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September 30, 2014

BY FED EX AND EFILING

Rosemary Ciavetta, 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 a Default Service Plan for the Period June 1, 2015 through May 31,
2017 - Docket No.P-2014-2418242***

Dear Ms. Ciavetta:

Enclosed for filing in the above referenced matter please find the Statement in Support of Settlement of the Retail Energy Supply Association. Copies have been provided pursuant the attached Certificate of Service.

Please feel free to contact me should you have any questions.

Sincerely,



Brian R. Greene

BRG/wcd
Enclosures

c: Honorable Katrina L. Dunderdale
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Brian R. Greene

Dated: September 30, 2014

**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 January 1, 2015 through :
May 31, 2017 :

**RETAIL ENERGY SUPPLY ASSOCIATION'S
STATEMENT IN SUPPORT OF SETTLEMENT**

I. Introduction

The Retail Energy Supply Association (“RESA”) submits this Statement in Support of Pennsylvania Public Utility Commission (“Commission”) approval of the Stipulation (“Stipulation” or “Settlement”) regarding the petition filed by Duquesne Light Company (“Duquesne” or the “Company”) in this proceeding. RESA is a non-profit organization and trade association of retail energy suppliers who share the common vision that robust and sustainable competitive retail energy markets deliver more efficient, customer-oriented outcomes than regulated utility structures. RESA members include several companies that are licensed electric generation suppliers (“EGSs”) in Pennsylvania and sell, or are authorized to sell, electric energy in Duquesne’s service territory.¹

The Settlement addressed five major issues in this proceeding and leaves the remaining issues for litigation. In RESA’s view, the Settlement, acceptable as a package

¹ RESA’s members include: AEP Energy, Inc.; Champion Energy Services, LLC; Consolidated Edison Solutions, Inc.; Constellation NewEnergy, Inc.; Direct Energy Services, LLC; GDF SUEZ Energy Resources NA, Inc.; Homefield Energy; IDT Energy, Inc.; Integrys Energy Services, Inc.; Interstate Gas Supply, Inc. dba IGS Energy; Just Energy; Liberty Power; MC Squared Energy Services, LLC; Mint Energy, LLC; NextEra Energy Services; Noble Americas Energy Solutions LLC; NRG Energy, Inc.; PPL EnergyPlus, LLC; Stream Energy; TransCanada Power Marketing Ltd. and TriEagle Energy, L.P. The comments expressed in this filing represent only those of RESA as an organization and not necessarily the views of each particular RESA member.

deal, includes provisions that will aid in the development of retail competition in the Duquesne service territory and addresses certain concerns raised by RESA regarding Duquesne's initial proposal. More specifically, the Settlement:

- (1) provides for future unbundling of costs associated with default service provision from base rate costs;
- (2) accepts Duquesne's proposed Residential default service procurement portfolio while obligating Duquesne to make a filing with the Commission in the event it is determined that Duquesne will no longer be the default service provider;
- (3) continues Duquesne's Standard Offer Program ("SOP") with changes to its SOP script and the initiates a stakeholder collaborative to investigate further SOP enhancements;
- (4) addresses Duquesne's Time of Use ("TOU") Program, for which a separate collaborative will also be convened to develop a TOU Program and cost recovery mechanism for the year June 1, 2016 through May 31, 2017; and
- (5) revises and clarifies Duquesne's Supply Master Agreement ("SMA").

For the following reasons, RESA recommends that the Settlement be approved.

II. RESA recommends approval of the Settlement.

A. Unbundling of Default Service Costs

The Settlement provides for a significant advancement towards a sustainable competitive retail market in Duquesne's service territory: unbundling of Duquesne's default service costs from its base rate costs. Under the Settlement, Duquesne will propose this unbundling upon the earlier of its next general rate case filing or its Default

Service Plan filing for the period commencing June 1, 2017.² Specifically, the Company's proposal will remove from base rates costs such as default service proceeding and procurement costs, and cash working capital for default service procurements. Instead of 100% of these costs being included in base rates and collected from all customers regardless of whether the customer is taking default service, the Company will propose to recover such costs from default service customers.³

RESA supports the unbundling provisions in the Settlement. As RESA witness Hudson recommended, all of Duquesne's default service related costs should be allocated to by-passable default service rates.⁴ RESA is concerned that Duquesne has not yet identified all of its default service related costs and properly allocated them to by-passable default service rates.⁵ Absent such allocation, the Company's distribution ratepayers, including shopping customers, are unfairly subsidizing default service, hindering competition by inflating costs for shopping customers.⁶ In other words, shopping customers are forced to pay for a portion of default service related costs even though they are not default service customers. Such a situation is also counter to the regulatory principle of cost-causation, which is the idea that those who benefit from a utility provided service should pay for the costs of the utility providing that service. Moreover, if there is no proper allocation of default service related costs, shopping customers are being forced to pay for such costs twice – once to their EDC in their base rates and again to their EGS through the EGS's prices.

² Settlement at ¶ 13.

³ *Id* at ¶ 13.

⁴ RESA St. 1 at 4.

⁵ *Id* at 21.

⁶ *See Id.*

Finally, absent an unbundling, EGSs are in the unfair position of competing against a default service price that does not reflect the EDC's full cost of providing that service. EGSs must recover all of their costs through the prices they charge to their customers, whereas it is unfair to allow the EDC to collect a portion of its default service costs from a subset of customers that are not default service customers. Such an outcome can stymie the development of competition and result in fewer suppliers offering fewer products and services to customers, simply because they cannot compete against an artificially low default service price. Such an outcome is not good for customers and is not consistent with Pennsylvania law and policy favoring the development of competitive retail markets. For these reasons, the unbundling provisions in the Settlement are instrumental.

B. Residential Default Service

RESA raised significant concerns in this proceeding with respect to Duquesne's Residential default service plan, and RESA has made significant concessions in exchange for other provisions in the Settlement. RESA has long advocated before this Commission and elsewhere that, for competition to evolve, a default service procurement structure must result in rates that sufficiently reflect over time the underlying wholesale market, and must reflect all of the costs and risks of providing default service to customers. If a default service plan results in long-term, fixed rates, then retail competition is not likely to be sustainable. This is because, as wholesale market prices rise above the fixed default service rates, retail suppliers are artificially shut out of the market. Suppliers may have intermittent opportunities if wholesale prices fall below the fixed price rates. However, this type of "boom or bust" cycle is not likely to lead to sustainable retail competition

because most retail suppliers are unlikely to make the large, up-front investment to enter a market where they may not have an opportunity to compete for extended periods of time over the long run. While Duquesne contended in this proceeding that its proposed Residential procurement portfolio represented a move toward more market reflective rates than exist in the current DSP VI, RESA proposed, and supports, a portfolio that would have included a blend of 12-month, 6-month, and 3-month procurement contracts as the next best step to achieving default service prices that more accurately reflect the underlying wholesale market and which also move towards the Commission's desired end state for default service.⁷

In this proceeding, RESA also opposed the Office of Consumer Advocate's ("OCA's") proposed Residential procurement portfolio. In RESA's view, OCA's portfolio included wholesale default service supply contracts that were inconsistent with Pennsylvania law and would hinder the development of a robust and sustainable retail electricity market in the Duquesne service territory. The Settlement adopts Duquesne's proposed portfolio, which consists of 12-month laddered contracts as referenced above and which RESA still finds problematic.

In RESA's view, relying on 12-month procurements does not reflect a progression to a more market responsive procurement mix.⁸ In terms of the entire Settlement package, however, RESA was willing to accept Duquesne's proposed Residential portfolio so long as the same paragraph in the Settlement included language addressing the possibility in which Duquesne is no longer the default service provider, as well as other provision described herein. Specifically, if it is determined that Duquesne will no

⁷ *Investigation of Pennsylvania's Retail Electricity Market: End State of Default Service*, Docket No. 1-2011-2237952, Final Order entered February 15, 2013 ("*End State Order*").

⁸ RESA St. No. 1 at 12.

longer be the default service provider, the Settlement includes a mechanism whereby prior to the last Residential default service procurement solicitation in 2016, Duquesne will petition the Commission to amend the DSP VII program to (1) terminate the Residential customer default service offering and (2) provide an end date for the Company's fixed-price contracts at the earlier of (a) May 31, 2017 or (b) such earlier date as the Commission may determine for the end of Duquesne's role as a default service provider to Residential Customers.⁹ RESA supports the exit of the EDC from the default service function, and these provisions allow for a filing in the event it occurs.

C. Standard Offer Program ("SOP")

The Settlement obligates Duquesne to continue its customer referral program, the Standard Offer Program or SOP. Under the SOP, Duquesne advises customers about their ability to choose an EGS, as well as the specific retail offers available. The goal of the SOP is to facilitate a customer's selection of one of these offers.

RESA continues to support the SOP, and new enhancements to provide comprehensive customer education and customer referral programs, which will help to facilitate mass market competition in the Duquesne service area. Marketing is one of the most expensive components of a mass market customer acquisition campaign. The SOP allows new mass market EGSs to leverage the existing communication channels that Duquesne Light has with its customers in order to inform customers about their offers and provide a convenient method of selecting an offer. The efficiency of this channel decreases marketing and customer acquisition costs for EGSs, translating into more competitive offers and customer savings.

⁹ Settlement at ¶ 1.

The Settlement provides specific changes to the SOP script used by Duquesne to inform customers about EGS offerings.¹⁰ In addition, interested stakeholders will conduct a collaborative to explore a series of other changes to the SOP.¹¹ Specifically, the collaborative will consider: (1) disclosures regarding PTC rate volatility relative to the SOP rate; (2) improvements to SOP enrollment processes, including the use of a third party to conduct enrollments; and (3) certain aspects of SOP cost recovery. RESA witness Hudson made comparable recommendations in his direct testimony.¹² Therefore, RESA supports the above provisions, as well as the stipulation in the Settlement that Duquesne will continue its current SOP, including the current \$10.28 Customer Acquisition Fee, pending any such approved changes to the program.

D. Time of Use (“TOU”) Program

The Settlement approves Duquesne’s TOU Program for the first year of DSP VII for Residential (non-Customer Assistance Program (“CAP”)), Small C&I, and Medium C&I customers with interval meters, provided that such customers have the necessary data collection and communications systems in place and tested.¹³ Pending determination of CAP customer portability, CAP customers will not be eligible to participate in the TOU Program for the first year of DSP VII.¹⁴

Additionally, under the Settlement, Duquesne will conduct a collaborative to develop a TOU Program and cost recovery mechanism for the second year of DSP VII.¹⁵ The collaborative, commencing in June of 2015, will explore ways to maximize EGS

¹⁰ *Id.* at ¶ 4.

¹¹ *Id.* at ¶ 5-8.

¹² RESA St. 1 at 5.

¹³ Settlement at ¶ 9.

¹⁴ *Id.* at ¶ 9.

¹⁵ *Id.* at ¶ 10.

TOU offerings and integration of the TOU Program with CAP.¹⁶ After the collaborative, the Company will file a TOU Program proposal with the Commission by September 30, 2015, allowing for resolution of any outstanding issues so that the TOU Program may commence June 1, 2016.

RESA supports the proposed TOU Program and collaborative, and intends to actively participate in the collaborative process to ensure EGSs are able to maximize customers' TOU options. RESA notes that Duquesne is progressing with smart meter deployment for its mass market customers, and the collaborative will discuss the implications of smart meters on TOU Program options.

E. Supply Master Agreement ("SMA") Revisions

The Settlement adopts the Company's proposed SMA, to include certain amended language addressing termination payments and default service supplier security posting requirements.¹⁷ RESA did not take a position on these SMA-related issues in this proceeding but supports the Settlement's treatment of these issue. The provisions in the Settlement relating to the SMA are generally consistent with the manner in which other EDCs in Pennsylvania treat similar issues.

III. Conclusion

Like any settlement, the Settlement is not a perfect disposition of this proceeding for RESA and, in all likelihood, for other settling parties. In RESA's view, the Settlement leaves intact a Residential default service procurement structure that results in default service prices that do not sufficiently reflect the underlying wholesale market. That said, the Settlement puts in place an unbundling mechanism, along with

¹⁶ *Id.* at ¶ 10.

¹⁷ *Id.* at ¶ 11.

collaboratives through which the parties can hopefully reach consensus on certain market enhancement programs such as the TOU and SOP programs, which should improve the state of competition for customers. Given the inclusion of these important market enhancement provisions, RESA supports the Settlement as a balanced resolution of the numerous issues in this proceeding, and RESA requests that the Commission approve the Settlement.

Respectfully submitted,

RETAIL ENERGY SUPPLY ASSOCIATION

By Counsel



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