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File #: 2267/158273

September 30, 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 Duquesne Light Company's Statement in Support of the Settlement Stipulation filed September 15, 2014, 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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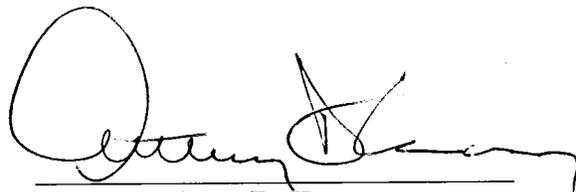
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Date: September 30, 2014



Anthony D. Kanagy

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**DUQUESNE LIGHT COMPANY  
STATEMENT IN SUPPORT  
OF SETTLEMENT STIPULATION**

**TO ADMINISTRATIVE LAW JUDGE KATRINA L. DUNDERDALE:**

**I. INTRODUCTION**

Duquesne Light Company (“Duquesne Light” or the “Company”) hereby submits this Statement in Support of the Settlement Stipulation (the “Settlement Stipulation”) entered into by the Bureau of Investigation & Enforcement (“I&E”) of the Pennsylvania Public Utility Commission (“Commission”), the Office of Consumer Advocate (“OCA”), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”), Exelon Generation Company (“ExGen”), NextEra Energy Power Marketing, LLC (“NextEra”), the Retail Energy Supply Association (“RESA”) and Duquesne Light. The Settlement Stipulation was filed on September 15, 2014, and has been agreed to or not opposed by all Parties in this proceeding.<sup>1</sup>

The Settlement Stipulation resolves issues regarding the Residential and Lighting (“Residential”) default service procurement plan, the Standard Offer Program (“SOP”), the Time-of-Use Program (“TOU”), the Supply Master Agreement (“SMA”) and unbundling of

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<sup>1</sup> The Stipulation is not opposed by the Office of Small Business Advocate (“OSBA”), Citizens for Pennsylvania’s Future (“PennFuture”), Duquesne Industrial Intervenors (“DI”), FirstEnergy Solutions Corp. (“FES”) and Noble Americas Energy Solutions, LLC (“Noble”).

default service procurement costs.<sup>2</sup> The Settlement Stipulation also reserves for litigation issues regarding the Small Commercial & Industrial (“Small C&I”) procurement plan, the Medium Commercial & Industrial (“Medium C&I”) procurement plan, the Large Commercial & Industrial (“Large C&I”) procurement plan, procurement of alternative energy credits (“AECs”) and the methodology for recovering certain PJM transmission charges. The issues that have been resolved by the Settlement Stipulation are being addressed in Parties’ Statements in Support. The issues that have been reserved for litigation have been addressed in Parties’ Main and Reply Briefs.

The Settlement Stipulation was achieved only after a comprehensive investigation of Duquesne Light’s Default Service Plan (“Plan” or “DSP VII Plan”). Duquesne Light responded to numerous formal discovery requests. Parties filed five rounds of testimony, including the Company’s direct testimony, other parties’ direct testimony, rebuttal testimony, surrebuttal testimony and rejoinder testimony. Moreover, numerous settlement discussions and negotiations occurred which ultimately lead to the Settlement Stipulation.

The Settlement Stipulation reflects a carefully balanced compromise of the interests of the Parties. For these reasons and the reasons set forth below, the Settlement Stipulation is just and reasonable, supported by substantial evidence and should be approved without modification.

## **II. SPECIFIC SETTLEMENT TERMS**

### **A. RESIDENTIAL PROCUREMENT ISSUES**

In this proceeding, Duquesne Light proposed to acquire default service supplies for Residential customers through twelve-month, laddered full-requirements supply contracts from

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<sup>2</sup> The Settlement Stipulation further provides that Duquesne Light’s default service plan (“DSP VII”) filing is approved except as modified by the Settlement Stipulation. There were several aspects of Duquesne Light’s filing that were not contested but are proposed to be approved by the Settlement Stipulation. One of these uncontested items was Duquesne Light’s proposal to expand the scope of Rider No. 1 Consumer Education Surcharge to recover all costs associated with Commission-mandated retail market initiatives and to rename Rider No. 1 the Retail Market Enhancement Surcharge.

third party suppliers, obtained through semi-annual requests for proposals (“RFPs”).<sup>3</sup> Unlike Duquesne Light’s current default service plan, which provides Residential customers with twelve-month, non-laddered products, Residential default service supply products under this Plan will be laddered on a six-month basis. This will produce more market responsive default service rates and result in changes to default service supply rates every six months as compared to once per year under the currently-effective plan.

Both OCA and RESA proposed to modify the Company’s Residential procurement plan. OCA proposed to include 24-month contracts in the Residential procurement plan. OCA also recommended that the Residential procurement plan include a 5% spot component. OCA St. No. 1, pp. 3, 12. RESA proposed to replace two of the Company’s four twelve-month contracts with six-month and three-month contracts. RESA Ex. RJH-6. In testimony, the Company explained that it believed that the Company’s proposed Residential supply portfolio strikes an appropriate balance of competing considerations of price stability and market responsiveness of default service rates, and that it opposed the competing OCA and RESA proposals. Duquesne Light St. No. 3-R, p. 5.

The Company proposed that there would be six months of supply procured during DSP VII which would overhang into DSP VIII commencing June 1, 2017, for 50% of Residential default service requirements. The Settlement Stipulation adopts Duquesne Light’s proposed Residential procurement plan including this provision. Settlement Stipulation ¶ 1. However, the Settlement Stipulation further provides that Duquesne Light will file an appropriate petition with the Commission requesting to amend the DSP VII program to eliminate the portion of this contract that extends beyond May 31, 2017 (or the date set by the Commission for the termination of Duquesne Light’s role as Default Service Provider), if the Commission

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<sup>3</sup> There is one six-month supply contract at the beginning of the DSP VII Plan to start the laddering process.

determines, any time prior to the last solicitation under the DSP VII program in 2016, that Duquesne Light will not continue in its role as Default Service Provider.

The Residential procurement plan adopted under the Settlement Stipulation is in the public interest and should be approved. The Residential procurement plan under the Settlement Stipulation moves Residential customers from twelve-month supply rate changes under the DSP VI procurement plan to six-month supply rate changes.

In addition, it is reasonable to include the provision requiring Duquesne Light to file a petition amending the DSP VII program if the Commission orders that Duquesne Light not continue in its role as Default Service Provider. This provision does not assume that the Commission will or will not change Duquesne Light's role as Default Service Provider. However, the Commission has recently indicated in the *Default Service End-State Order* that it was directing the Office of Competitive Market Oversight to convene a working group to identify issues related to implementation of a model in which an alternative entity, or multiple entities, provide default service to customers. *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. 20. This Settlement Stipulation provides clarity regarding supply contract issues if the Commission modifies Duquesne Light's role as the Default Service Provider.

## **B. SOP ISSUES**

Duquesne Light currently has an SOP that was approved by the Commission in the DSP VI proceeding. The Company's current SOP targets non-shopping Residential and Small C&I customers who contact the Company with four types of calls. Specifically, customers who contact the Company: (1) to initiate or move service; (2) to discuss choice questions; (3) to resolve high bill concerns; or (4) to inquire about the SOP are provided information regarding

participation in the Company's SOP. After the customer's specific inquiry has been addressed, Duquesne Light's customer service representative ("CSR") promotes the SOP utilizing an established script. If the customer indicates that he/she is interested in participating in the SOP, he/she is transferred to a participating EGS for program details and enrollment. Duquesne Light St. No. 5, p. 13.

In the DSP VI proceeding, the Company explained that it could not complete the work required to provide the necessary customer data transfers to permit a third party to enroll customers in the SOP because the Company could not make additional modifications to its IT systems to transfer customer data until it had completed the installation of its new customer care and billing system ("FOCUS"). Duquesne Light St. No. 5, p. 14. The Company currently estimates that the FOCUS system will go live in November 2014.

The other major EDCs in Pennsylvania rely on a third party to enroll customers in their SOPs. Duquesne Light's SOP enrollment numbers have lagged behind the other major EDCs in Pennsylvania. Therefore, in this proceeding, Duquesne Light proposed a SOP that more closely resembles other programs offered throughout Pennsylvania by using a third party vendor to enroll customers. This would include a transfer of the customer and simultaneous transfer of customer information to the third party vendor. The transfer would include pertinent customer information that would assist the third party in enrolling the customer in the program. Duquesne Light St. No. 5, p. 16.

Duquesne Light's customer enrollment fee under the DSP VI SOP was \$25.00 per customer through August 31, 2014. Effective September 1, 2014, the SOP fee was reduced to \$10.28. Under the Company's proposed DSP VII SOP, the customer enrollment fee was projected to be \$38.50. Duquesne Light St. No. 5-R, p. 9. Under the Commission's precedent

regarding SOP customer enrollment fees, EGSs directly bear the cost of the SOP enrollment fee up to \$30.00 and any costs above \$30.00 are split between eligible default service customers and EGSs through the Purchase of Receivables (“POR”) discount. See Duquesne Light Exh. No. 1, p. 21.

Both OCA and RESA opposed the Company’s SOP proposal. OCA argued that it was premature to determine if the SOP should continue after 2015 and that EDCs’ SOPs should be reviewed and considered for potential elimination. OCA St. No. 2, p. 5. OCA also argued that the Company’s enhanced SOP would not be cost-effective even though its costs are expected to be comparable to costs incurred by other EDCs. OCA further argued that the Company should revise its SOP customer script. OCA St. No. 2, pp. 18-19. RESA argued that it was premature to adopt a revised SOP noting that there would be a significant increase in the customer acquisition fee under the new program. RESA recommended that the Company conduct a stakeholder collaborative to discuss SOP changes. RESA St. No. 1, p. 30.

Under the Settlement Stipulation, Duquesne Light agreed to revise its current introductory customer script within 90 days of approval of the Settlement Stipulation for purposes of clarifying that the 7% discount is subject to change during the twelve-month term of the SOP for a customer. Settlement Stipulation, ¶4. This is appropriate given that Residential default service supply rates will change every six months under the DSP VII plan. Settlement ¶ 1. The Settlement Stipulation also provides that Duquesne Light and the Parties agree to conduct a collaborative with interested Parties to consider changes to the Company’s existing SOP, including, among other things, the following:

- a) Enhanced customer disclosure of the SOP offer and future PTC changes to include disclosures that: (i) the initial discount is based on the current PTC; (ii) the PTC will change semi-annually with the next change in [month]; (iii) the

percentage savings a customer will experience will vary as the PTC changes; and (iv) the SOP rate may be higher or lower than the next PTC;

- b) Other program improvements including use of a third party to enroll customers or other means to improve customer enrollment; and
- c) Cost recovery, provided however, that the collaborative shall not address or consider any proposals to recover SOP costs from EGSs that do not participate in Duquesne Light's POR Program or from Medium or Large Commercial and Industrial customers (i.e., customers with cumulative demands equal to or greater than 25 kW) that are not eligible for the SOP program or to recover SOP costs through an increase to the Medium C&I Purchase of Receivables discount rate.

The Parties also agreed under the Settlement Stipulation that Duquesne Light will continue its current SOP and implement any revised SOP resulting from this collaborative and resulting Commission Order approving a revised SOP within six months after entry of the Commission Order approving a revised SOP, provided that any Information Technology changes required to implement the revised SOP can be completed in that time frame. The Parties further agreed that Duquesne Light will continue a \$10.28 customer enrollment fee that became effective September 1, 2014 for participating EGSs until the existing SOP is replaced by a revised SOP approved by the Commission.

The SOP Settlement is a reasonable compromise of Parties' positions in this proceeding. Neither OCA nor RESA agreed with the Company's SOP proposal at this time. The SOP collaborative will provide Parties with a forum to further discuss SOP issues and attempt to reach a compromise solution. In the meantime, the Company will continue its current SOP.

### **C. TOU PROGRAM**

In its DSP VII Plan, the Company proposed to offer a TOU program to all: (1) Residential and Small C&I customers who have a smart meter and its data collection and communications system is installed and successfully tested, and (2) Medium C&I customers with

interval meters, as long as the customer's meter also has the necessary data collection and communication systems in place and successfully tested. Duquesne Light St. No. 4, p. 15.

The Company estimates 10,000 Residential and Small C&I customers with smart meters will be eligible for the TOU program June 1, 2015 and an additional 100,000 smart meter customers will be eligible June 1, 2016 for a total 110,000 eligible Residential and Small C&I customers by June 1, 2016. In addition, approximately 23,000 Medium C&I customers with interval meters will be eligible for the TOU program throughout the entire default service period of June 1, 2015 through May 31, 2017.

Under the Company's proposal, TOU rates would be distinguished by three time periods throughout the year. The Summer On-Peak would consist of all hours during weekdays (excluding PJM holidays) from 2:00 PM through 6:00 PM from June 1 through September 30. All other hours during those months would be the Summer Off-Peak Period. All hours during October 1 through May 31 would be the Non-Summer Period. The same on-peak and off-peak periods would be applicable to all eligible TOU service customers.

The Company proposed to acquire electricity for the TOU program from an EGS through an RFP process. The Company proposed to issue two RFPs to EGSs, one for TOU supply during June 2015 – May 2016 (the first TOU program year), and one for TOU supply during June 2016 – May 2017 (the second TOU program year). A single EGS would be chosen as the winning supplier in each RFP for all customer classes. Each RFP would seek TOU supply to meet customers' load requirements during one of the two twelve-month TOU program years with time-differentiated rates aligned with the periods described above. The Company proposed the limitations described above and in the Company's testimony in large part due to IT

constraints and due to the low number of customers that will be eligible for the TOU program, especially in the first year of the DSP VII plan. Duquesne Light St. No. 2-R, pp. 12-13.

RESA opposed the Company's TOU proposal, arguing that it was too restrictive in terms of EGS participation and flexibility with respect to on/off peak periods. RESA also argued that the Company should hold a collaborative to design the details of the TOU program. I&E argued that winning TOU EGSs should be responsible for TOU program costs.

The TOU Settlement Stipulation reflects a compromise of parties' positions. Under the TOU Settlement Stipulation, Duquesne Light's TOU Program for the first year of DSP VII would be approved for Residential (other than those customers enrolled in Duquesne Light's Customer Assistance Program ("CAP")), Small C&I and Medium C&I customers with interval meters, as long as the customer also has the necessary data collection and communications systems in place, and the systems have been successfully tested. CAP customers will not be eligible for the TOU Program in the first year of DSP VII because issues regarding CAP portability have not been finally determined at this time, and there will be a limited window for TOU enrollment in the first year of DSP VII.

Duquesne Light also will conduct a collaborative with interested parties to develop a TOU Program and cost recovery mechanism for the year commencing June 1, 2016 and ending May 31, 2017, to identify ways to permit multiple EGSs to participate in a TOU offering(s) and to explore how to effectively integrate the TOU Program with CAP provided that general issues regarding CAP portability have otherwise been decided by the Commission.

The TOU Settlement Stipulation is in the public interest and should be approved. The TOU Settlement Stipulation allows Duquesne Light's TOU proposal to go into effect for the first year of the DSP VII period but also provides for a collaborative to discuss TOU issues for the

second year of the DSP VII plan. This will provide parties an opportunity to develop a consensus TOU program for the second year when there will be more eligible TOU customers and allow the Company time to implement IT changes that may be necessary for a revised TOU program.

**D. SMA ISSUES**

In this proceeding, the Company provided a SMA for procuring supply for default service customers through full requirements contracts. The SMA was based on the template, with a few modifications, that was developed through a Procurement Collaboration Working Group of EDCs in Pennsylvania. Duquesne Light St. No. 2, p. 16.

Both ExGen and NextEra proposed modifications to Duquesne Light’s proposed SMA. The Settlement Stipulation adopts the modifications proposed by ExGen related to the definition of “Termination Payment” and reflects a compromise of Duquesne Light’s and ExGen’s positions regarding delivery of AECs.<sup>4</sup> The Settlement also adopts NextEra’s position regarding the senior unsecured debt rating standards for financial institutions providing letters of credit. The Settlement Stipulation further clarifies language in Article 5.4 of the SMA.

The SMA Settlement Stipulation reflects a reasonable compromise of parties’ positions. The Settlement Stipulation avoids unnecessary litigation over SMA issues in this proceeding.

**E. UNBUNDLING OF DEFAULT SERVICE COSTS**

In this proceeding, RESA argued that Duquesne Light should unbundle certain default service related costs from base rates and recover such costs as default service costs solely from default service customers. RESA St. No. 1, p. 21. The Company disagreed with RESA’s proposal for several reasons, including that the Company’s negotiated POR settlement was

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<sup>4</sup> Duquesne Light requested quarterly delivery of AECs, and ExGen requested annual delivery. The Settlement Stipulation generally provides for delivery on a six-month basis.

intended to replace the need to further unbundle any default service costs from base rates. The Company further explained that any additional unbundling would have a minimal effect on the Price to Compare. Duquesne Light St. No. 2-R, pp. 11-16. Nevertheless, Duquesne Light has agreed under the Settlement Stipulation that it will file a plan to unbundle from base rates costs associated with the provision of default service, including default service proceeding and procurement costs, and cash working capital with regard to default service procurements in the earlier of its next general rate increase filing or its Default Service Plan filing for the period commencing June 1, 2017. Duquesne Light will simultaneously propose a mechanism to recover such costs from default service customers. All parties reserve the right to comment on and oppose such proposal. Settlement Stipulation, ¶ 13.

Duquesne Light was willing to agree to this unbundling proposal as a compromise of Parties' positions in this proceeding.

#### **F. MISCELLANEOUS PROVISIONS**

The Settlement Stipulation generally provides that Duquesne Light's DSP VII filing is approved except as modified by the Settlement Stipulation. There were numerous provisions of Duquesne Light's DSP VII plan that were not challenged by other parties, including the Company's Retail Market Enhancement Surcharge.<sup>5</sup> Under the Settlement, the Parties agree that the Retail Market Surcharge, and other unchallenged provisions should be approved. Likewise, ExGen raised issues regarding the Request for Proposal and Independent Evaluator process issues in this proceeding, but agreed to not pursue these issues as part of the Settlement

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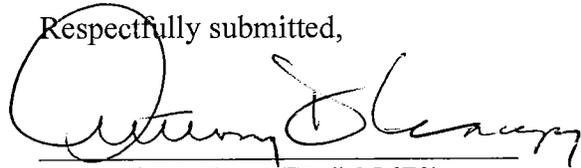
<sup>5</sup> In this proceeding, the Company proposed to expand the scope of Rider No. 1 – Consumer Education Surcharge to recover all costs associated with Commission-mandated retail market initiatives. The revised surcharge is called the Retail Market Enhancement Surcharge (“RMES”). Duquesne Light St. No. 4, p. 39. Under the RMES, the Company will be able to recover costs associated with implementing Commission-mandated activities, programs, projects, services, etc. to enhance the competitive energy market in Pennsylvania as well as Commission-mandated consumer education costs. In order for a cost to qualify to be recovered through the RMES, the Commission must direct that the cost be recovered through the RMES.

Stipulation. In addition, the Company's POR Program will continue through the term of the DSP VII proceeding. Any issues related to recovery of SOP costs through the POR discount will be addressed in the SOP collaborative.

**III. CONCLUSION**

The Settlement Stipulation is the result of a detailed examination of Duquesne Light's proposed DSP VII Plan, extensive discovery by multiple parties, multiple rounds of testimony and reasonable compromise by the Settlement Parties. Duquesne Light believes that a fair and reasonable compromise has been reached under the Settlement Stipulation. Duquesne Light fully supports the Settlement Stipulation and respectfully requests that Administrative Law Judge Katrina L. Dunderdale recommend and the Pennsylvania Public Utility Commission approve the Settlement Stipulation without modification.

Respectfully submitted,



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Date: September 30, 2014

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