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September 30, 2014

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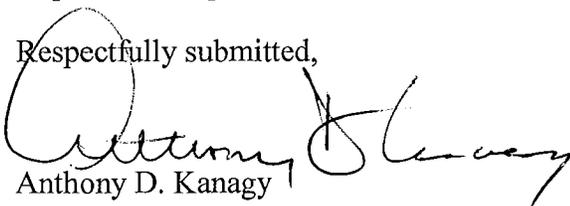
Re: Petition of Duquesne Light Company for Approval of Default Service Plan for the Period June 1, 2015 through May 31, 2017 - Docket No. P-2014-2418242

Dear Secretary Chiavetta:

Enclosed for filing is the Reply Brief of Duquesne Light Company in the above-referenced proceeding.

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

Respectfully submitted,



Anthony D. Kanagy

ADK/jl

Enclosures

cc: Honorable Katrina L. Dunderdale
Certificate of Service

CERTIFICATE OF SERVICE

Docket No. P-2014-2418242

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

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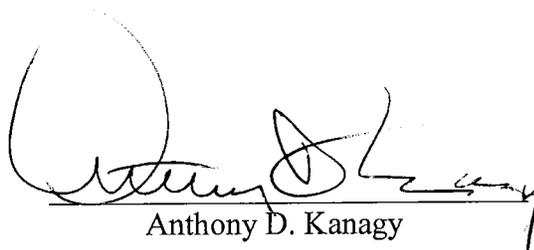
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**REPLY BRIEF OF
DUQUESNE LIGHT COMPANY**

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I. PROCEDURAL HISTORY

A detailed procedural history is set forth on pages 1-4 of Duquesne Light Company's ("Duquesne Light" or the "Company") Main Brief. On September 15, 2014, the Parties in this proceeding filed a Settlement Stipulation (the "Settlement Stipulation") which resolved issues regarding the Residential procurement plan, the Standard Offer Program ("SOP"), the Time of Use ("TOU") Program, the Supply Master Agreement ("SMA") and unbundling of default service costs. The Settlement Stipulation also reserved 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 Settlement Stipulation was entered into by Duquesne Light, 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, LLC ("ExGen"), NextEra Energy Power Marketing, LLC ("NextEra") and the Retail Energy Supply Association ("RESA"). All of the other parties in this proceeding have agreed not to oppose the Settlement Stipulation. As directed by Administrative Law Judge Katrina L. Dunderdale (the "ALJ"), Parties will file Statements in Support or Letters in Non-Opposition to the Settlement Stipulation by September 30, 2014.

Also on September 15, 2014, Duquesne Light, the Office of Small Business Advocate ("OSBA"), Citizens for Pennsylvania's Future ("PennFuture"), Duquesne Industrial Intervenors ("DI"), Noble Americas Energy Solutions LLC ("Noble") and RESA filed Main Briefs pursuant

to the procedural schedule adopted by the ALJ. Duquesne Light hereby submits its Reply Brief in response to the Main Briefs filed by the other parties.

II. SUMMARY OF ARGUMENT

Duquesne Light has proposed a default service plan that balances the two primary goals of the Competition Act. The first goal is to provide default service rates that are least cost over time, taking into consideration the benefits of price stability. The second goal is to enable a competitive market where customers have access to power supplies from EGSs.

The Company's default service plan provides an appropriate balance of rate stability and market responsive rates for each customer class. The Company is proposing to maintain twelve-month laddered supply contracts for Small C&I customers with rate changes every six months. This procurement plan is supported by the OSBA and is the same procurement plan that is proposed for Residential customers.

The Company is proposing to procure default supplies for Medium C&I customers through three-month, non-laddered supply contracts, as opposed to the Company's current methodology of procuring default supplies for Medium C&I customers through six-month, non-laddered supply contracts. The plan continues to improve market responsiveness of default service rates while also retaining some rate stability. The OSBA proposes that the Company continue to procure default supplies for Medium C&I customers through six-month, non-laddered contracts. RESA, however, proposes that Medium C&I customers over 100 kW of demand be moved to hourly priced default service. The Company's proposal is a reasonable middle ground position between OSBA and RESA that makes Medium C&I default service rates more market responsive than under the Company's DSP VI plan and should be adopted.

The Company is proposing to continue its very successful, hourly priced service for Large C&I customers. Duquesne Light currently has one of the lowest thresholds (300 kW) for

hourly priced service in the United States with approximately 96% of Large C&I load being served by an EGS. RESA would propose to revise Duquesne Light's successful Large C&I procurement plan by requiring the Company to bid out this service. RESA's proposal is opposed by DII, who represents Large C&I Customers, and should not be adopted.

In this proceeding, PennFuture has made a very generic proposal that the Company enter into long-term Tier-1 AEC contracts. PennFuture's proposal has many problems, including what happens to the contract(s) if Duquesne Light's role as an EDC changes, who pays for the AECs if fixed purchases result in an over-supply, how the AECs are allocated to wholesale suppliers providing supply through full-requirements contracts and other issues. It is not reasonable or prudent for Duquesne Light to enter into long-term AEC contracts at this time.

In addition, RESA and ExGen continue to argue that Duquesne Light should recover certain transmission costs for all customers, including shopping customers. RESA's and ExGen's transmission cost recovery proposal is anti-competitive and has been rejected by the Commission numerous times.

The Company's proposed default service plan is reasonable, meets the goals of Act 129, and should be adopted, as modified by the Settlement Stipulation.

III. ARGUMENT

A. LEGAL STANDARDS

1. Burden of Proof

Duquesne Light's position regarding the burden of proof is set forth on pages 9-10 of its Main Brief.

2. Legal Standards Applicable to Default Service

Duquesne Light's position regarding legal standards applicable to default service are generally set forth on pages 10-11 of its Main Brief. In addition, the Company has also

specifically addressed or responded to parties' legal arguments, as appropriate, in each section of its Main and Reply Briefs.

B. DEFAULT SUPPLY PROCUREMENT ISSUES

The procurement of Default Service supply for Residential and Lighting customers has been resolved by the Settlement Stipulation. RESA challenges the Company's procurement plans for Small C&I, Medium C&I and Large C&I customers. OSBA opposes the Company's procurement plan for Medium C&I customers.

As explained more fully below, there are two fundamental flaws in RESA's arguments. First, RESA's arguments in support of more frequent and hourly procurements improperly places sole reliance on provisions of the Competition Act that encourage the creation of a competitive market, and ignore both the provisions of the Competition Act that reference "least cost over time" and the preamble of Act 129 that refers to the benefits of price stability. Second, RESA improperly presumes that the Commission intends to move to the procurements that were identified in the *Default Service End-State Order*, in its Retail Market Investigation even though the Commission indicated that it would not do so without legislative change. Nevertheless, RESA presses for changes to the procurements proposed by Duquesne Light in DSP VII to provide a "transition" to procurements referenced in the *Default Service End-State Order*. Duquesne Light submits that it is not appropriate to transition to an end state procurement plan that the Commission has not adopted.

The Competition Act provides a balance between two important goals. The first goal is to provide default service rates that are least cost over time taking into consideration the benefits of price stability. 66 Pa.C.S. § 2807(e)(3.4); Historical and Statutory Notes set forth at the end of 66 Pa.C.S. § 2806.1. The second goal is to enable a competitive market where customers have access to power supplies from an EGS. 66 Pa.C.S. § 2807(e). As explained below, Duquesne

Light's DSP VII procurement plan provides the appropriate balance between these two goals for each customer class.

1. Residential Procurement Issues

The Residential procurement issues have been resolved by the Settlement Stipulation of the Parties that was filed on September 15, 2014. Duquesne Light addresses why the Residential procurement plan proposed is in the public interest in its Statement in Support of the Settlement Stipulation.

2. Small C&I Procurement Issues

Duquesne Light's proposed procurement plan for Small C&I customers provides for twelve month laddered full requirements contracts for 50% of load, resulting in six-month changes in rates. This plan replicates the existing procurement plan under DSP VI.

The Company has explained the reasons why its Small C&I procurement plan should be approved. These reasons include: (1) the Small C&I procurement plan provides for the same products as the Residential procurement plan since the classes contain customers of similar size and load factor and the classes have similar shopping levels; and (2) the proposed twelve-month laddered contracts balance rate stability with market responsiveness by changing 50% of the supply and default service rates every six months. Duquesne Light MB, pp. 13-14.

RESA offers a number of criticisms of the Company's Small C&I procurement plan. First, RESA argues that the proposal "goes backward" because the DSP VI plan contained a six-month contract at the beginning of the DSP VI period and one at the end of the DSP VI period. Notwithstanding RESA's claim, as explained by Mr. Fisher, the DSP VI and DSP VII plans for Small C&I customers employ the same basic structure. Duquesne Light St. No. 3-R, pp. 29-30. The six-month contract at the beginning of the DSP VI period was needed only to begin the laddering of twelve-month contracts to procure 50% of the supply every six months, which is the

same cycle that the Company has proposed continuing in DSP VII. Furthermore, the six-month contract to be procured for deliver at the end of the DSP VI period recently has been modified, as approved by the Commission, to be a twelve-month contract, analogous with the twelve-month contracts proposed by the Company in its DSP VII plan. *Petition of Duquesne Light Company for Approval of Revisions to its Approved Default Service Plan VI*, Docket No. P-2012-2301664, Order entered September 11, 2014. Since the proposed DSP VII plan is the same as currently provided under the approved DSP VI plan, it is not “going back” in terms of length of procurements proposed for Small C&I customers.

RESA’s second contention is that the Small C&I procurement plan should transition these customers to 50% of supply acquired through quarterly procurements by December 1, 2016. RESA St. No. 1-R, p. 2. RESA argues that this is the appropriate step to transition the Small C&I procurements to the Commission’s End State plan for Small C&I customers.

The error of RESA’s second contention is that it ignores the provisions of the *Default Service End-State Order* which provide that the Commission does not intend to move to solely quarterly procurements for Small C&I customers without legislative change. It makes no sense to transition to such a plan in DSP VII, where the Commission has stated that it does not intend to move to solely three-month contracts without further legislative authority. Apparently recognizing the above-deficiency, RESA contends that solely three-month procurements do not violate the Competition Act. RESA points to hourly procurements for Large C&I customers and the very unusual circumstances involving a very small utility, Pike County Power & Light Company. As noted earlier, the Competition Act as amended by Act 129 requires a balance of rate stability and encouraging the competitive market. The Commission has recognized that there are differing needs for rate stability by class. Referring to the default service procurements

for Large C&I customers, 96% of whom are being served by EGSs, provides no basis to conclude that Small C&I customers should be served by quarterly procurements or that adding three-month contracts are necessary to transition to DSP VIII.

RESA makes its intended purpose clear when it states that it believes the Commission should be "... incenting customers to select alternative suppliers from the competitive market." RESA Main Brief, page 5. The Company does not believe that it is legal, appropriate or necessary to expose customers to unnecessary default service rate volatility to "incent them to choose another supplier." To the contrary, Mr. Fisher explained that default service rates that are fixed for longer terms provide a benchmark for use by customers in comparing competitive offers and that Duquesne Light has been able to achieve one of the most successful customer choice programs in the country without exposing small customers to volatile default service rates. Duquesne Light St. No. 3-R, p. 23.

Third, RESA's contention that adding six-month and quarterly contracts to Small C&I procurements will not unreasonably introduce rate volatility is contrary to the record. Mr. Fisher provided a study demonstrating that moving to RESA's procurement proposal would double rate volatility based on historic data. Duquesne Light St. No. 3-R, pp. 13-14; St. No. 3-RS, pp. 13-15.

Even RESA admits that moving to quarterly procurements would increase rate volatility. RESA argues that price volatility misses the point and that quarterly procurement "would permit the underlying commodity price to move up or down on a quarterly basis consistent with market prices." RESA IB, p. 13. However, it is RESA that misses the point that the Competition Act also requires reasonable rate stability. Laddered 12-month contracts permit price changes every six months and dampen short term market price distortions. RESA's own evidence that an

11.3% increase in prices in Maryland in one quarter under quarterly procurements demonstrates that there can be significant swings under quarterly procurements created by external events.¹ RESA St. No. 1-SR, p. 9.

Finally, Duquesne Light notes that it has always given significant weight to the opinions of customers and their representatives in proposing a default service procurement plan. The Company does not believe that ignoring such perspectives encourages competition. Here, OSBA, the statutory advocate for small business customers, supports the Company's procurement plan and urges its adoption.

For all the foregoing reasons, RESA's Small C&I procurement proposal should be rejected.

3. Medium C&I Procurement Issues

Duquesne Light proposed to procure supplies for Medium C&I customers (customers with demands of 25 kW up to 300 kW) during DSP VII by procuring three-month contracts for 100% of the default service load. This contrasts to the current DSP VI plan in which the Company procures default service supplies for Medium C&I customers using six-month contracts. RESA concedes that the Company's proposal would result in default service rates that are more responsive to market prices, but contends that Medium C&I customers with demands of 100 kW up to 300 kW should be provided only hourly priced default service. In contrast, OSBA recommends that Medium C&I customers continue to be served using six month procurements.

¹ As explained by Mr. Fisher, additional rate volatility is created by RESA's inclusion of two "hard stops" in its proposal where all future supply must be procured at one time, risking procurements during a spike in market prices. Duquesne Light St. 3-SR, p. 7, quoted at p. 16 of Duquesne Light's Main Brief.

a. There Is No Basis To Move Medium C&I Default Service To Hourly Priced Service In This Proceeding.

RESA again contends that hourly procurements for Medium C&I customers is consistent with the Competition Act and the policy of the *Default Service End-State Order*. RESA also contends that it is a “reasonable plan to transition these customers to an hourly priced service when they have interval meters.” RESA Main Brief, p. 17. However, RESA has not proposed a transition; it proposes to move Medium C&I customers from six-month procurements to hourly service. In contrast, the Company has in fact proposed a transition by proposing to move these customers from six-month to three-month procurements. The Company’s proposal provides some rate stability for these customers, though less than during DSP VI, while moving to more market responsive rates. RESA’s proposal eliminates all default service rate stability for these customers.

In its Main Brief, RESA argues that there is nothing in the *Default Service End-State Order* that “prohibits the movement of Medium C&I customers to hourly priced service.” RESA MB, p. 20. The *Default Service End-State Order* provides as follows:

While the Commission is steadfast in its view that our decisions permit spot market approaches in specific situations are appropriate, we are concerned that a general pronouncement directing 90-day procurements for residential and small commercial business customers and an hourly LMP product for medium C&I customers may raise legal questions about compliance with the above referenced provisions of the Competition Act. To avoid any legal uncertainty, this Commission would prefer to pursue legislative amendments that clearly provide the authority to approve default service plans containing products that more closely resemble current market conditions.

Default Service End-State Order, p. 45 (footnote omitted).

RESA has offered no specific reason, other than Duquesne Light having interval meters, why the Company’s Medium C&I customers having demands of 100 kW and above should be

moved from six-month to hourly procurements. Furthermore, the stated goal of the Commission's desire for legislative amendments – to approve a default service plan containing products that more closely resemble current market conditions – can be achieved in this case by moving Medium C&I customers from six-month to three-month procurements. This can be done without creating the legal concern that moving Medium C&I customers to hourly priced default service does not comply with the prudent mix and least cost over time standards, as supplemented by rate stability provisions of the Competition Act as amended by Act 129.

b. Technical Issues With Hourly Priced Service For Medium C&I Customers.

There are also two technical issues with moving Duquesne Light's Medium C&I customers to hourly priced service for DSP VII. The first technical issue is that Duquesne Light's Medium C&I procurement class contains customers with demands of 25 kW up to 300 kW. No one contends in this proceeding that customers with demands below 100 kW should be put on hourly priced service. RESA proposes that such customers be split off and served by three-month contracts. This raises two additional concerns. First, the remaining default service load for customers from 25 kW up to 100 kW may not be sufficient to attract reasonable bids to provide the supply. Duquesne Light St. No. 2-SR, p. 3. RESA has not addressed this issue in its Main Brief.

Second, Duquesne Light would have to conduct manual billing of Medium C&I customers if hourly priced service is commenced June 1, 2015. See Duquesne Light M.B., pp. 21-22 and Duquesne Light St. No. 4-SR, pp. 2-3 for a description of the billing and reconciliation issues associated with offering Medium C&I customers hourly priced service. For reasons stated in the preceding section of this Reply Brief, there is simply no reason to require hourly priced service for this class at this time because default service rates can be made more

market responsive by moving from six-month procurements under DSP VI to three-month procurements under DSP VII.

Under all these circumstances set forth above, imposing manual billing of hourly rates on the Company when the class already has a high level of shopping (72% of Medium C&I load has switched to an EGS) is unjustified.²

4. Large C&I Procurement Issues

Duquesne Light purchases energy and capacity on an hourly basis in the PJM market for all customers with demand of 300 kW or greater. Duquesne Light St. No. 2, p. 5. The Company also acquires AECs for this class. Approximately 96% of Large C&I load is being served by an EGS. Duquesne Light St. No. 2-R, p. 9. The Company passes through its purchase costs for supply capacity and AEC credits and charges an administrative adder to recover costs to administer the program. The administrative adder is avoided when Large C&I customers obtain service from an EGS. Duquesne Light St. No. 4-R, p. 17. The Company proposed to continue this plan for procuring the default supplies necessary to serve approximately 4% of the class load. DII supports the Company's proposal.

RESA proposes that this service be bid out to a third-party. The Company opposes RESA's proposal because: (1) Large C&I customers have historically and currently continue to support the Company providing this service; (2) there is a very high level of shopping in the class which refutes any contention that bidding this service out to a third-party would increase shopping; (3) there is no certainty that a third-party will bid on the proposed service given the

² RESA notes its alternative proposal to phase in hourly rates with customers 200 kW and above provided hourly default service June 1, 2015 and 100 kW and above effective June 1, 2016, provided hourly rates. RESA MB, p. 20. Hourly procurements are simply not necessary to make Medium C&I rates more market responsive than under DSP VI. Again, there is no basis to conclude that moving default service to hourly as opposed to quarterly procurements will improve shopping over the very significant levels already achieved in the Company's service territory.

remaining size of the load and number of customers; (4) the costs of the administrative charge must be incurred even if a third-party provides the service; and (5) RESA has not provided any specifics on the program to be offered by the third-party, including whether customers will retain the option of purchasing power in both the day ahead and real time markets. Duquesne Light MB, pp. 22-26.

In its Main Brief, RESA does not directly address the reasons provided by the Company in testimony for maintaining the current procurement plan. Instead, RESA argues that the “hourly pricing has proven to be a successful way to promote sustainable retail competition.” RESA MB, p. 22. However, as RESA notes, 96% of Duquesne Light’s Large C&I load is served by EGSs. While the Company does not agree that hourly pricing is the primary reason for this level of shopping, it is certainly clear that the current method used by the Company to provide hourly priced service is not an impediment to shopping.

RESA next contends, citing the Commission’s *Default Service End-State Order*, that the Commission prefers a model by which these services are auctioned off. RESA MB, p. 22. Duquesne Light does not dispute that the Commission made this statement. However, such preference is generic and does not reflect the long history of default service by the Company which began shopping well before other major EDCs in Pennsylvania. Duquesne Light St. No. 3, p. 4. Nor does it consider the very successful level of shopping and customer preferences during growth of shopping to retain the Company in the default service role for Large C&I customers. Duquesne Light St. No. 3, p. 5. In this regard, it is noted the Company is the default service supplier, and this is a default service product. RESA has provided no substantive basis to remove the Company from this role for the Large C&I class.

Finally, RESA argues that the Company's administrative adder is just an estimate of costs. RESA MB, p. 22. This statement is contrary to the evidence. The Company has demonstrated that the administrative adder reflects actual costs incurred. Duquesne Light St. No. 4-R, p. 17.

For these reasons, RESA's Large C&I proposal should be rejected.

5. Miscellaneous Procurement Issues

No comment.

C. ALTERNATIVE ENERGY CREDIT PROCUREMENT ISSUES

1. PennFuture's Proposal To Require Duquesne Light To Enter Into Long-Term AEC Contracts Should Be Rejected

a. Deficiencies of PennFuture's Proposal

PennFuture proposed in testimony that Duquesne Light be required to enter into 10 to 20 year contracts to obtain Alternative Energy Credits. PennFuture Surrebuttal Testimony, p. 3. PennFuture's proposal lacked the specificity necessary to evaluate because it did not identify the amount of AECs to be required, the manner in which potential contractor(s) were to be selected and how the contracts were to be matched with the Company's procurement of capacity and energy using full requirements load following contracts.

Recognizing the deficiencies of its proposal, PennFuture proposes, for the first time in its Main Brief, that the Company acquire 10 to 20 year strips for a portion (not to exceed 25%) of the amount required for Duquesne Light's AEPS compliance. Recognizing that the AEPS compliance amount is variable depending on load and number of customers relying on default service, PennFuture suggests that the contracts be based on a "conservative estimate of Duquesne's [default service] load for those [10-20 years]". PennFuture MB, p. 3.

The new proposal presented in PennFuture's Main Brief is out of time and should not be considered because of PennFuture's failure to present it on the record, but also because it highlights the many problems that would be created by entering into 10 to 20 year contracts for AECs. Duquesne Light explained those problems on the record and summarized these issues in its Main Brief, pp. 26-34.

As explained below, PennFuture's belated and simplistic attempt to cure the deficiencies of its testimony by making this proposal in its Main Brief should be rejected.

i. Long-Term Contracts for a Fixed Amount of AECs Do Not Work Well in Conjunction with Variable Load Served By Full Requirements Contracts

Duquesne Light proposes in this DSP VII proceeding to procure the energy, capacity, AECs and all other requirements of its Residential, Small C&I and Medium C&I customers through competitively bid, full requirements, load following contracts ("FRCs"). Under these contracts the winning bidders provide all generation components necessary to provide default service to these classes. Duquesne Light uses these products exclusively for these classes under its current DSP VI plan. There is no evidence in this proceeding even suggesting that the winning bidders have any problem in procuring AECs to meet their obligations to provide AECs to match the load served under the contracts.

One of the problems created by PennFuture's proposal is how to match a fixed purchase by Duquesne Light of AECs per month with the variable load served by the Company. Load varies every hour based on customer usage and number of customers using default service. PennFuture's simplistic proposal that the Company make a "conservative estimate" of the AECs that will be required of the default service load over a 10 to 20 year period is simply unworkable. Further, PennFuture offers no explanation of how the suppliers under the FRCs will be able to manage their AEC delivery requirements when some of the AECs will be provided by the

Company and the remainder will be provided by the suppliers. Mr. Habberfield explained that the level of fixed AEC contribution to suppliers from the Company would be assigned to a varying obligation of AECs depending on the level of the load served, with a greater percentage of AECs being provided in low load periods and lesser percentages being provided as load increased, resulting in difficulties for wholesale suppliers in providing a single fixed price per MWH under the FRCs, and likely higher costs. Duquesne Light St. No. 2-RJ, p. 6.

PennFuture's only response to this problem is that other Pennsylvania utilities have executed long-term AEC contracts. PennFuture MB, p. 5. However, most of those contracts are tied to fixed load, daily energy and capacity contracts (referred to as block products) which do not create the problems of using fixed purchases of AECs with FRCs that deliver the energy needed to meet the load every hour of the year.

Accordingly, PennFuture's proposal creates the risk of increasing prices under the FRCs.

ii. There Are Significant Risks Associated With Long-Term AEC Contracts

Another significant problem with 10 to 20 year contracts for AECs is the likelihood that default service load will decline, below the level of AEC contract commitment. Ten to 20 years is a very long time. The Company has a robust and increasing level of shopping. It is quite possible that any significant level of AEC commitment executed now for 10 to 20 years will be more than necessary to meet future requirements of remaining default service customers, even if Duquesne Light remains the default service supplier. Even in the short term, purchasing fixed amounts of credits increases the chance that AECs purchased will be more than the required amounts resulting in sales of credits creating gains and losses that distort the price to compare. While PennFuture indicates that any such excess can be sold in this market, PennFuture makes

no proposal as to who will pay any loss on the sale of such credits if the market is below the AEC contract price.

Similarly, PennFuture attempts to ignore the potential that Duquesne Light may be required to exit the default service function by stating that the Company is speculating about legislative change. PennFuture MB, p. 18. In its testimony, the Company explained that the Commission currently has the existing power to change the default supplier. Duquesne Light St. No. 2-RJ, p. 4. PennFuture responds in brief, without any support in the record, that no other party has expressed an interest in being the default supplier. PennFuture MB, p. 18. However, various entities have encouraged the Commission to remove electric distribution companies (“EDCs”) from the default service role during the Retail Market Investigation. Further, there have also been large scale government aggregation and retail auction proposals in Pennsylvania, while not supported by the Company, if adopted could dramatically affect the load served by Duquesne Light in its role as DSP. Duquesne Light St. No. 3-RJ, pp. 14-15. Accordingly, PennFuture’s assertions in its brief are improper, unsupported and clearly contrary to the facts.

There are also other risks associated with entering into long-term AEC contracts. Long-term contracts create the risk that suppliers will default if prices for AECs rise, thereby depriving customers of any benefit of the contract in a rising price environment. In addition, the legislature could reduce the number of AECs required under the AEPS Act.

b. PennFuture’s Claims of Benefits from Long-Term Contracts Are Speculative and Unsupported

PennFuture contends that executing long-term AEC contracts will benefit customers and chastises Duquesne Light for “not considering” long-term AEC contracts. PennFuture’s contentions rely on speculative projections and improper legal analysis and must be rejected.

i. PennFuture's Claims that Execution of Long-Term AEC Contracts Will Reduce Costs Charged to Customers is Speculative

PennFuture's witness claims that the cost of AECs will rise in the future due to a future shortage of Tier One sources. However, PennFuture's witness identifies no current shortage and no problem with obtaining current AECs. He provides no basis other than his opinion that there will be a future shortage. Further, he provides no basis to explain why he perceives such a shortage will develop. If his perception is shared by investors, it is reasonable to conclude that projects will be commenced to meet that need. In this regard, the specific Tier One percentages of required AEC credits are identified by statute for each year. Any developer can determine what the required AEC credit level will be and determine the availability of existing projects to serve that load. Therefore, there is no reason that Duquesne Light must sign contracts to encourage developers to meet future load when the demand is fixed by statutory requirements. 73 P.S. § 1648.3.

For the above reasons, the projection by PennFuture's witness that the cost of AEC credits will rise is not evidence. It is not a fact. It is simply speculation and can provide no basis for any ruling in this case.

PennFuture's contention that default service customers will save costs if the Company executes long-term AEC contracts is similarly speculation and not a basis to grant PennFuture's request for relief. If the Company were to undertake such speculation as to AEC contracts, it would also be reasonable to speculate as to energy and capacity contracts to try to save default service customers costs.

Speculation is not required by Act 129. Instead, a prudent supply mix taking into the benefits of price stability is required. The Company's procurement strategy using FRCs with terms of three months to one year depending on customer class and relying on hourly priced

supply service for Large C&I customers (with AECs acquired in the market) balances these objectives and the objective of encouraging retail competition.

ii. PennFuture's Claims of Benefits to Pennsylvania Jobs, Air Quality and Default Service Price Stability Are Illusory

PennFuture also claims that long-term AEC contracts will produce Pennsylvania jobs and assist in meeting clean air objectives. The problem is that these claims assume, incorrectly and without any factual support, that Tier One facilities will not be built to meet the specified requirements in the AEPS Act without a long-term AEC contract. As noted by Mr. Habberfield, a long-term contract for AECs to meet the Company's required purchases under the AEPS Act does not increase total demand, it simply locks a portion of the demand into one purchaser. Duquesne Light St. No. 2-RJ, p. 8. As a result, the benefits to jobs and the environment are created by the AEPS Act, and there are no incremental benefits created by a contract to implement it.³

As to PennFuture's claims that a long-term contract for AECs will provide stability to default service rates, Duquesne Light explained that AECs are such a small portion of default service costs that fixed AEC prices will not create price stability in default service rates. Duquesne Light St. No. 3-RJ, p. 12.

iii. Conclusion as to Benefits of AEC Contracts

PennFuture has the burden of proof in this proceeding as the proponent of a contract for long-term AEC contracts. PennFuture has not provided any evidence that such contracts will benefit customers or improve retail markets.

³ PennFuture has the burden of proof in this proceeding as the proponent of a contract for long-term AEC contracts. PennFuture has not provided any evidence that such contracts will benefit customers or improve retail markets.

c. PennFuture's Contention that Duquesne Light is Required by Law to Enter into Long-Term AEC Contracts is Erroneous

In its Main Brief, PennFuture attempts to weave together an argument that EDCs are required by Act 129 to enter into long-term AEC contracts. PennFuture starts with an erroneous contention that Duquesne Light has the obligation to demonstrate by substantial evidence that long-term AEC contracts are not required as part of a prudent supply mix. Duquesne Light respectfully disagrees.

Act 129 requires a prudent mix of spot, short-term and long-term procurements. However, the Commission has previously interpreted, as PennFuture recognizes, that Act 129 does not require supply from each category to meet the least cost procurement over time standard. It is Duquesne Light's burden to establish that supply mix it has chosen as a prudent mix, after giving consideration to the benefits of rate stability and the effects of the procurement plan on the development of retail competition. Duquesne Light has chosen to rely on FRCs of various terms, for the Residential, Small C&I and Medium C&I default service customers and hourly service for Large C&I default service customers. The Company has provided extensive evidence as to the reasonableness of these procurements.

As the proponent of long-term AEC contracts, it is PennFuture's burden to demonstrate that such contracts are a prudent component of supply.

Accordingly, PennFuture's contention that Duquesne Light must provide evidence that inclusion of long-term contracts would harm customers is erroneous. Nevertheless, in response to PennFuture's proposal, the Company has explained the many potential harms to customers of

entering into such contracts and explained that the benefits of such contracts alleged by PennFuture are non-existent, speculative and illusory.⁴

PennFuture, as explained previously, has failed to meet its burden to demonstrate that long-term AEC contracts are reasonable at this time. Therefore, its proposal should be rejected.

d. PennFuture's Contention that Duquesne Light's Procurement Process Would Never Justify Long-Term AEC Contracts is Erroneous

PennFuture argues that Duquesne Light's procurement process would never lead to long-term AEC contracts because the Company obtains AECs from wholesale suppliers under short-term (less than 4 years) FRCs. PennFuture argues that this process automatically precludes long-term contracts with FRCs. PennFuture's contention is erroneous.

There is no competent evidence in this record of any shortage of AECs. As noted earlier in this Reply Brief, the AEPS Act creates the demand for AECs by statutory requirements, and there is no need for long-term contracts to create the demand for AECs. Under such circumstances, it is efficient and reasonable to require FRC suppliers to provide AECs to match the load served by the AECs. Doing so avoids a broad array of issues and problems explained in the Company's testimony, the Company's Main Brief and this Reply Brief.

None of this, however, justifies a conclusion that the Company may never enter into a long-term contract for AECs. As noted by PennFuture, one of the circumstances the Commission must consider before granting a *force majeure* with regard to AEC purchase obligations is whether the utility has offered long-term contracts. If circumstances arise that

⁴ PennFuture argues that long-term AEC contracts are reasonable because other utilities have entered into them. However, most of these contracts were approved in proceedings in 2010 or earlier, well before the Commission's Retail Market Investigation. Further, several of these contracts are solar contracts and, as demonstrated by the Commission's website there has been a dramatic decline in solar prices from 2009 to present, further demonstrating the dangers of long-term contracts. See http://www.puc.state.pa.us/consumer_info/electricity/alternative_energy.aspx

AEC credits are in short supply, Duquesne Light could consider long-term AEC contracts to respond to that problem. However, there is no competent evidence of such a shortage in this proceeding.

D. STANDARD OFFER PROGRAM

SOP issues have been resolved by the Settlement Stipulation of the Parties that was filed on September 15, 2014. Duquesne Light addresses why the SOP proposal is in the public interest in its Statement in Support of the Settlement Stipulation.

E. RATE DESIGN

1. Default Service Cost Unbundling Issues

The default service cost unbundling issues have been resolved by the Settlement Stipulation of the Parties that was filed on September 15, 2014. Duquesne Light addresses why the default service cost unbundling proposal is in the public interest in its Statement in Support of the Settlement Stipulation.

2. Non-Bypassable Charge to Recover PJM Charges

a. Introduction

In this proceeding, the Company proposes to maintain its existing cost recovery methodology for PJM transmission charges, including Network Integration Transmission Service (“NITS”), Regional Transmission Expansion (“RTEP”), Generation Deactivation Charges and Unaccounted for Energy (“UFE”) (RESA refers to these costs as non-market based and hereafter they are referred to collectively as “NMB Transmission Costs”). Duquesne Light recovers NMB Transmission Costs for default service customers through its Transmission Service Charge (“TSC”).

In this proceeding, RESA and ExGen argue that the Company should recover NMB Transmission costs for all customers, including shopping customers. RESA continues to argue

that its NMB Transmission Cost recovery proposal should be adopted despite the fact that it has been rejected numerous times by the Commission. RESA's NMB Transmission Cost recovery proposal is the same proposal that it made in Duquesne Light's DSP VI proceeding, where it was rejected by the ALJ and the Commission. *Petition of Duquesne Light Company for Approval of a Default Service Program and Procurement Plan for the Period June 1, 2013 through May 31, 2015*, Docket No. P-2012-2301665, Order entered January 25, 2013 ("DSP VI Order"). The Commission also has rejected this proposal in other proceedings, including FirstEnergy's and PECO's 2012 DSP proceedings. *Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, and West Penn Power Company for Approval of Their Default Service Programs*, Docket Nos. P-2011-2273650 et al, Order entered August 16, 2012; *Petition of PECO Energy Company For Approval of Its Default Service Program II*, Docket No. P-2012-2283641, Order entered September 27, 2012. The Commission further rejected RESA's proposal that the FirstEnergy Companies recover NITS Transmission charges for all customers in the FirstEnergy Companies' recent default service proceeding. *Joint Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company for Approval of Their Default Service Programs*, Docket No. P-2013-2391368, et al. Order entered July 24, 2014, p. 56.

Moreover, RESA's proposal is opposed in this proceeding by DII, who represents Large C&I customer interests and by Noble, who is an EGS.

b. RESA'S NMB Transmission Cost Recovery Proposal Will Limit Competition.

RESA's primary argument during this entire proceeding is that Duquesne Light's DSP VII plan should promote competition. See RESA MB, pp. 7-8; RESA St. No. 1, p. 6; RESA St. No. 1-R, p. 7; RESA St. No. 1-SR, pp. 4-5. RESA has proposed to add shorter term supply

contracts to the Company's procurement plans, all in an attempt to make default service rates more market responsive because RESA believes that this will make markets more competitive. RESA, however, takes a different, non-competitive approach with respect to NMB Transmission costs. RESA requests that the Commission require Duquesne Light to recover NMB Transmission costs for all customers, including shopping customers. RESA's proposal would bar EGSs and customers from negotiating fixed price contracts for NMB Transmission costs, thereby severely limiting competition with respect to recovery of these costs.

Currently, EGSs can recover NMB Transmission costs from customers through fixed price contracts or through pass through mechanisms. If RESA's non-bypassable charge cost recovery methodology is adopted, EGSs will not be permitted to compete with each other with respect to NMB Transmission cost recovery and customers will not be able to negotiate with EGSs with respect to these costs. It must be noted that not all EGSs are in favor of RESA's proposal. In its Main Brief, Noble states as follows:

Noble submits that a customer's ability to manage its NITS costs enables the customer and their supplier to effectively manage their load obligations and allows for further development of product and service offerings in the marketplace which provide a meaningful benefit to retail electric service customers regardless of size. Adopting RESA's non-bypassable proposal limits customer choice and would have an adverse effect on shopping decisions by customers.

Noble MB, p. 4.

Likewise, DII also notes that RESA's proposal will prevent EGSs from offering customers fixed prices for NMB Transmission costs, thereby limiting competition. DII MB, pp. 19-20.

c. Duquesne Light's NMB Transmission Cost Recovery Proposal Is Not Inequitable For EGSs.

RESA argues that Duquesne Light's NMB Transmission Cost Recovery methodology is inequitable because Duquesne Light is permitted to pass through NMB Transmission costs to customers but that "the retail price offered by EGSs must account for the current transmission rate and takes into consideration how to factor into their retail pricing the risk for potential future rate increases in the NMB Charges." RESA IB, p. 29.

RESA's inequity argument is erroneous because RESA fails to acknowledge that EGSs are not required to offer customers contracts with fixed price NMB Transmission Costs but can simply pass through these costs to shopping customers the same way that they are passed through to default service customers. There is no inequity. Moreover, EGSs have the additional opportunity to offer customers fixed price NMB Transmission costs, which provides EGSs with an additional way to compete against other EGSs.

d. RESA's Reliance On The FirstEnergy DSP Settlement Is Misguided.

In its Main Brief, RESA argues that its NMB Transmission Cost proposal is consistent with the Commission's decision in the FirstEnergy DSP III proceeding. RESA IB, pp. 30-31. RESA argues that "In essence, the Commission has approved RESA's preferred cost assignment for all charges but for NITS in the FE DSP III Order." REA IB, p. 31 (footnote omitted).

RESA's reliance on the FirstEnergy DSP III Order is misguided. First, the only cost item that was litigated in the FirstEnergy DSP III proceeding was NITS charges, and the Commission ruled against RESA's proposal. As explained by Mr. Pfrommer, the majority of NMB Transmission Costs are NITS costs. Duquesne Light St. No. 4-RJ, p. 5. Issues regarding the recovery of all other NMB Transmission charges were agreed to under a Settlement. The

Settlement is not precedential and does not support RESA's proposal. RESA's attempt to rely on a Settlement to support its litigation position should be denied.

e. RESA's Alternative NMB Transmission Cost Proposal Should Also Be Denied.

In its surrebuttal testimony, RESA recommended for the first time that if the Commission did not adopt RESA's recommendation for Duquesne Light to assume responsibility for NMB Transmission Costs for all load (including shopping customers), then the Commission should require Duquesne Light to modify its SMA to require wholesale default suppliers to assume cost responsibility for NMB Transmission Costs. See RESA St. No. 1-SR, pp. 22-23; RESA IB, p. 34.

RESA's alternative recommendation also should be denied. RESA bases its argument on the proposition that EGSs bear the risk of increases in NMB Transmission Costs for shopping customers but wholesale suppliers do not bear this risk for default service customers. RESA IB, p. 34. The fundamental flaw in RESA's argument is that EGSs can offer contracts to pass through changes in NMB Transmission Costs, which is consistent with how NMB Transmission Costs are recovered from default service customers, i.e., as a pass-through basis. There is no unfairness or inequity. Moreover, under the current methodology, EGSs have the additional competitive option of offering customers a fixed price NMB Transmission Cost proposal, which is not permitted for default service customers.

f. RESA Overstates the Risk if NMB Transmission Cost Changes

In its Main Brief, RESA argues that NMB Transmission Costs are unpredictable and significant. RESA MB, p. 26. RESA is overstating the risk of NMB Transmission Costs. Duquesne Light's witness, Mr. Pfrommer, stated as follows:

Mr. Hudson argues that the non-market based charges are significant and that EGSs must include risk premiums for these

costs. I think that Mr. Hudson is overstating the risk associated with non-market based charges. The majority of the costs are NITS costs, and these costs are fixed on a yearly basis from June 1 – May 31 of each year. Further, nothing prevents an EGS from including cost pass through provisions in its contracts, especially for larger customers.

Duquesne Light St. No. 4-RJ, pp. 5-6.

In addition, in its Main Brief, Noble, an EGS licensed to serve customers in Duquesne Light's service territory, expressly agreed with Mr. Pfrommer's conclusions that RESA is overstating the risk of changes in NMB Transmission Costs. Noble MB, p. 4.

The Commission should not accept RESA's NMB Transmission Cost recovery proposals for the reasons explained herein, in the Company's, DII's and Noble's Main Briefs and in the Company's testimony.

F. TIME-OF-USE PROGRAM

The TOU issues have been resolved by Settlement Stipulation of the Parties that was filed on September 15, 2014. Duquesne Light addresses why the TOU proposal is in the public interest in its Statement in Support of the Settlement Stipulation.

G. SUPPLY MASTER AGREEMENT ISSUES

The SMA issues have been resolved by Settlement Stipulation of the Parties that was filed on September 15, 2014. Duquesne Light addresses why the SMA proposal is in the public interest in its Statement in Support of the Settlement Stipulation.

H. REQUEST FOR PROPOSAL AND INDEPENDENT EVALUATOR PROCESS ISSUES

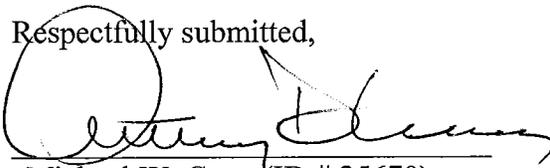
No comment.

I. GENERAL MISCELLANEOUS ISSUES

No comment.

IV. CONCLUSION

Duquesne Light has presented a Default Service Plan that fully balances the goals of: (1) providing default service at least cost over time, taking into account the benefits of price stability, and (2) further enhancing the development of the competitive market. The Company's Default Service Plan, as modified by the Settlement Stipulation, should be adopted.

Respectfully submitted,


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