

**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 :

**PETITION OF DUQUESNE LIGHT COMPANY
FOR APPROVAL OF A DEFAULT SERVICE PLAN**

Pursuant to 66 Pa. C.S. § 2807(e), 52 Pa. Code § 5.41, and the Pennsylvania Public Utility Commission's ("Commission") Retail Market Orders at Docket No. I-2011-2237952, including the Default Service End-State Order,¹ the Commission's Default Service Rulemaking Order at Docket No. L-2009-2095604,² Duquesne Light Company ("Duquesne Light" or the "Company") hereby petitions the Commission for approval of a default service plan for the period from June 1, 2017 through May 31, 2021 ("Default Service Plan," "Plan" or "DSP VIII"), as well as approval of the Company's 1) Time-of -Use Program, 2) Standard Offer Program, 3) Customer Assistance Program ("CAP") Shopping Program, and other approvals described herein required for the implementation of the Plan.

A. BACKGROUND

1. Duquesne Light has implemented seven (7) successful default service programs helping to create one of the most competitive shopping environments in the Commonwealth, while providing default service at rates and terms that meet the requirements of the Public Utility Code. With each successive plan, Duquesne Light has adjusted its default service offerings in an effort to promote the competitive retail market, provide market reflective rates, and ensure

¹ *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*").

² *Default Service and Retail Electric Markets*, Docket No. L-2009-2095604 (Order entered October 4, 2011) ("*Second Default Service Rulemaking Order*").

adequate protections for its customers. In its DSP VIII proposal, Duquesne Light seeks to build upon its prior successes and continue to promote competition for its customers.

2. Chapter 28, Section 2807(e) of the Public Utility Code (Code), 66 Pa. C.S. § 2807(e), provides the requirements of a default service plan. Chapter 28 requires the default service provider to follow a Commission-approved competitive procurement plan that includes auctions, requests for proposal, and/or bilateral agreements, as well as a prudent mix of spot market purchases, short-term contracts, and long-term purchase contracts designed to ensure adequate and reliable service at the least cost to customers over time. 66 Pa. C.S. § 2807(e). Additionally, the *Second Default Service Rulemaking Order* provides guidance regarding these requirements.

3. The Company's proposed Default Service Plan satisfies these principles through the competitive procurement of electric supply tailored to meet the individual characteristics of each customer class while ensuring appropriate consumer protections. The Company's Default Service Plan was developed with the recognition that each customer class has different characteristics and different levels of experience with the competitive market. The Plan takes these differences into account and proposes procurement methodologies for each of the major customer groups that reflect these considerations. The Company's Plan also continues to support Pennsylvania retail markets with its new program to enable EGSs to offer Time-of-Use products. In developing this Plan, the Company also considered the approaches that have worked in previous default service plans; the current desires and concerns of parties, customers and retail suppliers; and the Commission's rules and policies.

4. The Company's Default Service Plan satisfies the applicable legal requirements by providing for the availability of adequate, reliable, affordable, efficient and environmentally

sustainable electric service at the least cost over time and the impact to the environment. A summary of Duquesne Light's Default Service Plan is set forth below, with additional details provided in the testimony and exhibits accompanying this Petition.

B. PROGRAM TERM

5. Duquesne Light's recent DSP programs have each been for a term of two years. The relatively short terms have allowed for refinements to the procurement process and procedure as shopping has continued to develop in the Company's service territory.

6. Duquesne Light proposes that the DSP VIII Plan be in effect for a period of four years, from June 1, 2017 through May 31, 2021. Extending the term from two years to four years will save litigation time and cost for Duquesne Light, other parties that participate in DSP proceedings and the Commission. Further, Duquesne Light has provisions in its SMA that enable the Company to transfer its obligations to procure or supply Default Service supply to a third party, in the event the Company ceases to serve as the Default Service supplier.

C. PROPOSED DEFAULT SERVICE PROCUREMENT PLANS AND RATES

7. This Default Service Plan includes a portfolio of four (4) separate supply plans tailored to meet the specific needs of major customer groups which are: 1) Residential & Lighting ("Residential"), 2) Small Commercial & Industrial ("Small C&I"), 3) Medium Commercial & Industrial ("Medium C&I"), and 4) Large Commercial & Industrial ("Large C&I").

Residential and Lighting Customers

8. Default Service for Residential customers will consist of a combination of twelve (12) and twenty-four (24) month full requirements supply contracts obtained through semi-annual competitive requests for proposals ("RFP") with overlapping, or "laddered"

delivery periods. The full requirements contracts require supplier(s) to provide energy, capacity, ancillary services, and any other services or products necessary to serve a specified percentage of default service load 24 hours a day, for the term of the contract. Because the contract is "load-following," the amount of energy and other services and products a supplier must provide will vary depending upon Duquesne Light's actual default service load. The supply contracts that Duquesne Light has proposed for Residential customers require the suppliers to satisfy this obligation at the prices that they bid in the respective RFPs. The procurement methodology is discussed in more detail in the testimony of Mr. Peoples in Duquesne Light St. No. 2.

9. DSP VII relies exclusively on laddered one-year, fixed-price full requirements ("FPFR") supply contracts to serve Residential customers. Herein, the Company proposes to transition to a product mix consisting of 50% laddered one-year FPFR supply contracts, and 50% laddered two-year FPFR supply contracts. The Company also proposes to continue to change the default service supply rates every six months as in DSP VII. The proposed mix of one-year and two-year FPFR products and the semi-annual overlapping of their delivery periods will provide Residential customers greater price stability, which is reasonable and appropriate for this customer class.

10. Duquesne Light proposes to procure four (4) FPFR supply contracts for Residential class with delivery periods that extend beyond the end of the DSP VIII period, otherwise known as "overhanging" contracts. The Company believes that overhanging contracts are appropriate customer protections that help avoid the potential price shock that may occur when 100% of supply must be procured at one time or over a short period of time. The Company's DSP VI and DSP VII also includes overhanging supply contracts for Residential and

Small C&I customers.³ The Commission's prior approval of overhanging contracts is a clear indication of the Commission's support for price stability, and recognition that procuring 100 percent of supply at one time or within a short period of time can create unnecessary price volatility for customers. Exhibit JP-1, which is attached to Duquesne Light Statement No. 2, shows the proposed procurement schedule and delivery period for Residential customers.

11. Additionally, Duquesne Light proposes semi-annual reconciliation of Residential procurement group default service costs and revenues along with semi-annual rate changes. The Company recognizes that the Commission's regulations provide for quarterly rate changes for Residential customers. See 52 Pa. Code § 54.187. However, Duquesne Light does not believe that quarterly rate changes will be necessary for Residential customers because the Company is proposing to acquire default service supply for these customers in the form of twelve (12) and twenty-four (24) month fixed-price full requirements contracts. Fixed-price full requirements contracts greatly diminish cost over/under-recoveries that are associated with other procurement methods, such as those methods that involve the procurement of block products supplemented with spot energy sales and purchases, and therefore do not require more frequent rate resets in order to reconcile costs. The Commission approved semi-annual reconciliation for Duquesne Light's Residential customers in the DSP VI proceeding. *DSP VI Order*, p. 210. In DSP VII semi-annual reconciliation was approved as part of the Settlement Stipulation. Duquesne Light therefore requests a waiver of Section 54.187 to the extent necessary to implement its proposed plan.

12. Supply for the Lighting customers' default service load will be included in the Residential procurement group. Wholesale suppliers will bid a single price to supply both

³ See *Petition of Duquesne Light Company for Approval of Revisions to its Approved Default Service Plan VI*, Docket No. P-2012-2301664 (Order entered September 11, 2014)(permitting Duquesne Light to extend contracts that overlap into DSP VII).

Residential and Lighting customers' default service load. Separate rates will be developed by Duquesne Light for Residential and Lighting customers to reflect the lower market cost of supplying the applicable Lighting customer classes. The methodology for developing Lighting rates is the same as that approved by the Commission in DSP VII and is described by Mr. Ogden in Duquesne Light St. No. 4.

13. The RFPs for Residential customers will be conducted by Duquesne Light, with an independent monitor. The Company proposes to maintain the 50% supplier load cap to serve Residential (and Small C&I) customers in a given RFP equal to 50% of the number of tranches solicited on that RFP date, rounded up to the nearest integer number of tranches.

14. As explained in Mr. Davis' Testimony, Duquesne Light Statement No. 1, the Company is evaluating the benefits of entering into long-term contracts (i.e., more than four years) to support the development of utility-scale solar projects (up to a total of 20 MW) in Pennsylvania, preferably in Duquesne Light's service territory.⁴ Duquesne Light would seek Commission approval of the solar contract after a more detailed plan has been developed at some point during the DSP VIII period. The alternative energy credits ("AECs") associated with this project (or projects up to the 20 MW cap) could be used to help satisfy the solar requirements of serving Residential default service customers later in the DSP VIII period and beyond.

15. In the *Default Service End-State Order*, the Commission directed the establishment of a working group, in part, to develop an industry standard default service Supply Master Agreement ("SMA") for EDCs in Pennsylvania. The Company is proposing to use this SMA template, with a few modifications, for its wholesale power procurements under DSP VIII.

⁴ Other major Pennsylvania Electric Distribution Companies have already signed 10-year power purchase agreements for solar alternative energy credits.

A copy of the Supply Master Agreement is attached to the testimony of Mr. John Peoples as Exhibit JP-3.

Small C&I Customers

16. Default Service for Small C&I customers, which are customers with monthly metered demands less than 25 kW, will be supplied in the same manner as Residential customers, which consists of a combination of twelve (12) and twenty-four (24) month full requirements supply contracts obtained through semi-annual competitive RFPs with overlapping, or “laddered” delivery periods. The procurement schedule and delivery period for Small C&I customers is also provided in Exhibit JP-1, which is attached to Mr. Peoples’ testimony.

17. Similar to Residential customers, Duquesne Light's procurement plan for Small C&I customers is designed to provide additional rate stability. In the *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 (Opinion and Order entered January 15, 2015), the Commission stated “... Duquesne’s proposal should be accepted in order that the Small C&I customer class procurement would be similar to the default service procurement for the Residential class in DSP VII. As Duquesne has explained, these classes exhibit similar characteristics and the proposed default service procurement plans for these classes represent a balancing of the importance of rate stability and market responsive rates for these smaller customers.”

18. Similar to the rationale in DSP VII, the Company is proposing the same procurement program for Small C&I and Residential customers because both classes have similar shopping levels and market sophistication. Therefore, it is reasonable to offer the same

procurement approach for both classes.

19. Rates for Small C&I customers will be reset twice per year, and Duquesne Light proposes to continue to reconcile costs for these customers on a semi-annual basis. The Commission approved semi-annual reconciliation for Duquesne Light's Small C&I customers in the DSP VI proceeding. *DSP VI Order*, p. 210. In DSP VII, semi-annual reconciliation was not contested and was approved as part of the Settlement Stipulation.

20. As with Residential customers, Duquesne Light recognizes that the Commission's regulations provide for quarterly rate changes for Small C&I customers. 52 Pa. Code § 54.187. However, the Company does not believe that quarterly rate changes will be necessary for Small C&I customers because the Company is proposing to acquire default service supply for these customers in the form of twelve (12) and twenty-four (24) month fixed-price full requirements contracts. As explained above, fixed price full requirements contracts greatly diminish cost over/under- recoveries that are associated with other procurement methods, such as those methods that involve the procurement of block products supplemented with spot energy sales and purchases, and therefore do not require more frequent rate resets in order to reconcile costs. Accordingly, there is no need to reset rates quarterly, and Duquesne Light requests a waiver of the regulation to the extent necessary to implement its proposed plan.

21. Small C&I customers include unmetered C&I customers. The load of unmetered accounts will be included in the Small C&I procurements. Default Service rates for unmetered accounts will be the same as the Small C&I Default Service rates.

22. Duquesne Light also will use the SMA template, with a few modifications, for EDCs in Pennsylvania for its Small C&I procurements.

Medium C&I Customers

23. Default Service for Medium C&I customers, which are customers with monthly metered demands equal to or greater than 25 kW and less than 300 kW, will continue to be supplied by full requirements supply contracts for three-month terms from third-party suppliers with no laddering.⁵ The Company's procurement proposal for Medium C&I customers is consistent with the current Commission approved procurement schedule for Medium C&I customers under DSP VII. The procurement schedule and methodology is further explained by Mr. Peoples in Duquesne Light St. No. 2.

24. The procurement methodology for Medium C&I customers is appropriately market responsive given the sophistication of this customers class and current shopping level.

25. The Medium C&I default service supply will be split into four equal tranches of 25% of the total Medium C&I default service load in each hour. Accordingly, the Medium C&I default service rates will change quarterly, on June 1st, September 1st, December 1st, and March 1st.

26. The Company proposes, as approved in DSP VII, to apply no supplier load cap for the Medium C&I solicitations. With three-month contracts for Medium C&I customers, the effect of supplier default is lessened, and there is a reduced need for load caps to guard against the exposure resulting from a large supplier defaulting on its obligation.

27. In the *Default Service End-State Order*, the Commission proposed that customers with demands of 100 kW or greater that have interval meters only be offered hourly LMP products. *Default Service End-State Order*, p. 31. However, the Commission further

⁵ As discussed later herein, the Company is proposing to lower the threshold for Large Commercial & Industrial Customer Hourly Priced Service ("HPS") from 300 kW to 200 kW in 2019. If and when adopted, the Medium C&I customer class will include customers with monthly metered demands equal to or greater than 25 kW and less than 200 kW.

acknowledged that directing an hourly LMP product for Medium C&I customers may raise legal questions about compliance with the Competition Act and that the Commission preferred to pursue legislative amendments that would provide for such authority before mandating an hourly priced product for Medium C&I customers. *Id.* at 45. To date, such changes have not been adopted by the General Assembly. Therefore, the Company is not proposing hourly LMP default service prices for Medium C&I customers.

28. Duquesne Light also will use the SMA template, with a few modifications, for EDCs in Pennsylvania for its Medium C&I procurements.

Large C&I Customers

29. For Large C&I customers, defined as customers with monthly metered demand equal to or greater than 300 kW, Duquesne Light will offer default service rates based on hourly day-ahead PJM energy market prices. Customers also will be charged a pass through of PJM capacity and ancillary services costs as well as the administrative costs of providing HPS. The procurement methodology is discussed in more detail in the testimony of Mr. Peoples in Duquesne Light St. No. 2.

30. The Company is proposing several significant changes to the Large C&I procurement plan from the DSP VII plan. Effective June 1, 2017, the Company is proposing to simplify the structure and administration of HPS in an effort to lower the Company's administrative costs that HPS customers pay. Additionally, the Company is proposing to conduct an RFP for third-party suppliers to supply this service using an open and competitive solicitation process for full requirements supply. Once these changes are in place and have been successfully tested, the Company plans to lower the kW threshold for HPS from ≥ 300 kW to ≥ 200 kW beginning on June 1, 2019.

31. The Company proposes to charge 100% of HPS customers' actual hourly usage at the day-ahead hourly energy prices.⁶ This proposal allows customers to manage their electricity usage and supply costs by providing customers with advanced day-ahead notice of hourly energy prices, and also will eliminate the customers' uncertainty associated with the ex-post real-time price reconciliation.

32. Under this proposal the Company will: (a) eliminate the need to submit day-ahead hourly load forecasts for each HPS customer, b) eliminate the need to be prepared to receive modifications to those day-ahead hourly load forecasts from each HPS customer, c) eliminate the need to reconcile the difference between the day-ahead hourly load forecast and actual hourly customer usage at real-time prices for each HPS customer, and d) eliminate the need to bill those reconciled amounts to each HPS customer.

33. As explained in the testimony of Mr. Peoples, these changes in the HPS structure are an important first step to facilitate the Company's other proposals related to providing HPS, namely the proposals to conduct an RFP for third-party suppliers to supply HPS and to lower the kW threshold to include more customers on HPS.

34. The Company will conduct a solicitation in March of each year for HPS full requirements supply to be delivered over a twelve-month period from June 1st through May 31st. Two tranches will be solicited, with each tranche representing 50% of the default service load (or about 25 MW of peak load). The supplier(s) with the lowest fixed price bids will be selected as the winning supplier(s) of the HPS solicitation. In addition to the winning bid price offered by the supplier, each winning supplier will be paid for its share of the associated energy, capacity, and ancillary service charges billed to HPS customers pursuant to Rider 9 in Duquesne Light's

⁶ Currently, Large C&I HPS customers are charged the day-ahead price for their forecasted usage and any differences between forecasted and actual usage are reconciled at the real-time (not day-ahead) hourly price.

Retail Tariff. The winning suppliers' fixed price bids will be designed to compensate suppliers for the associated renewable energy supply costs, the energy balancing costs associated with day-ahead schedules versus customer actual consumption, and any other third-party supplier administrative costs of providing HPS.

Competitive Procurement Guidelines

35. Duquesne Light proposes to maintain the 50% supplier load cap to serve Residential and Small C&I customers in a given RFP equal to 50% of the number of tranches solicited on that RFP date, rounded up to the nearest integer number of tranches, and seeks the Commission's approval for this provision as part of this proceeding. The Commission approved a 50% supplier load cap in DSP VII. Additionally, consistent with DSP VII, the Company is not proposing a supplier load cap for Medium and Large C&I solicitations. The Company believes that supplier load cap for Medium and Large C&I solicitations are not necessary based on the high levels of shopping and short term contracts for the Medium C&I and Large C&I customer classes.

36. Duquesne Light proposes to engage an independent third party to assist in qualifying bidders, conducting bidder information sessions, and, importantly, to receive all bids, rank qualifying bids, and determine winning bids for all four procurement groups. All winning bids will be submitted to the Commission for approval prior to award.

37. Within fifteen calendar days from the closing of each solicitation, Duquesne Light will post the weighted average winning bid price on its website and publish a default service rate calculation model on its website that shows the build-up of the auction results into retail default service rates. As explained in the testimony of Mr. Ogden, the Price-To-Compare ("PTC") will be posted 60 days in advance of each change in default service rates,

with the exception of the application periods beginning June 1 of each year.⁷

38. If for any reason an RFP fails to attract a sufficient volume of bids or the Commission does not approve the submitted bids or an accepted supplier defaults, Duquesne Light acknowledges that it has the obligation to procure supply to provide such portion of the default service. In this circumstance, Duquesne Light proposes to meet this obligation on an interim basis through purchases in the PJM spot market and requests authority to recover all the costs of such purchases and all reasonable administrative costs from the applicable customer classes. Duquesne Light agrees that it will submit to the Commission, within 15 days after any such occurrence, a contingency plan to handle any default service shortfall.

Act 129 Standards

39. The procurement methodologies under the Default Service Plan are based upon the standards set forth by Act 129 that the procurement plan shall be designed to be "the least cost to consumers over time" and shall include a "prudent mix" of contracts. As explained in the testimony of Mr. Fisher, Duquesne Light St. No. 3, the competitive solicitations for full requirements contracts of various terms for Residential, Small C&I, Medium C&I, and Large C&I customers, represent a "prudent mix" of procurement contracts and will provide default service customers with access to an adequate and reliable supply of generation at least cost over time.

40. Specifically, Act 129 requires that power "shall be procured through competitive procurement processes" (including auctions, requests for proposals and/or competitively

⁷ For the application period beginning June 1 of each year, the Company will not know the transmission component of the PTC until May 15. The Company will post the final supply component of the PTC 60 days in advance of June 1 and will post the final PTC including the transmission component by May 15.

procured bilateral agreements procured at no greater than the cost of obtaining generation under comparable terms in the wholesale market), and such procurement must be a "prudent mix" of spot market purchases, short-term contracts and long-term purchase contracts. Id. at 2807(e)(3.1)-(3.2).

41. Duquesne Light's Default Service Plan relies upon a prudent mix of contracts. The procurement contracts are explained in detail by Mr. Peoples, Duquesne Light St. No.

2. A summary of the products for each class is as follows:

- For Residential and Small C&I customers, Duquesne Light will procure default service supply through laddered, twelve-month and twenty four-month full requirements contracts.
- For Medium C&I customers, Duquesne Light will procure default service supply through three-month full requirements contracts.
- For Large C&I customers, Duquesne Light will conduct an RFP for third-party suppliers to supply HPS customers' actual hourly usage at the day-ahead hourly energy prices.

42. This mix is a prudent mix of spot and short-term contracts. Duquesne Light has attempted to be mindful of both Act 129, the Default Service Regulations, and the Retail Markets Investigation in proposing the mixture of contracts for its Default Service Plan, and asserts that this Plan includes a prudent mix of contracts given the current levels of, and experience with, shopping for each class of customers, and the competitive market enhancements proposed in the Petition. The Company may supplement its proposed mix of spot and short-term contracts if it is able to obtain a long-term contract for utility scale solar during DSP VIII, as explained earlier in this Petition and in Mr. Davis' testimony.

43. This procurement plan also satisfies the requirement that the Plan be designed to be the "least cost to customers over time." This is discussed in further detail by Mr. Fisher, Duquesne Light St. No. 3.

44. Act 129 also specifies that the Commission shall make a finding that "neither the default service provider nor its affiliated interest has withheld from the market any generation supply in a manner that violates federal law." 66 Pa. C.S. § 2807(e)(3.7). In his direct testimony, Mr. Peoples' addresses this requirement with respect to Duquesne Light and its affiliates and demonstrates that the standard will be met under the DSP VIII plan.

45. For all of the reasons set forth above, this Default Service Plan meets the standards set forth in Act 129, and enables the Commission to make the necessary findings per Section 2807(e)(3.7). Specifically, Duquesne Light request that the Commission find its Plan includes prudent steps necessary to negotiate favorable generation supply contracts; Duquesne Light's Plan includes prudent steps necessary to obtain least cost generation supply contracts on a long-term, short-term and spot market basis. Neither Duquesne Light nor its affiliated interest has withheld or will withhold from the market any generation supply in a manner that violates Federal law.

Default Service Procurement Cost Recovery

46. Duquesne Light will continue to recover costs for the full cost of RFPs for Residential, Small C&I, Medium C&I, and Large C&I customers, gross receipts taxes, along with the costs of hiring the independent monitor, through fully reconcilable Section 1307(e) cost recovery mechanisms for each class. 66 Pa. C.S. § 1307(e).

47. Additionally, Duquesne Light will continue to recover its administrative costs for HPS service through a Fixed Retail Adder ("FRA"). The FRA (expressed in dollars per MWH) included in Rider No. 9 will consist of two components. The first component will be based on the weighted average of the winning bids submitted by third-party suppliers and will compensate the suppliers for their costs associated with renewable energy supply, energy balancing and any

other third-party supplier administrative costs of providing HPS. This first component will be equal to the weighted-average winning bid price, adjusted to recover the cost of line losses and Gross Receipts Tax. The second component will include the Company's administrative costs of conducting RFPs, the PJM interface and billing related costs, and other unbundled service costs that would remain even when third-party suppliers provide HPS.

Unbundling

48. In addition to the supply costs necessary to provide default service, the Company incurs costs in two primary areas. First, initial start-up costs are incurred to develop and obtain approval of the proposed default service plan. Second, ongoing costs are incurred throughout the duration of the default service plan to implement the plan (e.g., the costs related to the process of conducting the competitive requests for proposals and evaluating the results of these solicitations and the incremental administrative costs to provide HPS).

49. Duquesne Light currently recovers its DSP VII proceeding costs, which are costs for preparing and obtaining approval of the DSP VII proceeding, in base rates. The Company is proposing to unbundle certain costs from base rates associated with the provision of default service beginning on the effective date of rates in its next base rate proceeding or June 1, 2020, whichever comes first. Specifically, the Company is proposing to move recovery of the costs for external legal and consulting services to prepare and obtain approval of the default service plan from base distribution rates to Default Service Supply ("DSS") rates. The Company is also proposing to move recovery of the cash working capital costs associated with default service from base distribution rates to DSS rates. Finally, if new costs arise related to default service, the Company proposes that those costs also be recovered through applicable DSS rates.

50. As part of the DSP VII Settlement Agreement, the Company committed to the

following:

In the earlier of its next general rate increase filing or its Default Service Plan filing for the period commencing June 1, 2017, Duquesne Light will propose to unbundle from base rates costs associated with the provision of default service, including default service proceeding and procurement costs, and cash working capital with regard to default service procurements. Duquesne Light will simultaneously propose a mechanism for recovery of such costs from default service customers.⁸

51. The Commission approved the Settlement Agreement in its DSP VII order, and to comply with this agreement, the Company is proposing to unbundle certain costs from base rates associated with the provision of default service. The Company prefers to wait until Duquesne Light's next base rate case to recover these costs through DSS rates to ensure that there is no double counting, where costs are being recovered in both base rates and DSS rates, or alternatively, under-recovery of previously approved costs included in base rates. The Company entered into a black-box settlement agreement in its 2013 base rate proceeding at a significantly lower rate increase than originally proposed. Therefore, it is not known with certainty what costs are currently included in base rates for the particular items to be unbundled. The details of the Company's proposal to unbundle certain costs from based rates is included in the testimony of Mr. Ogden, Statement No. 4.

52. The Company proposes to use the four-year revenue requirement for unbundled costs as the actual expense to recover. The 1307e reconciliation statement for each customer class will include a line item for the monthly expense. The reconciliation for the unbundled monthly expense will capture only changes in default service kWh volumes (e.g., the difference between the forecasted kWh at the outset when setting rates and actual default service kWh sales). The difference in recovery of the unbundled expense created by variations in sales (over

⁸ DSP VII Order entered January 15, 2015 at Docket No. P-2014-2418242, page 10.

or under collection) will be recovered through the e-factor component of the DSS rates for the applicable customer class.

D. TIME-OF-USE (“TOU”) RATES

53. Under 66 Pa. C.S. § 2807(£)(5), default service providers are required to offer Time-of-Use (“TOU”) and/or real-time price plans to customers that have smart meter technology. In addition, in the *December 16 Retail Markets Order*, the Commission suggested that EDCs include TOU proposals in their next default service filing. *December 16 Retail Markets Order*, p. 47.

54. Effective June 1, 2016, the Company is offering eligible Residential customers the opportunity to receive their electric supply on a “Time-of-Use” basis. This service offering involves charging customers higher prices for power delivered during “on-peak” periods, and lower prices for power delivered during “off-peak” periods. Approximately 200,000 qualified Residential customers will be eligible for TOU service beginning June 1, 2016. The eligibility of these customers will be predicated on the extent the Company has installed the necessary metering and communication systems.

55. As part of the DSP VII plan, the Company recently conducted an RFP for TOU supply that will cover the delivery period June 1, 2016 through May 31, 2017. The TOU RFP successfully obtained two EGSs that will provide TOU rates for Residential customers. Based on the results of the RFP, eligible Residential customers will be able to choose between two different TOU time periods and price levels. Duquesne Light will promote the TOU rate offerings that are being marketed by the two winning EGSs on the Company’s website. The two winning EGSs will offer TOU rates only to eligible Residential customers that have the necessary metering and communications systems. Eligible Residential customers who elect TOU service will become EGS customers and will be enrolled by the EGS providing the TOU

service.

56. The Company intends to make a TOU filing to the Commission in November 2016 describing the results of this year's TOU program and the level of customer enrollment. The Company's current plan is to continue to facilitate EGS-supplied TOU offers beyond May 31, 2017. During the DSP VIII plan, the Company will continue the process of installing interval meters to all customer classes. As more customers are connected to smart meters and AMI data systems are available and tested, the number of eligible TOU customers will increase. The Company plans to increase the number of Residential customers eligible for TOU service through the DSP VIII plan. Also, during the DSP VIII plan, Small C&I and Medium C&I customers will become eligible for TOU service. Additional details regarding the Company's TOU proposal are provided in the testimony of Mr. Peoples Statement No. 2.

E. RETAIL MARKET ENHANCEMENTS

57. Duquesne Light has supported expansion of competitive opportunities for customers through its seven prior default service plans, and has already implemented a number of innovative market enhancements in order to facilitate the development of the retail market. The Company's customer switching level is among the highest in the Commonwealth, with 71% of the total load in its service area already receiving service from an EGS as of March 2016. This also puts Duquesne Light among the top electric service areas in the country in terms of percentage of total load switched. Switching by procurement group is 34% of Residential customer load, 45% of Small C&I load, 73% of Medium C&I load, and 96% of Large C&I load. Duquesne Light's proposed Default Service Plan contains several important features designed to promote retail competition.

Standard Offer Customer Referral Program ("SOP")

58. Duquesne Light currently offers a SOP to non-shopping Residential and Small

C&I customers who contact the Company to: 1) initiate or move service; 2) discuss choice questions; 3) resolve high bill concerns; or 4) inquire about the SOP. After the customer's specific inquiry is resolved, a Duquesne Light customer service representative provides the customer with information about the SOP. If the customer indicates that he/she is interested in participating in the SOP, the customer is transferred to a participating EGS for program details and potential enrollment.

59. As explained by Duquesne Light Witness, Ms. Morrison in Duquesne Light St. No. 5, the SOP benefits customers by offering customers a price 7% below the current PTC and introducing new customers to shopping. An important benefit of Duquesne Light's SOP is the low costs for EGSs to participate. The customer acquisition fee paid by participating EGSs is currently \$10.28 per enrollment. The Company's existing SOP avoids the costs of paying a third party to enroll customers, maintains a reasonable cost for EGSs, and avoids charging any cost for the program to customers.

60. Duquesne Light's current SOP does not use a third party to enroll customers. As a result, customers are transferred to EGSs for enrollment, which produces a low-cost program. In the DSP VII proceeding, Duquesne Light and the Parties agreed to conduct a collaborative with interested Parties to consider changes to the Company's existing SOP, including, among other things, the use of a third party to enroll customers or other means to improve customer enrollments. The Company held a collaborative to gain stakeholder input on the Company's existing SOP. The outcome of the collaborative was that the existing program was cost effective, and the Parties agreed to keep the existing SOP structure in place with the Company sending interested customers directly to the EGS for enrollment.

Purchase of Receivable (“POR”)

61. Duquesne Light proposes to continue its current POR plan for Residential, Small C&I, and Medium C&I customers. Under this Plan, Duquesne Light purchases the account receivables, without recourse, associated with EGS sales of retail electric commodity service to Residential, Small C&I, and Medium C&I customers. Duquesne Light purchases the account receivables at a small discount and then reimburses EGSs for their customer billings regardless of whether it receives payment from customers.

Customer Assistance Program (“CAP”) Customer Shopping

62. The Company supports the extension of shopping to CAP customers with certain customer protections and conditions. First, CAP customers that shop should be provided protections from increased bills resulting from shopping and variable rate contracts. Second, any CAP shopping plan must determine how customer protections will be implemented and provide sufficient time for implementation and customer education. If these protections are adopted and implemented, the customer CAP credit will be applied to the distribution, transmission, and supply portion of the bill in the same manner for CAP shopping customers as it is for CAP customers receiving default service. All CAP customers will receive a discount on their monthly service bill based on their income as defined in the Company’s Commission approved Universal Services Plan effective at the time of implementation.

F. REQUESTS FOR WAIVERS

63. As explained above, Duquesne Light is proposing to change rates every six months for Residential and Small C&I customers. Duquesne Light notes that the Commission’s regulation at 52 Pa. Code § 54.187 requiring quarterly rate changes was adopted prior to the passage of Act 129. Act 129 provides that default service providers shall offer residential and small business customers a default service rate that changes no more frequently than quarterly.

66 Pa. C.S. § 2807(e)(7). Therefore, Duquesne Light believes that its proposal for changes in rates on a semi-annual basis for Residential and Small C&I customers complies with Act 129. However, Duquesne Light requests a waiver of 52 Pa. Code § 54.187 to allow semi-annual rate changes for Residential customers and Small C&I customers to the extent deemed necessary by the Commission.

64. Section 69.1804 of the Commission's DSP Policy Statement, 52 Pa. Code § 69.1804, provides that default service plans should be for two years, unless otherwise directed by the Commission. As explained previously, Duquesne Light proposes that the term of DSP VIII Program be for four years. As a Policy Statement, 52 Pa. Code § 69.1804 does not have the force of law, and no waiver is required. Nonetheless, for reasons explained above, the Company requests that the Commission approve a four year period for DSP VIII.

65. Duquesne Light also requests additional waivers, if necessary, of the Commission's Orders or Regulations to allow Duquesne Light to implement its Default Service Plan as described herein and in the Testimony and Exhibits that accompany this filing.

G. CUSTOMER NOTIFICATION

66. As indicated by the enclosed certificate of service, Duquesne Light has served a copy of this Petition upon all of the parties to Duquesne Light's most recent default service proceeding at Docket No. P-2014-2418242 and PJM. Duquesne Light is also providing notice of the filing and a web link to the filing to all licensed EGSs in the Duquesne Light service area. In addition, the Company will provide a hard copy of the filing to any party upon request. Duquesne Light intends to notify its customers of new rates once approved by bill message or as otherwise directed by the Commission.

H. CONCLUSION

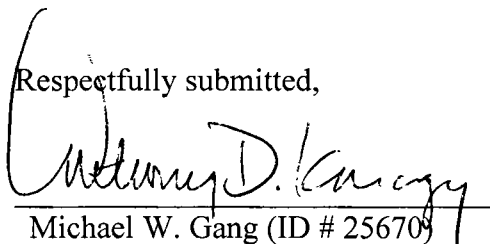
Duquesne Light's Default Service Plan is based on a proven, successful and evolving model that will provide reliable, reasonably priced default service supply to its customers, while supporting retail competition. The Plan meets and is consistent with Act 129, and should be approved.

WHEREFORE, for all of the foregoing reasons, Duquesne Light Company respectfully requests that the Pennsylvania Public Utility Commission approve the Default Service Plan as proposed in this Petition as soon as possible, approve the proposed tariff sheets set forth in the form of Tariff Supplement provided herein, grant the approvals for Duquesne Light Company to procure power as set forth herein, including, if needed, credit support from its parent, approve the Supply Master Agreement and related attachments for procuring power for Residential, Small C&I, Medium C&I, and Large C&I customers and grant such other relief just and reasonable under the circumstances.

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Counsel for Duquesne Light Company

Date: May 2, 2016

Respectfully submitted,

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**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 :

VERIFICATION

I, C. James Davis, Director, Rates, Energy Procurement and Federal/RTO Affairs of Duquesne Light Company, hereby state that the facts set forth in the above-captioned Petition are true and correct to the best of my knowledge, information and belief, and that if asked orally at a hearing in this matter, my answers would be as set forth therein.

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: May 2, 2016



C. James Davis