Webb, Esquire
For: *Office of Small Business Advocate*

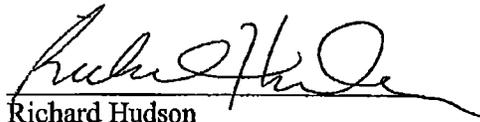
Date: 12/13/06


Daniel Clearfield, Esquire
Kevin J. Moody, Esquire
For: *Direct Energy, LLC*

Date: 12/11/06


Todd S. Stewart, Esquire
For: *Dominton Retail, Inc.*

Date: 12/13/06



Richard Hudson

For: *Strategic Energy, LLC*

Date: 12-13-06

Date: _____

Date: _____

Non-Opposing Parties:

Office of Trial Staff of the Pennsylvania Public Utility Commission

Office of Consumer Advocate

Citizen's For Pennsylvania's Future

Citizen Power, Inc.

Comcast of California/Pennsylvania/Utah/Washington, Inc.

Community Action Association of Pennsylvania

Constellation NewEnergy, Inc.

Duquesne Industrial Intervenors

Industrial Energy Consumers of PA

International Brotherhood of Electrical Workers Local 29

NRG Energy Center Pittsburgh LLC

Pennsylvania Large Energy Users Coalition

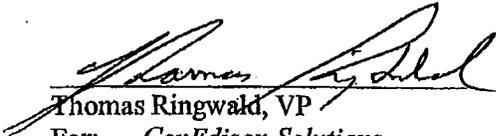
Reliant Energy, Inc.

Retail Energy Supply Association

Wal-Mart Stores East, L.P.

Richard Hudson
For: *Strategic Energy, LLC*

Date: _____


Thomas Ringwald, VP
For: *ConEdison Solutions*

Date: 12/12/06

Date: _____

Non-Opposing Parties:

Office of Trial Staff of the Pennsylvania Public Utility Commission
Office of Consumer Advocate
Citizen's For Pennsylvania's Future
Citizen Power, Inc.
Comcast of California/Pennsylvania/Utah/Washington, Inc.
Community Action Association of Pennsylvania
Constellation NewEnergy, Inc.
Duquesne Industrial Intervenors
Industrial Energy Consumers of PA
International Brotherhood of Electrical Workers Local 29
NRG Energy Center Pittsburgh LLC
Pennsylvania Large Energy Users Coalition
Reliant Energy, Inc.
Retail Energy Supply Association
Wal-Mart Stores East, L.P.

Appendix A

Overview: Adjusts estimated incremental administrative costs based on actual costs incurred, updated projections and dollars already collected from EGSs. Spreads remaining dollars over remaining period and most recent experience of EGS billings (given changes in shopping levels and EGS pricing).

Incremental Administrative Costs (continued)			Comments
Initial Discount Rate Established November 1, 2007 [FOR PURPOSES OF ILLUSTRATION]			
a	DLC POR Administrative Costs	\$ 750,000	Estimate of incremental implementation and ongoing operating costs. (Taking into account costs incurred to date and projected incremental costs).
b	Recovery Period in Years	3	Costs to be recovered over 3 years.
c=a/b	Annual Revenue Requirement	\$ 250,000	
d	Total Billed EGS Charges	\$ 89,756,777	Most recent 12 month period available.
e=c/d	EGS Administrative POR Discount	<input type="text" value="0.28%"/>	To be updated on November 1, 2007.
Methodology Used to Adjust Discount Rate on February 1, 2009*			
	Updated DLC POR Administrative Costs:		
	xxxxx	0	
f	Total Administrative Costs	\$ 725,000	Revised estimate of incremental implementation and ongoing operating costs. (Taking into account costs incurred to date and projected incremental costs).
g	Less Total Dollar Amount of EGS Admin. Discounts Paid from Prior Months(s)	\$ 275,000	Based on prior admin. discount rate * prior EGS billings.
h=f-g	Remaining Balance, Administrative Costs Yet to be Recovered	\$ 450,000	Actual costs recovered from EGSs to date over life of POR program reflecting changes in EGS sales and pricing.
i	Years Remaining in Recovery Period	2	
j=h/i	Revised Annual Revenue Requirement	\$ 225,000	
k	Total Billed EGS Charges	\$ 100,000,000	Most recent 12 months available.
l=j/k	Revised EGS Administrative Cost Discount	<input type="text" value="0.23%"/>	To be updated on February 1, 2009 and February 1, 2010.

* Note: The same methodology would be used to adjust the discount rate on February 1, 2010.



COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA PUBLIC UTILITY COMMISSION
P.O. BOX 3265, HARRISBURG, PA 17105-3265

DEC 15 2006

R-00061346

IN REPLY PLEASE
REFER TO OUR FILE

December 11, 2006

Michael Gang, Esquire
Post & Schell, P.C.
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601

Re: *Pennsylvania Public Utility Commission v. Duquesne Light
Company*, Docket No. R-00061346

Dear Mr. Gang:

The Office of Trial Staff will not be a signatory to the Purchase of Receivables (POR) program agreement, but, as indicated previously, does not oppose the agreement.

If you have any questions or concerns, please contact me.

Sincerely,

Robert V. Eckenrod
Prosecutor
Attorney I.D. No. 84889

COMMONWEALTH OF PENNSYLVANIA



DEC 12 2006

OFFICE OF CONSUMER ADVOCATE

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Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
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IRWINA. POPOWSKY
Consumer Advocate

FAX (717) 783-7152
consumer@paoca.org

December 11, 2006

Michael Gang, Esquire
Post & Schell, P.C.
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601

RE: Pennsylvania Public Utility Commission
v.
Duquesne Light Company
Docket No. R-00061346

Dear Mr. Gang:

The Office of Consumer Advocate will not be a Signing Party to the Purchase of Receivables (POR) program agreement, but does not oppose the agreement.

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

Sincerely,

A handwritten signature in cursive script that reads "Tanya J. McCloskey".

Tanya J. McCloskey
Senior Assistant Consumer Advocate
PA Attorney I.D. # 50044

cc: Parties of Record

00091882.DOC



Citizens for Pennsylvania's Future
Regional Enterprise Tower
125 Sixth Avenue, Suite 2770
Pittsburgh, PA 15219-1953

December 11, 2006

Michael Gang, Esquire
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601

Mr. Gang:

Citizens for Pennsylvania's Future will not oppose the Purchase of Receivables Agreement between the parties participating in those discussions.

If you have any questions, please contact me at (412) 258-6684.

Sincerely,

George Jugovic, Jr.

George Jugovic Jr.
Senior Attorney

cc: All parties



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www.stinsonmoheck.com

DEC 12 2006

1150 18th Street N.W., Suite 800
Washington, D.C. 20036-3816

Tel (202) 785-9100
Fax (202) 785-9163

December 11, 2006

VIA FEDERAL EXPRESS

Michael W. Gang, Esq.
Andrew S. Tubbs, Esq.
Post & Schell, P.C.
17 North Second Street
Twelfth Floor
Harrisburg, PA 17101-1601

Re: *Pennsylvania Public Utility Commission v. Duquesne Light
Company*, Docket No. R-00061346

Dear Messrs. Gang and Tubbs:

On behalf of Citizen Power, Inc. the undersigned hereby states that Citizen Power neither supports nor opposes the Purchase of Receivables Agreement in the referenced proceeding.

Should you require any further information, please do not hesitate to contact me.

Respectfully yours,

STINSON MORRISON HECKER LLP

John E. McCaffrey

An attorney for Citizen Power, Inc.

cc: All parties (via electronic mail)

KANSAS CITY
OVERLAND PARK
WICHITA
WASHINGTON, D.C.
PHOENIX
ST. LOUIS
OMAHA
JEFFERSON CITY

MORRIS, NICHOLS, ARSHT & TUNNELL LLP

DEC 14 2006

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302 658 3989 FAX

GEOFFREY A. SAWYER, III
302 351 9417
302 498 6221 FAX
gsawyer@mnaat.com

December 8, 2006

VIA FIRST CLASS MAIL

Michael Gang, Esquire
Post & Schell
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601

Re: Pennsylvania Public Utility Commission v. Duquesne Light Company;
Docket No. R-00061346 – POR Program

Dear Mike:

Comcast of California/Pennsylvania/Utah/Washington, Inc. will not be a Signing Party to the Purchase of Receivables ("POR") program agreement, but does not oppose the agreement.

Sincerely,



Geoffrey A. Sawyer, III

GAS:lf
548696

cc: Parties of Record (via email)

BURKE VULLO REILLY ROBERTS

ATTORNEYS AT LAW

1460 Wyoming Avenue
Forty Fort, PA 18704
Phone (570) 288-6441 + Fax (570) 288-4598

*Formerly Burke & Burke
Thomas F. Burke, Sr. (1932-1972)*

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JOSEPH L. VULLO
jlvullo@bvrrlaw.com

December 13, 2006

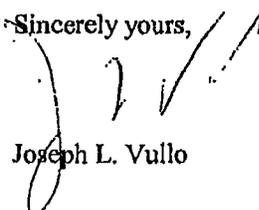
Michael W. Gang, Esquire
Post & Schell, P.C.
12th Floor
17 North Second Street
Harrisburg, PA 17101-1601

RE: Pennsylvania Public Utility Commission v. Duquesne Light Company
Docket No. R-00061346
Purchase of Receivables Agreement

Dear Mr. Gang:

Community Action Association of Pennsylvania will not be a signing party to the Purchase of Receivables Agreement ("Agreement"), but does not oppose the Agreement.

Sincerely yours,



Joseph L. Vullo

JLV/jar

cc: All Parties of Record (via email)

DEC 13 2006

Brian J. Knipe
(717) 237-4820
brian.knipe@bipc.com

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213 Market Street, 3rd Floor
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December 13, 2006

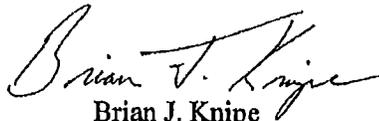
Michael W. Gang, Esquire
Post & Schell, P.C.
12th Floor
17 North Second Street
Harrisburg, PA 17101-1601

Re: Pennsylvania Public Utility Commission v. Duquesne Light Company,
Docket No. R-00061346 —
Purchase of Receivables Agreement

Dear Mr. Gang:

Constellation NewEnergy, Inc. will not be a Signing Party to the Purchase of Receivables Agreement ("Agreement"), but does not oppose the Agreement.

Very truly yours,



Brian J. Knipe

For BUCHANAN INGERSOLL & ROONEY, P.C.

BJK/eh

cc: Certificate of Service (via e-mail)



DEC 11 2006

McNees Wallace & Nurick LLC
attorneys at law

PAMELA C. POLACEK
DIRECT DIAL: (717) 237-5368
E-MAIL ADDRESS: PPOLACEK@MWN.COM

December 11, 2006

Michael W. Gang, Esquire
Post & Schell, P.C.
17 North Second Street
Harrisburg, PA 17101-1601

VIA HAND DELIVERY

**RE: PA Public Utility Commission v. Duquesne Light Company;
Docket No. R-00061346**

Dear Mr. Gang:

The Duquesne Industrial Intervenors ("DII") submits this letter to indicate that it neither supports nor opposes the Purchase of Receivables Agreement.

Please feel free to contact us with any questions regarding this letter.

Very truly yours,

McNEES WALLACE & NURICK LLC

By 
Pamela C. Polacek

Counsel to the Duquesne Industrial
Intervenors

PCP:nk

c: Certificate of Service



McNees Wallace & Nurick LLC
attorneys at law

PAMELA C. POLACEK
DIRECT DIAL: (717) 237-5368
E-MAIL ADDRESS: PPOLACEK@MWN.COM

December 15, 2006

Michael W. Gang, Esquire
Post & Schell, P.C.
17 North Second Street
Harrisburg, PA 17101-1601

VIA HAND DELIVERY

**RE: PA Public Utility Commission v. Duquesne Light Company;
Docket No. R-00061346**

Dear Mr. Gang:

The Industrial Energy Consumers of Pennsylvania ("IECPA") submits this letter to indicate that it neither supports nor opposes the Purchase of Receivables Agreement.

Please feel free to contact us with any questions regarding this letter.

Very truly yours,

McNEES WALLACE & NURICK LLC

By

Pamela C. Polacek

Counsel to the Industrial Energy
Consumers of Pennsylvania

PCP:nk

c: Certificate of Service

DEC 19 2006

Scott J. Rubin
Attorney ♦ Consultant

3 Lost Creek Drive ♦ Selinsgrove, PA 17870 ♦ (570)743-2233 ♦ Fax: (570)743-8145 ♦ scott@publicutilityhome.com

December 18, 2006

James McNulty, Secretary
Pa. Public Utility Commission
P.O. Box 3265
Harrisburg PA 17105-3265

Re: Pa. PUC v. Duquesne Light Company
Docket No. R-00061346

Dear Secretary McNulty:

Please be advised that International Brotherhood of Electrical Workers, Local 29 ("Local 29") has not participated in negotiations concerning the Purchase of Receivables program and related issues contained in the proposed settlement. As a result, Local 29 will not be taking a position on the proposed settlement.

Sincerely,


Scott J. Rubin

DEC 13 2006

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(717) 237-4820
brian.knipe@blpc.com

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December 13, 2006

Michael W. Gang, Esquire
Post & Schell, P.C.
12th Floor
17 North Second Street
Harrisburg, PA 17101-1601

Re: Pennsylvania Public Utility Commission v. Duquesne Light Company,
Docket No. R-00061346 —
Purchase of Receivables Agreement

Dear Mr. Gang:

NRG Energy Center Pittsburgh LLC will not be a Signing Party to the Purchase of Receivables Agreement ("Agreement"), but does not oppose the Agreement.

Very truly yours,



Brian J. Knipe

For BUCHANAN INGERSOLL & ROONEY, P.C.

BJK/eh

cc: Certificate of Service (via e-mail)

**Sutherland
▪ Asbill & ▪
Brennan LLP**
ATTORNEYS AT LAW

PAUL F. FORSHAY
DIRECT LINE: 202.383.0708
E-mail: paul.forshay@sablaw.com

DEC 18 2006
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December 14, 2006

Michael Gang, Esq.
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17 North Second Street
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Harrisburg, PA 17101-1601

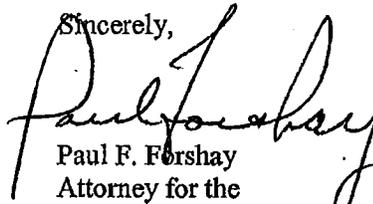
Re: Pennsylvania Public Utility Commission v.
Duquesne Light Company, Docket No. R-00061346

Dear Mr. Gang:

The Pennsylvania Large Energy Users Coalition neither supports nor opposes the Purchase of Receivables (POR) program agreement.

Please contact me if you have any questions.

Sincerely,



Paul F. Forshay
Attorney for the
Pennsylvania Large Energy Users Coalition

Enclosures

cc: All Parties (via email)

WO 674692.1

DEC 13 2006

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December 13, 2006

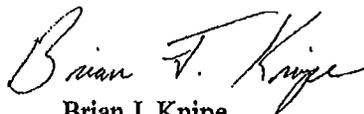
Michael W. Gang, Esquire
Post & Schell, P.C.
12th Floor
17 North Second Street
Harrisburg, PA 17101-1601

Re: Pennsylvania Public Utility Commission v. Duquesne Light Company,
Docket No. R-00061346 —
Purchase of Receivables Agreement

Dear Mr. Gang:

Reliant Energy, Inc. will not be a Signing Party to the Purchase of Receivables Agreement ("Agreement"), but does not oppose the Agreement.

Very truly yours,



Brian J. Knipe

For BUCHANAN INGERSOLL & ROONEY, P.C.

BJK/eh

cc: Certificate of Service (via e-mail)

DEC 8 2006

WolfBlock

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Kevin J. Moody
Direct Dial: (717) 237-7187
Direct Fax: (717) 237-2767
E-mail: kmoody@wolfblock.com

December 8, 2006

VIA HAND DELIVERY

Michael Gang, Esquire
Post & Schell
17 North Second St., 12th Fl.
Harrisburg, PA 17101-1601

Re: Pennsylvania Public Utility Commission v. Duquesne
Light Company; Docket No. R-00061346 - POR Program

Dear Mike:

The Retail Energy Supply Association will not be a Signing Party to the Purchase of Receivables ("POR") program agreement, but does not oppose the agreement.

Sincerely,



Kevin J. Moody

For WOLF, BLOCK, SCHORR and SOLIS-COHEN LLP

KJM/jls

cc: Parties of Record (via email)

HAR:70112.1/MID051-236834

Boston, MA ■ Cherry Hill, NJ ■ Harrisburg, PA ■ New York, NY ■ Norristown, PA ■ Philadelphia, PA ■ Roseland, NJ ■ Wilmington, DE

WolfBlock Government Relations - Harrisburg, PA ■ WolfBlock Public Strategies - Boston, MA and Washington, DC

Wolf, Block, Schorr and Solis-Cohen LLP, a Pennsylvania Limited Liability Partnership

DEC 15 2006

**SMIGEL, ANDERSON
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December 13, 2006

File No.

9006-2-3

Michael Gang, Esquire
Post & Schell, P.C.
17 North Second Street
12th Floor
Harrisburg, PA 17101-1601

**Re: Pennsylvania Public Utility Commission
v.
Duquesne Light Company
Docket No. R-00061346**

Dear Mr. Gang:

Wal-Mart Stores East, LP will not be a signatory to the Purchase of Receivables (POR) program agreement, but does not oppose the agreement.

If you have any questions or concerns, please contact me.

Very truly yours,



Scott H. DeBrott
Counsel for Wal-Mart Stores East, LP

SHD/ddm
Enclosures
cc: All parties of record