

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place  
Harrisburg, Pennsylvania 17101-1923  
(717) 783-5048  
800-684-6560

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

September 30, 2014

Rosemary Chiavetta  
Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

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

Dear Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Statement in Support of the Settlement Stipulation in the above-referenced proceeding.

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

Respectfully Submitted,

*Kristine E. Robinson*

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

Enclosures

cc: Honorable Katrina L. Dunderdale  
Certificate of Service

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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	:	
	:	

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STATEMENT OF THE  
OFFICE OF CONSUMER ADVOCATE  
IN SUPPORT OF THE  
SETTLEMENT STIPULATION

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The Office of Consumer Advocate (OCA), a signatory party to the Settlement Stipulation (Settlement) in the above-captioned proceeding, respectfully requests that the terms and conditions of the Settlement be approved by Administrative Law Judge Katrina L. Dunderdale and the Pennsylvania Public Utility Commission (Commission). It is the position of the OCA that the proposed Settlement is in the public interest and in the interests of the customers of Duquesne Light Company (Duquesne or Company).

**I. INTRODUCTION**

On April 24, 2014, Duquesne filed a Petition with the Pennsylvania Public Utility Commission (Commission) seeking: (i) approval of a default service plan (DSP) for the period June 1, 2015 through May 31, 2017, (ii) approval of a Time-of-Use (TOU) Program, and (iii) other approvals required for the implementation of the DSP. In its Petition, Duquesne Light proposed that default service for residential customers be supplied primarily through 12-month, laddered supply contracts. Petition at ¶ 6. Additionally, there would be one 6-month contract at

the beginning of the DSP. Petition at ¶ 6. All supply contracts would be fixed-priced, full requirements contracts, procured from third party suppliers through semi-annual competitive requests for proposals (RFPs). Petition at ¶¶ 6, 16. One 12-month contract would have a delivery period that extends six months beyond the end of the DSP period. Petition at ¶ 11. All of the procurements would be held within three months of the start of delivery, except for the 6-month “out of cycle” contract, which would be procured in February 2015, four months from the start of delivery. Petition at ¶ 7.

Under Duquesne’s proposal, the RFPs for Residential customers would include the procurement of energy, capacity, ancillary services, losses, alternative energy requirements, and other costs and risks. Petition at ¶ 52. Duquesne Light proposed that it would recover these costs, gross receipt taxes, and the costs of administering the RFPs and hiring an independent monitor through fully reconcilable cost recovery mechanisms for each class. Petition at ¶ 52. In its Petition, Duquesne also proposed semi-annual reconciliation of Residential procurement group default service costs and revenues. Petition at ¶ 14.

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

Duquesne proposed to recover 50% of the excess costs from the Purchase of Receivables (POR) discount and 50% from Residential and Small C&I default service customers. Petition at ¶ 61.

In its Petition, the Company also proposed its plan to bid out its TOU obligation to EGSs. Petition at ¶ 62. Customers would be able to elect TOU service over a roughly four-to-five month period starting soon after the TOU supplier had been selected and until July 31 each year. Petition at ¶ 67. TOU service enrollment would follow the applicable switching protocols in the Company's Supplier Tariff and Electric Service Schedule of Rates Tariff. Petition at ¶ 67. At the end of the TOU program year, absent an affirmative customer election for some other service, a customer that elected TOU service under the program would remain with its EGS. Petition at ¶ 68. At the end of the First TOU Program Year, the new prices charged by the TOU Supplier through the end of the Second TOU Program Year would be differentiated solely by the calendar periods corresponding to the Summer On-Peak Period, Summer Off-Peak Period, and Non-Summer Period. Petition at ¶ 68.

The Petition was assigned to the Office of Administrative Law Judge and was further assigned to Administrative Law Judge Katrina L. Dunderdale for investigation and the scheduling of hearings. On May 12, 2014, the OCA filed an Answer, Notice of Intervention, and Public Statement in response to the Company's Petition. The following parties also became Parties of Record in this proceeding: the Bureau of Investigation and Enforcement (I&E); the Office of Small Business Advocate (OSBA); the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA); FirstEnergy Solutions Corp. (FES); Noble Americas Energy Solutions, LLC (Noble); Citizen's for Pennsylvania's Future; Retail Energy Supply Association (RESA); NextEra Energy Power Marketing, LLC (NextEra); Duquesne Industrial Intervenors; and Exelon Generation Company.

The OCA retained the expert services of Dr. Steven L. Estomin and Ms. Barbara R. Alexander to assist the office in its review of the Company's filing. The OCA conducted discovery in this proceeding. The OCA submitted the Direct, Rebuttal, and Surrebuttal testimony of Dr. Estomin and Ms. Alexander.

The OCA supported many aspects of the Company's plans as filed for residential customers. For example, the OCA agreed with the "overhang" proposed by Duquesne, because it would avoid a "hard stop" problem that would affect residential default service customers at the conclusion of the Default Service Plan period. OCA St. 1 at 9-10. The OCA also agreed with the Company's proposed procurement approach which layered purchases over the course of the default service period, thus increasing rate stability. OCA St. 1 at 4. Additionally, the OCA found the Company's TOU proposal to be both reasonable and workable. OCA St. 1 at 16. The OCA, however, did propose modifications designed to improve the plan for residential customers.

In his testimony, OCA witness Estomin recommended several modifications to the Company's proposed residential default service portfolio. Specifically, Dr. Estomin recommended that a portion of the tranches of residential default service load be of two-year duration rather than the uniform one-year duration as proposed by Duquesne to facilitate a higher level of price stability for residential Default Service customers. OCA St. 1 at 11-12. OCA witness Estomin also expressed concern that too great a proportion of the residential Default Service load was purchased over too few months for the initial procurement rounds under the Company's proposal. OCA St. 1 at 14. To reduce Default Service customer's exposure to market risk, Dr. Estomin recommended that a longer timeframe be used to conduct procurements

to meet the first year's Default Service obligation.<sup>1</sup> Id. Additionally, OCA witness Estomin recommended that each full-requirements contract include a small portion of supply priced at spot market prices in order to more closely comply with the requirements of Act 129 regarding a prudent mix of spot market, short term, and long-term contracts. OCA St. 1 at 12-13.

In Ms. Alexander's testimony, she recommended that prior to the Company incurring additional costs to modify its SOP and hire third party vendors, Duquesne should provide more analysis of why its EGS participants have dropped. OCA St. 2 at 14. Ms. Alexander expressed concern with Duquesne's proposal to impose these incremental costs on default service customers. OCA St. 2 at 15-16. Ms. Alexander submitted that prior to continuation of the SOP, the Commission conduct a review of the SOPs for all distribution companies and consider whether there is a need to continue the program. OCA St. 2 at 17. If such a need exists, Ms. Alexander recommended that the Commission adopt reforms to ensure that customers receive appropriate disclosures and benefits from the SOP. Id.

Ms. Alexander further recommended that even under the current SOP, the Company should modify the statements about the SOP used when presenting the program to customers to provide better information to consumers. OCA St. 2 at 18-20. Ms. Alexander explained that under the current SOP, Duquesne's customer disclosures do not adequately explain the benefits and risks of participating in this voluntary program. OCA St. 2 at 18. Ms. Alexander also expressed concern that the current script does not require Duquesne to explicitly inform customers about the potential that the 7% discount will vary depending on the future changes to

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<sup>1</sup> OCA witness Estomin recognized that the Company also had identified this concern and Petitioned the Commission for approval to begin purchasing for the next Default Service Plan in October of 2014. OCA St. 1 at 5. On September 11, 2014, the Commission approved Duquesne's request to advance its procurement schedule, thus addressing Dr. Estomin's concerns. Petition of Duquesne Light Company For Approval of Revisions to its Approved Default Service Plan VI, Docket No. P-2012-2301664, Order, (order entered September 11, 2014).

the price to compare (PTC). Id. Ms. Alexander recommended modifying the SOP disclosures to avoid a possible unintended impact of misleading customers about the nature and potential benefits of the program. OCA St. 2 at 19.

Throughout the proceeding, the OCA actively participated in settlement discussions with the Company and the parties, leading to its participation in this Settlement. The OCA supports the Settlement for the reasons set forth below.

## **II. SETTLEMENT BENEFITS FOR RESIDENTIAL CUSTOMERS**

The OCA submits that the Settlement addresses several of the issues raised by the OCA's witnesses and provides several benefits for residential ratepayers. First, the Settlement adopts Duquesne's proposal to procure 50 percent of residential supply for the post-plan period at the same time that a portion of the plan period portfolio is being procured. See Settlement at ¶ 1; Petition at ¶ 11. As explained by Dr. Estomin, this "overhang" avoids a "hard stop" problem that would affect residential default service customers at the conclusion of the Default Service Plan period and prevents the potential shock of a new set of prices by allowing for a smoother transition to the subsequent plan period. OCA St. 1 at 9-10. The layering of purchases in this manner reduces the possibility of rate shock at the beginning of the next Default Service Plan Period as the Company will not be purchasing 100% of supply at one time.

Second, the Settlement adopts the laddering of contracts proposed by Duquesne, which results in 50 percent of the portfolio being replaced every six months. See Settlement at ¶ 1; Petition at ¶ 7. As explained in Dr. Estomin's Direct Testimony, the laddering of contracts is desirable for residential Default Service customers, because it helps manage the supply price risk and does not subject customers to price changes on the full portfolio at any one time. OCA St. 1 at 4. This provision and the overhang are consistent with the Act 129 goal of price stability.

Third, the Settlement modifies the Company's SOP by requiring the Company to make certain disclosures to customers. Specifically, under the terms of the Settlement, the Company must make the following disclosure to potential SOP participants:

I see that you are eligible for a voluntary program that offers a price for generation service for 12 months that is 7% off of the current price to compare. The price to compare may change during the 12 months but your rate will remain fixed at \_\_\_\_\_. If you are interested, I will transfer you to a supplier who is participating in this program for more information.

Settlement at ¶ 4. As discussed in Ms. Alexander's testimony, these more accurate disclosures will help to ensure that the customers understand that the initial savings are not guaranteed throughout the entire 12-month contract.

Moreover, under the terms of the Settlement, the Company will conduct a collaborative with interested Parties to consider changes to its existing SOP. Settlement at ¶ 5. During this time, participating Parties will consider, among other things, enhanced customer disclosures, cost recovery, and other program improvements. Settlement at ¶ 5. All changes that are agreed upon during these meetings will be implemented by the Company within six months of approval by the Commission. Settlement at ¶ 7. This process will facilitate continual evaluation of the SOP to ensure that the program is beneficial to consumers.

Finally, Duquesne will continue its SOP with a \$10.28 customer enrollment fee until the SOP is revised and approved by the Commission. Settlement at ¶ 8. This provision addresses OCA witness Alexander's concern with Duquesne's proposal to impose incremental costs on default service customers. OCA St. 2 at 16.

### **III. CONCLUSION**

The OCA submits that the Settlement Stipulation provides a reasonable resolution to the Company's 2015-2017 default service plan filing by improving price stability, managing the

supply price risk faced by residential Default Service customers, and modifying Duquesne's SOP disclosures. For the foregoing reasons, the Office of Consumer Advocate submits that the proposed Settlement is in the public interest and in the best interest of the Companies' ratepayers.

Respectfully Submitted,



Aron J. Beatty

PA Attorney I.D. # 86625

E-Mail: [ABeatty@paoca.org](mailto:ABeatty@paoca.org)

David T. Evrard

PA Attorney I.D. # 33870

E-mail: [DEvrard@paoca.org](mailto:DEvrard@paoca.org)

Kristine E. Robinson

PA Attorney I.D. # 316479

E-Mail: [KRobinson@paoca.org](mailto:KRobinson@paoca.org)

Assistant Consumer Advocates

Counsel for:

Tanya J. McCloskey

Acting Consumer Advocate

Office of Consumer Advocate

555 Walnut Street 5th Floor, Forum Place

Harrisburg, PA 17101-1923

Phone: (717) 783-5048

Fax: (717) 783-7152

Dated: October 1, 2014

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CERTIFICATE OF SERVICE

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

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

Dated this 30th day of September 2014.

SERVICE BY E-MAIL and INTEROFFICE MAIL

Scott B. Granger, Esq.  
Bureau of Investigation and Enforcement  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

SERVICE BY E-MAIL and FIRST CLASS MAIL

Michael W. Gang, Esq.  
Anthony D. Kanagy, Esq.  
Post & Schell, PC  
17 North Second Street, 12<sup>th</sup> Fl.  
Harrisburg, PA 17101-1601

Sharon E. Webb, Esq.  
Office of Small Business Advocate  
Commerce Building, Suite 1102  
300 North Second Street  
Harrisburg, PA 17101

Robert H. Hoaglund, II, Esq.  
Duquesne Light Company  
411 Seventh Avenue  
Pittsburgh, PA 15219

David P. Zambito, Esq.  
Cozen O'Connor  
305 North Front St., Suite 400  
Harrisburg, PA 17101-1236

Amy M. Klodowski, Esq.  
FirstEnergy Solutions Corp.  
800 Cabin Hill Drive  
Greensburg, PA 15601

Harry S. Geller, Esq.  
Patrick M. Cicero, Esq.  
Elizabeth R. Marx, Esq.  
Pennsylvania Utility Law Project  
118 Locust Street  
Harrisburg, PA 17101

Charles E. Thomas III, Esq.  
Thomas, Niesen & Thomas, LLC  
212 Locust Street, Suite 600  
P.O. Box 9500  
Harrisburg, PA 17108-9500

Heather M. Langeland, Esq.  
PennFuture  
200 First Street, Suite 200  
Pittsburgh, PA 15222

Pamela C. Polacek, Esq.  
Teresa K. Schmittberger, Esq.  
McNees Wallace & Nurick LLC  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166

Thomas J. Sniscak, Esq.  
Todd S. Stewart, Esq.  
Judith D. Cassel, Esq.  
Hawke McKeon & Sniscak LLP  
P.O. Box 1778  
Harrisburg, PA 17101

Colleen P. Kartychak  
Consolidated Edison Solutions  
698 Gamble Road  
Oakdale, PA 15071

Brian R. Greene  
GreeneHurlocker, PLC  
707 East Main Street  
Suite 1025  
Richmond, VA 23219

Divesh Gupta, Esq.  
Assistant General Counsel  
Exelon Generation Co.  
100 Constellation Way, Suite 500C  
Baltimore, MD 21202

Brian Kalcic  
Excel Consulting  
Suite 720-T  
225 S. Meramec Ave.  
St. Louis, MO 63105



David T. Evrard  
Assistant Consumer Advocate  
PA Attorney I.D. # 33870  
E-Mail: [DEvrard@paoca.org](mailto:DEvrard@paoca.org)  
Kristine E. Robinson  
Assistant Consumer Advocate  
PA Attorney I.D. # 316479  
E-Mail: [KRobinson@paoca.org](mailto:KRobinson@paoca.org)  
Aron J. Beatty  
Assistant Consumer Advocate  
PA Attorney I.D. # 86625  
E-Mail: [ABeatty@paoca.org](mailto:ABeatty@paoca.org)

Counsel for  
Office of Consumer Advocate  
555 Walnut Street  
5th Floor, Forum Place  
Harrisburg, PA 17101-1923  
Phone: (717) 783-5048  
Fax: (717) 783-7152  
182579