

DUQUESNE LIGHT STATEMENT NO. 3

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition Of Duquesne Light Company :
For Approval Of Default Service Plan : **Docket No. P-2016- _____**
For The Period June 1, 2017 Through :
May 31, 2021 :

**DIRECT TESTIMONY OF
NEIL S. FISHER**

Dated: May 2, 2016

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1 **I. Introduction**

2 **Q. Please state your name and business address.**

3 A. My name is Neil S. Fisher. My business address is 30 Monument Square, Suite 105,
4 Concord, Massachusetts, 01742.

5

6 **Q. What is your current position?**

7 A. I am a Principal with The NorthBridge Group, Inc. (“NorthBridge”), an economic and
8 strategic consulting firm for the electric and natural gas industries. NorthBridge has advised
9 Duquesne Light Company (“Duquesne Light” or the “Company”) on restructuring matters
10 for many years. I have advised Duquesne Light on supply rate design and rate matters,
11 including issues relating to its default service plans (“DSP” or “default service” or “POLR”)
12 since the start of retail access, including Duquesne Light’s retail access pilot, DSP I, DSP
13 II, DSP III, DSP IV, DSP V, DSP VI, and DSP VII programs.

14

15 **Q. Please describe your educational and professional experience.**

16 A. I graduated from the Honors Program at Swarthmore College with a Bachelor of Arts degree
17 in Economics, and I also have a Master’s degree in Business Administration from Yale
18 University. Before joining NorthBridge in 1993, I worked as a consultant at Putnam, Hayes
19 & Bartlett, where the main focus of my work was assisting clients with electric and natural
20 gas restructuring issues. As a consultant at NorthBridge, I have helped regulated electric
21 utility clients in several states with the design of default service programs and with retail

1 access issues. I have also developed strategies for unregulated suppliers interested in
2 participating in competitive wholesale and retail markets.

3
4 **Q. Have you testified previously before the Pennsylvania Public Utility Commission**
5 **(“Commission”)?**

6 A. Yes, I testified in Docket No. P-2014-2418242, Duquesne Light’s Petition for Approval of
7 Default Service Plan for the Period June 1, 2015 through May 31, 2017 (“DSP VII”); Docket
8 No. P-2012-2301664, Duquesne Light’s Petition for Approval of Default Service Plan for
9 the Period June 1, 2013 through May 31, 2015 (“DSP VI”); Docket No. P-2009-2135500,
10 Duquesne Light’s Petition for Approval of Default Service Plan for the Period January 1,
11 2011 through May 31, 2013 (“DSP V”); Docket No. P-00072247, Duquesne Light’s Petition
12 for Approval of Default Service Plan for the Period January 1, 2008 through December 31,
13 2010 (“DSP IV”); Docket A-110150F0035 and A-311233F3002, Duquesne Light’s merger
14 application; Docket R-00061346, Duquesne Light’s distribution rate case; Docket P-
15 00032071, Duquesne Light’s Petition for Approval of Plan for Post-Transition Period POLR
16 Service (“DSP III”); and in Docket P-00021969, Duquesne Light’s Petition Requesting
17 Modification to DSP II Plan to Permit Participation in PJM. I also participated in Duquesne
18 Light’s DSP II collaborative led by several Pennsylvania Commissioners.

19
20 **Q. What is the purpose of your direct testimony?**

21 A. The purpose of my testimony is to evaluate Duquesne Light’s proposed default service plan
22 (the “Default Service Plan” or “Plan” or “DSP VIII”) to procure supply for default service

1 customers for the period beginning June 1, 2017, and ending May 31, 2021. My direct
2 testimony is divided into three parts. First, I briefly provide an overview of Duquesne
3 Light’s retail access program and how the Company’s default service plans have evolved
4 over time. Second, I support the overall design of the Company’s proposed procurement
5 plan for DSP VIII, and third, I evaluate DSP VIII with respect to Act 129’s requirement that
6 the plan include a “prudent mix” of contracts designed to ensure the least cost to customers
7 over time.¹

8
9 **Q. Please summarize your conclusions.**

10 **A. I have three main conclusions.**

- 11 1. The default service models used by Duquesne Light have facilitated and supported
12 the competitive retail market over a sustained period of time, while offering stable
13 and reasonable rates for small customers who do not elect to receive service from an
14 alternative electric generation supplier (“EGS” or “competitive retail supplier”).
- 15 2. Duquesne Light’s Default Service Plan is designed to support the competitive
16 electricity market, while providing appropriate assurances of price stability for small
17 customers.
- 18 3. Duquesne Light’s Default Service Plan incorporates a prudent mix of contracts
19 designed to ensure least cost to customers over time, taking into account the benefits
20 of price stability, and it includes prudent steps necessary to obtain least cost

¹ 66 Pa. C.S. § 2807(e)(3.4).

1 generation supply, as required by Section 2807(e)(3.4) and Section 2807(e)(3.7) of
2 Act 129.

3 Each of these conclusions is described in more detail below.
4

5 **Q. Are you sponsoring any exhibits as part of your Direct Testimony?**

6 A. Yes. Exhibit NSF-1 includes articles and other publicly available information that I relied
7 on related to the exit of certain EGSs from the mass market business in the aftermath of the
8 winter 2013-2014 price spikes, sometimes referred to as the Polar Vortex.
9

10 **II. The Default Service Models Used by Duquesne Light Have Facilitated and Supported**
11 **the Competitive Retail Market Over a Sustained Period of Time, While Offering**
12 **Stable and Reasonable Default Service Rates for Small Customers**

13 **Q. Overall, how would you describe Duquesne Light's retail access program?**

14 A. Duquesne Light has implemented a successful retail access program that has facilitated and
15 supported the competitive retail market over a sustained period of time, while offering stable
16 and reasonable default service rates for most of its customers.
17

18 **Q. Explain how, and by what standards, you determined that Duquesne Light's retail**
19 **access program is successful.**

20 A. My statement is based on a number of factors:

- 21 • Duquesne Light was one of the first utilities in the nation to recover its stranded costs
22 and move to market-based pricing. Duquesne Light completed the transition period

1 for most customers in 2002 and, since that time, has successfully implemented seven
2 default service plans.

3 • Duquesne Light has achieved competitive levels of customer switching in its service
4 area as compared to other electric utilities in Pennsylvania and elsewhere in the
5 United States without exposing small customers to significant rate increases, without
6 the use of opt-out customer assignment programs, and without exposing small
7 customers to short-term market price volatility.

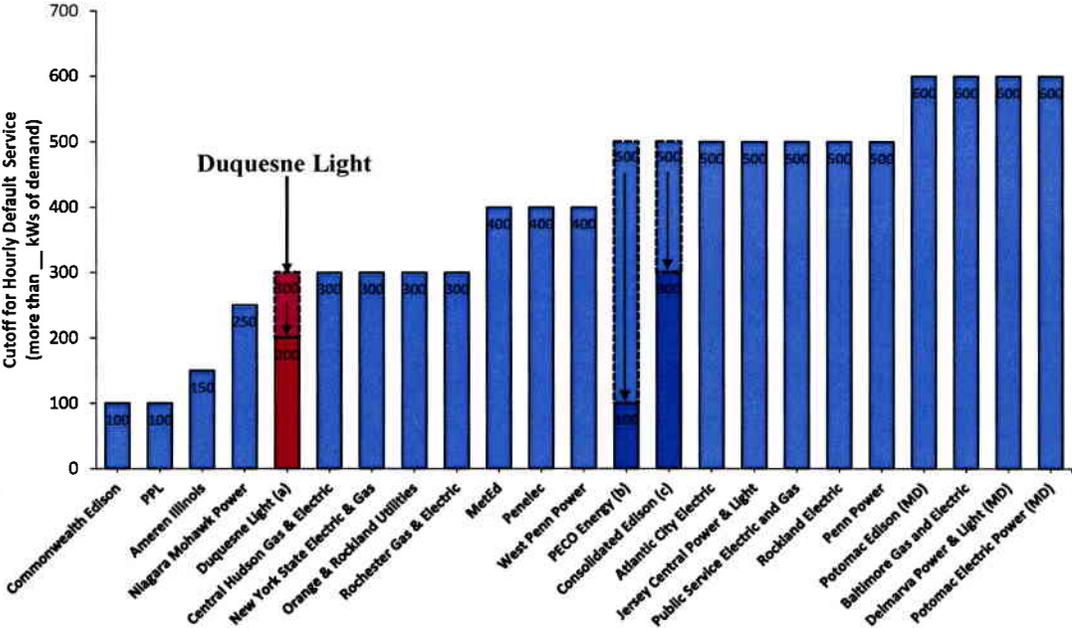
8 • Throughout much of the post-transition period process, Duquesne Light has been
9 able to obtain support from various parties for its default service plans (*e.g.*, DSP II
10 Settlement, DSP III Stipulations, DSP IV Settlement, DSP V Settlement, and DSP
11 VII Settlement).

12 • Duquesne Light was one of the first utilities in the nation to offer hourly pricing
13 default service to all customers greater than or equal to 300 kW and has one of the
14 lower kilowatt demand thresholds for hourly price default service for large
15 commercial and industrial (“Large C&I”) customers in the United States.

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Figure 1 Duquesne Light Has One of the Lower kW Thresholds for Hourly Price Default Service for Large C&I Customers in the United States



- (a) After certain proposed changes are in place and have been successfully tested, Duquesne Light is proposing to lower the threshold for hourly price service to 200 kW effective June 1, 2019.
- (b) PECO's hourly price service threshold is scheduled to be lowered to 100 kW effective June 1, 2016.
- (c) ConEd's hourly price service proposal would lower the threshold to 300 kW from mid-2017 through 2022.

As a result, the default service for about half of Duquesne Light's total system load is an hourly price service. As of March 2016, 96% of this load has already switched to an EGS.

- Finally, throughout much of the post-transition period process, Duquesne Light has agreed to a number of initiatives to facilitate customer shopping and to educate customers about retail choice.² Similar initiatives now have become common across electric distribution companies ("EDCs") in Pennsylvania.

² I describe some of these initiatives later in my testimony.

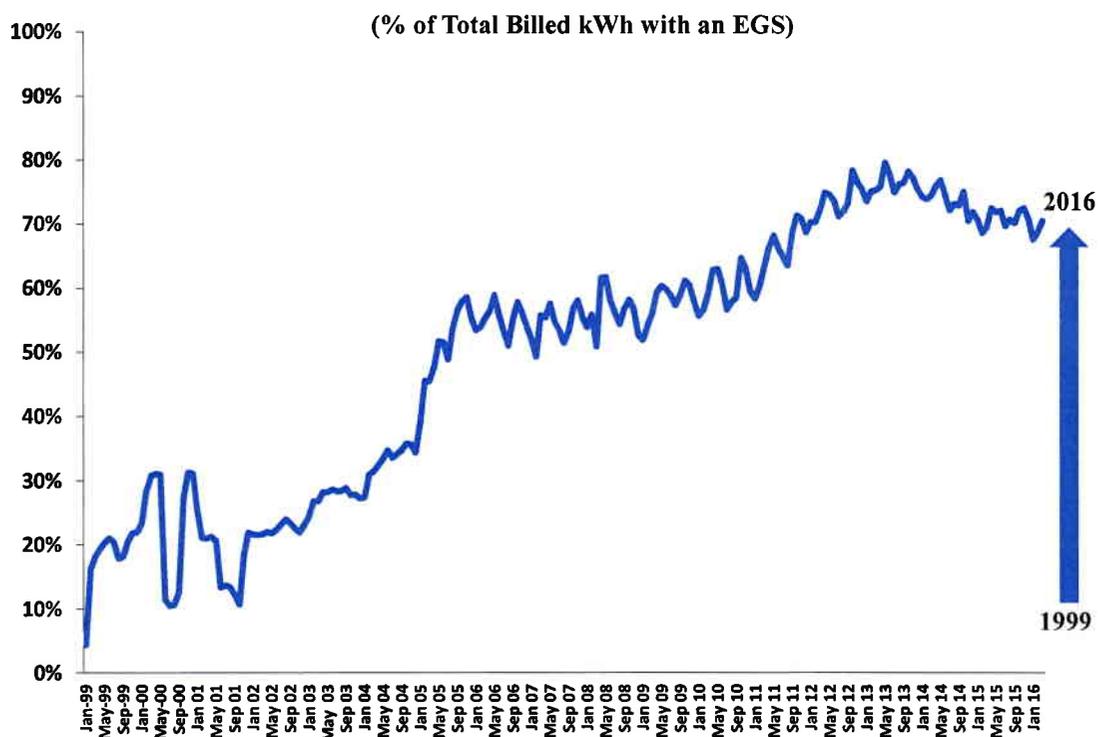
1 **Q. Mr. Fisher, has Duquesne Light facilitated and supported the competitive retail**
2 **market over a sustained period of time?**

3 A. Yes. Duquesne Light has consistently been among the top utilities in the United States in
4 terms of percentage of total load switched to a competitive supplier. For a number of years,
5 Duquesne Light has been among the top ten utilities in terms of the percentage of switched
6 load. As competitive markets have expanded both within and outside Pennsylvania, other
7 utilities have caught up to Duquesne Light and the Company currently is among the top
8 fifteen utilities in the United States in terms of percentage of total load switched. As of
9 March 2016, 71% of the load in Duquesne Light's service area is receiving supply from an
10 EGS. Customer switching levels generally have increased in Duquesne Light's service area
11 over time, and Duquesne Light has facilitated and supported the competitive retail market
12 over a sustained period of time, without boom and bust cycles.³

³ I do recall the problems caused by EGS "doughnut" contracts in 2000 and to a smaller extent in 2001, whereby EGSs sent customers back onto EDC default service for the summer months when market prices were relatively high (commonly referred to as the "beach syndrome") and then switched customers back to EGS service in the fall when market prices were relatively low. This problem ultimately led to customer switching rules in Pennsylvania, which several years later were removed.

1
2

Figure 2 Duquesne Light Has Facilitated and Supported the Competitive Retail Market Over a Sustained Period of Time



3

4 **Q. Since 1999, has Duquesne Light offered the majority of its customers fixed default**
5 **service supply rates?**

6 **A. Yes.** Duquesne Light has offered the majority of its customers fixed default service supply
7 rates for many years. Since Duquesne Light became the first major utility in the
8 Commonwealth to address post-transition period default service, it negotiated a DSP II plan
9 with fixed supply rates that began for most customers in early 2002 and were fixed through
10 December 31, 2004. During the DSP III period (January 2005 through December 2007),
11 Duquesne Light again offered Residential, Small C&I, and Medium C&I customers fixed-
12 price default service supply rates over a three-year period. During the DSP IV period
13 (January 2008 through December 2010), Duquesne Light continued to offer Residential and

1 Small C&I customers fixed-price default service supply rates over a three-year period, but
2 began to provide shorter-term market price signals to Medium C&I customers – initially
3 one-year followed by six-month rate changes. During the DSP V period (January 2011
4 through May 2013), Residential customers were offered 29-month fixed supply rates, while
5 Small C&I customers transitioned from three-year to annual supply rate changes. For
6 Medium C&I customers, Duquesne Light relied on laddered one-year full requirements
7 supply contracts, whereby 50% of the supply was replaced every six months, resulting in
8 six-month supply rate changes. During the DSP VI period (June 2013 through May 2015),
9 Residential customers were offered fixed twelve-month default service supply rates, Small
10 C&I customers were offered fixed six-month supply rates based on laddered twelve-month
11 contracts, and Medium C&I customers were offered fixed six-month supply rates based on
12 non-laddered six-month contracts. In DSP VII (June 2015 through May 2017), Residential
13 and Small C&I customers are offered fixed six-month supply rates based on laddered
14 twelve-month contracts, and Medium C&I customers are offered fixed three-month default
15 service supply rates based on non-laddered contracts. It is evident from this history that the
16 Company has extensive experience offering the majority of its customers fixed default
17 service supply rates over many years. The length of time that default service supply rates
18 were fixed for each default service plan are summarized in the figure below for the
19 Residential and Small C&I procurement classes.

Figure 3 Duquesne Light has Offered the Majority of its Customers Fixed Default Service Supply Rates for Many Years

DSP Period	Residential	Small C&I
DSP I (January 1999 through early 2002)	Fixed 39-month rates	Fixed 39-month rates
DSP II (early 2002 through December 31, 2004)	Fixed 33-month rates	Fixed 32-month rates
DSP III (January 2005 through December 2007)	Fixed 36-month rates	Fixed 36-month rates
DSP IV (January 2008 through December 2010)	Fixed 36-month rates	Fixed 36-month rates
DSP V (January 2011 through May 2013)	Fixed 29-month rates	Fixed 12-month rates based on a 17-month and one-year products
DSP VI (June 2013 through May 2015)	Fixed 12-month rates based on one-year products	Fixed 6-month rates based on laddered one-year products
DSP VII (June 2015 through May 2017)	Fixed 6-month rates based on laddered one-year products	Fixed 6-month rates based on laddered one-year products

Q. Why has Duquesne Light’s retail access program been relatively successful over many years as compared to other programs?

A. There are several reasons. First, Duquesne Light chose to tailor its default service offering to each particular customer group. A key question for policymakers is how often utility default service rates should adjust to changes in market prices. The optimal frequency depends upon a number of factors, including customer sophistication, market price volatility, the number of competitive service alternatives, what customers are accustomed to, and the costs and benefits associated with exposing customers to greater price volatility. Duquesne Light’s Plan tailors its default service for each customer group taking into account these considerations.

Second, throughout the restructuring process and post-transition period, Duquesne Light’s management has been committed to retail access and competition, as it has taken

1 significant actions to promote competition while balancing the interests of its customers and
2 shareholders.⁴

3 In particular, I believe the success of Duquesne Light's retail access program has
4 been remarkable in that it has facilitated and supported the competitive retail market over a
5 sustained period of time without exposing small customers to significant rate increases,
6 without the use of opt-out customer assignment programs, and without exposing small
7 customers to short-term market price volatility.

8
9 **Q. Mr. Fisher, you show in Figure 2 that in Duquesne Light's service area the percentage
10 of total customer load that has switched to an EGS generally has increased steadily
11 over time, but relative to the levels experienced in 2013, the percentage of total
12 customer load switched to an EGS appears to have declined somewhat in 2014 and
13 2015. Can you explain what caused this decrease?**

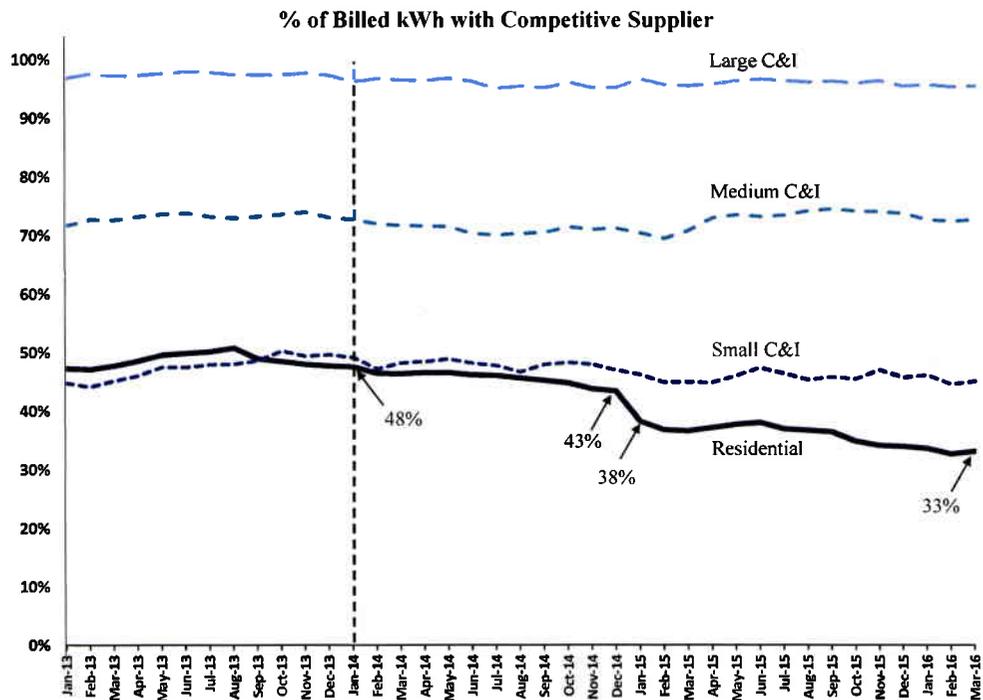
14 **A.** The decrease in the percentage of total switched load is primarily attributable to the decrease
15 in Residential load served by competitive retail suppliers after the market price spikes
16 experienced in January 2014, often referred to as the Winter 2014 Polar Vortex.⁵ The figure

⁴ For example, Duquesne Light's management proposed a market determination of stranded costs through the voluntary divestiture of its generation assets. This provided enormous benefits to customers in the form of accelerated recovery of stranded costs, significant rate reductions, and a faster transition from capped default service rates to default service rates that are better designed to reflect market price levels, against which EGSs may compete. Duquesne Light was the first utility in Pennsylvania to develop an hourly pricing program for Large C&I customers. In DSP IV, Duquesne Light negotiated with EGSs, customer groups, and other parties one of the first Pennsylvania purchase of receivables ("POR") pilot programs, whereby Duquesne Light offered to purchase the receivables of EGSs serving Residential and Small C&I customers. In DSP V, Duquesne Light expanded the POR program to include Medium C&I customers. Duquesne Light proposes to continue its POR program throughout the DSP VIII period.

⁵ Extreme cold weather, natural gas pipeline constraints, and generator unavailability contributed to record electricity prices in January 2014 in Pennsylvania.

1 below shows the change in switched load by procurement group since January 2013. While
2 switched load has remained relatively constant for other procurement groups, Residential
3 switched load has fallen from 48% in January 2014 to 33% in March 2016.^{6,7}

4 **Figure 4 The Percentage of Residential Load Switched to an EGS Has Declined**
5 **Since the Polar Vortex**



6
7 **Q. Is this more recent decline in the percentage of Residential load switched to an EGS an**
8 **indication that Duquesne Light's approved default service plan is not adequately**
9 **supporting the competitive retail market?**

⁶ The Residential line in the figure above shows the percentage of switched load for Residential customers only, even though Residential and Lighting customers are included in the same procurement group.

⁷ The percentage of Residential switched load gradually declined throughout 2014 from 48% to 43% and experienced a relatively big drop in one month from 43% in December 2014 to 38% in January 2015. Since that time, the percentage of Residential switched load has declined gradually to 33%.

1 A. No.

2

3 **Q. Then, what caused the decrease in switched Residential load following the Polar**
4 **Vortex?**

5 A. Without revealing confidential information, it appears that many Residential customers
6 returned to Duquesne Light's default service largely due to business decisions made by two
7 major EGSs, Dominion Retail, Inc. ("Dominion") and FirstEnergy Solutions, Corp.
8 ("FES"). Dominion and FES, both of whom were large suppliers of Residential customers
9 in Duquesne Light's service area, decided to exit the mass market retail business in the
10 aftermath of the Polar Vortex. In January 2014, Dominion decided to exit the retail electric
11 business altogether and sold its retail business a few months later.⁸ Dominion's exit from
12 retail markets impacted over 600,000 customers in Texas, Illinois, Ohio, New York,
13 Pennsylvania, Massachusetts, Connecticut, New Jersey, Maryland, and Maine.⁹

14 In August 2014, FES announced that it would not engage in any new retail electric
15 service contracts with residential and small commercial customers, and that it would allow
16 its current contracts with such customers to naturally expire.^{10,11} FES' decision to exit from

⁸ In March 2014, Dominion Resources announced that it would sell its 600,000-customer retail energy business to NRG Energy, Inc., *Dominion to Sell its Retail Energy Business to NRG*, March 13, 2014, see Exhibit NSF-1. As a result, many of Dominion's Residential customers probably were transferred to NRG Energy.

⁹ *Dominion's Exit from Retail Electric Business Illustrates Risks of Market*, February 7, 2014, see Exhibit NSF-1.

¹⁰ FirstEnergy Fact Book, August 5, 2014, p. 53, see Exhibit NSF-1.

¹¹ In September 2015, it was reported that FES had "allowed a large tranche of Duquesne Light customers in Pittsburgh to lapse. The total number of Duquesne customers supplied by competitive power-generators dropped by 36,000, or 15 percent, in a few months." *FirstEnergy Solutions Dropping PECO Customers*, August 11, 2014, see Exhibit NSF-1.

1 residential retail markets impacted about 2.1 million residential customers in Illinois,
2 Michigan, Pennsylvania, New Jersey, Maryland, and Ohio.^{12,13}

3 It is clear that these business decisions by Dominion and FES were not limited to
4 Duquesne Light's service area and represented a shift in the corporate strategy of these
5 companies.

6
7 **Q. Why did FES and Dominion decide to stop serving mass market customers?**

8 **A.** FES stated that it was withdrawing from the competitive residential and small commercial
9 electric markets in order to better match the output of its generation fleet with its retail sales
10 in the face of market volatility. "Essentially what we're doing is derisking our business,"
11 explained Diane Francis, an FES spokeswoman.¹⁴

12 Similarly, Dominion spokesman C. Ryan Frazier explained, "Pursuing the sale [of
13 Dominion's electric retail business] is consistent with our strategy of de-risking Dominion
14 by reducing our exposure to commodity sensitive businesses, thereby relying less on
15 commodity-based businesses in our asset mix"¹⁵ as part of Dominion's strategy to transition
16 to a more regulated, less volatile earnings mix.¹⁶

17
¹² *FirstEnergy Backs Out of Residential Markets*, August 11, 2014, see Exhibit NSF-1.

¹³ From January 2014 to December 2015, FES reported that it mitigated risk through reduced electricity sales to weather-sensitive channels, including a 42% decrease in residential sales. *FirstEnergy Fact Book*, February 16, 2016, p. 52, see Exhibit NSF-1.

¹⁴ *FirstEnergy Backs Out of Residential Markets*, August 11, 2014, see Exhibit NSF-1.

¹⁵ *Dominion's Exit from Retail Electric Business Illustrates Risks of Market*, February 7, 2014, see Exhibit NSF-1.

¹⁶ Dominion Resources, Inc., Form 10-K, for the fiscal year ended December 31, 2014, pp. 8, 149, see Exhibit NSF-1.

1 **Q. Are there other factors that likely contributed to the decline in the level of Residential**
2 **switching in 2014 and 2015?**

3 A. Yes. In the aftermath of the Polar Vortex, some Residential customers in Duquesne Light's
4 service area, like other electricity customers in Pennsylvania, experienced high bills due to
5 variable rate plans charged by some EGSs. Shortly thereafter, the Commission received a
6 record number of inquiries and informal complaints related to high bills.¹⁷

7 During the bursts of historically cold temperatures known as the polar
8 vortex in recent winters, customers who had enrolled in a variable rate plan
9 saw their electric bills skyrocket as wholesale power prices soared... 'Some
10 low-quality suppliers shot themselves – and, more importantly, the entire
11 market – in the foot,' said John Tough, vice president of Business
12 Development & Operations for Choose Energy, Inc., a San Francisco-based
13 online service that facilitates customer shopping across deregulated states.
14 'Through bad variable rates and high renewal rates, the bad suppliers took
15 over headlines and scared the consumers.' Since April 2014, suppliers
16 marketing in Duquesne Light Co.'s territory lost 87,000 customers, or 34
17 percent.¹⁸

18 These problems contributed to the decline in Residential switching in Duquesne Light's
19 service area.

20

¹⁷ *Review of Rules, Policies and Consumer Education Measures Regarding Variable Rate Retail Electric Products*, Docket No. M-2014-2406134 (Order entered March 4, 2014), pp. 1-4. Also see Comments of the Office of Consumer Advocate, AARP, Pennsylvania Utility Law Project and Community Legal Services, Inc. in Docket No. M-2014-2406134, *Review of Rules, Policies and Consumer Education Measures Regarding Variable Rate Retail Electric Products*, April 3, 2014, p. 3-5.

¹⁸ *Retail Electric Market Struggles to Grow in Western Pa.*, January 2, 2016, see Exhibit NSF-1.

1 **III. Duquesne Light’s Default Service Plan is Designed to Support the Competitive**
 2 **Electricity Market, While Providing Appropriate Assurances of Price Stability for**
 3 **Small Customers**

4 **Q. Please summarize Duquesne Light’s proposed plan for DSP VIII.**

5 A. Under the Plan, unique portfolios of supply products are procured for each of four different
 6 customer classes. The supply product portfolios for each customer class are summarized in
 7 the figure below:

8 **Figure 5 Duquesne Light Tailors its Supply Portfolios by Customer Class**

Residential & Lighting	Small C&I (< 25 kW)	Medium C&I (≥ 25 kW and < 300 kW)¹⁹	Large C&I (≥ 300 kW)²⁰
<ul style="list-style-type: none"> • Six-month fixed default service supply rates • Transitioning to 50% of supply from one-year and 50% of supply from two-year full requirements supply products with laddered purchases • Products are procured every six months within three months of start of delivery 	<ul style="list-style-type: none"> • Six-month fixed default service supply rates • Transitioning to 50% of supply from one-year and 50% of supply from two-year full requirements supply products with laddered purchases • Products are procured every six months within three months of start of delivery 	<ul style="list-style-type: none"> • Three-month fixed default service supply rates • 100% of supply from three-month full requirements supply products that are not laddered • Products are procured every three months within three months of start of delivery 	<ul style="list-style-type: none"> • Hourly price default service supply rates • 100% of customer usage priced at day-ahead hourly energy prices • Pass through of other PJM and administrative costs • New RFP process where product is procured every twelve months within three months of start of delivery
<ul style="list-style-type: none"> • Approximately 31% of total system load 	<ul style="list-style-type: none"> • Approximately 5% of total system load 	<ul style="list-style-type: none"> • Approximately 19% of total system load 	<ul style="list-style-type: none"> • Approximately 45% of total system load

¹⁹ The Company proposes to lower the upper threshold for the Medium C&I class from < 300 kW to < 200 kW on June 1, 2019.

²⁰ The Company proposes to lower the threshold for hourly price service from ≥ 300 kW to ≥ 200 kW on June 1, 2019.

1 Large C&I customers, which comprise approximately 45% of the total load in
2 Duquesne Light's service area,²¹ will be offered default service rates based on hourly day-
3 ahead market prices.

4 Medium C&I customers, which comprise approximately 19% of the total load in
5 Duquesne Light's service area, will be offered three-month fixed price default service rates.
6 In DSP VIII, Medium C&I rates will be based on quarterly procurements of three-month
7 products that are not laddered.

8 Small C&I customers, which comprise approximately 5% of the total load in
9 Duquesne Light's service area, will be offered default service supply rates that adjust every
10 six months, and these rates will be based on a combination of laddered one-year contracts
11 and laddered two-year contracts procured every six months with overlapping delivery
12 periods.

13 Residential & Lighting ("Residential") customers, which represent about 31% of the
14 total load in Duquesne Light's service area, also will be offered six-month fixed price default
15 service supply rates. Like Small C&I rates, Residential rates will be based on a combination
16 of laddered one-year contracts and laddered two-year contracts procured every six months
17 with overlapping delivery periods.

18 In Duquesne Light Statement No. 2, Mr. Peoples describes the procurement
19 processes for the different customer procurement groups in more detail.
20

²¹ This percentage would increase to about 51% when the threshold is lowered from ≥ 300 kW to ≥ 200 kW.

1 **Q. Please summarize the changes Duquesne Light is proposing with respect to its**
2 **procurement portfolios for Residential and the Small C&I classes.**

3 A. The Company is proposing to transition to a product mix consisting of 50% laddered one-
4 year fixed-price full requirements (“FPFR”) supply contracts and 50% laddered two-year
5 FPFR supply contracts. Currently, the Company relies exclusively on laddered one-year
6 FPFR supply contracts to serve these customers.

7

8 **Q. How will the Company’s proposal to modify the Residential and Small C&I supply**
9 **portfolios benefit default service customers?**

10 A. The mix of one-year and two-year FPFR products in Duquesne Light’s Residential and
11 Small C&I default service supply portfolios, and the semi-annual overlapping of their
12 delivery periods, will provide these customers greater assurances of price stability than the
13 Company’s current supply portfolios, which rely exclusively on one-year FPFR products.
14 This is true for several reasons. First, the inclusion of fixed-price two-year products in the
15 supply portfolio will smooth out rate fluctuations over time. Second, the procurement
16 approach will transition from the current cycle in which 50% of the supply is replaced every
17 six months to a cycle in which 37.5% of the supply is replaced every six months.²² Third,
18 the Company will transition from the current method of relying on supply purchased on two
19 different solicitation dates to determine the default service supply rate at any given point in

²² Currently, solicitations are held every six months, and in each solicitation 50% of the supply requirement is procured in the form of one-year products. Under the proposed plan, Duquesne Light will transition to a cycle in which solicitations are still held every six months, but in each solicitation 25% of the supply requirement is procured in the form of one-year products and 12.5% of the supply requirement is procured in the form of two-year products.

1 time to one where the default service supply rate at any given point in time will be based on
 2 supply procured on four different solicitation dates. The key features of the two supply
 3 portfolios are summarized in the figure below:

4 **Figure 6 Duquesne Light’s DSP VIII Plan Offers Residential and Small C&I**
 5 **Customers Greater Assurances of Price Stability than DSP VII**

Supply Portfolio Features	DSP VII	DSP VIII ^(a)
Product Terms	100% one-year	50% one-year 50% two year
Percent of Supply Replaced in Each RFP	50%	37.5%
The Default Service Supply Rate at any Given Time is Based on Supply Procured on <u>X</u> Different Solicitation Dates	Two	Four
Hard stops (i.e., where 100% of supply needs to be procured)	None	None

6 ^(a) Time is required to transition from DSP VII to DSP VIII.

7 These modifications reduce the likelihood of significant rate changes due to adverse
 8 circumstances or market conditions at any given time. Thus, the Plan is designed to offer
 9 greater assurances of price stability for all Residential and Small C&I customers who do not
 10 affirmatively select service from a competitive retail supplier while maintaining semi-annual
 11 rate changes. Finally, it is important to recognize that neither the DSP VII nor the DSP VIII
 12 Plan require that 100% of the supply be replaced over a short period of time (a “hard stop”),
 13 which would expose Residential and Small C&I customers to unnecessary rate instability
 14 and risks.

15

1 **Q. Do small customers generally support having stable and reliable default service rates?**

2 A. Yes. It has been my experience that small customers and their consumer advocates generally
3 support reasonably priced, stable and reliable default service rates and tend to encourage the
4 use of longer-term supply products procured at different points in time to achieve these
5 goals. Electric rate stability has long been recognized as a desirable feature, especially for
6 those small customers who, for whatever reason, do not elect service from a competitive
7 retail supplier, because it supports affordability, budgeting, and planning.

8

9 **Q. Has the Commission recognized the value of providing customers price stability?**

10 A. Yes. The Commission has explicitly acknowledged that price stability is an important
11 consideration in developing a default service plan:

12 In implementing default service standards, the Commission must be
13 concerned about rate stability as well as other considerations such as
14 ensuring a “prudent mix” of supply and ensuring safe and reliable service.
15 In our view, a default service plan that meets the “least cost over time”
16 standard should not have, as its singular focus, the achievement of the
17 absolute lowest cost over the default service plan time frame but rather a
18 cost for power that is both relatively stable and also economical relative to
19 other options.²³

20 Price stability benefits are very important to some customer groups, so an
21 interpretation of “least cost” that mandates subjecting all default service
22 customers to significant price volatility through general reliance on short
23 term pricing is inconsistent with Act 129’s objectives.²⁴

²³ *Second Default Service Rulemaking Order*, p. 40.

²⁴ *Second Default Service Rulemaking Order*, p. 41.

1 This is an important consideration because small customers generally realize the greatest
2 benefits from default service price stability. Some small customers who need price stability
3 may not have the time, incentive, knowledge, sophistication, or resources to elect an EGS
4 offering that provides the price stability at reasonable levels that they seek. I am advised by
5 counsel that Act 129 is consistent with this position, as it requires that a default service plan
6 include a “prudent mix” of contracts that takes into account any benefits of price stability.²⁵
7

8 **Q. Why do you believe that default service for Residential and Small C&I customers**
9 **should offer rate stability at market-based levels?**

10 A. A key question for policymakers is what type of default service is appropriate for Residential
11 and Small C&I customers who, for whatever reason, do not choose an EGS. For instance,
12 what type of default service would you want your 90-year old grandmother on with a fixed
13 income? Or what type of default service would you want a low-income customer on who is
14 working three jobs to make ends meet? I wholeheartedly support competition among EGSs
15 for small customers who have the time, energy, and sophistication to seek out and
16 confidently choose an offering from an EGS that provides the type of product or stability of
17 pricing that the customer needs or desires. But I do not support an approach that entails
18 removing the benefits to small customers of stable and market-based pricing in their default
19 service offering, in an effort to make the default service offering unnecessarily volatile
20 simply to increase the number of small customers who switch to an EGS.

²⁵ 66 Pa. C.S. § 2807(e)(3.4), and Act 129 of 2008 (Preamble).

1 I do not believe that it is good public policy to rely solely on EGSs to provide stable
2 rates to Residential and Small C&I customers at this time for a variety of reasons. There are
3 many reasons why customers may choose to switch to an EGS or remain on default service.²⁶
4 I am particularly troubled by the proposition of relying on EGSs to provide reasonable,
5 stable rates to relatively weather-sensitive Residential and Small C&I retail customers in the
6 aftermath of the Polar Vortex. As I noted earlier, several notable EGSs have reconsidered
7 their retail business strategies and have decided to exit the business of making direct sales
8 to mass market customers. FES stated that, “What we’ve seen, especially coming out of the
9 polar vortex in January, is that volatility of the electric market is reducing our ability to offer
10 long-term stable pricing to customers.”²⁷ Furthermore, ConEdison Solutions, released a
11 white paper entitled the “2013-2014 Winter Polar Vortex,” which stated that a number of
12 small, less-financially stable competitive suppliers went out of business as a result of that
13 winter’s events – and customers served by such suppliers had their EGS contracts broken
14 and were dropped back to their utility’s default service.²⁸ The costs and risks of providing
15 fixed-price service to weather-sensitive Residential and Small C&I customers are relatively
16 higher than the costs and risks of providing fixed-price service to Large C&I customers,
17 whose usage is generally much less weather sensitive. The exit from the mass market retail

²⁶ Customers may switch to an EGS for a variety of reasons, including customer assignment, customer savings, value-added services, and/or volatile default service rates. Customer-specific attributes (e.g., education, income, electricity usage, age, spare time, etc.) also may impact the propensity of certain customers to switch to a competitive supplier. While Residential and Small C&I customers are interested in reducing their electricity costs, they currently do not have the same interest as Large C&I customers to research the market and make efficient service decisions, especially given their equally-competing interests to earn a living, raise children, and tend to home needs. Furthermore, they generally have a lesser understanding of the benefits and risks associated with accepting one potential service offer versus another, and a lesser ability to engage in frequent and consistent “market checks” to ensure that their electricity price is sufficiently competitive or is stable.

²⁷ *FirstEnergy Backs Out of Residential Markets*, August 11, 2014, see Exhibit NSF-1.

²⁸ *2013-2014 Winter Polar Vortex*, ConEdison Solutions, July 2014, p. 4, see Exhibit NSF-1.

1 business by both large, well-funded EGSs and less financially stable EGSs highlights the
2 continued importance of default service supply rate stability for Residential and Small C&I
3 customers.

4
5 **Q. Will Duquesne Light's Default Service Plan support the competitive wholesale**
6 **market?**

7 A. Yes, the Company will rely on competitive wholesale market purchases to obtain supply for
8 its default service. These competitive market purchases will be in the form of formal RFP
9 processes with standardized bidding procedures. In DSP VIII, Duquesne Light proposes to
10 continue relying on competitive wholesale markets to provide fixed-price full requirements
11 service for the benefit of Residential, Small C&I and Medium C&I customers, as well as
12 competitive wholesale solicitations to obtain third-party suppliers to provide hourly price
13 default service for Large C&I customers.

14
15 **Q. What are the benefits of relying on competitive wholesale markets to provide fixed-**
16 **price full requirements service?**

17 A. In a procurement approach involving FPFR product solicitations, bidders compete on the
18 basis of the lowest price to satisfy all aspects of the default service customers' load
19 requirements at a fixed \$/MWH price, regardless of how the load, future market conditions,
20 and/or generation costs vary.

21 The use of a competitive process to procure a full-requirements product is designed
22 to induce competitive bidding among suppliers, and thereby obtain the lowest price for the

1 product. Since bidders in the proposed solicitations will compete on the basis of price, any
2 party that desires to be a winning bidder in such a solicitation must submit a bid price that
3 reflects its best judgment about the least-cost means of satisfying the supply obligations.
4 Therefore, it is reasonable to assume that bidders in the proposed full requirements
5 solicitations will consider the costs and risks associated with all forms of supply, and will
6 reflect in their bid prices the benefits of any opportunity that they believe is the least-cost
7 supply opportunity. Consequently, those suppliers who are the best portfolio managers in
8 terms of handling the associated supply costs and risks that the fixed-price full requirements
9 obligation requires them to assume to the benefit of customers are likely to place the lowest
10 bids in the competitive solicitations. Thus, the procurement process is intended to rely on
11 the skills of the most adept suppliers to achieve the least cost for customers.

12
13 **Q. Mr. Fisher, you have described how Duquesne Light's Plan obtains the benefits of the**
14 **competitive wholesale market, but is the Company's Plan also designed to support the**
15 **competitive retail market?**

16 A. Yes. During the DSP VIII period, Duquesne Light will continue pre-established retail
17 market initiatives. Duquesne Light's proposed DSP VIII Plan also supports the competitive
18 retail market by including competitive solicitations for FPFR default service supply
19 products. The use of FPFR products helps to provide a more transparent price-to-compare
20 benchmark against which customers can compare competing retail offers. Minimal over-
21 and under-collections that result from the use of FPFR products will enhance rate
22 transparency for competitive retail supply decisions. Furthermore, EGSs will compete
23 against market-based default service rates, as the default service rates will be based on the

1 prices for supply products obtained through competitive solicitations in which multiple
2 bidders compete to sell the products solely on the basis of price.

3
4 **Q. Since Duquesne Light has generally shortened its supply product delivery periods in**
5 **recent DSP plans, do you believe the proposed inclusion of two-year contracts into the**
6 **pre-existing portfolios of one-year contracts for the Residential and Small C&I default**
7 **service supply customers represents a step “backward” with respect to the**
8 **development of the competitive retail market?**

9 A. No. The inclusion of two-year contracts in the Residential and Small C&I portfolios
10 represents a step forward in providing greater assurances of price stability for small
11 customers. There is no convincing evidence that maintaining the supply portfolios
12 consisting entirely of shorter-term, one-year default service products would better facilitate
13 the development of the competitive retail market with regard to Duquesne Light’s
14 Residential and Small C&I customers. In fact, Duquesne Light’s proposed supply product
15 portfolio will facilitate retail competition by providing a more predictable default service
16 rate, making it easier for EGSs to market savings off of the default service rate and for
17 customers to compare EGS offers with default service rates to more confidently make retail
18 supply decisions. As discussed earlier, the Company has extensive experience offering the
19 majority of its customers fixed default service supply rates and has fostered one of the more
20 successful retail access programs in the country during this time.

21
22 **Q. Do other Pennsylvania EDCs rely on two-year products to supply default service to**
23 **small customers?**

1 A. Yes. Both PECO and FirstEnergy include two-year products in their supply portfolios to
2 serve Residential default service customers. PECO's current supply portfolio consists of
3 approximately 60% two-year products and 40% one-year products to serve residential
4 default service customers,²⁹ and the FirstEnergy EDCs' supply portfolios consist of 50%
5 two-year products and 50% one-year products to serve both residential and small
6 commercial default service customers.³⁰ Duquesne Light's DSP VIII Plan would more
7 closely align its Plan with those of PECO and FirstEnergy, offering small customers similar
8 levels of price stability.

9

10 **Q. What changes is Duquesne Light proposing with respect to its Large C&I customer**
11 **default service plan?**

12 A. For the Large C&I class, the Company is proposing to make several significant changes.
13 First, effective June 1, 2017, the Company is proposing to simplify the structure and
14 administration of the hourly price service in an effort to lower the Company's administrative
15 costs that hourly price service customers pay. Second, while the Plan continues to provide
16 hourly day-ahead market pricing to Large C&I default service customers, Duquesne Light
17 will no longer procure this supply directly from PJM, but instead it will procure this supply
18 in the form of non-laddered twelve-month supply products procured through competitive
19 RFP processes. Third, once these changes are in place and have been tested, the Company

²⁹ PECO's proposed supply portfolios in DSP IV contain a mix of one-year and two-year supply products to serve both residential and small commercial default service customers. The residential portfolio consists of about 60% two-year and 40% one-year products, while the small commercial portfolio consists of 50% two-year and 50% one-year products.

³⁰ Both FirstEnergy's existing supply portfolio in DSP III and its proposed DSP IV portfolio contain one-year and two-year supply products for residential and small commercial customers (defined as commercial customers with peak monthly demands not to exceed 400 kW or all customers served at secondary voltage in the case of Penn Power).

1 is proposing to lower the kW threshold for hourly price service from ≥ 300 kW to ≥ 200 kW
2 beginning on June 1, 2019.³¹

3
4 **Q. Is the Company proposing any other changes with respect to its supply portfolio?**

5 A. Yes. During the course of the DSP VIII Plan, the Company is proposing to evaluate the
6 benefits of entering into long-term solar contracts at some point during the DSP VIII period.
7 Duquesne Light witness Davis discusses the Company's solar proposal in his direct
8 testimony.

9
10 **IV. Duquesne Light's Default Service Plan Satisfies the Requirements of Act 129 by**
11 **Incorporating a Prudent Mix of Contracts Designed to Ensure Least Cost to**
12 **Customers Over Time, Taking Into Account the Benefits of Price Stability, and It**
13 **Includes Prudent Steps Necessary to Obtain Least Cost Generation Supply**

14 **Q. Act 129 requires a default service plan to procure a prudent mix of contracts, and**
15 **include prudent steps necessary to obtain least cost generation supply contracts on a**
16 **long-term, short-term and spot market basis.³² What guidance has the Commission**
17 **provided in interpreting that standard?**

18 A. On October 4, 2011, the Commission entered its Second Default Service Rulemaking Order,
19 and in this Order it provided guidance based on input received from stakeholders. Some of

³¹ Duquesne Light witness Peoples discusses the proposed changes to hourly price service in more detail in his testimony.

³² 66 Pa. C.S. § 2807(e)(3.4), and 66 Pa. C.S. § 2807(e)(3.7).

1 the Commission’s guidance regarding the interpretation of “least cost” and “prudent mix”
2 is as follows:

3 [T]he [“least cost”] standard must give the DSP sufficient latitude to select
4 contracts that constitute a “prudent mix” which includes a sufficient variety
5 of products that adequately take into consideration price volatility, changes
6 in generation supply, customer usage characteristics and the need to assure
7 safe and reliable service.³³

8 In implementing default service standards, the Commission must be
9 concerned about rate stability as well as other considerations such as
10 ensuring a “prudent mix” of supply and ensuring safe and reliable service.
11 In our view, a default service plan that meets the “least cost over time”
12 standard should not have, as its singular focus, the achievement of the
13 absolute lowest cost over the default service plan time frame but rather a
14 cost for power that is both relatively stable and also economical relative to
15 other options.³⁴

16 Price stability benefits are very important to some customer groups, so an
17 interpretation of “least cost” that mandates subjecting all default service
18 customers to significant price volatility through general reliance on short
19 term pricing is inconsistent with Act 129’s objectives.³⁵

20 We agree with the majority of parties that the “prudent mix” of contracts be
21 interpreted in a flexible fashion which allows the DSPs to design their own
22 combination of products that meets the various obligations to achieve “least
23 cost to customers over time,” ensure price stability, and maintain adequate
24 and reliable service.³⁶

³³ *Default Service and Retail Electric Markets*, Docket No. L-2009-2095604 (Order entered October 4, 2011) (“*Second Default Service Rulemaking Order*”), p. 38.

³⁴ *Second Default Service Rulemaking Order*, p. 40.

³⁵ *Second Default Service Rulemaking Order*, p. 41.

³⁶ *Second Default Service Rulemaking Order*, p. 60.

1 We do reject the positions of those parties that “prudent mix” be defined to
2 always require a specific mix or percentage of types of contract components
3 in each default service plan or a minimum of two types of products.³⁷

4
5 **Q. Do you believe that Duquesne Light’s proposed DSP VIII incorporates a prudent mix**
6 **of contracts, and includes prudent steps necessary to obtain least cost generation**
7 **supply contracts, as required by Section 2807(e)(3.4) and Section 2807(e)(3.7) of Act**
8 **129?**

9 A. Yes, I do. There are several reasons for this conclusion:

10 1. The procurement process is designed to ensure the least cost to customers by requiring
11 qualified bidders in the supply product solicitations to compete and be selected based on
12 the lowest price. Furthermore, when FPCR products are solicited, default service
13 customers are provided the benefits of competition on all aspects of the full requirements
14 supply obligation, including the portfolio management function.³⁸ It is reasonable to
15 assume that bidders in the FPCR solicitations will consider the costs and risks associated
16 with all forms of supply available to them to satisfy their fixed-price full requirements
17 obligation, and will reflect in their bid prices the benefits of any opportunity that they
18 believe is the least cost supply opportunity.

19 2. Duquesne Light’s Plan relies on FPCR default service supply products, which are well-
20 tested in the marketplace. These products have been successfully procured by Duquesne

³⁷ *Second Default Service Rulemaking Order*, p. 60.

³⁸ FPCR product suppliers have the responsibility for continuously satisfying the uncertain and constantly changing supply requirements at the agreed-upon price, and therefore must manage the associated costs and risks through their supply portfolio decisions.

1 Light, and are frequently procured by utilities in Pennsylvania and in other
2 jurisdictions.³⁹

- 3 3. The Commission has recognized the benefits of reliance on full requirements products
4 in a default service portfolio, as it stated in its Second Default Service Rulemaking
5 Order:

6 The [full requirements] process insulates default supply customers from the
7 volatility associated with wholesale market conditions with the supplier
8 bearing the risks of factors such as customer migration, weather, load
9 variation and economic activity.⁴⁰

10 We do express a preference for continued reliance by DSPs on the [full
11 requirements] approach to the extent this method best suits the DSP's
12 particular procurement needs.⁴¹

13 The seller of a FPFR product is responsible for assuming, managing, and covering the
14 financial costs and risks associated with electricity supply, while customers receive
15 benefits that protect against adverse market and/or generation cost outcomes. Sellers of
16 FPFR products must satisfy their obligation, regardless of how much market prices or
17 generation costs may increase during the delivery period and regardless of the default
18 service load level. Yet if market prices decrease after these types of supply contracts are
19 signed, customers may elect service from a lower cost competitive retail supplier.

- 20 4. Duquesne Light's Plan continues the use of a standard supply contract (referred to as a
21 supply master agreement or "SMA"), which lets bidders know the terms and

³⁹ Examples of specific jurisdictions in which full requirements supply products are procured include Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, Ohio, Pennsylvania, Rhode Island, and Washington D.C.

⁴⁰ *Second Default Service Rulemaking Order*, p. 54.

⁴¹ *Second Default Service Rulemaking Order*, p. 56.

1 requirements of the default service supply obligation well in advance of the bid due date,
2 and therefore allows qualified bidders to submit firm bid prices knowing that these
3 contract terms and conditions will not change. The use of a standard SMA also assures
4 qualified bidders that the selection of the winning bidders will be an objective process
5 and encourages participation in the solicitations from a large number of potential
6 suppliers.

7 5. Duquesne Light's Plan is also prudent because it includes tailored supply portfolios for
8 different customer classes that take into account the benefits of price stability, the
9 different shopping propensity of each customer class, and the desire to develop the
10 competitive retail market in Duquesne Light's service area.⁴²

11
12 **Q. Does Duquesne Light's Plan satisfy Section 2807(e)(3.1) of the Act, which requires that**
13 **supply be acquired through competitive procurement processes?**

14 A. Yes, Duquesne Light's Plan satisfies this requirement. Section 2807(e)(3.1) provides that
15 the default service provider shall acquire electric power through competitive procurement
16 processes including one or more of the following: auctions, RFPs, and/or bilateral
17 agreements entered into at the sole discretion of the default service provider. Duquesne
18 Light's Plan satisfies Section 2807(e)(3.1) by relying on open and competitive solicitation

⁴² In its *Second Default Service Rulemaking Order*, when discussing the "prudent mix" requirement under Act 129, the Commission stated: "The Commission notes there was substantial unanimity on this point and agrees with the parties that the "prudent mix" standard should be interpreted to allow for a class-specific product mix that best matches the needs of each DSP customer class. *Second Default Service Rulemaking Order*, p. 69.

1 processes utilizing RFPs for full requirements supply contracts to obtain its default service
2 supply for all its customers.⁴³

3
4 **Q. Do you believe that Duquesne Light's Plan includes prudent steps necessary to**
5 **negotiate favorable generation supply contracts, as required by Section 2807(e)(3.7) of**
6 **the Act?**

7 A. Yes. Duquesne Light's Plan requires bidders to compete with each other, on the basis of
8 lowest price, in an RFP process to provide default service supply at the least cost.

9
10 **Q. Do you believe that Duquesne Light's Plan is designed to ensure adequate and reliable**
11 **service, as required by Section 2807(e)(3.4) of the Act?**

12 A. Yes. First of all, the supply contracts contain protections to provide reliability with respect
13 to the sellers' ability to satisfy the terms and conditions of the contracts. Under Duquesne
14 Light's Plan, suppliers must satisfy certain requirements (including being a member in good
15 standing of PJM) that help ensure that they are able to perform their obligations.

16 Furthermore, since all load served under the contracts will be supplied through PJM,
17 regardless of whether the winning default service supply bidders own or control generation,
18 reliable and adequate service is further ensured. PJM is a FERC-approved regional
19 transmission organization with a central responsibility to ensure the reliability of its regional
20 electricity grid of which Duquesne Light is a part, and has numerous mechanisms in place

⁴³ As described by Duquesne Light Witness Davis, the Company also will follow the Act 129 requirements related to supply procurement if it enters into a long-term solar contract.

1 to meet this responsibility. PJM helps to ensure service adequacy because all of the
2 fundamental components of electricity supply can be purchased through PJM. In the event
3 that a default service supplier defaults on its contract, Duquesne Light can procure the
4 physical supplies necessary to ensure adequate and reliable service to satisfy its default
5 service obligations.

6
7 **Q. Do you believe that Duquesne Light's Plan is consistent with the requirements of the**
8 **Act, given that Section 2807(e)(3.2) contemplates inclusion of a prudent mix of spot**
9 **market purchases, short-term contracts, and long-term purchase contracts with a term**
10 **of more than four years and not more than 20 years?**

11 A. Yes. While I am not an attorney, my understanding is that Act 129 requires a "prudent mix"
12 of spot, short-term and long-term contracts, but does not necessarily mandate the use of all
13 types of contracts in all situations. As noted earlier, the Commission has previously stated
14 that it rejects the positions of those parties that a "prudent mix" be defined to always require
15 a specific mix or percentage of types of contract components in each default service plan or
16 a minimum of two types of products.⁴⁴ In fact, Duquesne Light has operated for many years
17 under Commission-approved default service plans without having a long-term contract with
18 a term of more than four years. However, it is worth noting that as a part of its DSP VIII
19 filing, the Company is proposing to rely on an hourly day-ahead spot market purchase
20 product to supply the default service of Large C&I customers and is also proposing to

⁴⁴ *Second Default Service Rulemaking Order*, p. 60.

1 evaluate the benefits of entering into long-term solar contracts at some point during the DSP
2 VIII period.

3
4 **Q. Mr. Fisher, does Duquesne Light's proposed DSP VIII include a reasonable degree of**
5 **flexibility to accommodate the possibility of future changes in the default service**
6 **supply approach and the possibility of new retail market initiatives?**

7 A. Yes. Duquesne Light's proposed DSP VIII incorporates this flexibility in several ways.
8 First, the default service supply product portfolio for the Large C&I and Medium C&I
9 procurement classes does not include any supply products with delivery periods that extend
10 beyond May 31, 2021, the end of the DSP VIII period. As a result, the Commission can
11 easily adopt a similar plan or a very different plan for the period starting June 1, 2021,
12 without facing situations involving pre-existing default service supply products for these
13 customer classes with deliveries that extend beyond the DSP VIII period.

14 Second, the solicitations for Residential and Small C&I supply products with
15 delivery periods that extend beyond May 31, 2021 (the end of the DSP VIII period) do not
16 begin to occur until September 2019.⁴⁵ As a result, there is a significant amount of time
17 before commitments to new supply products extending beyond the DSP VIII period are
18 made, should changes need to be made due to legislative or regulatory mandates. In the
19 meantime, these solicitations remain scheduled because they allow for the option for a fairly
20 seamless continuation of the laddered procurement cycle as Duquesne Light transitions from

⁴⁵ And the supply product obtained in this solicitation that extends beyond May 31, 2021 represents only 12.5% of the default service load.

1 DSP VIII to DSP IX,⁴⁶ and they avoid subjecting Residential and Small C&I customers to a
2 “hard stop” with regard to their supply products at the end of the DSP VIII period. This is
3 consistent with the approach approved by the Commission in DSP VI and DSP VII, and it
4 helps to avoid the need to replace a large portion of default service supply in a short period
5 of time at the end of the DSP VIII period. Customers could be exposed to magnified risks
6 and rate instability if a default service plan were to require that a large portion of the
7 customers’ default service supply be procured in a short period of time, as evidenced by the
8 possibility of adverse short-term market conditions like those which existed during the Polar
9 Vortex in January 2014.

10
11 **Q. Mr. Fisher, are you familiar with the end state model for default electric service that**
12 **the Commission proposed in its Default Service End State Order?**⁴⁷

13 A. Yes. For Residential and Small C&I customers, the Commission proposed a significant
14 shortening of the term lengths of the default service supply products.⁴⁸ Specifically, the
15 Commission proposed that customers with peak demands below 100 kW, including
16 Residential customers, be served entirely by FPFR products with 90-day delivery periods,
17 procured each quarter. This supply portfolio would consist of substantially shorter-term
18 supply products for small customers than the products currently included in the major

⁴⁶ In its *Second Default Service Rulemaking Order*, the Commission recognized the importance of “laddering” contracts in procuring default service supply. Specifically, the Commission stated, “We agree with those parties that utilizing such practices as laddering contracts, with varying procurement periods and contract durations over multiple procurements provide definite benefits in terms of minimizing the impacts of market volatility and decreasing customer risk.” (*Second Default Service Rulemaking Order*, pp. 62-63.)

⁴⁷ *Investigation of Pennsylvania’s Retail Electricity Market: End State of Default Service*, Docket No. I-2011-2237952 (Order entered February 15, 2013) (“Default Service End State Order”).

⁴⁸ *Default Service End State Order*, p. 41.

1 Pennsylvania Electric Distribution Companies' approved default service plans for these
2 customers, as the current supply portfolios contain many products with one-year and two-
3 year delivery periods.⁴⁹

4
5 **Q. In the Default Service End State Order, did the Commission recognize that some of its**
6 **proposed changes may require amendments to existing legislation?**

7 A. Yes, the Commission acknowledged that procuring only a 90-day default service product
8 for Residential and Small C&I customers may require a change to the existing statutory
9 procurement standard, and in any event a legislative change was desirable for a variety of
10 reasons.⁵⁰ The Commission therefore determined that it would be “well-served to ensure
11 that the General Assembly is supportive of our overall policy direction on matters as
12 important as the retail market for electricity.”⁵¹ To date, such changes have not been adopted
13 by the General Assembly.

⁴⁹ *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-2013-2391368, P-2013-2391372, P-2013-2391375, P-2013-2391378 (Order entered July 24, 2014), pp. 7-8, 23; *Petition of PECO Energy Company for Approval of its Default Service Program for the Period from June 1, 2015 through May 31, 2017*, Docket No. P-2014-2409362 (Order entered December 4, 2014), pp. 7, 26; *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. 5, 16, 17; *Petition of PPL Electric Utilities Corporation for Approval of a Default Service Program and Procurement Plan for the Period June 1, 2015 through May 31, 2017*, Docket No. P-2014-2417907 (Order entered January 15, 2015), pp. 7, 19, 29.

⁵⁰ *Default Service End State Order*, pp. 16, 41, 43, 45-46, 48.

⁵¹ *Default Service End State Order*, pp. 45-46.

1 **Q. Do you believe that there are sufficient reasons to shorten the term lengths of the**
2 **products proposed in Duquesne Light’s DSP VIII supply portfolios for Residential and**
3 **Small C&I customers?**

4 A. No. I do not believe that there are sufficient reasons to shorten the term lengths of the
5 products in Duquesne Light’s Residential and Small C&I default service supply portfolios
6 at this time. As I noted earlier, the Commission has explicitly acknowledged that price
7 stability is an important consideration in developing a default service plan. Accordingly, in
8 assessing the relative merits and drawbacks of a portfolio consisting of generally shorter-
9 term products, it must be recognized that such a portfolio would erode the assurances of
10 price stability provided to default service customers. This is an important consideration
11 because small customers generally realize the greatest benefits from default service price
12 stability. Some small customers who need price stability may not have the time, incentive,
13 knowledge, sophistication, or resources to elect an EGS offering that provides the price
14 stability at reasonable levels that they seek. The mix of one-year and two-year FPFR
15 products in Duquesne Light’s Residential and Small C&I DSP VIII supply portfolios, and
16 the semi-annual overlapping of the delivery periods for those products, are important to
17 insulate customers from sudden and large price fluctuations. In contrast, supply portfolios
18 with generally shorter-term products would unnecessarily increase customers’ exposure to
19 substantial price fluctuations. Act 129 appears to be consistent with this position, as it
20 requires that a default service plan include a “prudent mix” of contracts that takes into
21 account any benefits of price stability.⁵²

⁵² 66 Pa. C.S. § 2807(e)(3.4), and Act 129 of 2008 (Preamble).

1

2 **Q. Does this conclude your direct testimony?**

3 **A. Yes, it does.**

VERIFICATION

I, Neil S. Fisher, Principal, The NorthBridge Group, hereby state that the testimony set forth in Duquesne Light Statement No. 3 is true and correct to the best of my knowledge, information and belief, and that if asked orally at a hearing on this matter, my answers would be as set forth herein.

I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.



Date: April 29, 2016

Neil S. Fisher, Principal, The NorthBridge Group

Exhibit NSF-1



Dominion to sell its retail energy business to NRG

March 13, 2014 9:13 AM

By Michael Sanserino / Pittsburgh Post-Gazette

Dominion Resources announced Tuesday that it would sell its 600,000-customer retail energy business to NRG Energy Inc., but the acquisition, expected to be finalized by the end of the month, could threaten local jobs.

NRG, based in Princeton, N.J., will acquire Dominion's customer accounts and its Cirro Energy unit, based in Texas, spokeswoman Pat Hammond said.

Since NRG is adding only the customer accounts, and not the entire retail energy business, the employees who used to service those accounts for Richmond, Va.-based Dominion will remain with Dominion.

Dominion spokesman Ryan Frazier said all decisions affecting Dominion's retail energy business employees will be made "during the transition."

Dominion has Pittsburgh offices in the D.L. Clark Building on the North Shore.

NRG plans to service the new accounts with its own employees. The company also has offices in Houston.

Dominion's retail energy business serves customers in Pennsylvania, Illinois, Maryland, Massachusetts, New Jersey and New York, and Cirro Energy serves customers in Texas. Its northeast division accounts for 80 percent of its retail customers.

Terms of the deal were not disclosed.

NRG already has electric customers in the Pennsylvania market as one of the state's numerous competitive energy suppliers.

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Dominion's exit from retail electric business illustrates risks of market

Rod Kuckro, E&E reporter

EnergyWire: Friday, February 7, 2014

The polar vortex that slammed the eastern half of the nation in early January may have been the last straw for Dominion Resources Inc., the Richmond, Va.-based energy company that on Jan. 31 abruptly said it would sell its unregulated retail electric business as soon as possible, preferably by the end of the first quarter.

Analysts are pondering whether Dominion's decision, announced during its fourth-quarter and year-end 2013 earnings call, is a one-off indication of a business poorly managed or a signal that other large players in the competitive retail electric markets may be experiencing similar financial pressures. Already, some smaller retail providers have succumbed by defaulting, unable to raise the collateral needed to continue in business.

"Retailers can really get hurt by spiking power prices particularly if they lightened up on risk control hedging strategies after an extended period of benign power prices and efforts to preserve some profitability in a world of depressed margins," Credit Suisse analysts wrote in a note Jan. 30 on what the polar vortex means for power earnings.

Dominion was among a group of companies with retail operations including Consolidated Edison Inc., Exelon Corp., FirstEnergy Corp. and Centrica PLC cited by Credit Suisse as being at risk of an earnings hit.

Two distinct events of extreme weather over a large geographic region in January rattled electricity markets in the PJM Interconnection, ISO New England and the New York Independent System Operator as prices soared past \$1,000 per megawatt-hour for the first time. In PJM at times, even prices for power during off-peak hours ranged from \$250 per MWh to \$500 per MWh, well above the more seasonal prices in the \$40-\$50-per-MWh range.

The price spikes that continue to a lesser degree this week are largely due to constrained supplies of natural gas, which produces an ever-growing share of electricity in the Northeast and mid-Atlantic.

For the more than 600,000 customers of Dominion Retail in Texas, Illinois, Ohio, New York, Pennsylvania, Massachusetts, Connecticut, New Jersey, Maryland and Maine, there was no reason for alarm.

Customers held fixed-price contracts that required Dominion to deliver electricity no matter how much it would cost to procure when the supplier inevitably had to go to the open market to satisfy demand. In Maryland for example, as of yesterday Dominion was advertising contracts through December 2015 for 9.59 cents per kilowatt-hour. That means customers would get all the electricity they wanted for less than 10 cents per kWh, even if Dominion had to pay exponentially more for its supplies.

Precisely what prompted Dominion's decision is unclear. Spokesman C. Ryan Frazier declined a request to have an executive elaborate on the decision. "Pursuing the sale is consistent with our strategy of de-risking Dominion by reducing our exposure to commodity sensitive businesses, thereby relying less on commodity-based businesses in our asset mix. We are not in a position to provide further detail at this point," Frazier wrote in an email.

Dominion CEO Tom Farrell raised more questions with his comments during the earnings call. "We continue to fine-tune our business model," Farrell said, noting that "the sale process is underway."

"It's all you have seen from the lot of our colleagues in the industry that have these retail businesses," he said. "The margins in the electric side of business have been shrinking. And you see increased volatility happening. ... It just doesn't fit our business model."

'Load mismatch'

Dominion is not exiting its retail natural gas business, which has more than 500,000 customers.

"Gas is a very different business," Farrell said. "Our products and services are a very different business because of where we sell the electricity in those regular retail markets and where we have assets – you don't have a matching capability of any real significance."

That "matching capability" may refer to the ability – of lack thereof – of a retail supplier like Dominion to use a fleet of merchant generation plants to ramp up and provide electricity at a lower price than in the open market in times of high demand. Credit Suisse called it "load mismatch" in its report, defined as the difference between gross generation and retail sales.

As one Wall Street observer noted, Exelon and FirstEnergy "both have large generation assets to back their retail positions and are able to generate enough electricity from existing power plants to serve the incremental demand."

But the result for Dominion, said the observer, who would speak only on condition of anonymity, was that it likely "lost north of \$100 million" during the polar vortex. "They panicked" after buying power in the open market in excess of \$300 per MWh, the observer said, "and lost so much money already in January that they had no choice. You don't even have to have more than two [bad] days to lose \$100 million. That's the beauty of the retail business – when it works it works, but when it doesn't, it can basically kill you in a couple of hours."

Todd Shipman, a utility analyst with Standard and Poor's, agreed that Dominion didn't have the merchant generation to balance its retail book.

Typically, retail suppliers "just ride those margins up and down. A lot of people that are in that business because they think they can make money over time, and they're not going to just leave all of a sudden because there was a bad year or two because it's a volatile business and they think over time they'll do fine," he said.

But for Dominion, which has been reducing its merchant fleet, "things are different in a sense that they had that offsetting strategy where they thought the retail business was a natural hedge against the merchant business," he said. But that natural hedge has disappeared.

'The writing was on the wall here more so than elsewhere'

If Dominion "didn't like being in the retail business at all, they'd be getting out of gas as well as electric. It may just be that the electric retail side of things hasn't really taken off for them," Shipman added.

"The declining profitability of the electric retail business itself probably led management to a decision even prior to January given the very limited earnings profile of this business," said Julien

Dumoulin-Smith, executive director of equity research at UBS Securities. "Ultimately for them, if it's not profitable, that's not necessarily a business they want to be in that doesn't have a return on equity."

Integrus Energy Services' Melissa Lauderdale, president of the Retail Energy Supply Association, agreed the decision may not have been entirely driven by what happened in January. "My guess is that Dominion had been thinking about that before January. A large holding company like Dominion probably doesn't make that kind of decision on one week's worth of bad weather."

But "you certainly have seen margin compression, and that does force suppliers to be more efficient," she said.

As to who may buy Dominion's retail book, "that's the question to be asked right about now; I'm very curious myself. I think there's always going to be a bid at a certain price," said Dumoulin-Smith, speculating that a likely buyer might be a company less interested in earnings. "Maybe someone who cares about a different metric -- say, cash flow -- might have a different valuation in this business."

As to what Dominion's decision may say about other large retail suppliers, "I don't necessarily expect an en masse exit from the business," Dumoulin-Smith said. "Frankly, it's done a number of other companies well in recent years. I wouldn't necessarily say that this event would shake any other specific company out of the business, per se. The writing was on the wall here more so than elsewhere."

On Jan. 31's conference call, Dumoulin-Smith took a last stab at finding out more about the effects of the polar vortex on Dominion's retail unit, asking Farrell to elaborate on the effects of the volatility. "We are not going to quantify it for you, but it's extraordinary to watch," the CEO quipped.

Problem magnified in PJM

While large retail suppliers such as Dominion, FirstEnergy and Exelon have the deep pockets to weather adverse financial results in the retail market, most retail suppliers are small by comparison, and their very existence can be challenged by continued high costs to procure electricity.

PJM on Tuesday notified its members that two retail load-serving entities had "not been able to fulfill their collateral calls and payment obligations." The two were Clean Currents LLC of Silver Spring, Md., and People's Power & Gas LLC of New Milford, Conn. Their potential net default charges, which would be allocated among remaining PJM members, are \$400,000 to \$600,000 and \$1.3 million to \$1.8 million, respectively. Neither is serving customers.

ISO New England has suspended five companies so far in 2014: Mega Energy Holdings LLC and People's Power & Gas on Jan. 29, OBE Electric LLC on Jan. 30, Statarb Investment LLC on Jan. 31, and Abest Power & Gas Co. on Tuesday. People's Power & Gas is still suspended. The other companies are currently meeting all their obligations "under the ISO's tariff," spokeswoman Lacey Girard said.

But in PJM, the threat of many other defaults looms based on data regarding the total dollar amount of collateral calls -- effectively a notice that a market participant is near or over its credit limit -- in January alone. For the month, calls exceeded \$2 billion, or "roughly four times the total dollar amount of the collateral calls for calendar year 2013," said PJM spokesman Ray Dotter.

FirstEnergy



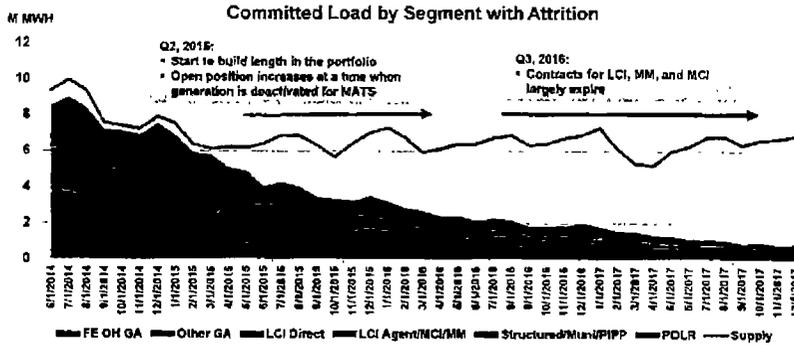
FirstEnergy FactBook

Published August 5, 2014

Creating Value for Investors

Existing Committed Sales

- Retain POLR, GA, and selected large commercial-industrial contracts
- Exit MCI, MM and certain LCI contracts by natural attrition



Expected significant level of uncommitted sales beginning mid-2015 provides flexibility

Optionality and Variety of Hedging Resources

Channel	Description	Value
Wholesale Sales	Sales in forward power markets made to hedge generation	Provides flexibility in volume and timing of hedge
GA	Buying group formed by communities which choose electric supplier for all members in the group. Pricing is fixed or is a percentage discount off the price to compare, which is determined through utility default service auctions. Current contracts run through 2019.	Higher margin load, pricing of majority of sales moves with market, minimal acquisition cost, minimizes risk of POLR
POLR	Tranches of non-shopping load that is won through utilities' default service auctions	Higher margin load, minimal acquisition cost and flexibility of participation
Structured	Includes municipality sales, co-operative sales, bilateral sales, and unique transactions	Higher margin wholesale transactions made for strategic purposes
LCI	Selected/strategic direct sales to large commercial and industrial customers	Higher load factors, less weather sensitive, flexibility of term; a wholesale-type load with better margins
Utility PPA	Dedicated plant output (MW) to distribution utilities through PPA	Full cost-based recovery with a rate of return; provides revenue certainty
Spot Market Sales	Sales in day-ahead or real-time to take advantage of market volatility/security pricing	Having a reserve dedicated to spot provides flexibility to manage weather sensitive loads and take advantage of market volatility

FirstEnergy Solutions dropping Peco customers

By Andrew Maykuth, Inquirer Staff Writer

POSTED: SEPTEMBER 30, 2015

FirstEnergy Solutions aggressively expanded in Pennsylvania's competitive electricity market three years ago, offering long-term fixed-rate deals that were attractive for residential customers.

Too attractive, evidently.

FirstEnergy recently mailed a wave of letters to Peco Energy Co. customers who signed up with FirstEnergy to supply their power, declining to renew their contracts when they expire in October. If the customers don't choose a new supplier, Peco will resume billing them at the current default rate, which is higher than what they currently are paying.

FirstEnergy did not disclose how many Peco customers would be affected. But earlier this year, FirstEnergy allowed a large tranche of Duquesne Light customers in Pittsburgh to lapse. The total number of Duquesne customers supplied by competitive power-generators dropped by 36,000, or 15 percent, in a few months.

FirstEnergy decided last year to reduce its exposure in retail energy markets, which had become too volatile and risky for its taste.

FirstEnergy Solutions, which is the competitive retail subsidiary of Akron power giant FirstEnergy Corp., said it had been unable to absorb all its costs during the severe winter of 2013-14, when wholesale power prices spiked dramatically. Demand from small customers shot up so much that FirstEnergy had to buy pricey power on open markets to meet its obligations.

"We didn't have all that risk built into the pricing," said Diane Francis, a company spokeswoman. "We actually had to go out and buy power for those customers."

Much attention last year was focused on individual customers with variable-rate contracts who were hammered by huge swings in their bills. But some power suppliers such as FirstEnergy, which had signed up hundreds of thousands of fixed-rate customers, also took a hit.

"You can lose an entire year's worth of [profit] margins in a few days of volatility," said Todd A. Shipman, a utilities analyst for Standard & Poor's Ratings Services.

Shipman said several large retail electricity suppliers have soured on the business as power prices have come down because of the low price of natural gas, a principal fuel for generators. Dominion Resources Inc. of Richmond, Va., last year sold its retail electric business to NRG Energy Inc. of Princeton, citing volatility.

"A number of energy companies are concerned we're in an extended period of low prices in the electricity industry, and it's time to get back to basics," Shipman said. Some companies, such as PPL Corp. of Allentown, spun off their competitive power-generation businesses to focus exclusively on operating regulated utilities, which provide steady, predictable earnings.

The Pennsylvania Public Utility Commission is monitoring the effects on retail customers, PUC spokesman Nils Hagen-Frederiksen said. He said FirstEnergy would be in compliance as long as it doesn't cancel customers' supply before their contracts expire.

Retail customers whose contracts expire are not at risk of losing power, Hagen-Frederiksen said, because they will automatically be supplied by Peco at the default rate.

In its letter to customers, FirstEnergy said it would waive early cancellation fees for customers who decided to switch to another supplier before their contracts expired.

FirstEnergy, which had 2.7 million retail customers in 2013, now serves about 1.9 million customers, Francis said. She said the company does not intend to exit the retail-supply business completely, and will continue to honor long-term contracts until they expire, including some customers who signed up for service until 2019.

"It was all about balancing our portfolio," she said.

As suppliers learn to reduce their risks, the lesson for retail customers is that it may become more of a challenge to find long-term fixed-rate deals that offer the big discounts to Peco's default rates than were available several years ago. But discounts are still available.

According to the PUC's website, papowerswitch.com, 57 electricity suppliers have offers posted for Peco Energy residential customers. Of those, 21 suppliers offer fixed-rate deals priced below Peco's current rate of 8.49 cents per kWh, which varies quarterly.

Eight suppliers have fixed-rate discounted offers for Peco residential heating customers, who are heavy users of power during winter months, and therefore benefit much more by securing a reduced price.

Under the state's rules for electric choice, customers are free to shop around for a competitive power supplier, including marketers of renewable power. Those customers who don't shop are supplied by Peco under a default rate, also called the "price to compare," which is based on the price Peco pays to secure the power.

In Pennsylvania, about two million customers, or 36 percent, are signed up with competitive suppliers. They account for 66.5 percent of the power consumed.

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Megawatt Daily (11-Aug-14)

FirstEnergy backs out of residential markets

FirstEnergy Solutions is withdrawing from the competitive residential and small commercial electric markets in six states as the company scrambles to adjust its generation to fit retail sales in the face of market volatility.

"We're no longer acquiring new customers in those channels," Diane Francis, spokeswoman for FES, said Friday. "What we're planning on doing is exiting the mass market channel, the individual residential" as well as smaller business market. "Essentially what we're doing is derisking our business."

The strategic pullback affects customers in Illinois, Michigan, Pennsylvania, New Jersey, Maryland and Ohio, the latter of which is where a majority of FES' 2.7 million customers are located. That total includes about 2.1 million residential customers, according to Francis.

Like some other utility parent companies, FirstEnergy for months has been placing more emphasis on its regulated operations at the expense of its competitive businesses.

Just two years ago, FES unveiled a long-term, fixed price for customers that was thought to be unprecedented in the retail sector. The offer provided for a fixed 6.75 cents/kWh for seven years and was made available to the more than 400,000 electric customers served by the Cleveland-based Northeast Ohio Public Energy Council, a government aggregation, as well as customers in the Ohio service territories of Duke Energy Ohio and Dayton Power & Light.

Now, FirstEnergy is looking to pull in its horns on the competitive side.

"What we've seen, especially coming out of the polar vortex" in January, "is that volatility of the electric market is reducing our ability to offer long-term stable pricing to customers," Francis said. "And it's also increasing our risk of serving retail load."

In the past few months, FES has taken other steps to lower risk exposure. "We included a risk premium in our pricing," something new for FES, she said. "Basically, what we would do in the past is that we would take all the risks and offer customers low, fixed pricing. Our competitors would offer customers variable pricing. In the past few months, we included risk premium pricing."

It is essential, Francis added, that FirstEnergy properly balance its retail book with its generation portfolio. "Over the years, as the amount of our generation capacity has decreased, we're going to better size our retail book to our generation. We're also making our retail book a little less weather-sensitive."

Unlike large industrials and some large commercial customers whose usage is mostly are unaffected by weather, small "retail customers are very weather sensitive," Francis noted. As a result, FES intends to focus its efforts more on large industrials and will continue to serve government aggregation customers, primarily in Ohio.

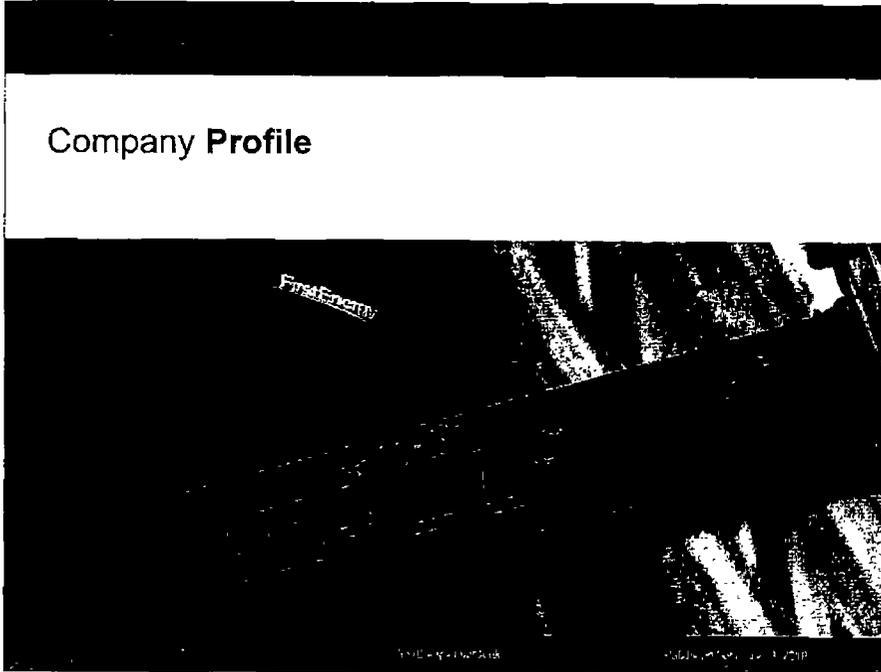
In addition to NOPEC, FirstEnergy also serves customers who participate in the Northwest Ohio Aggregation Coalition, a government aggregation based in Toledo.

In Illinois, Francis said FES included risk premiums in its aggregation renewal bids earlier this year, "and a lot of those [aggregation] communities went back" to their incumbent utility, in particular Commonwealth Edison.

Ohio and Illinois are the only two states where FES is “really into government aggregation,” Francis said, although it serves a “handful” of such customers in New Jersey.

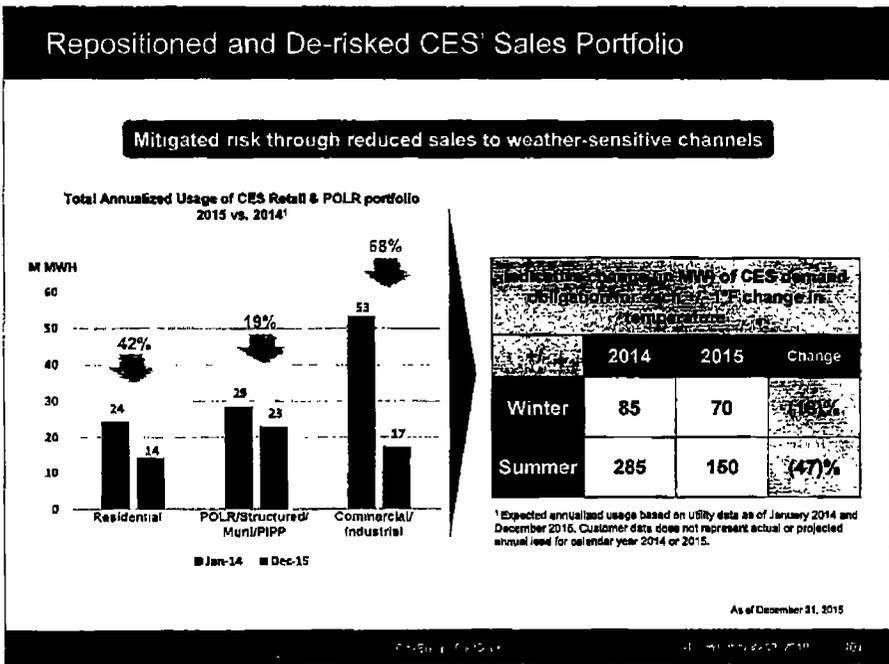
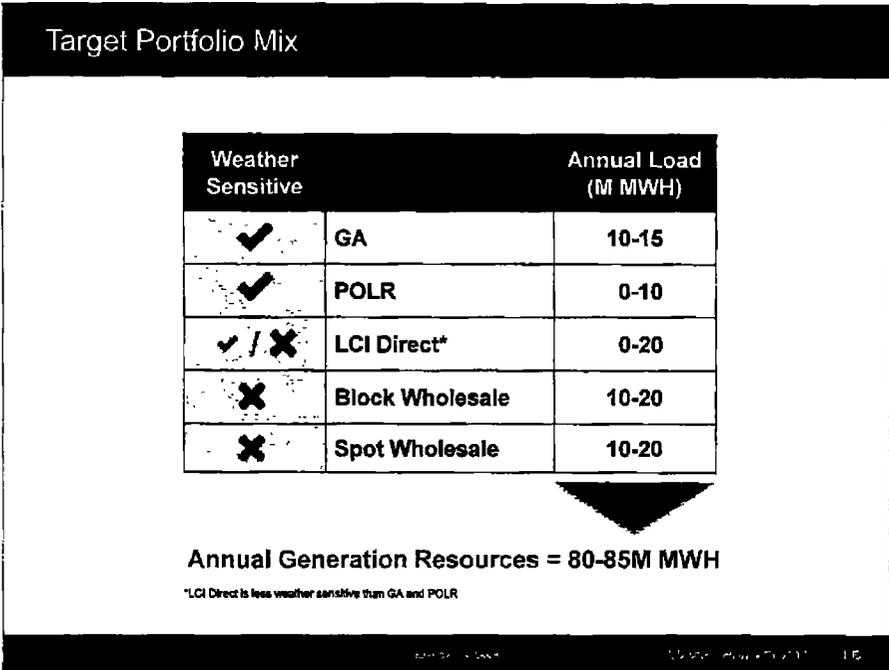
— Bob Matyi

Company Profile



Forward-Looking Statement

This FactBook includes forward-looking statements based on information currently available to management. Such statements are subject to certain risks and uncertainties. These statements include declarations regarding management's intent, beliefs and current expectations. These statements typically contain, but are not limited to, the terms "anticipate," "potential," "expect," "forecast," "target," "will," "intend," "believe," "project," "estimate," "plan" and similar words. Forward-looking statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements, which may include the following: the extent and nature of increased competition in the electric utility industry, in general, and the retail sales market in particular; the ability to experience growth in the Regulated Distribution and Regulated Transmission segments and to successfully implement our sales strategy for the Competitive Energy Services segment; the accomplishment of our regulatory and operational goals in connection with our transmission investment plan, including but not limited to, the proposed transmission asset transfer to Mid-Atlantic Interstate Transmission, LLC, and the effectiveness of our strategy to reflect a more regulated business profile; changes in assumptions regarding economic conditions within our territories, assessment of the reliability of our transmission systems, of the availability of capital or other resources supporting identified transmission investment opportunities; the impact of the regulatory process on the pending matters at the federal level and in the various states in which we do business including, but not limited to, requests related to rates and the Electric Security Plan IV in Ohio; the impact of the federal regulatory process on the Federal Energy Regulatory Commission (FERC)-regulated entities and transactions, in particular FERC's regulation of wholesale energy and capacity markets, including PJM Interconnection, L.L.C. (PJM) markets and FERC-jurisdictional wholesale transactions; FERC's regulation of cost-of-service rates, including FERC's revised Return on Equity methodology for FERC-jurisdictional wholesale generation and transmission utility services; and FERC's compliance and enforcement activity, including compliance and enforcement activity related to North American Electric Reliability Corporation's mandatory reliability standards; the uncertainties of nuclear asset recovery and cost allocation issues resulting from American Transmission Systems, Incorporated's reassignment into PJM; economic or weather conditions affecting future sales and margins such as a polar vortex or other significant weather events, and all associated regulatory events or actions; changing energy, capacity and commodity market prices including, but not limited to, coal, natural gas and oil prices, and their availability and impact on margins and asset valuations; the continued ability of our regulated utilities to recover their costs; costs being higher than anticipated and the success of our policies to avoid costs and to mitigate low energy, capacity and market prices; other legislative and regulatory changes, and revised environmental requirements, including, but not limited to, the effects of the United States Environmental Protection Agency's Clean Power Plan, final construction standards regulations, Cross-State Air Pollution Rule and Mercury and Air Toxics Standards programs, including our estimated costs of compliance, Clean Water Act (CWA) waste water effluent limitations for power plants, and CWA 316(b) water intake regulations; the uncertainty of the timing and amounts of the capital expenditures that may arise in connection with any litigation, including Near Source Review litigation, or potential regulatory initiatives or rulings (including that such initiatives or rulings could result in our decision to deactivate or file certain generating units); the uncertainties associated with the construction of certain state regulated and competitive fossil units, including the impact on reactor commitments and its effect on the reliability of the transmission grid, the timing thereof; the impact of other future changes in the operational status or availability of our generating units and any capacity performance charges associated with unit unavailability; adverse regulatory or legal decisions and outcomes with respect to our nuclear operations (including, but not limited to, the revocation or non-renewal of necessary licenses, approvals or operating permits by the Nuclear Regulatory Commission or as a result of the incident at Japan's Fukushima Daiichi Nuclear Plant); issues arising from the implications of standing in the United Kingdom at Onco-Breco; the risks and uncertainties associated with litigation, arbitration, mediation and file proceedings, including, but not limited to, any such proceedings raised to transfer commitments; the impact of labor disruptions by our unionized workforce; replacement power costs being higher than anticipated or not fully hedged; the ability to comply with applicable state and federal reliability standards and energy efficiency and peak demand reduction mandates; changes in customers' demand for power, including, but not limited to, changes resulting from the implementation of state and federal energy efficiency and peak demand reduction measures; the ability to accomplish or realize anticipated benefits from strategic and financial goals, including, but not limited to, the ability to continue to reduce costs and to successfully execute our financial plans designed to improve our credit metrics and strengthen our balance sheet through, among other matters, our cash flow improvement plan and other potential capital raising initiatives; our ability to improve electric commodity margins and the impact of, among other matters, the continued operation of the coal and gas plants; the impact of changes to general commodity markets; the ability to manage the public perception and other capital and credit markets with our financial plans; the cost of such capital and overall condition of the capital and credit markets affecting us and our subsidiaries, actions that may be taken by credit rating agencies that could negatively affect us under our subordinated access to financing; increases in the costs thereof, and insurance requirements to meet additional conditions to support outstanding commodity positions; letters of credit and other financial guarantees; changes in national and regional economic conditions affecting us; our relationships and/or our major industrial and commercial customers, and other counterparties with which we do business, including fuel suppliers; the impact of any changes in tax laws or regulations or adverse tax audit results or rulings; issues concerning the stability of domestic and foreign financial institutions and counterparties with which we do business; the risks associated with cyber-attacks and other disruptions to our information technology system that may compromise our operations, transmission services and data security; breaches of sensitive data; intellectual property and proprietary or potentially identifiable information regarding our business, employees, shareholders, customers, suppliers, business partners and other individuals in our data centers and on our network; and the risks and other factors discussed from time to time in our United States Securities and Exchange Commission filings, and other similar factors. Disclosures declared from time to time on FirstEnergy Corp.'s common stock during any period may be the aggregate of two or more prior periods due to circumstances determined by FirstEnergy Corp.'s Board of Directors at the time of the related disclosures. A security rating is not a recommendation to buy or hold securities and is subject to revision or withdrawal at any time by the rating agency. Each rating should be evaluated independently of any other rating. The foregoing review of factors also should not be construed as exhaustive. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor assess the impact of any such factor on FirstEnergy's business or the outcome to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements. FirstEnergy expressly disclaims any adverse intention to update, except as required by law, any forward-looking statements contained herein as a result of new information, future events or otherwise.



**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number
001-08489
000-55337
000-55338

Exact name of registrants as specified in their charters
DOMINION RESOURCES, INC.
VIRGINIA ELECTRIC AND POWER COMPANY
DOMINION GAS HOLDINGS, LLC
VIRGINIA
(State or other jurisdiction of incorporation or organization)
120 TREDEGAR STREET
RICHMOND, VIRGINIA
(Address of principal executive offices)
(804) 819-2000
(Registrants' telephone number)

I.R.S. Employer
Identification Number
54-1229715
54-0418825
46-3639580

23219
(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class
DOMINION RESOURCES, INC.
Common Stock, no par value
2013 Series A 6.125% Corporate Units
2013 Series B 6% Corporate Units
2014 Series A 6.375% Corporate Units

Name of Each Exchange
on Which Registered
New York Stock Exchange
New York Stock Exchange
New York Stock Exchange
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
VIRGINIA ELECTRIC AND POWER COMPANY
Common Stock, no par value
DOMINION GAS HOLDINGS, LLC
Limited Liability Company Membership Interests

Indicate by check mark whether the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.

Dominion Resources, Inc. Yes No Virginia Electric and Power Company Yes No Dominion Gas Holdings, LLC Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Dominion Resources, Inc. Yes No Virginia Electric and Power Company Yes No Dominion Gas Holdings, LLC Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Dominion Resources, Inc. Yes No Virginia Electric and Power Company Yes No Dominion Gas Holdings, LLC Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Dominion Resources, Inc. Yes No Virginia Electric and Power Company Yes No Dominion Gas Holdings, LLC Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Dominion Resources, Inc. Virginia Electric and Power Company Dominion Gas Holdings, LLC

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Dominion Resources, Inc.	Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
Virginia Electric and Power Company	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
Dominion Gas Holdings, LLC	Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
			(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act).

Dominion Resources, Inc. Yes No Virginia Electric and Power Company Yes No Dominion Gas Holdings, LLC Yes No

The aggregate market value of Dominion Resources, Inc. common stock held by non-affiliates of Dominion was approximately \$41.1 billion based on the closing price of Dominion's common stock as reported on the New York Stock Exchange as of the last day of Dominion's most recently completed second fiscal quarter. Dominion is the sole holder of Virginia Electric and Power Company common stock. As of January 31, 2015, Dominion had 588,138,107 shares of common stock outstanding and Virginia Power had 274,723 shares of common stock outstanding. Dominion Resources, Inc. holds all of the membership interests of Dominion Gas Holdings, LLC.

DOCUMENT INCORPORATED BY REFERENCE.

Portions of Dominion's 2015 Proxy Statement are incorporated by reference in Part III.

This combined Form 10-K represents separate filings by Dominion Resources, Inc., Virginia Electric and Power Company and Dominion Gas Holdings, LLC. Information contained herein relating to an individual registrant is filed by that registrant on its own behalf. Virginia Electric and Power Company and Dominion Gas Holdings, LLC make no representations as to the information relating to Dominion Resources, Inc.'s other operations.

VIRGINIA ELECTRIC AND POWER COMPANY AND DOMINION GAS HOLDINGS, LLC MEET THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1)(a) AND (b) OF FORM 10-K AND ARE FILING THIS FORM 10-K UNDER THE REDUCED DISCLOSURE FORMAT.

Part I

Item 1. Business

GENERAL

Dominion, headquartered in Richmond, Virginia and incorporated in Virginia in 1983, is one of the nation's largest producers and transporters of energy. Dominion's strategy is to be a leading provider of electricity, natural gas and related services to customers primarily in the eastern region of the U.S. As of December 31, 2014, Dominion's portfolio of assets includes approximately 24,600 MW of generating capacity, 6,400 miles of electric transmission lines, 57,100 miles of electric distribution lines, 10,900 miles of natural gas transmission, gathering and storage pipeline and 21,900 miles of gas distribution pipeline, exclusive of service lines. As of December 31, 2014, Dominion serves over 5 million utility and retail energy customers in 10 states and operates one of the nation's largest underground natural gas storage systems, with approximately 947 bcf of storage capacity.

In September 2013, Dominion announced its plans to form an MLP in 2014 by contributing certain of its midstream natural gas assets to the MLP initially and over time. In October 2014, Dominion Midstream launched its initial public offering and issued 20,125,000 common units representing limited partner interests, which included a 2,625,000 common unit over-allotment option that was exercised in full by the underwriters. Dominion owns the general partner and 68.5% of the limited partner interests in Dominion Midstream, which owns a preferred equity interest and the general partner interest in Cove Point. Dominion Midstream is consolidated by Dominion, and is an SEC registrant. However, its Form 10-K is filed separately and is not combined herein.

Dominion is focused on expanding its investment in regulated electric generation, transmission and distribution and regulated natural gas transmission and distribution infrastructure within and around its existing footprint. With this investment, Dominion expects 80% to 90% of future earnings from its primary operating segments to come from regulated and long-term contracted businesses.

Dominion continues to expand and improve its regulated and long-term contracted electric and natural gas businesses, in accordance with its six-year capital investment program. A major impetus for this program is to meet the anticipated increase in demand in its electric utility service territory. Other drivers for the capital investment program include the construction of infrastructure to handle the increase in natural gas production from the Marcellus and Utica Shale formations, to upgrade Dominion's gas and electric transmission and distribution networks, and to meet environmental requirements and standards set by various regulatory bodies. Investments in utility solar generation are expected to be a focus in meeting such environmental requirements, particularly in Virginia. Investments to gather and process natural gas production from the Utica Shale formation, in eastern Ohio and western Pennsylvania, are being made by the Blue Racer joint venture. In September 2014, Dominion announced the formation of Atlantic Coast Pipeline. Atlantic Coast Pipeline is focused on constructing an approximately 550-mile natural gas pipeline running from West Virginia through Virginia to North Carolina, to increase natural gas supplies in the region.

Dominion has transitioned to a more regulated, less volatile earnings mix as evidenced by its capital investments in regulated infrastructure and infrastructure whose output is sold under long-term purchase agreements, as well as dispositions of certain merchant generation facilities during 2013 and the sale of the electric retail energy marketing business in March 2014. Dominion's nonregulated operations include merchant generation, energy marketing and price risk management activities and natural gas retail energy marketing operations. Dominion's operations are conducted through various subsidiaries, including Virginia Power and Dominion Gas.

Virginia Power, headquartered in Richmond, Virginia and incorporated in Virginia in 1909 as a Virginia public service corporation, is a wholly-owned subsidiary of Dominion and a regulated public utility that generates, transmits and distributes electricity for sale in Virginia and North Carolina. In Virginia, Virginia Power conducts business under the name "Dominion Virginia Power" and primarily serves retail customers. In North Carolina, it conducts business under the name "Dominion North Carolina Power" and serves retail customers located in the northeastern region of the state, excluding certain municipalities. In addition, Virginia Power sells electricity at wholesale prices to rural electric cooperatives, municipalities and into wholesale electricity markets. All of Virginia Power's stock is owned by Dominion.

Dominion Gas, a limited liability company formed in September 2013, is a wholly-owned subsidiary of Dominion and a holding company. It serves as the intermediate parent company for the majority of Dominion's regulated natural gas operating subsidiaries, which conduct business activities through a regulated interstate natural gas transmission pipeline and underground storage system in the Northeast, mid-Atlantic and Midwest states, regulated gas transportation and distribution operations in Ohio, and gas gathering and processing activities primarily in West Virginia, Ohio and Pennsylvania. Dominion Gas' wholly-owned subsidiaries are DTI, East Ohio and Dominion Iroquois. DTI is an interstate natural gas transmission pipeline company serving a broad mix of customers such as local gas distribution companies, marketers, interstate and intrastate pipelines, electric power generators and natural gas producers. The DTI system links to other major pipelines and markets in the mid-Atlantic, Northeast, and Midwest including Dominion's Cove Point pipeline. DTI also operates one of the largest underground natural gas storage systems in the U.S. and is a producer and supplier of NGLs. East Ohio is a regulated natural gas distribution operation serving residential, commercial and industrial gas sales and transportation customers. Its service territory includes Cleveland, Akron, Canton, Youngstown and other eastern and western Ohio communities. Dominion Iroquois holds a 24.72% general partnership interest in a 416-mile FERC-regulated interstate natural gas pipeline extending from the U.S.-Canadian border at Waddington, New York through the state of Connecticut to South Commack, New York and Hunts Point, Bronx, New York. All of Dominion Gas' membership interests are owned by Dominion.

Amounts and information disclosed for Dominion are inclusive of Virginia Power and/or Dominion Gas, where applicable.

Table of Contents

The following table presents affiliated and related party activity reflected in Dominion Gas' Consolidated Balance Sheets:

At December 31,	2014	2013
(millions)		
Customer receivables from related parties ⁽¹⁾	\$ 22	\$ 3
Imbalances receivable from affiliates ⁽²⁾	3	6
Imbalances payable to affiliates ⁽³⁾		1
Affiliated notes receivable ⁽⁴⁾	9	5

(1) Includes \$17 million due from Atlantic Coast Pipeline, an affiliated VIE.

(2) Amounts are presented in other current assets in Dominion Gas' Consolidated Balance Sheets.

(3) Amounts are presented in other current liabilities in Dominion Gas' Consolidated Balance Sheets.

(4) Amounts are presented in other deferred charges and other assets in Dominion Gas' Consolidated Balance Sheets.

Dominion Gas' borrowings under the IRCA with Dominion totaled \$384 million and \$1.3 billion as of December 31, 2014 and 2013, respectively. Interest charges related to Dominion Gas' total borrowings from Dominion were \$4 million, \$35 million and \$61 million for the years ended December 31, 2014, 2013 and 2012, respectively.

NOTE 25. OPERATING SEGMENTS

The Companies are organized primarily on the basis of products and services sold in the U.S. A description of the operations included in the Companies' primary operating segments is as follows:

Primary Operating Segment	Description of Operations	Dominion	Virginia Power	Dominion Gas
DVP	Regulated electric distribution	X	X	
	Regulated electric transmission	X	X	
Dominion Generation	Regulated electric fleet	X	X	
	Merchant electric fleet	X		
	Nonregulated retail energy marketing	X		
Dominion Energy	Gas transmission and storage ⁽¹⁾	X		X
	Gas distribution and storage	X		X
	Gas gathering and processing	X		X
	LNG import and storage	X		

(1) Includes remaining producer services activities.

In addition to the operating segments above, the Companies also report a Corporate and Other segment.

DOMINION

The Corporate and Other Segment of Dominion includes its corporate, service company and other functions (including unallocated debt) and the net impact of operations that are discontinued or sold. In addition, Corporate and Other includes specific items attributable to Dominion's operating segments that are not included in profit measures evaluated by executive management

in assessing the segments' performance or allocating resources among the segments.

In January 2014, Dominion announced it would exit the electric retail energy marketing business. Dominion completed the sale in March 2014. As a result, the earnings impact from the electric retail energy marketing business has been included in the Corporate and Other Segment of Dominion for 2014 first quarter results of operations.

In the second quarter of 2013, Dominion commenced a restructuring of its producer services business, which aggregates natural gas supply, engages in natural gas trading and marketing activities and natural gas supply management and provides price risk management services to Dominion affiliates. The restructuring, which was completed in the first quarter of 2014, resulted in the termination of natural gas trading and certain energy marketing activities. As a result, the earnings impact from natural gas trading and certain energy marketing activities has been included in the Corporate and Other Segment of Dominion for 2014

In 2014, Dominion reported after-tax net expense of \$970 million in the Corporate and Other segment, with \$544 million of these net expenses attributable to specific items related to its operating segments.

The net expenses for specific items in 2014 primarily related to the impact of the following items:

- \$374 million (\$248 million after-tax) in charges associated with Virginia legislation enacted in April 2014 relating to the development of a third nuclear unit located at North Anna and offshore wind facilities, attributable to Dominion Generation;
- A \$319 million (\$193 million after-tax) net loss related to the producer services business discussed above, attributable to Dominion Energy; and
- A \$121 million (\$74 million after-tax) charge related to a settlement offer to incur future ash pond closure costs at certain utility generation facilities, attributable to Dominion Generation.

In 2013, Dominion reported after-tax net expense of \$452 million in the Corporate and Other segment, with \$184 million of these net expenses attributable to specific items related to its operating segments.

The net expenses for specific items in 2013 primarily related to the impact of the following items:

- A \$135 million (\$92 million after-tax) net loss from discontinued operations of Brayton Point and Kincaid, including debt extinguishment of \$64 million (\$38 million after-tax) related to the sale, impairment charges of \$48 million (\$28 million after-tax), a \$17 million (\$18 million after-tax) loss on the sale which includes a \$16 million write-off of goodwill, and a \$6 million (\$8 million after-tax) loss from operations, attributable to Dominion Generation; and
- A \$182 million (\$109 million after-tax) net loss, including a \$55 million (\$33 million after-tax) impairment charge related to certain natural gas infrastructure assets and a \$127 million (\$76 million after-tax) loss related to the producer services business discussed above, attributable to Dominion Energy; partially offset by
- An \$81 million (\$49 million after-tax) net gain on investments held in nuclear decommissioning trust funds, attributable to Dominion Generation.

Link: <http://powersource.post-gazette.com/powersource/consumers-powersource/2016/01/02/Retail-electric-market-struggles-to-grow-in-Western-Pa/stories/201601020012>

Retail electric market struggles to grow in Western Pa.

January 2, 2016 12:00 AM

By Daniel Moore / Pittsburgh Post-Gazette

In Ritchie Hudson's ideal world, every single electric customer in Pennsylvania would choose from the dozens of companies that compete to offer separate rates for power supply, an option seized by more than 2 million customers statewide.

But the industry is overcoming some early hiccups, acknowledges Mr. Hudson, state chairman for the Retail Energy Supply Association, a trade organization lobbying for such supply companies.

Beginning in the 1990s, Pennsylvania and 15 other states deregulated their power generation — requiring regulated electric utilities to sell their power plants to competitive operators. Supply companies emerged as the middlemen to effectively broker sales of power between those power plants and consumers, offering separate rates for power supply that often are lower than what the utility can offer.

And in the years since, the customer base swelled as the idea of competition proved to be largely true: Supply companies became savvier at offering a greater variety of options beyond the rate, such as the choice to pay a premium for a certain amount of locally sourced renewable energy. Pennsylvania is widely considered to have one of the most advanced markets for electric retailers, with a nationwide retail market study in July ranking the Commonwealth second only to Texas.

But despite growing options, customer confusion, reluctance and bad publicity has stymied overall customer growth, particularly in Western Pennsylvania. During the bursts of historically cold temperatures known as the polar vortex in recent winters, customers who had enrolled in a variable rate plan saw their electric bills skyrocket as wholesale power prices soared.

Complaints filed when rates spiked

As many as five retail suppliers could be forced to pay millions in refunds after the Attorney General's Office and Office of the Consumer Advocate filed suits on behalf of thousands of customers who filed formal complaints. On Dec. 3, the Public Utility Commission approved the first two settlements that requires New York-based Hiko Energy Inc. to refund customers \$2 million and pay a \$1.8 million civil fine.

In the complaint against Hiko, the agencies totaled 14,689 occurrences of over-billing across six utility territories, including 264 violations in Duquesne Light's territory and 1,422 violations in West Penn Power's territory.

Cases against four other suppliers — Pa. Gas & Electric; Blue Pilot Energy; IDT Energy; and Respond Power — are at various stages of litigation.

“Some low-quality suppliers shot themselves — and, more importantly, the entire market — in the foot,” said John Tough, vice president of Business Development & Operations for Choose Energy, Inc., a San Francisco-based online service that facilitates customer shopping across deregulated states. “Through bad variable rates and high renewal rates, the bad suppliers took over headlines and scared the consumers.”

Since April 2014, suppliers marketing in Duquesne Light Co.'s territory lost 87,000 customers, or 34 percent. Those selling into West Penn Power Co. netted a loss 20,000 customers, or 11 percent, over that same time period.

“I think most of the suppliers learned a very important lesson” about how to hedge against unexpected weather,” said Mr. Hudson, who is based in the Pittsburgh area working in governmental relations for New York-based electric supplier ConEdison Solutions. Suppliers also have increasingly stayed away from offering variable rates, instead focusing on fixed-rate plans that lock in customers for a period of months, he said.

Moving customers to the market

Still, the easiest option for customers is to stay out of the market. In fact, customers who choose not to shop for a competitive supplier automatically receive a supply rate from their utility, a model known as default service.

Going forward, suppliers will push the commission to end default service, thereby moving customers who were receiving power purchased by their utility to a supplier.

Mr. Hudson said it might have made sense in the early years to gradually introduce the concept of competitive options to customers who were comfortable with paying only their utility for electricity. But utilities' rates, regulated by the PUC, have a right to recover all costs associated with purchasing power for customers.

With no risk and with guaranteed revenue, suppliers argue, the utilities' service is hard to compete with.

“In any other industry, the notion of a default service option is very foreign,” Mr. Hudson said. For example, no one hands every cell phone customer a wireless plan from a specific carrier until that person chooses to go shop for another one, he said.

The PUC has considered ending default service as part of its years-long investigation into the effectiveness of retail markets, said spokeswoman Robin Tilley in an email. But during that

investigation, “the commission concluded that the time was not right to dramatically alter the current default service structure.”

“The commission did state, however, that it would revisit the issue at an appropriate time,” Ms. Tilley added.

In Texas, the utilities commission decided to abolish default service and transfer customers who hadn’t shopped around for other electric suppliers. At that time, Mr. Tough said, most utilities in Texas had 35 to 45 percent of their customers already shopping, and the elimination of default service rose that share to 65 to 70 percent.

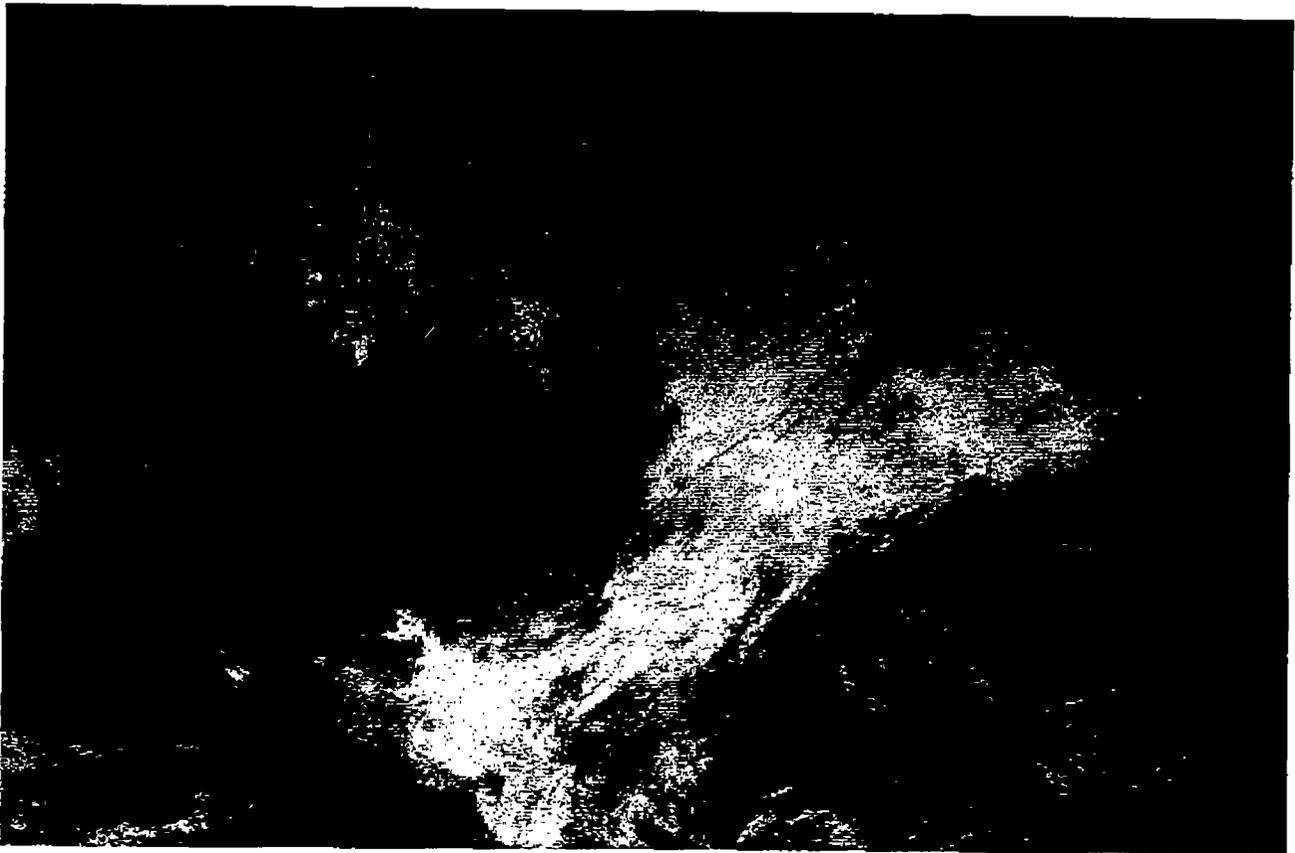
The rest of the customers were “never going to switch were (then) forced — and likely didn’t even realize or understand what happened,” he said.

“The state realistically has to wait until there is great approval for competitive supply,” he said. A Choose Energy analysis of shopping data shows that since early 2014 the share of shopping customers has fallen from 44 percent to 33 percent in the Duquesne Light territory and 32 to 27 percent in the West Penn Power territory.

“These are getting weaker, and a combination of rate volatility and flight to perceived safety in the utility area has occurred,” he said.

Daniel Moore: dmoore@post-gazette.com, 412-263-2743 and Twitter @PGdanielmoore.

2013-2014 Winter Polar Vortex



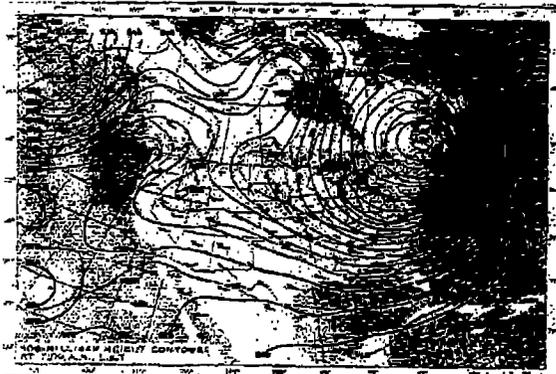
*What happened? Why have prices spiked? How have Consumers been impacted?
What do we have to say from a supplier's standpoint?*

What happened? Why have prices spiked? How have Consumers been impacted? What do we have to say from a supplier's standpoint?

As everyone living in the Northeast and much of the Mid-Atlantic knows, this has been one of the coldest winters east of the Rockies in recent history. We've experienced sustained periods of cold weather in these regions, and people have been turning up their heat and burning through more energy than anyone expected. It's not surprising then that electricity demand hit record highs this winter. With consumers using significantly more energy and wholesale market prices at record highs, it has been a not so perfect storm resulting in shockingly high winter energy bills for many consumers exposed to the market.

Why Did Power Prices Skyrocket?

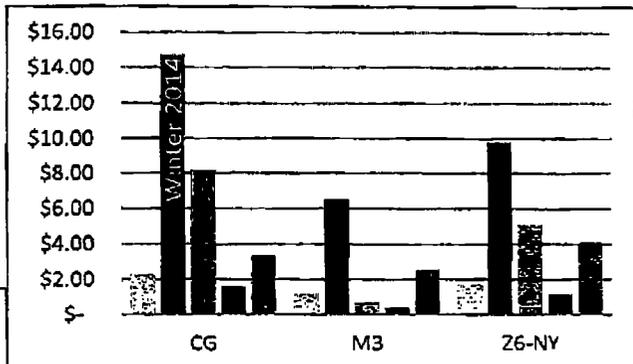
While increases in demand have certainly contributed to the high prices this winter, the most significant price driver was pipeline constraints that drove up the cost to transport natural gas (called "basis") to electric generators. Gas-fired generation represents a large portion of the generators in the Northeast and Mid-Atlantic; much of the time, it is the cost to generate electricity supply from natural gas that sets the price for all generators. Shortages in gas supplies to gas-fired power generators meant that generators needed to buy high-priced supply in the spot market. Spot gas prices at New England's Algonquin Gas Transmission city-gates peaked at \$75.48/MMBtu on January 22 according to Platts price data, compared to a 12-month average of \$8.60/MMBtu. That's about 878% higher than the 12-month average. Power prices in the same region peaked at 600% above the 12-month average (Day Ahead on-peak at Mass Hub peaked at \$467.50/MWh on January 28, average winter prices were \$163.09/MWh, and the 12-month average was about \$76.74/MWh). Similar differentials were seen throughout most of the Northeast and Mid-Atlantic.



The table below compares basis costs this winter compared to winter basis costs since December 2010, and average basis costs since May 2008. This winter, New England's Algonquin basis was about 337% higher than the average of the previous three winters. Tetco M3 which runs from the Gulf to New York was 538% higher, and New York's Transco Z6 was 285% higher.

Northeast Basis	AGT CG	Tetco M3	Transco Z6-NY
Average May 1, 2008 to Current	\$ 2.26	\$ 1.18	\$ 1.74
Average Dec 2013 - Feb 2014	\$ 10.71	\$ 6.59	\$ 5.83
Average Dec 2012 - Feb 2013	\$ 8.14	\$ 0.70	\$ 5.08
Average Dec 2011 - Feb 2012	\$ 1.59	\$ 0.40	\$ 1.19
Average Dec 2010 - Feb 2011	\$ 3.36	\$ 2.52	\$ 4.09

Avg from May 1, 2008 to Current
 Avg Dec 2013 - Feb 2014
 Avg Dec 2012 - Feb 2013
 Avg Dec 2011 - Feb 2012
 Avg Dec 2010 - Feb 2011



Not only has the dramatic cold had a severe impact on power prices, it also created numerous threats to the reliability of the grid. PJM Interconnection (PJM), the Regional Transmission Operator that operates the power grid for more than 60 million people in 13 states (Delaware, Indiana, Illinois, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia and the District of Columbia), issued numerous warnings and requests for curtailment during the month of January. On January 7th and again on January 27th, PJM issued an alert asking consumers to conserve electricity. On January 22nd, PJM also activated Emergency Demand Response across several zones, requiring curtailment of load and offering up to \$1800 per MWh during those hours. Throughout those same periods, Real Time electricity prices spiked as high as \$1800 per MWh (\$1.80 per kWh) in PJM during certain hours, compared to a 12-month average of \$64.33 per MWh (PSEG zone), a 2798% increase. Prices in New York and New England also hit record highs nearing around \$500 per MWh (\$0.50 per kWh).

Since those peak prices earlier this winter, we have seen prices moderate slightly. However, experts suggest that we are likely to experience high prices over the next few winters as well, with structural relief at least a few years away. Any proposed project to provide relief by reducing pipeline constraints will likely take years to complete, so consumers exposed to energy markets over the next few winters should expect higher-than-average prices during those months. Whether prices will be higher or lower than this winter will depend on a number of factors, including the severity and duration of cold weather.

How Did This Impact Customers?

Let's start with the good news: Customers who had locked in to ConEdison Solutions' fixed price contracts experienced no impact to their unit price. Here's why. Unlike many of our competitors, ConEdison Solutions' standard fixed price contract offers 100% usage bandwidth. That means that if you use more or less electricity than you've historically used, we do not penalize you by passing through any increase in cost we might experience as a result. This winter, consumers on-average used around 30% more electricity than they had historically used. Much of that usage happened on the coldest days when prices were at their peak. As your supplier, we went to the market and purchased additional power in order to supply you with power to meet your additional

usage. So, if we offered you a fixed price of 8-cents per kWh, for example, we purchased whatever excess was required at prices ranging as high as \$1.80 per kWh. If you were on a fixed price product we, as your supplier, incurred the full price exposure related to that excess usage, and protected you from any price increase.

Now the bad news: Customers who were not locked in to a fixed price contract, but were on a variable market-based product, saw a big increase in their bills this winter. The market dynamics described above resulted in extremely high energy prices this winter, and customers on market-based prices were exposed to those prices (which ranged as high as 30-cents per kWh). The actual unit price customers on a market-based price received each month depended on what hours they used electricity and what market prices were during those hours. So a customer who used a lot of power during the highest priced hours saw a much bigger impact than a customer who used less (whether they actively curtailed usage during those hours or just happened to use less power during those hours).

Note: Businesses that participated in Demand Response (DR) benefited in two ways: (1) They curtailed during the highest price hours resulting in lower usage and lower average bills for those months, and (2) They received significant payment from grid operators and their utility for their curtailment. ConEdison Solutions offers DR services for businesses that have a building management system in place and can curtail 250 kW of demand or more when an event is called.

What Do We Have to Say from a Supplier's Standpoint?

There's no question this has been a rough winter for many. Even those customers on a fixed price who were protected from unit price increases may have experienced an increase in usage volume as a result of the cold weather.

Customers on variable market-based prices were negatively impacted by the market dynamics that resulted in record-high prices this winter. But, it's important to put that into context and remember that many of those customers benefited from lower prices in the recent past when prices were declining. While that's no solace to budgets for Q1 2014, when evaluating whether your purchasing strategy was the right one, it's important to consider the months when you saved money, the months where you lost money, and your appetite

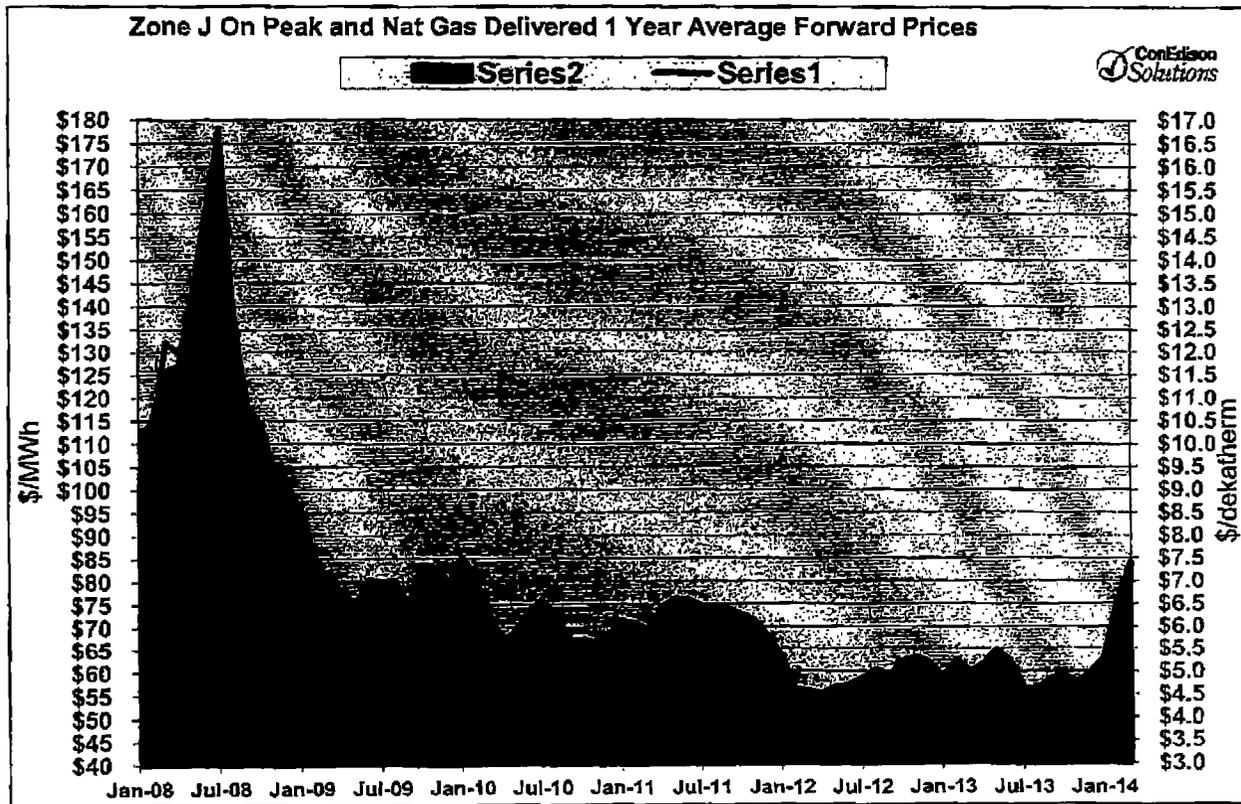
2013-2014 Winter Polar Vortex

What happened? Why have prices spiked? How have Consumers been impacted? What do we have to say from a supplier's standpoint?

for risk or volatility. The graph below shows average market prices over the past six years in New York City (Zone J), as an example. You can see that market prices were on a downward trend for some time, resulting in overall declining prices for customers on a market-based price over the long period shown.

Additionally, while ConEdison Solutions' fixed price customers were protected from this winter's price volatility, not all fixed price customers were as lucky. A number of smaller, less-financially stable suppliers have gone out of business as a result of this winter's events – and customers

served by such suppliers lost their contracts and were dropped back to their utility's default service. Customers being served by their local utility company were impacted in different ways. Utilities that supply customers through variable rates either passed through these increases to consumers (as they incurred them, just as suppliers did), or may pass them through in some manner over the next few months. Utilities that supply customers on fixed prices were impacted as well, and may pass these costs to customers through increases in future periods.



So What Do We Recommend?

The first thing you should do is make sure you understand the product you're currently on, and the allocation of risks between you and your supplier. Make sure you review your contract carefully to differentiate the costs that are truly fixed versus any costs that may be passed through to you. Then ask yourself if the product you're on matches your risk profile.

Next, gather helpful information about the market – what is the current price environment and how does it compare to the recent past?

Lastly, determine if you're comfortable with the supplier you're working with. Are they financially stable? If you lock-in a multi-month fixed price contract, are you confident that your supplier will be around to serve you over the entire period? Are you confident that they have the experience and expertise to guide you in the right direction? Do you trust them? Is their contract clear and straightforward?

ConEdison Solutions strongly believes that the best policy is transparency – making sure customers have a clear understanding of the options available, key differences in those options, and risks versus benefits. If you're on a variable market-based product – price risk always exists. Sometime such risk works in your favor, and sometimes it works against you. As a supplier, it's our job to make sure that you understand both the risks and the benefits so that you can make an educated decision and choose a product that best fits your needs and your risk tolerance. And, if you're uncomfortable bearing any price change risk, we offer fixed price options that provide full price protection.

We encourage our customers, and any business looking for guidance on energy purchasing or use, to call us with questions about trends in the market, potential impacts on your business, and what energy options are available to meet your energy needs.

If you're a business, please contact a ConEdison Solutions commodity sales executive by calling 1-800-316-8011.

If you're a residential customer, please contact a ConEdison Solutions customer service team by calling 1-888-210-8899

ConEdison Solutions offers programs and services designed to help customers achieve their individual energy objectives and is accredited as an Energy Services Provider (ESP) by the National Association of Energy Service Companies (NAESCO).

ConEdison Solutions is a subsidiary and registered trademark of Consolidated Edison, Inc. (NYSE: ED). More information can be obtained by calling 1-888-210-8899 or visiting the ConEdison Solutions website at www.conedsolutions.com.

Providing integrated energy solutions that include:

- Energy Supply Pricing Plans
- Sustainable Energy & Services
- Energy Savings Performance Contracting
- Design-Build Construction Services

for commercial, industrial, federal, state and municipal government, healthcare and education markets.

States of Operation

- **C&I Electric Commodity:**
CT, DE, IL, MD, MA, ME, NH, NJ, NY, OH, PA, RI, TX, and DC
- **C&I Gas Commodity:**
NJ and NY
- **Residential Electric Commodity:**
CT, IL, MD, MA, NY, PA, and DC
- In regions where energy is not directly supplied by ConEdison Solutions (CES), we will assist in developing and evaluating RFPs to purchase energy
- **Energy Services:** Nationwide

Key Indicators

- **Peak Load Served:**
Approximately 4,000 MW
- **Megawatt Hour Volume:**
Approximately 12 million MWh
- **Annual Revenue:**
Over \$1 billion
- **Residential/Mass Market Accounts:**
Over 270,000



Link: <http://pittsburgh.cbslocal.com/2014/02/21/as-electric-bills-skyrocket-local-legislator-calls-for-action/> <http://pittsburgh.cbslocal.com/2014/02/21/as-electric-bills-skyrocket-local-legislator-calls-for-action/>

As Electric Bills Skyrocket, Local Legislator Calls For Action

February 21, 2014 9:01 PM By Jon Delano

Filed Under: [Bills](#), [Consumer](#), [Electric Bills](#), [Electricity Bills](#), [House Consumer Affairs Committee](#), [IDT](#), [IDT Energy](#), [Investigation](#), [Jon Delano](#), [Public Utility Commission](#), [PUC](#), [Rates](#), [Rep Rob Matzie](#)

PITTSBURGH (KDKA) — Last Monday, KDKA told you about the Johnsons whose electricity supplier without notice tripled their electric bill to \$739.

That prompted lots of emails to KDKA, like one from Eva Mae Byers and her daughter Nancy who got an unimaginable bill.

“I was highly shocked,” Byers told KDKA money editor Jon Delano. “I kept saying, ‘This is impossible. This is impossible.’”

Instead of the \$399 charge she got last year for the same month, her new bill was over \$2,000.

Delano: “Could you pay a bill like this on Social Security?”

Byers: “Oh, absolutely not. No way. I can barely make my payments on Social Security. No.”

Her daughter Nancy tried to call the supplier, IDT Energy, at 9 a.m. Friday morning.

“I was caller number 76,” she said. “I was bound and determined to stay on the line until I got through to them. At 9:31, I was down to caller number 59, and I got disconnected.”

While the cold month prompted a 50 percent increase in electricity for the Byers’ modest home in Claysville, IDT jacked the bill 500 percent.

With outrageous bills like this and consumers essentially up the creek, the real question is what is the PUC going to do about it and how about our state legislators?

“Being dropped off and not having an opportunity to speak to anybody, there’s a problem there, and if we can’t rectify that problem, those people shouldn’t be able to do business in Pennsylvania,” says Pa. Rep. Rob Matzie, a member of the House Consumer Affairs Committee.

Matzie says the PUC should require suppliers to give notice of rate hikes.

“They should be warned, a week, five days whatever,” adds Matzie.

And then allow consumers to switch to lower priced suppliers instantly.

The PUC says it is investigating companies — and will revoke licenses of those not following proper marketing practices.

Jon Delano

Jon Delano is a familiar face on KDKA-TV, having been the station's political analyst since 1994. In September 2001 Jon joined KDKA full time as the Money & Politics Editor and this region's only political analyst who covers national and local...