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File #: 164590

September 29, 2016

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, 2017 Through May 31, 2021
Docket No. P-2016-2543140

Dear Secretary Chiavetta:

Enclosed please find Duquesne Light Company's Statement in Support of the Joint Petition for Approval of Non-Unanimous Settlement in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Anthony D. Kanagy

ADK/skr
Enclosures

cc: Certificate of Service
Honorable Conrad A. Johnson

CERTIFICATE OF SERVICE

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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Date: September 29, 2016

Anthony D. Kanagy

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Duquesne Light Company	:	
for Approval of a Default Service Plan	:	Docket No. P-2016-2543140
for the Period June 1, 2017 to May 31, 2021	:	

DUQUESNE LIGHT COMPANY
STATEMENT IN SUPPORT OF
JOINT PETITION FOR APPROVAL OF NON-UNANIMOUS SETTLEMENT

TO ADMINISTRATIVE LAW JUDGE CONRAD A. JOHNSON:

I. INTRODUCTION

Duquesne Light Company ("Duquesne Light" or the "Company") hereby submits this Statement in Support of the Joint Petition for Approval of Non-Unanimous Settlement ("Settlement") entered into by the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), the Coalition for Affordable Utility Service and Energy Efficiency in Pennsylvania ("CAUSE-PA"), the Retail Energy Supply Association ("RESA"), Exelon Generation Company, LLC ("ExGen") and Duquesne Light (collectively the "Joint Petitioners"). The Settlement resolved all issues among the Joint Petitioners.

Other parties in the proceeding, including the Bureau of Investigation & Enforcement ("I&E") of the Pennsylvania Public Utility Commission ("Commission") and NextEra Energy Power Marketing, LLC ("NextEra") have indicated that they do not oppose the Settlement. Noble Americas Energy Solutions, LLC ("Noble") has indicated that it opposes Paragraph 22 of the Settlement which eliminates the uncollectible accounts expense component of the Purchase of Receivables ("POR") discount for electric generation suppliers ("EGSs") and allows the

Company to recover these costs in its Rider No. 1 Retail Market Enhancement Surcharge ("RMES") until its next base rate proceeding.

The Settlement reflects a carefully balanced compromise of the varied interests of the Joint Petitioners. For the reasons explained herein, the Settlement is just and reasonable, supported by substantial evidence and should be approved without modification.

II. LEGAL STANDARDS FOR APPROVING A NON-UNANIMOUS SETTLEMENT

The Commission's standards for reviewing a non-unanimous settlement are the same as those for deciding a fully contested case. *Joint Application of Equitable Resources, Inc., and the Peoples Natural Gas Company, d/b/a Dominion Peoples*, 2007 Pa. PUC LEXIS 32, *12, citing *Pa. PUC v. PECO Energy Company*, Docket Nos. R-00973953 and P-00971265, 1997 Pa. PUC LEXIS 51, *17-*18 (Order entered December 23, 1997). Accordingly, substantial evidence consistent with statutory requirements must support the proposed settlement. *Id.* citing *Popowsky v. Pa. PUC*, 805 A.2d 637 (Pa. Cmwlth. 2002); *ARIPPA v. Pa. PUC*, 792 A.2d 636 (Pa. Cmwlth. 2002); *Joint Application of West Penn Power Company*, 2011 Pa. PUC LEXIS 775, *59. When reviewing the Commission's legal interpretations in support of a non-unanimous settlement, the Commonwealth Court will apply the same scope of review as if the Commission had issued an adjudication, i.e. the agency will be given deference. *ARIPPA v. PUC*, 792 A.2d 636, 660, 2002 Pa. Commw. LEXIS 87, *58 (Pa. Commw. Ct. 2002).

As explained herein, there is substantial evidence supporting the reasonableness of all of the Settlement provisions. The Settlement should be approved without modification.

III. SETTLEMENT TERMS

A. PROCUREMENT ISSUES

1. SUMMARY OF DUQUESNE LIGHT'S DEFAULT SERVICE PROCUREMENT PLAN

Duquesne Light filed its default service plan ("DSP VIII") on May 2, 2016. Duquesne Light has implemented seven successful default service programs helping to create one of the most competitive shopping environments in the Commonwealth, while providing default service rates and terms that meet the requirements of Chapter 28 of the Public Utility Code. The DSP VIII Plan includes a carefully tailored portfolio of products to meet the default supply requirements of the Company's major customer groups which are: (1) Residential and Lighting ("Residential") default service customers, (2) Small Commercial and Industrial ("Small C&I") default service customers with monthly metered demands less than 25 kW, (3) Medium Commercial and Industrial ("Medium C&I") default service customers with monthly metered demands equal to or greater than 25 kW and less than 300 kW, and (4) Large Commercial and Industrial ("Large C&I") default service customers with monthly metered demands equal to or greater than 300 kW. Duquesne Light proposed to procure supplies for Residential and Small C&I customers through the combination of twelve (12) and twenty-four (24) month fixed price, full requirements, laddered contracts. Duquesne Light proposed to continue to supply Medium C&I default service customers through fixed-price full requirements contracts with three month terms. Duquesne Light proposed to continue to procure supplies for Large C&I default service customers through the day-ahead PJM energy market prices. However, the Company proposed several changes to Large C&I default service for Hourly Price Service ("HPS") customers. Duquesne Light proposed to simplify the structure and administration for HPS customers, to

conduct a Request for Proposal ("RFP") to supply HPS customers, and to decrease the threshold for HPS from ≥ 300 kW to ≥ 200 kW beginning on June 1, 2019.

The Company's DSP VIII Plan relies on competitive procurements of electric supply, tailored to meet the individual characteristics of each customer class while ensuring appropriate consumer protections.

2. RESIDENTIAL AND SMALL C&I PROCUREMENT ISSUES

Duquesne Light currently acquires default supplies for Residential and Small C&I customers through laddered one-year, fixed-price full requirements contracts. (Duquesne Light Exh. No. 1, pp. 3-4.) A full requirements contract requires a wholesale supplier to provide energy, capacity, ancillary services, and any other products or services necessary to serve a specified percentage of default service load 24 hours per day for the term of the contract. In the DSP VIII Plan, the Company proposed to transition to a product mix of 50% laddered one-year full-requirements supply contracts and 50% laddered two-year full-requirements contracts. (Duquesne Light St. No. 2, p. 7.) The mix of one-year and two-year supply contracts with overlapping delivery periods will provide Residential and Small C&I customers with greater rate stability than one-year contracts. The revised mix of contract terms will reduce the likelihood of significant default supply rate changes due to adverse market conditions or circumstances. (Duquesne Light St. No. 2, p. 8.) One of the key objectives of Act 129 of 2008 is to take into account the benefits of price stability over time. See 66 Pa. C.S. § 2806.1 Historical and Statutory Notes.

Both the OCA and the OSBA supported Duquesne Light's proposed procurement plan for Residential and Small C&I customers. In Direct testimony, the OCA's witness, Dr. Estomin, stated as follows:

> The movement to a mix of 24-month and 12-month full requirements contracts ("FRCs") rather than exclusive reliance on 12-month FRCs goes a long way to satisfying my concerns regarding potential residential Default Service rate variability under a plan based on a complete reliance on 12-month FRCs.

(OCA St. No. 1, p. 4.)

Likewise, the OSBA also supported the Company's proposed procurement plan for Small C&I customers. In Rebuttal Testimony, the OSBA's witness, Mr. Kalcic, stated that:

> The OSBA welcomes the Company's greater emphasis on price stability and supports the Company's proposed Small C&I procurement plan.

(OSBA St. No. 1-R, p. 6.)

RESA was the only party in this proceeding that opposed the Company's proposed Residential and Small C&I procurement plan. (RESA St. No. 1, p. 20.) RESA argued that the Company should not add two-year supply contracts into the Residential and Small C&I supply portfolio. In its Rebuttal Testimony, the Company refuted all of RESA's arguments.

To support its position, RESA argued that default service rates under the DSP VII plan have been relatively stable. (RESA St. No. 1, p. 20.) The Company's witness, Mr. Fisher, explained that RESA's observations of historical rate changes did not resolve concerns about future rate instability. Mr. Fisher noted that RESA only relied on a few recent rate changes to support its position, and that even the rate changes relied on by RESA were up to 13.6%. (Duquesne Light St. No. 3-R, p. 5.) Mr. Fisher also performed a statistical study of 10,000 different market scenarios and found that there was a noticeably lower likelihood of higher rate increases under Duquesne Light's DSP VIII portfolio than under RESA's proposal to continue with only one year contracts. (Duquesne Light St. No. 3-R, p. 8.) RESA presented no evidence in response to this study, and in fact, admitted that the inclusion of two-year contracts in the supply portfolio would enhance rate stability. (RESA St. No. 1-S, pp. 18-19.) As further

explained by Mr. Fisher, rate stability is increased because 50% of the default supply is replaced every six months under the current default service plan and 37.5% of the default supply will be replaced every six months under the proposed procurement plan. (Duquesne Light St. No. 3-R, p. 15.)

RESA also argued that there are no changes in circumstances to justify adding two-year contracts to the Residential and Small C&I supply portfolios. (RESA St. No. 1, p. 21.) Again, Duquesne Light clearly refuted this argument in the Company's rebuttal testimony. Mr. Fisher explained that the Polar Vortex happened after Duquesne Light filed its DSP VII Petition. (Duquesne Light St. No. 3-R, p. 11.) As a result of the Polar Vortex, where shopping customers experienced significant rate volatility, many shopping customers returned to default service. Moreover, Mr. Fisher noted as follows:

> Furthermore, since the time that Duquesne Light filed its DSP VII Petition, two other major Pennsylvania EDCs, PECO and FirstEnergy, have found continued success with their practice of relying on two-year products to supply default service to small customers. This additional two years of experience in Pennsylvania with two-year products at other EDCs in Pennsylvania provides further assurance that including two-year products in a small customer supply portfolio also would be a reasonable approach for Duquesne Light.

(Duquesne Light St. No. 3-R, p. 12.)

RESA also argued that Duquesne Light is taking a step backwards with respect to market responsiveness by adding two-year contracts in the supply portfolio. (RESA St. No. 1, p. 21.) Mr. Fisher explained that adding two-year contracts is not a step backward but a step forward in offering greater rate stability. (Duquesne Light St. No. 3-R, p. 14.) Mr. Fisher also explained that there is no convincing evidence to support the argument that maintaining one-year contracts will better support the competitive market. To the contrary, more stable rates could enhance the competitive market. Mr. Fisher explained as follows:

> In fact, Duquesne Light's proposed supply product portfolio will facilitate retail competition by providing a more predictable default service rate, making it easier for EGSs to market savings off of the default service rate and for customers to compare EGS offers with default service rates to more confidently make retail supply decisions. According to Mr. White, "many EGS products are fixed rate or flat billed products" and it would be risky for EGSs to offer guaranteed savings below a PTC that can change twice per year. By making the PTC more stable, a customer who enrolls with an EGS for savings at the time of an EGS offer will have greater assurances of receiving savings over the entire fixed rate period. For example, with more stable default service supply rates, customers that participate in Duquesne Light's Standard Offer Program will have greater assurances than they do today of receiving the 7% savings offered by EGSs over the entire 12-month fixed-price period.

(Duquesne Light St. No. 3-R, pp. 15-16.)

The Commission has approved the use of two-year supply contracts in Residential and Small C&I default supply portfolios by other electric distribution companies ("EDCs") in Pennsylvania, including PECO Energy Company ("PECO") and the FirstEnergy EDCs. (Duquesne Light St. No. 3, pp. 25-26.) Moreover, it was undisputed that the addition of two-year contracts will enhance rate stability for customers, which is a goal of Act 129. 66 Pa. C.S. § 2806.1, Historical and Statutory Notes.

The Settlement adopts the Company's proposed procurement plans for Residential and Small C&I customers. (Settlement ¶ 15.) This Settlement provision is not contested by any party. Duquesne Light believes that its procurement plan for Residential and Small C&I customers is in the public interest because it will provide additional rate stability for these customers. The Settlement provision adopting the Company's Residential and Small C&I procurement plans should be approved.

3. RECONCILIATION ISSUES

In this proceeding, the Company proposed to continue its current reconciliation process for Residential over/under collections whereby refund or recovery of over or under collections of costs occurring over a six-month period would be collected over the next six-month period. (Duquesne Light St. No. 4, pp. 23-24.) The OCA requested that over or under collections be refunded or recovered over a twelve-month period. (OCA St. No. 1, p. 11.)

In Rebuttal, the Company explained that it was unnecessary to change its existing reconciliation methodology. The Company explained that there was not a significant chance of experiencing significant over or under collections because the Company acquires default supplies through fixed price full-requirements contracts that require suppliers to meet customer demands at the fixed price. (Duquesne Light St. No. 4-R, p. 3.)

The Settlement adopts the Company's reconciliation proposal. (Settlement ¶ 16.) The Company believes that this is reasonable for the reasons explained above. This Settlement provision is not opposed by any party.

4. MEDIUM C&I PROCUREMENT PLAN ISSUES

Duquesne Light currently classifies Medium C&I customers as customers with monthly metered demands equal to or greater than 25 kW and less than 300 kW. Duquesne Light provides default supplies to these customers by obtaining three-month, non-laddered, full requirements contracts from third-party suppliers through a competitive procurement process. No party in this proceeding challenged the Company's proposal to acquire default supplies for customers that continue to remain in the Medium C&I procurement group through three-month full-requirements contracts.

In the DSP VIII Plan, Duquesne Light proposed to reduce the upper end of the kW threshold for Medium C&I customers from less than 300 kW to less than 200 kW beginning on

June 1, 2019. (Duquesne Light Exh. No. 1, p. 10.) This would require all customers at 200 kW and above to take HPS service. Duquesne Light proposed to reduce the HPS threshold to 200 kW effective June 1, 2019 to ensure that all necessary customers have smart meters and that the changes proposed in this proceeding to obtain HPS from a competitive supplier are successful. (Duquesne Light St. No. 2-R, p. 11.)

In testimony, RESA argued that Duquesne Light should lower the HPS threshold between the Medium C&I and Large C&I procurement classes from 300 kW to 200 kW on June 1, 2018 and further lower the HPS threshold to 100 kW on June 1, 2019. (RESA St. No. 1, pp. 22-23.) In support of its position, RESA argued that many of the customers over 100 kW are shopping and that they are sophisticated enough to take HPS service. (RESA St. No. 1, p. 23.) RESA also stated that the Commission expressed its support in the *End State Order*[1] that HPS service be offered to customers over 100 kW who have interval meters. (RESA St. No. 1-S, p. 27.)

The Company opposed RESA's proposal to accelerate the reduction of the HPS threshold to 200 kW on June 1, 2018 and to further reduce the HPS threshold to 100 kW on June 1, 2019. As explained by the Company's witness, Mr. Peoples, not all C&I customers with peak demands greater than or equal to 200 kW will have the smart meters and the necessary communication equipment in place to receive HPS by June 1, 2018. Therefore, RESA's proposal to accelerate lowering the HPS threshold to 200 kW on June 1, 2018 as opposed to June 1, 2019 was not feasible. (Duquesne Light St. No. 2-R, p. 11.)

In addition, Duquesne Light proposed to lower the HPS threshold to 200 kW effective June 1, 2019 so that it could evaluate the potential impacts of its new HPS competitive supply

[1] *Investigation of Pennsylvania's Retail Electricity Market: End State of Default Service*, Docket No. I-2011-2237952, Order entered February 15, 2013.

procurement approach on existing HPS customers before expanding the HPS customer class. (Duquesne Light St. No. 2-R, p. 11.) Mr. Peoples explained as follows:

> Duquesne Light seeks to better understand how the changes in the HPS supply approach will affect the overall level of administrative costs of the HPS program, taking into account (a) the changes in Duquesne Light's administrative costs (e.g., the additional costs associated with administering solicitations and the cost savings associated with the simpler proposed supply approach), and (b) the administrative costs of third-party suppliers based on the results of future solicitations. At this time, it is unclear what the overall cost implications will be for HPS customers and the degree to which third-party suppliers will be interested in this type of solicitation given the high level of switching that has already occurred among Large C&I customers in Duquesne Light's service area. By scheduling the earliest date for lowering the threshold to 200 kW to be June 1, 2019 as Duquesne Light has proposed, Duquesne Light and the Commission will be able to evaluate the performance of the new HPS supply approach over approximately two years, June 2017 – May 2019, before expanding this approach to a larger pool of customers. This will better ensure that the new approach is consistently successful before exposing it to more customers. Under Mr. White's proposal, the Company would not even have one full year to evaluate the impacts because it would be required to begin to implement and bid out the HPS service before June 1, 2018.

(Duquesne Light St. No. 2-R, pp. 11-12.)

Another reason June 1, 2019 is the appropriate timeframe to lower the HPS threshold to 200 kW is to ensure affected customers receive sufficient notice and have ample time to consider their supply options. (Duquesne Light St. No. 2-R, p. 12.)

Further, having a two-year lead time from the start of DSP VIII until the threshold is lowered to 200 kW will allow sufficient time to conduct coordination efforts with both customers and EGSs, to address issues such as rate changes, billing modifications, meter requirements and communications. (Duquesne Light St. No. 2-R, p. 12.)

The Company also opposed RESA's proposal to further lower the HPS threshold to 100 kW. RESA argued that 78% of customers between 100 kW and 200 kW are shopping. RESA

concluded that this shopping percentage indicates that these customers are sophisticated enough to shop, and therefore, should have volatile, hourly priced service. (RESA St. No. 1, p. 23.) Duquesne Light disagreed with RESA's analysis. First, the fact that 78% of these customers are shopping does not mean that the remaining customers that are on default service want HPS service or are sophisticated enough to take HPS service. In addition, as explained by Mr. Peoples, the level of switching for these customers has remained constant over the past two years, despite the fact that the default service products have gone from six month contracts to three month contracts. (Duquesne Light St. No. 2-R, pp. 13-14.) This raises further questions regarding whether moving to even shorter term pricing will encourage greater shopping. In addition, it is very important to balance default service rate stability with encouraging shopping. It is likely that certain customers between 100 kW and 200 kW may want to remain on default service with more stable rates and may not want to shop. Maintaining three month supply contracts for these customers gives them the option to stay on default service, or even come back to default service for a short period of time, without being exposed to hourly supply prices that can be extremely variable.

There are metering and administrative problems with RESA's proposal to move to a 100 kW threshold as well. Duquesne Light's witness Mr. Peoples explained as follows:

> For example, Duquesne Light is still in the process of installing smart meters, and not all C&I customers with peak demands ≥ 100 kW will have the meters and the necessary communications equipment in place necessary to offer HPS by June 1, 2019. In addition, a threshold reduction from 200 kW to 100 kW would nearly triple the amount of customers eligible for HPS because an additional 1,688 Medium C&I customers would become eligible for this service. This would create significant burdens regarding coordination efforts, especially those pertaining to customer communications, rate changes, meter requirements, and billing modifications.

(Duquesne Light St. No. 2-R, p. 14.)

In addition, RESA's proposal to lower the HPS threshold to 100 kW would significantly reduce the size of the Medium C&I class load. The remaining load in the class may not be sufficient to obtain competitive bids to serve only the customers between 25 kW and 100 kW. As explained by Mr. Peoples:

> Duquesne Light voiced this concern in the DSP VII proceeding, leading up to the Commission's decision in that proceeding to reject RESA's similar recommendation to lower the threshold for HPS to 100 kW.[2] In the instant proceeding, Duquesne Light's concern is even greater than it was in the DSP VII proceeding, given the fact that three-month delivery periods now have been established for the Medium C&I default service products. Solicitations for FPFR products with very short-term delivery periods (e.g., three months) can be procured at competitive prices if there is a sufficient volume of product being solicited, but if the volume that is being solicited and that could be awarded to any given supplier is reduced by lowering the Medium C&I threshold, then there is an increased risk that potential suppliers will not dedicate the resources to participate in the solicitations and bid on the Medium C&I supply products to a sufficient degree. Furthermore, with the three-month delivery periods of the Medium C&I supply products, two of Duquesne Light's four default service supply solicitations per year are held only for Medium C&I default service supply. Consequently, for those solicitations, there is no other supply being solicited that may attract potential bidders to the solicitation, and this may further increase the risk of inadequate bidder participation if the size of the Medium C&I class were to be reduced as Mr. White recommends. Duquesne Light opposes lowering the Medium C&I threshold to 100 kW at this time, in part due to the increased risk of not obtaining competitive bids for the supply to the remaining (25 kW to 100 kW) Medium C&I customers.

(Duquesne Light St. No. 2-R, p. 15.)

As further explained by Mr. Peoples, if RESA's proposal to lower the Medium C&I threshold to 100 kW is adopted, all remaining customers between 25 kW to 100 kW would need to be moved to the Small C&I class to ensure competitive default supply bids for these

[2] *See Petition of Duquesne Light Company for Approval of a Default Service Program for the Period from June 1, 2015 through May 31, 2017*, Docket No. P-2014-2418242 (Order entered January 15, 2015), pp. 26-38.

customers. (Duquesne Light St. No. 2-R, pp. 15-16.) This would require C&I customers between 25 kW and 100 kW to move from 3 month default supply contracts to longer term contracts to ensure continued rate stability for the Small C&I customers under 25 kW.

The Settlement adopts the Company's Medium C&I procurement plan, including the proposal to reduce the HPS threshold to 200 kW as of June 1, 2019. (Settlement ¶ 17.) No party opposes this Settlement provision. Duquesne Light believes that this Settlement provision is reasonable and in the public interest for the reasons explained above.

5. LARGE C&I PROCUREMENT PLAN ISSUES

Duquesne Light's witness, Mr. Peoples, explains Duquesne Light's current approach for providing HPS service to Large C&I customers. Mr. Peoples describes this process as follows:

> Under the Company's current HPS supply approach, the Company is required to provide an hourly load forecast for each and every HPS customer by 8:00 am each business day. Each HPS customer then has the option to modify that schedule each day prior to 10:00 am. Energy in a day-ahead schedule, subject to modification by each customer, is purchased in the day-ahead energy market with differences between the scheduled load and actual customer consumption settled in the real-time market. These purchases in the day-ahead and/or real-time energy markets are tracked and reconciled on a customer-by-customer basis.

(Duquesne Light St. No. 2-R, p. 6.)

Mr. Peoples also explained that the Company currently provides HPS default service to approximately 90 customers. When the HPS threshold is lowered to 200 kW, the number of HPS customers is projected to increase by 108, to 198, based upon current shopping levels. (Duquesne Light St. No. 2-R, p. 6.) The reconciliation process for HPS customers is manually intensive and administratively complex. The Company's administrative burden would substantially increase when the HPS threshold is lowered to 200 kW if the Company were required to maintain the same procurement approach. (Duquesne Light St. No. 2-R, p. 6.)

In order to simplify its administrative burden and to allow HPS customers to receive all service at the day-ahead price, Duquesne Light proposed to modify its Large C&I procurement process. Duquesne Light proposes to conduct a competitive solicitation for wholesale suppliers to provide HPS service to Large C&I customers at day-ahead hourly energy prices. (Duquesne Light St. No. 2, pp. 14-15.) Providing all HPS service at the day-ahead price will reduce uncertainty for customers concerning what prices they will be charged for supply because they will know the prices to be charged one day in advance of using electricity. The Company's HPS proposal will also significantly reduce the Company's administrative burden. Mr. Peoples explained as follows:

> Adopting Duquesne Light's proposed approach will (a) eliminate the need to submit day-ahead hourly load forecasts for each HPS customer, (b) eliminate the need to be prepared to receive modifications to those day-ahead hourly load forecasts from each HPS customer, (c) eliminate the need to reconcile the difference between the day-ahead hourly load forecast and actual hourly customer usage at real-time prices for each HPS customer, and (d) eliminate the need to bill those reconciled amounts to each HPS customer.

(Duquesne Light St. No. 2-R, p. 7.)

RESA argued that Large C&I customers should be required to take HPS service at real-time prices. (RESA St. No. 1-S, p. 29.) Under day-ahead pricing, HPS customers know the price of supply for each hour a day in advance of when they use the power. Under real-time pricing customers do not know the price for each hour until the hour occurs. Day-ahead pricing allows HPS customers more time to plan their operations to avoid high prices or take advantage of low prices. As explained by Mr. Peoples:

> [RESA's] approach would not provide customers with important customer benefits of day-ahead pricing in the context of HPS. For example, real-time prices are not known until the actual hour in which usage occurs. Consequently, unlike a rate structure based on day-ahead prices, a rate structure based on real-time prices

> would not provide any advanced notice to the customer of the energy price to be charged despite Mr. White's claims to the contrary. The advanced notice provided under a rate structure based on day-ahead prices translates into greater opportunities for customers to plan and manage their electricity usage and supply costs.

(Duquesne Light St. No. 2-R, p. 9.)

RESA's proposal would have denied HPS customers this opportunity. Mr. Peoples explained that Large C&I customers represented by Duquesne Industrial Intervenors in the DSP IV proceeding requested day-ahead as opposed to real-time HPS. (Duquesne Light St. No. 2-R, p. 10.)

The Settlement adopts Duquesne Light's Large C&I procurement plan as filed. (Settlement ¶ 18.) No party opposes this Settlement provision. The Company's Large C&I procurement plan is in the public interest and should be approved because it gives Large C&I customers the benefits of the day-ahead market and reduces Duquesne Light's administrative burdens.

6. DESCENDING CLOCK AUCTION

On July 7, 2016, the Company filed the Supplemental Direct Testimony of Mr. Peoples, Duquesne Light Statement Number 2A, wherein the Company proposed to use a descending clock auction to procure default supplies for customers. This is a change from the Company's current RFP process. In its Direct Testimony, the OCA stated that the Company proposed to use an RFP process for supply procurements. (OCA St. No. 1, p. 5.)

Mr. Peoples explained the benefits of using a descending clock auction as follows:

> The Company believes that the descending-price clock auction procurement process will encourage suppliers to bid prices that reflect their lowest price costs, due to the transparency that occurs during the auction process. With the simultaneous bidding on products that are related in value, bidders are able to switch their bid quantities across products and procurement classes and bid

> simultaneously on substitutable and/or complementary products in response to changes in pricing. Providing information to bidders who face uncertainty helps them bid more confidently, and using an open auction format is designed to promote the selection of the most efficient provider. Conversely, a sealed-bid RFP process doesn't ensure supply is procured at the lowest cost from a supplier, since the offers are submitted with some guess work that occurs by wholesale suppliers on other RFP bids.

(Duquesne Light St. No. 2-R, pp. 16-17.)

The Company also explained that other EDCs in Pennsylvania use a descending clock auction to procure default supplies for customers. (Duquesne Light St. No. 2-R, pp. 16-17.)

The Settlement adopts the Company's proposal to use a descending clock auction for competitive supply procurements. (Settlement ¶ 19.) No party opposes this Settlement provision. Duquesne Light believes that the Settlement provision is in the public interest for the reasons explained above.

B. UNBUNDLING

1. TIMING OF UNBUNDLING

In the DSP VII proceeding, Duquesne Light agreed to the following settlement provision regarding unbundling with the parties:

> 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 propose 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. Duquesne Light will simultaneously propose a mechanism for recovery of such costs from default service customers. All parties reserve the right to comment on and oppose such proposal.

Petition of Duquesne Light Company for Approval of a Default Service Program for the Period from June 1, 2015 through May 31, 2017, Docket No. P-2014-2418242, Order entered January 15, 2015, p. 10.

This Settlement provision required Duquesne Light to make a proposal regarding unbundling in this proceeding. It did not require Duquesne Light to unbundle costs effective June 1, 2017. The Company proposed to defer unbundling until the Company's next base distribution rate case or June 1, 2020, whichever is earlier. (Duquesne Light St. No. 4, p. 5.)

The OCA, who was a party in the DSP VII proceeding, agreed that the DSP VII settlement did not require unbundling to become effective June 1, 2017. The OCA's witness, Dr. Estomin, stated as follows:

> The settlement provision calls for the development of a proposal for the unbundling of Default Service costs from base distribution rates. The settlement provision does not specify the time of implementation of the new rates and implementation of new rates following the conclusion of the next general distribution rate case is not an unreasonable proposal.

(OCA St. No. 1-R, p. 3.)

Duquesne Light's position in this proceeding was that it would be better to unbundle costs in a base rate proceeding than outside of a base rate proceeding. All costs and revenues are subject to review in a base rate proceeding. Unbundling costs in a base rate proceeding ensures that there is no under-recovery of previously approved costs in base rates and allows more accurate allocation of costs, not only between default service and shopping customers but also between customer classes. (Duquesne Light St. No. 4-R, pp. 5-6.)

In its testimony, RESA argued that Duquesne Light should unbundle costs effective June 1, 2017. (RESA St. No. 1, p. 7.) RESA argued that this was required by the DSP VII settlement and would promote the competitive market.

The Settlement adopts RESA's proposal with respect to the timing of unbundling. (Settlement ¶ 20.) Under the Settlement, Duquesne Light will unbundle the costs set forth in Exhibit DBO-3-R effective June 1, 2017. Duquesne Light was willing to agree to this provision

as a compromise to achieve the Settlement with the Joint Petitioners. No party opposes this Settlement provision.

2. TYPES OF COSTS AND LEVEL OF COSTS TO BE UNBUNDLED

i. Summary of Duquesne Light's Unbundling Proposal.

In testimony, Duquesne Light explained its unbundling proposal. The Company explained that RFP process and evaluation costs, Time-of-Use ("TOU") costs and Large C&I administrative costs were already unbundled from distribution rates. (Duquesne Light Exh. No. DBO-3.) The Company further explained that it was proposing to unbundle: (1) filing preparation and approval process costs for default service proceedings, including costs for consulting services and outside counsel to help prepare filings and obtain approval of filings, and (2) working capital costs for default service supply, which are the costs for the lag in time between when Duquesne Light pays its default service supply expenses and when it recovers its revenues. In Rebuttal Testimony, Mr. Ogden provided an updated Exhibit showing total proposed unbundled costs, including costs that have already been unbundled of approximately $2.1 million per year. (Duquesne Light Exh. No. DBO-3R.)

ii. Summary of RESA's Unbundling Proposal.

In its testimony, RESA argued that the Company has understated the level of costs that should be unbundled from distribution rates. RESA generally argued that call center, information technology ("IT") costs, overhead, uncollectible expense and various other costs should be unbundled from distribution rates. (RESA St. No. 1, p. 9.) RESA then reviewed certain cost categories from Duquesne Light's FERC Form 1, including Customer Accounts Expense, Customer Service and Informational Expense and Administrative and General Expense. RESA summed these cost categories to reach a total of approximately $80 million, applied an allocation factor of 40.12% which is based upon the percentage of default service

customers compared to the total number of distribution customers plus default service customers, and argued that Duquesne Light should unbundle approximately $32 million in additional costs from base rates, for a total of approximately $34 million. (RESA St. No. 1, p. 16.)

iii. RESA Proposed to Unbundle Costs That Are Not Related to Default Service.

RESA's unbundling proposal grossly exaggerated the level of costs that should be unbundled. Many of the costs that RESA alleged should be unbundled are not even in distribution rates. Duquesne Light provided a detailed Exhibit breaking down the different costs that RESA proposes to unbundle in Exhibit DBO-1R. Approximately $41 million of RESA's $80 million total comes from FERC Account 908. As explained by Mr. Odgen, the $41 million referenced by RESA is not included in base rates but is collected through four separate riders: (1) Rider No. 3 – the Retail Market Enhancement Surcharge ("RMES"), (2) Rider No. 5 – the Universal Service Charge ("USC"), (3) Rider No. 15A – the Phase III Energy Efficiency and Conservation Surcharge ("Phase III EE&C Surcharge"), and (4) Rider No. 20 – the Smart Meter Charge ("SMC"). (Duquesne Light Exh. No. DBO-1R, p. 2.)

The RMES recovers the Company's costs to enhance the competitive market in Pennsylvania. Rider No. 5 – the USC recovers the Company's costs to provide low-income services to customers. Rider No. 15-A – the Phase III EE&C Surcharge recovers the Company's costs to implement its Phase III energy efficiency plan. Rider No. 20 – the SMC recovers the Company's smart meter costs. The costs recovered in these Riders are not in base rates, are not related to default service and clearly should be recovered from all customers. RESA's argument to include a portion of these costs in default service rates has no merit.

iv. Uncollectible Accounts Expense Should Not Be Unbundled.

Duquesne Light also notes that approximately $13 million of RESA's $80 million total is for uncollectible accounts expense. (Duquesne Light St. No. 4-R, p. 9.) Mr. Ogden noted that the Company does not even have $13 million in base rates for uncollectible costs. Mr. Ogden explained as follows:

> Mr. White's proposal to use $13 million as the total amount of uncollectible costs in base rates is more than 49% higher than the Company's request for uncollectible cost recovery in its last distribution rate case. Moreover, as I stated earlier, the Company was not able to recover all of the costs that it requested in its last base rate proceeding in 2013, since it entered into a black-box settlement agreement at a significantly lower rate increase than originally proposed. If uncollectible costs are unbundled, which I disagree with for the reasons explained in Mr. Fisher's testimony, the amount that is used as the basis for unbundling should not exceed the amount that is in base rates. In addition, as explained below, I disagree with Mr. White's allocation methodology for determining the amount of uncollectible costs related to distribution service versus generation service.

(Duquesne Light St. No. 4-R, p. 10.)

Duquesne Light's witness, Mr. Fisher, also explained why uncollectible costs should not be unbundled. Mr. Fisher noted that Duquesne Light purchases the receivables for most EGSs under its POR program at a small discount. EGSs that participate in the POR program do not pay uncollectible expenses because Duquesne Light pays the EGS, even if the customer does not pay Duquesne Light. Duquesne Light bears the uncollectible risk for both shopping and non-shopping customers, so it is appropriate for Duquesne Light to recover uncollectible costs in base rates. In addition, EGSs can limit their credit risk by not serving customers with bad credit or requiring customer deposits and including cancellation protections in contracts. (Duquesne Light St. No. 3-R, pp. 25-26.)

v. The Remaining Costs Identified By RESA Have Already Been Unbundled or Are Unrelated To Default Service.

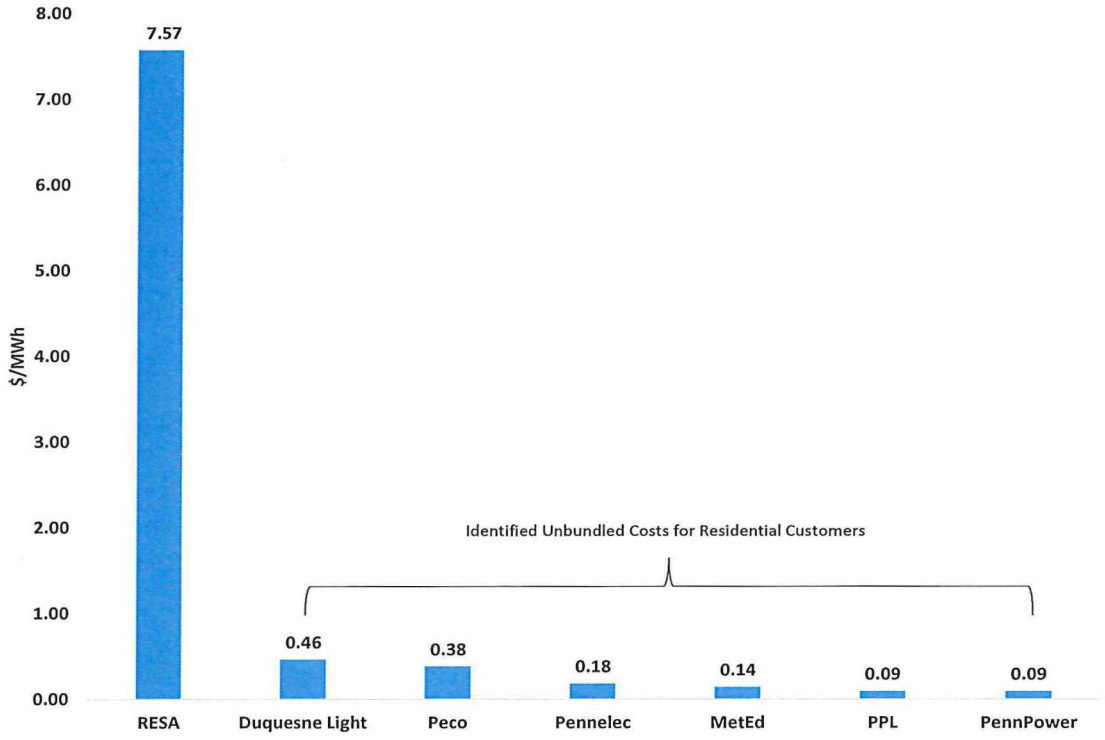
As explained by Mr. Ogden, approximately $1.6 million of RESA's $80 million unbundling base amount is for litigation expenses for Duquesne Light's rate cases and default service filings. (Duquesne Light Exh. No. DBO-1R.) Duquesne Light has already proposed to include the default service portion of this amount in its unbundling proposal. (See Duquesne Light Exh. No. 3-R, line 4.) RESA's proposal overstates the proper amount of default service litigation expenses that would be unbundled and would unbundle it twice – once in Duquesne Light's proposal and again in RESA's proposal.

RESA's remaining cost categories to be unbundled include customer care mailing, rent, utilities, operations, information technology and corporate communications costs. (Duquesne Light Exh. No. DBO-1R.) As explained by Mr. Ogden, none of these costs are related to default service. (Duquesne Light St. No. 4-R, p. 9.) In addition, it is unreasonable to unbundle billing, customer care, or IT costs from base rates because the Company must provide these functions for all customers, and in fact provides customer care services for EGSs, including bill ready billing, rate ready billing, off-cycle switching and other services. (Duquesne Light St. No. 4-R, p. 8.) For the reasons explained herein and in the Company's testimony, it is appropriate to recover these costs in base rates from all customers.

vi. RESA's Proposal Would Unbundle Significantly More Costs Than Other EDCs.

Duquesne Light provided additional evidence in this proceeding that RESA has grossly exaggerated the appropriate level of costs to be unbundled. Duquesne Light's witness, Mr. Fisher, compared the level of costs that Duquesne Light is proposing to unbundle with the costs that have been unbundled by other EDCs. Figure 8 from Mr. Fisher's Rebuttal Testimony shows as follows:

Figure 8 RESA's Proposed Level of Unbundled Costs Appears to Greatly Exceed the Identified Unbundled Costs at Other EDCs in Pennsylvania



Note: Uncollectible costs are not included in any of the figures above. These are addressed separately later in my testimony.

(Duquesne Light St. No. 3-R, p. 23.)

As is evident from the table above, under Duquesne Light's unbundling proposal, it would have the highest unbundled rate in the Commonwealth at $0.46 per MWh. The lowest rates for other EDCs are $0.09 per MWh. RESA's proposal, however, would unbundle $7.57 per MWh, which is approximately 84 times higher than the lowest unbundled rate and 16 times higher than Duquesne Light's proposal.

Further, the Company compared the types of costs that it proposed to unbundle with the costs that have been unbundled by other EDCs. The Company proposed to unbundle types of costs that are consistent with those unbundled by other EDCs. (See Duquesne Light Exh. NSF-2.)

vii. RESA's Unbundling Allocation Factor Was Overstated.

As explained above, RESA develops its unbundling proposal based upon costs taken from Duquesne Light's FERC Form 1 filing even though these costs should not be unbundled. RESA then proposed to allocate the costs from the FERC Form 1 Filing based upon the number of default service customers as compared to the total number of distribution customers plus default service customers (which is 40.12%). RESA's proposed allocation factor of 40.12% is overstated. Mr. Ogden explained that if an allocation methodology is to be used, it should be based upon load, not customers. Mr. Ogden explained as follows:

> Q. What allocation methodology does the Company propose?
>
> A. The Company identified total expenses it incurs, then, as explained in my testimony and in response to I&E I-1, identified those expenses that were default service related and non-default service related. We then defined those by customer class (Exhibit DBO-3R) through either direct assignment or an allocation based on default service MWh. The company considers a default service MWh allocation methodology to be more appropriate as opposed to Mr. White's proposed cost allocation methodology. Through June 2016, 67% of customers are on default service, which only represents about 30% of the control area load. DSS rates are converted to cents per kWh, to be applied to each kWh supplied to customers taking default service from the Company, so the Company recommends allocating unbundled costs based on the underlying default service percent of total load (i.e., on a MWh basis).

(Duquesne Light St. No. 4-R, p. 11.)

For the reasons explained by Mr. Ogden, RESA's allocation factor of 40.12% is overstated. The Company argued that if RESA's proposal to unbundle any costs based upon the FERC Form 1 filing were approved, which the Company disagreed with, the allocation factor should be 28.75%. (Duquesne Light St. No. 4-R, p. 11.)

The Settlement does not adopt RESA's proposal as to either the type and level of costs to be unbundled or RESA's allocation factor. As explained above, it is not reasonable to allocate any costs from the FERC Form 1 because they are either not in base rates, not related to default service or have already been unbundled or proposed to be unbundled.

viii. RESA's Reliance on The Commission's Policy Statement Was Not Supported By Evidence.

RESA's witness, Mr. White, relied heavily on the Commission's default service unbundling policy statement to support his unbundling proposal. (RESA St. No. 1, p. 4.) The first problem with Mr. White's argument was that he did not identify any specific cost that was listed in 52 Pa. Code § 69.1808, other than uncollectible expense,[3] that was a direct default service cost incurred by the Company. RESA's unbundling proposal was based upon reviewing general costs from the Company's FERC Form 1 account and making an allocation based upon number of default service customers as compared to the total number of distribution customers plus default service customers. As explained above, the costs identified by RESA were not default service costs, and many are not even in base rates. Therefore, the costs identified by RESA cannot be unbundled.

Second, 52 Pa. Code § 69.1808 is a policy statement and not a regulation. Policy statements do not establish binding norms. Policy statements are not determinative of issues to be addressed and do not have the force of law. *Pa. P.U.C. v. National Fuel Gas Distribution Corp.*, 1989 Pa. PUC LEXIS 225, 72 Pa. PUC 1, Order entered December 29, 1989.

Third, Duquesne Light has already proposed to unbundle all direct default service costs that it incurs. (Duquesne Light St. No. 4-R, p. 7.) Most of the costs listed in Section 69.1808

[3] Uncollectible expense should not be unbundled for the reasons explained in Section III(B)(2)(iv) of this Statement in Support.

have already been unbundled, or are proposed to be unbundled. Further, the Company could not identify specific additional costs related to providing default service.

Fourth, Duquesne Light's unbundling proposal gives the Company the highest unbundled unit rate in the Commonwealth. (Duquesne Light St. No. 3-R, p. 23.) The Company's unbundling proposal is consistent with Commission policy.

ix. The Settlement Adopts Duquesne Light's Proposal with Respect To The Types of Costs and Level of Costs To Be Unbundled.

The Settlement adopts the Company's proposal with respect to the types and level of costs to be unbundled. Duquesne Light believes that this is appropriate for the reasons explained above.

The Settlement also provides additional details on the methodology for unbundling costs. Paragraph 21 of the Settlement provides as follows:

> 21. Default service rates will be increased in order to recover unbundled costs, which will increase the PTC. In order to recover unbundled costs, the Company will increase the default service rates of the residential, small and medium procurement groups using the allocated dollar amounts and the forecast default service MWh in DBO-3-R as also reflected in Appendix C hereto. The Company will also increase the proposed fixed retail administrative charge in Rider No. 9 for the large procurement group using the same allocated dollar amounts and the forecasted default service MWh. The unbundled expenses will be fixed and reconciled only for differences between projected and actual consumption. The Company will reduce current base distribution rates effective June 1, 2017 for residential, small, medium and large rate classes utilizing the allocation methodology employed in the Company's 2013 base rate proceeding at Docket No. R-2013-2372129.

While Duquesne Light would have preferred to unbundle these costs in a base rate proceeding, the Company believes that the unbundling provisions agreed to by the Joint

Petitioners are reasonable in the context of the overall Settlement. No party opposes these Settlement provisions.

x. Elimination of The Uncollectible Accounts Component of The POR Discount for EGSs.

As explained above, Duquesne Light did not believe that it was appropriate to unbundle uncollectible expenses in this proceeding and that if uncollectible expenses were unbundled, the uncollectible component of the POR discount would need to be increased to match the percentage of uncollectible costs being unbundled. (Duquesne Light St. No. 3-R, pp. 27-28.) As an alternative to unbundling uncollectible costs and increasing the POR discount, Duquesne Light testified it would be willing to eliminate the current portion of the EGS discount related to EGS uncollectible costs if it was permitted to include these costs in its non-bypassable RMES. (Duquesne Light St. No. 3-R, pp. 32-33.) This would allow Duquesne Light to recover uncollectible accounts expense for both POR shopping and non-shopping customers. This is consistent with how both PECO and the FirstEnergy EDCs recover uncollectible expenses. As explained by Mr. Fisher, PECO recovers default service and EGS POR related uncollectible costs through distribution rates. (Duquesne Light St. No. 3-R, p. 31.) The FirstEnergy EDCs have a non-bypassable rider that recovers uncollectible accounts expense associated with the provision of default service and on behalf of EGSs through POR programs. (Duquesne Light St. No. 3-R, p. 31.)

In testimony, RESA generally agreed with the Company's alternative to eliminate the uncollectible POR discount rate and collect these costs through a non-bypassable charge. (RESA St. No. 1-S, p. 9.)

The Settlement adopts the Company's alternate proposal to eliminate the uncollectable accounts expense component of the POR discount and recovers these costs through the RMES

until the Company's next base rate proceeding. (Settlement ¶ 22.) The Company notes that the amount of discounts expense be recovered through the RMES will be fixed at $797,000.

Noble has indicated that they oppose this Settlement provision. It is unclear at this time the basis of Noble's opposition to this provision. Duquesne Light will respond to Noble's opposition to this Settlement provision in the Company's Reply to Statements in Opposition that will be filed on October 7, 2016.

C. CAP CUSTOMER SHOPPING

Duquesne Light's witness, Ms. Morrison, explained that the Company is not able to implement CAP customer shopping at this time. The Company initially designed its FOCUS IT billing system to allow CAP shopping. However, implementation was put on hold pending litigation regarding PECO's CAP shopping plan. (Duquesne Light St. No. 5-SR, p. 2.) Thereafter, the Company made significant changes to its FOCUS system to address business needs and regulatory requirements. These changes disrupted the FOCUS system's ability to implement CAP customer shopping.

As also explained by Ms. Morrison, the primary constraints associated with implementing CAP customer shopping are billing issues. Ms. Morrison explained,

> The Company would have to design, build and test a CAP shopping solution prior to implementation based on the existing system configuration. The Company would need to evaluate whether it could allow CAP customers to shop with Bill Ready EGSs. This presents many issues that would have to be examined in detail. Other billing issues include, but are not limited to, arrearage forgiveness, how to calculate bills if a CAP customer switches EGSs one or more times during a month and how to treat LIHEAP payments. There are also other issues regarding how to implement necessary CAP customer protections.

(Duquesne Light St. No. 5-SR, pp. 3-4.)

Duquesne Light is also concerned about whether CAP shopping programs will be successful. There is some question whether EGSs will make offers to CAP customers if the Commission provides price or other protections for CAP customers. For these reasons, Duquesne Light does not believe that it is prudent to spend resources and time implementing IT changes necessary for CAP shopping if other EDCs' CAP shopping programs are not ultimately successful. (Duquesne Light St. No. 5-SR, p. 5.) Therefore, Duquesne Light proposed to hold a collaborative in the fall of 2018 to review other EDCs' CAP shopping programs and to implement CAP shopping in DSP IX, or June 1, 2021, if other EDCs' CAP shopping programs are successful.

The Settlement adopts the Company's CAP shopping proposal. (Settlement ¶¶ 24-25.) Duquesne Light believes that the CAP shopping settlement provisions are in the public interest because they allow time for the Company and parties to review the success of other EDCs' programs before spending the time and resources necessary to design, build and test a CAP shopping solicitation. No party opposes this Settlement provision.

D. STANDARD OFFER PROGRAM ISSUES

In this proceeding, the OCA raised certain issues regarding the Company's Standard Offer Program ("SOP"). The OCA requested that the Company make sure that its customer service representatives ("CSRs") provide revised and updated disclosures to customers concerning the SOP, that the Company revise its SOP script and that the Company undertake a survey or focus group with SOP customers. (OCA St. No. 2, pp. 4-5.)

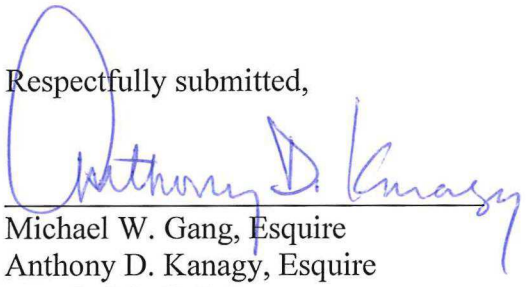
The Settlement adopts revisions to the SOP script and requires Duquesne Light to train CSRs and conduct reviews of calls to ensure that CSRs are providing the required disclosures. The Settlement does not require the Company to conduct a survey group with SOP customers. (Settlement ¶ 27.)

Duquesne Light believes that these Settlement provisions reflect a reasonable compromise of the parties' positions.

IV. CONCLUSION

This Settlement is the result of detailed examination of Duquesne Light's proposed DSP VIII filing, extensive discovery by numerous parties, multiple rounds of testimony and reasonable compromise by knowledgeable Joint Petitioners. Duquesne Light believes that a fair and reasonable compromise has been achieved in this case. Duquesne Light fully supports this Settlement and respectfully requests that Administrative Law Judge Conrad A. Johnson recommend and the Pennsylvania Public Utility Commission approve the Company's DSP VIII filing as modified by the Settlement.

Respectfully submitted,



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