BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition Of Duquesne Light Company For Approval Of Default Service Plan For The Period June 1, 2017 Through May 31, 2021

Docket No. P-2016-

DIRECT TESTIMONY OF
NEIL S. FISHER

Dated: May 2, 2016
# Table Of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Introduction</td>
<td>1</td>
</tr>
<tr>
<td>II. The Default Service Models Used by Duquesne Light Have Facilitated and Supported the Competitive Retail Market Over a Sustained Period of Time, While Offering Stable and Reasonable Default Service Rates for Small Customers</td>
<td>4</td>
</tr>
<tr>
<td>III. Duquesne Light’s Default Service Plan is Designed to Support the Competitive Electricity Market, While Providing Appropriate Assurances of Price Stability for Small Customers</td>
<td>16</td>
</tr>
<tr>
<td>IV. Duquesne Light’s Default Service Plan Satisfies the Requirements of Act 129 by Incorporating a Prudent Mix of Contracts Designed to Ensure Least Cost to Customers Over Time, Taking Into Account the Benefits of Price Stability, and It Includes Prudent Steps Necessary to Obtain Least Cost Generation Supply</td>
<td>27</td>
</tr>
</tbody>
</table>
## List of Exhibits

**Exhibit NSF-1**  
Articles and Other Publicly Available Information Related to EGSs Exiting the Mass Market Business in the Aftermath of the Polar Vortex

## List of Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1</td>
<td>Duquesne Light Has One of the Lower kW Thresholds for Hourly Price Default Service for Large C&amp;I Customers in the United States</td>
<td>6</td>
</tr>
<tr>
<td>Figure 2</td>
<td>Duquesne Light Has Facilitated and Supported the Competitive Retail Market Over a Sustained Period of Time</td>
<td>8</td>
</tr>
<tr>
<td>Figure 3</td>
<td>Duquesne Light has Offered the Majority of its Customers Fixed Default Service Supply Rates for Many Years</td>
<td>10</td>
</tr>
<tr>
<td>Figure 4</td>
<td>The Percentage of Residential Load Switched to an EGS Has Declined Since the Polar Vortex</td>
<td>12</td>
</tr>
<tr>
<td>Figure 5</td>
<td>Duquesne Light Tailors its Supply Portfolios by Customer Class</td>
<td>16</td>
</tr>
<tr>
<td>Figure 6</td>
<td>Duquesne Light’s DSP VIII Plan Offers Residential and Small C&amp;I Customers Greater Assurances of Price Stability than DSP VII</td>
<td>19</td>
</tr>
</tbody>
</table>
I. Introduction

Q. Please state your name and business address.

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

Q. What is your current position?

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

Q. Please describe your educational and professional experience.

A. I graduated from the Honors Program at Swarthmore College with a Bachelor of Arts degree in Economics, and I also have a Master’s degree in Business Administration from Yale University. Before joining NorthBridge in 1993, I worked as a consultant at Putnam, Hayes & Bartlett, where the main focus of my work was assisting clients with electric and natural gas restructuring issues. As a consultant at NorthBridge, I have helped regulated electric utility clients in several states with the design of default service programs and with retail
access issues. I have also developed strategies for unregulated suppliers interested in participating in competitive wholesale and retail markets.

Q. **Have you testified previously before the Pennsylvania Public Utility Commission ("Commission")?**


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

A. The purpose of my testimony is to evaluate Duquesne Light’s proposed default service plan (the “Default Service Plan” or “Plan” or “DSP VIII”) to procure supply for default service
customers for the period beginning June 1, 2017, and ending May 31, 2021. My direct testimony is divided into three parts. First, I briefly provide an overview of Duquesne Light's retail access program and how the Company's default service plans have evolved over time. Second, I support the overall design of the Company's proposed procurement plan for DSP VIII, and third, I evaluate DSP VIII with respect to Act 129's requirement that the plan include a "prudent mix" of contracts designed to ensure the least cost to customers over time.¹

Q. Please summarize your conclusions.

A. I have three main conclusions.

1. The default service models used by Duquesne Light have facilitated and supported the competitive retail market over a sustained period of time, while offering stable and reasonable rates for small customers who do not elect to receive service from an alternative electric generation supplier ("EGS" or "competitive retail supplier").

2. Duquesne Light’s Default Service Plan is designed to support the competitive electricity market, while providing appropriate assurances of price stability for small customers.

3. Duquesne Light’s Default Service Plan incorporates a prudent mix of contracts designed to ensure least cost to customers over time, taking into account the benefits of price stability, and it includes prudent steps necessary to obtain least cost

¹ 66 Pa. C.S. § 2807(e)(3.4).
generation supply, as required by Section 2807(c)(3.4) and Section 2807(c)(3.7) of Act 129.

Each of these conclusions is described in more detail below.

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

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

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

Q. Overall, how would you describe Duquesne Light’s retail access program?

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

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

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

- Duquesne Light was one of the first utilities in the nation to recover its stranded costs and move to market-based pricing. Duquesne Light completed the transition period
for most customers in 2002 and, since that time, has successfully implemented seven
default service plans.

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

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

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

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2 I describe some of these initiatives later in my testimony.
Q. Mr. Fisher, has Duquesne Light facilitated and supported the competitive retail market over a sustained period of time?

A. Yes. Duquesne Light has consistently been among the top utilities in the United States in terms of percentage of total load switched to a competitive supplier. For a number of years, Duquesne Light has been among the top ten utilities in terms of the percentage of switched load. As competitive markets have expanded both within and outside Pennsylvania, other utilities have caught up to Duquesne Light and the Company currently is among the top fifteen utilities in the United States in terms of percentage of total load switched. As of March 2016, 71% of the load in Duquesne Light's service area is receiving supply from an EGS. Customer switching levels generally have increased in Duquesne Light's service area over time, and Duquesne Light has facilitated and supported the competitive retail market 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.
Q. Since 1999, has Duquesne Light offered the majority of its customers fixed default service supply rates?

A. Yes. Duquesne Light has offered the majority of its customers fixed default service supply rates for many years. Since Duquesne Light became the first major utility in the Commonwealth to address post-transition period default service, it negotiated a DSP II plan with fixed supply rates that began for most customers in early 2002 and were fixed through December 31, 2004. During the DSP III period (January 2005 through December 2007), Duquesne Light again offered Residential, Small C&I, and Medium C&I customers fixed-price default service supply rates over a three-year period. During the DSP IV period (January 2008 through December 2010), Duquesne Light continued to offer Residential and
Small C&I customers fixed-price default service supply rates over a three-year period, but
began to provide shorter-term market price signals to Medium C&I customers – initially
one-year followed by six-month rate changes. During the DSP V period (January 2011
through May 2013), Residential customers were offered 29-month fixed supply rates, while
Small C&I customers transitioned from three-year to annual supply rate changes. For
Medium C&I customers, Duquesne Light relied on laddered one-year full requirements
supply contracts, whereby 50% of the supply was replaced every six months, resulting in
six-month supply rate changes. During the DSP VI period (June 2013 through May 2015),
Residential customers were offered fixed twelve-month default service supply rates, Small
C&I customers were offered fixed six-month supply rates based on laddered twelve-month
contracts, and Medium C&I customers were offered fixed six-month supply rates based on
non-laddered six-month contracts. In DSP VII (June 2015 through May 2017), Residential
and Small C&I customers are offered fixed six-month supply rates based on laddered
d twelve-month contracts, and Medium C&I customers are offered fixed three-month default
service supply rates based on non-laddered contracts. It is evident from this history that the
Company has extensive experience offering the majority of its customers fixed default
service supply rates over many years. The length of time that default service supply rates
were fixed for each default service plan are summarized in the figure below for the
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

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

**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...
significant actions to promote competition while balancing the interests of its customers and shareholders.  

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

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

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

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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.
below shows the change in switched load by procurement group since January 2013. While switched load has remained relatively constant for other procurement groups, Residential switched load has fallen from 48% in January 2014 to 33% in March 2016.6,7

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

Q. Is this more recent decline in the percentage of Residential load switched to an EGS an indication that Duquesne Light’s approved default service plan is not adequately 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%.
A. No.

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

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

In August 2014, FES announced that it would not engage in any new retail electric service contracts with residential and small commercial customers, and that it would allow its current contracts with such customers to naturally expire. FES’ decision to exit from

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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.


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

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

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

A. FES stated that it was withdrawing from the competitive residential and small commercial electric markets in order to better match the output of its generation fleet with its retail sales in the face of market volatility. “Essentially what we’re doing is derisking our business,” explained Diane Francis, an FES spokeswoman.\textsuperscript{14}

Similarly, Dominion spokesman C. Ryan Frazier explained, “Pursuing the sale [of Dominion’s electric retail business] 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”\textsuperscript{15} as part of Dominion’s strategy to transition to a more regulated, less volatile earnings mix.\textsuperscript{16}

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\textsuperscript{12} FirstEnergy Backs Out of Residential Markets, August 11, 2014, see Exhibit NSF-1.

\textsuperscript{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.

\textsuperscript{14} FirstEnergy Backs Out of Residential Markets, August 11, 2014, see Exhibit NSF-1.

\textsuperscript{15} Dominion’s Exit from Retail Electric Business Illustrates Risks of Market, February 7, 2014, see Exhibit NSF-1.

\textsuperscript{16} Dominion Resources, Inc., Form 10-K, for the fiscal year ended December 31, 2014, pp. 8, 149, see Exhibit NSF-1.
Q. Are there other factors that likely contributed to the decline in the level of Residential switching in 2014 and 2015?

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

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...‘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.18

These problems contributed to the decline in Residential switching in Duquesne Light’s service area.

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18 Retail Electric Market Struggles to Grow in Western Pa., January 2, 2016, see Exhibit NSF-1.
III. Duquesne Light's Default Service Plan is Designed to Support the Competitive Electricity Market, While Providing Appropriate Assurances of Price Stability for Small Customers

Q. Please summarize Duquesne Light's proposed plan for DSP VIII.

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

Figure 5 Duquesne Light Tailors its Supply Portfolios by Customer Class

Residential & Lighting
- 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
- Approximately 31% of total system load

Small C&I (< 25 kW)
- 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
- Approximately 5% of total system load

Medium C&I (≥ 25 kW and < 300 kW)\(^{19}\)
- 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
- Approximately 19% of total system load

Large C&I (≥ 300 kW)\(^{20}\)
- 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
- 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.
Large C&I customers, which comprise approximately 45% of the total load in Duquesne Light's service area,\(^\text{21}\) will be offered default service rates based on hourly day-ahead market prices.

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

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

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

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

\(^{21}\) This percentage would increase to about 51% when the threshold is lowered from \(\geq 300\) kW to \(\geq 200\) kW.
Q. Please summarize the changes Duquesne Light is proposing with respect to its procurement portfolios for Residential and the Small C&I classes.

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

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

A. The mix of one-year and two-year FPFR products in Duquesne Light's Residential and Small C&I default service supply portfolios, and the semi-annual overlapping of their delivery periods, will provide these customers greater assurances of price stability than the Company's current supply portfolios, which rely exclusively on one-year FPFR products. This is true for several reasons. First, the inclusion of fixed-price two-year products in the supply portfolio will smooth out rate fluctuations over time. Second, the procurement approach will transition from the current cycle in which 50% of the supply is replaced every six months to a cycle in which 37.5% of the supply is replaced every six months.\(^2\) Third, the Company will transition from the current method of relying on supply purchased on two different solicitation dates to determine the default service supply rate at any given point in

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

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

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

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

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

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

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

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

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


24 Second Default Service Rulemaking Order, p. 41.
This is an important consideration because small customers generally realize the greatest benefits from default service price stability. Some small customers who need price stability may not have the time, incentive, knowledge, sophistication, or resources to elect an EGS offering that provides the price stability at reasonable levels that they seek. I am advised by counsel that Act 129 is consistent with this position, as it requires that a default service plan include a “prudent mix” of contracts that takes into account any benefits of price stability.25

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

A. A key question for policymakers is what type of default service is appropriate for Residential and Small C&I customers who, for whatever reason, do not choose an EGS. For instance, what type of default service would you want your 90-year old grandmother on with a fixed income? Or what type of default service would you want a low-income customer on who is working three jobs to make ends meet? I wholeheartedly support competition among EGSs for small customers who have the time, energy, and sophistication to seek out and confidently choose an offering from an EGS that provides the type of product or stability of pricing that the customer needs or desires. But I do not support an approach that entails removing the benefits to small customers of stable and market-based pricing in their default service offering, in an effort to make the default service offering unnecessarily volatile 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).
I do not believe that it is good public policy to rely solely on EGSs to provide stable rates to Residential and Small C&I customers at this time for a variety of reasons. There are many reasons why customers may choose to switch to an EGS or remain on default service. I am particularly troubled by the proposition of relying on EGSs to provide reasonable, stable rates to relatively weather-sensitive Residential and Small C&I retail customers in the aftermath of the Polar Vortex. As I noted earlier, several notable EGSs have reconsidered their retail business strategies and have decided to exit the business of making direct sales to mass market customers. FES stated that, "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." Furthermore, ConEdison Solutions, released a white paper entitled the “2013-2014 Winter Polar Vortex,” which stated that a number of small, less-financially stable competitive suppliers went out of business as a result of that winter’s events – and customers served by such suppliers had their EGS contracts broken and were dropped back to their utility’s default service. The costs and risks of providing fixed-price service to weather-sensitive Residential and Small C&I customers are relatively higher than the costs and risks of providing fixed-price service to Large C&I customers, 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.


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

Q. Will Duquesne Light’s Default Service Plan support the competitive wholesale
market?

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

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

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

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

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

A. Yes. During the DSP VIII period, Duquesne Light will continue pre-established retail
market initiatives. Duquesne Light’s proposed DSP VIII Plan also supports the competitive
retail market by including competitive solicitations for FPFR default service supply
products. The use of FPFR products helps to provide a more transparent price-to-compare
benchmark against which customers can compare competing retail offers. Minimal over-
and under-collections that result from the use of FPFR products will enhance rate
transparency for competitive retail supply decisions. Furthermore, EGSs will compete
against market-based default service rates, as the default service rates will be based on the
prices for supply products obtained through competitive solicitations in which multiple
bidders compete to sell the products solely on the basis of price.

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

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

Q. Do other Pennsylvania EDCs rely on two-year products to supply default service to
small customers?
A. Yes. Both PECO and FirstEnergy include two-year products in their supply portfolios to serve Residential default service customers. PECO’s current supply portfolio consists of approximately 60% two-year products and 40% one-year products to serve residential default service customers,\(^{29}\) and the FirstEnergy EDCs’ supply portfolios consist of 50% two-year products and 50% one-year products to serve both residential and small commercial default service customers.\(^ {30}\) Duquesne Light’s DSP VIII Plan would more closely align its Plan with those of PECO and FirstEnergy, offering small customers similar levels of price stability.

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

A. For the Large C&I class, the Company is proposing to make several significant changes. First, effective June 1, 2017, the Company is proposing to simplify the structure and administration of the hourly price service in an effort to lower the Company’s administrative costs that hourly price service customers pay. Second, while the Plan continues to provide hourly day-ahead market pricing to Large C&I default service customers, Duquesne Light will no longer procure this supply directly from PJM, but instead it will procure this supply in the form of non-laddered twelve-month supply products procured through competitive 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).
is proposing to lower the kW threshold for hourly price service from $\geq 300$ kW to $\geq 200$ kW beginning on June 1, 2019.\footnote{Duquesne Light witness Peoples discusses the proposed changes to hourly price service in more detail in his testimony.}

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

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

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

Q. Act 129 requires a default service plan to procure a prudent mix of contracts, and include prudent steps necessary to obtain least cost generation supply contracts on a long-term, short-term and spot market basis.\footnote{\textit{66 Pa. C.S.} § 2807(e)(3.4), and \textit{66 Pa. C.S.} § 2807(e)(3.7).} What guidance has the Commission provided in interpreting that standard?

A. On October 4, 2011, the Commission entered its Second Default Service Rulemaking Order, and in this Order it provided guidance based on input received from stakeholders. Some of
the Commission’s guidance regarding the interpretation of “least cost” and “prudent mix”
is as follows:

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

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

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

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

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34 Second Default Service Rulemaking Order, p. 40.

35 Second Default Service Rulemaking Order, p. 41.

36 Second Default Service Rulemaking Order, p. 60.
We do reject the positions of those parties that "prudent mix" be defined to always require a specific mix or percentage of types of contract components in each default service plan or a minimum of two types of products.37

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

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

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

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

37 Second Default Service Rulemaking Order, p. 60.

38 FPFR 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.
Light, and are frequently procured by utilities in Pennsylvania and in other jurisdictions.39

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

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

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

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

4. Duquesne Light’s Plan continues the use of a standard supply contract (referred to as a supply master agreement or “SMA”), which lets bidders know the terms and

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

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

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

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

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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.
processes utilizing RFPs for full requirements supply contracts to obtain its default service supply for all its customers.\textsuperscript{43}

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

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

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

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

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

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

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

A. Yes. While I am not an attorney, my understanding is that Act 129 requires a “prudent mix” of spot, short-term and long-term contracts, but does not necessarily mandate the use of all types of contracts in all situations. As noted earlier, the Commission has previously stated that it rejects the positions of those parties that a “prudent mix” be defined to always require a specific mix or percentage of types of contract components in each default service plan or a minimum of two types of products.\footnote{Second Default Service Rulemaking Order, p. 60.} In fact, Duquesne Light has operated for many years under Commission-approved default service plans without having a long-term contract with a term of more than four years. However, it is worth noting that as a part of its DSP VIII filing, the Company is proposing to rely on an hourly day-ahead spot market purchase product to supply the default service of Large C&I customers and is also proposing to
evaluate the benefits of entering into long-term solar contracts at some point during the DSP VIII period.

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

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

Second, the solicitations for Residential and Small C&I supply products with delivery periods that extend beyond May 31, 2021 (the end of the DSP VIII period) do not begin to occur until September 2019. As a result, there is a significant amount of time before commitments to new supply products extending beyond the DSP VIII period are made, should changes need to be made due to legislative or regulatory mandates. In the meantime, these solicitations remain scheduled because they allow for the option for a fairly 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.
DSP VIII to DSP IX,\(^{46}\) and they avoid subjecting Residential and Small C&I customers to a "hard stop" with regard to their supply products at the end of the DSP VIII period. This is consistent with the approach approved by the Commission in DSP VI and DSP VII, and it helps to avoid the need to replace a large portion of default service supply in a short period of time at the end of the DSP VIII period. Customers could be exposed to magnified risks and rate instability if a default service plan were to require that a large portion of the customers' default service supply be procured in a short period of time, as evidenced by the possibility of adverse short-term market conditions like those which existed during the Polar Vortex in January 2014.

Q. Mr. Fisher, are you familiar with the end state model for default electric service that the Commission proposed in its Default Service End State Order?\(^{47}\)

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

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\(^{46}\) 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.)


\(^{48}\) *Default Service End State Order*, p. 41.
Pennsylvania Electric Distribution Companies’ approved default service plans for these customers, as the current supply portfolios contain many products with one-year and two-year delivery periods.49

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

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


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

51 Default Service End State Order, pp. 45-46.
Q. Do you believe that there are sufficient reasons to shorten the term lengths of the products proposed in Duquesne Light’s DSP VIII supply portfolios for Residential and Small C&I customers?

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

\(^{52}\) 66 Pa. C.S. § 2807(e)(3.4), and Act 129 of 2008 (Preamble).
Q. Does this conclude your direct testimony?
A. Yes, it does.
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."

Integrys 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 about 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.
Existing Committed Sales

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

Committed Load by Segment with Attrition

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

Optionality and Variety of Hedging Resources

<table>
<thead>
<tr>
<th>Channel</th>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale Sales</td>
<td>Sales in forward power markets made to hedge generation</td>
<td>Provides flexibility in volume and timing of hedge</td>
</tr>
<tr>
<td>Spot Market Sales</td>
<td>Sales in day-ahead or real-time to take advantage of market volatility/forward pricing</td>
<td>Having a reserve dedicated to spot provides flexibility to manage weather sensitive leads and takes advantage of market volatility</td>
</tr>
<tr>
<td>Other Options</td>
<td>Buying group formed by communities which choose demand 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. Trenching of non-shopping load that is won through utilities' default service auctions.</td>
<td>Higher margin load, pricing of majority of sales moves with market, minimal acquisition costs, minimizes risk of POLR Higher margin load, minimal acquisition costs and flexibility of participation</td>
</tr>
<tr>
<td>PPA</td>
<td>Selected direct sales to large commercial and industrial customers</td>
<td>Higher load factors, less weather sensitive, flexibility of term; wholesale-type load with better margins</td>
</tr>
<tr>
<td>Utility PPA</td>
<td>Dedicated plant output (MWh) to distribute utilities through PPA</td>
<td>Full cost-based recovery with a rate of return; provides revenue certainty</td>
</tr>
<tr>
<td>LCO</td>
<td>Selected direct sales to large commercial and industrial customers</td>
<td>Higher load factors, less weather sensitive, flexibility of term; wholesale-type load with better margins</td>
</tr>
<tr>
<td>Structured/Mandatory</td>
<td>Selected direct sales to large commercial and industrial customers</td>
<td>Higher load factors, less weather sensitive, flexibility of term; wholesale-type load with better margins</td>
</tr>
<tr>
<td>LCO</td>
<td>Selected direct sales to large commercial and industrial customers</td>
<td>Higher load factors, less weather sensitive, flexibility of term; wholesale-type load with better margins</td>
</tr>
<tr>
<td>LCO</td>
<td>Selected direct sales to large commercial and industrial customers</td>
<td>Higher load factors, less weather sensitive, flexibility of term; wholesale-type load with better margins</td>
</tr>
<tr>
<td>LCO</td>
<td>Selected direct sales to large commercial and industrial customers</td>
<td>Higher load factors, less weather sensitive, flexibility of term; wholesale-type load with better margins</td>
</tr>
</tbody>
</table>
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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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 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 in management. Such statements are subject to certain risks and uncertainties. These uncertainties include those relating to the company's financial and operations, energy, safety, regulatory, environmental, and other matters that may impact results, performance or achievements. Any forward-looking statements are not guarantees of future performance, and any such statements are subject to a number of assumptions, risks, and uncertainties, any of which could cause actual results to differ materially from those expressed or implied in such forward-looking statements.

FirstEnergy Corporation is a diversified energy company engaged in the production, transmission, distribution, and sale of electricity, and in the production and distribution of natural gas in the United States. FirstEnergy is one of the nation's largest electric utility companies, serving more than 5 million customers in 6 states, including Ohio, Pennsylvania, New Jersey, New York, Pennsylvania, and Maryland. FirstEnergy Corporation's mission is to lead the nation in the development and delivery of clean energy and to be recognized as one of the world's leading electric utilities for environmental improvement and reliability.

The information contained in this FactBook is based on the latest available data, which may include the following: financial results and information, regulatory and compliance information, energy efficiency and sustainability initiatives, and other matters.

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Target Portfolio Mix

<table>
<thead>
<tr>
<th>Weather Sensitive</th>
<th>Annual Load (M MWH)</th>
</tr>
</thead>
<tbody>
<tr>
<td>✔️ GA</td>
<td>10-15</td>
</tr>
<tr>
<td>✔️ POLR</td>
<td>0-10</td>
</tr>
<tr>
<td>✔️ / ✗ LCI Direct*</td>
<td>0-20</td>
</tr>
<tr>
<td>✗ Block Wholesale</td>
<td>10-20</td>
</tr>
<tr>
<td>✗ Spot Wholesale</td>
<td>10-20</td>
</tr>
</tbody>
</table>

Annual Generation Resources = 80-85 MWH

*LCI Direct is less weather sensitive than GA and POLR

Repositioned and De-risked CES Sales Portfolio

Mitigated risk through reduced sales to weather-sensitive channels

Total Annualized Usage of CES Retail & POLR portfolio
2015 vs. 2014

<table>
<thead>
<tr>
<th>M MWH</th>
<th>2014</th>
<th>2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jan 14</td>
<td>Dec 14</td>
<td>Jan 15</td>
</tr>
<tr>
<td>Residential</td>
<td>24</td>
<td>14</td>
<td>10%</td>
</tr>
<tr>
<td>POLR/Industrial</td>
<td>28</td>
<td>23</td>
<td>17%</td>
</tr>
<tr>
<td>Commercial/Industrial</td>
<td>37</td>
<td>53</td>
<td>48%</td>
</tr>
</tbody>
</table>

Winter 2014: 85, 2015: 70, Change: 10%

*Reported annualized usage based on utility data as of January 2014 and December 2015. Customer data does not represent actual or projected annual use for calendar year 2014 or 2015.

As of December 31, 2015
Table of Contents

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

FORM 10-K

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

☐ 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 001-38489
000-55337
000-55338

Exact name of registrant as specified in their charters
DOMINION RESOURCES, INC.
VIRGINIA ELECTRIC AND POWER COMPANY
DOMINION GAS HOLDINGS, LLC

(VIRGINIA)

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

DOMINION RESOURCES, INC.

Common Stock, no par value
2015 Series A 6.125% Preferred Units
2013 Series B 6% Preferred Units
2014 Series A 6.375% Preferred Units

Title of Each Class

VIRGINIA ELECTRIC AND POWER COMPANY
Common Stock, no par value

DOMINION GAS HOLDINGS, LLC
Limited Liability Company Membership Interests

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

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 is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.

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

Indicate by check mark whether the registrant (I) 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.

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 Rules 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).

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 here, and will not be contained, in the registrant's next annual report to security holders, and will not be incorporated by reference in any future filing by the registrant under the securities act of 1933 or the securities exchange act of 1934.
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.
The following table presents affiliated and related party activity reflected in Dominion Gas' Consolidated Balance Sheets:

<table>
<thead>
<tr>
<th>Segment</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer receivables</td>
<td>$ 22</td>
<td>$ 6</td>
</tr>
<tr>
<td>Interest receivables</td>
<td>$ 11</td>
<td>$ 5</td>
</tr>
<tr>
<td>Affiliated notes receivables</td>
<td>$ 9</td>
<td>$ 6</td>
</tr>
</tbody>
</table>

(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 $138 billion as of December 31, 2014 and 2013, respectively. Interest charges related to Dominion Gas' total borrowings from Dominion were $41 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:

<table>
<thead>
<tr>
<th>Primary Operating Segment</th>
<th>Description of Operations</th>
<th>Dominion Power</th>
<th>Dominion Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>DVP</td>
<td>Regulated electric</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>distribution</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Regulated electric</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>transaction</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominion Generation</td>
<td>Regulated electric</td>
<td>X</td>
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<tr>
<td></td>
<td>fleet</td>
<td></td>
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<tr>
<td></td>
<td>Merchant electric</td>
<td>X</td>
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</tr>
<tr>
<td></td>
<td>fleet</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nonregulated retail energy marketing</td>
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<td></td>
<td></td>
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<td>LNG import and storage</td>
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(1) Includes remaining producer services costs.

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 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.

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 Kincard, 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 $5 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.
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?
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.

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<thead>
<tr>
<th>Northeast Basis</th>
<th>AGT CG</th>
<th>Tetc M3</th>
<th>Transco Z6-NY</th>
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<td>Average May 1, 2008 to Current</td>
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<td>$1.74</td>
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<td>Average Dec 2013-Feb 2014</td>
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<td>Average Dec 2010-Feb 2011</td>
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\[\text{Avg from May 1, 2008 to Current} \quad \text{Avg Dec 2013-Feb 2014} \quad \text{Avg Dec 2012-Feb 2013} \quad \text{Avg Dec 2011-Feb 2012} \quad \text{Avg Dec 2010-Feb 2011}\]
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?

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.

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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.

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?

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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. Sometimes 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.conedisonsolutions.com.
As Electric Bills Skyrocket, Local Legislator Calls For Action

February 21, 2014 9:01 PM By Jon Delano


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...