

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

INVESTIGATION OF : I-2011-223792  
PENNSYLVANIA'S RETAIL :  
ELECTRICITY MARKET :

**TESTIMONY OF  
RICHARD RIAZZI  
DUQUESNE LIGHT COMPANY**

Date: June 8, 2011

1 Mr. Chairman and Commissioners, my name is Richard Riazzi. I am the  
2 President and CEO of Duquesne Light Company (“Duquesne Light”). I welcome the  
3 opportunity to provide the Pennsylvania Public Utility Commission (“Commission”) and  
4 other interested parties with Duquesne Light’s views on the status of retail competition in  
5 Duquesne Light’s service territory, which encompasses Allegheny and Beaver Counties  
6 of Pennsylvania.

7 Duquesne Light has served Pittsburgh and its surrounding territory for over 130  
8 years. We are located in the communities we serve and understand our customers.  
9 Customer interaction is part of our daily business and goes hand-in-hand with reliably  
10 managing the system. Duquesne Light and its employees are proud of that history and  
11 our ongoing partnership with the people of Southwestern Pennsylvania. It is with that  
12 history and partnership in mind that I come to testify before the Commission today.  
13 Simply stated, retail competition is flourishing in Duquesne Light’s service territory.  
14 This is illustrated by the following:

- 15 • 68% of the total load in Duquesne Light’s service territory is currently  
16 receiving service from an electric generation supplier.
- 17 • There are 25 electric generation suppliers currently serving customers in  
18 Duquesne Light’s service territory (13 serving the residential class, 23  
19 serving the small and medium commercial classes, and 18 serving large  
20 commercial and industrial customers).
- 21 • With regard to the residential class, 31,000 customers shifted from default  
22 service to an EGS during the past five months alone and this trend looks to

1 continue. Over 144,000, about 30% of our residential customers, are now  
2 served by alternative suppliers.

3 • 77% of the commercial class load is shopping with alternative  
4 suppliers and 93% of the Industrial load is shopping --- comprising some  
5 of the highest load shopping in the United States.

6 We believe that the success of retail competition in Duquesne Light's service  
7 territory (refer to attached Graph on Customers Shopping in Duquesne Service Area) is  
8 the result of the Company's thoughtful treatment of its customers and through a series of  
9 deliberate actions and progressive changes in default service plans. The first major step  
10 was the Company's voluntary divestiture of generation which permitted Duquesne Light  
11 to lower rates and exit from generation rate caps in 2002, well before any other major  
12 electric utility in Pennsylvania. With the divestiture, Duquesne has found there to be a  
13 unique and natural alignment with customer oriented principles. Still today, Duquesne  
14 remains the only Pennsylvania major EDC without a significant generation affiliate. The  
15 second major step was a series of sensible default service plans that deliberately  
16 advanced competition and helped develop a sustainable market in a meaningful manner  
17 while staying true to some basic customer centric principles to help protect customers  
18 along the way. The third major step was Duquesne Light's rate design policies and  
19 procedures that facilitated and encouraged customer choice. During this process,  
20 Duquesne Light established co-operative and constructive relationships with EGSs and  
21 customer advocates. In fact, many of our Default Service Plans involved settlements by  
22 all intervening parties.

1 Duquesne Light's continuous commitment to advancing competition has been  
2 demonstrated through a series of thoughtful default service process improvements as  
3 retail markets developed. For example, in POLR III beginning in 2005, we provided the  
4 large C & I POLR customers both an hourly price and a fixed price service. We did that  
5 for all customers down to a 300 kw demand level. This is the lowest demand level in the  
6 state for large C & I and exposes approximately 45 percent of the total load in Duquesne  
7 Light's service area to real time pricing. In POLR IV beginning in 2008, Duquesne  
8 voluntarily moved large C & I customers to hourly price service alone. We moved  
9 medium C & I POLR service from a three year fixed price to 1 year and 6 month pricing  
10 changes determined by an index or RFP. In cooperation with EGS and other parties,  
11 Duquesne successfully implemented a Purchase of Receivables plan – the first of its kind  
12 for electrics in Pennsylvania. The 3 year fixed price residential plan withstood the test of  
13 a new and highly volatile capacity market in PJM, safeguarding residential customers  
14 from capacity swings over 600%. We eliminated declining blocks, supply related  
15 demand charges for small C & I, and subsidized heating rates gradually over time. For  
16 POLR V beginning this year, we introduced small C & I customers to RFPs and one year  
17 price changes, instead of three year, and residential customers to a 29 month fixed price  
18 service instead of 36 months. All these are continuous incremental steps that have  
19 resulted in some of the highest shopping levels in the country, growing educational  
20 awareness concerning customer choice within our customer base, 25 EGSs competing in  
21 the territory, while, at the same time, providing varying levels of price certainty to our  
22 residential, small C & I, and medium C & I customers.

1           These actions involved an ongoing dialogue with market participants and  
2 customer representatives. Together, these activities have produced vibrant competition  
3 that continues to expand in our service territory without the need to “assign” customers to  
4 alternative suppliers without their consent. Statewide solutions might appear attractive to  
5 produce quick improvements in switching statistics, but may be counterproductive to  
6 meaningful competition in service territories with more developed retail markets as in  
7 Duquesne Light’s territory. Further, Duquesne Light’s experience suggests that  
8 significant statewide changes may not be justified at this time given the relatively recent  
9 removal of such caps for other major EDCs in the State.

10           Duquesne Light does support continued evaluation of the state of retail markets  
11 and identification of potential impediments to properly functioning retail markets. In  
12 making such an evaluation, Duquesne Light recommends that a set of principles be  
13 developed that will form the basis for future decisions and provide a level of guidance as  
14 to the future direction of Commission policies for all participants, including EDCs,  
15 existing EGSs, future EGSs, wholesale suppliers, and most importantly customers. In that  
16 vein, Duquesne Light offers the following principles for consideration by the  
17 Commission:

- 18           • The individual’s right to affirmatively choose their electric generation  
19           supplier should be maintained. This suggests no assignment or auctioning  
20           of customers in any fashion is appropriate --- whether for electric supply  
21           or any other service.

- 1           • Default service rates should be simple, easy to understand and make  
2           shopping and comparison of power prices easy, especially for residential  
3           customers.
- 4           • Reasonable rate certainty in default service rates is important, especially  
5           for residential customers and, in our view, advances competition. We  
6           acknowledge Act 129's intent to give consideration to the benefits of price  
7           stability.
- 8           • Under current law, any default service plan must comply with the Default  
9           Service procurement provisions of Act 129. There is no basis to conclude  
10          that an alternative generation supplier will be better able than regulated  
11          incumbent EDCs to meet all the standards of Act 129.
- 12          • There should not be a single default service procurement or rate offering  
13          for all customer classes. Different customer classes have different service  
14          requirements, and different needs for rate stability.
- 15          • An entity that provides services should be able to bill customers directly  
16          for the services they provide.
- 17          • The Default Service Provider should be governed by some level of  
18          regulatory (PUC) oversight that includes reasonable consumer protection  
19          provisions. For example, a customer that does not take affirmative action  
20          to switch to an EGS should not be assigned to an EGS that subsequently  
21          can charge the customer whatever rate the EGS elects to charge, without  
22          any Commission oversight.

1 I do not intend to address specifically in this testimony each of the questions that  
2 the Commission has circulated for comment in this investigation, as Duquesne Light has  
3 provided detailed responses to those questions. I do want to note that by following the  
4 principles that I have identified, the Company has been able, with the assistance of the  
5 Commission, many market participants and other interested parties like the Office of  
6 Consumer Advocate, Office of Trial Staff, and Office of Small Business Advocate, to  
7 make significant improvements in customer access to the retail market while at the same  
8 time maintaining fair and reasonable rates for customers that choose not to shop for their  
9 energy suppliers. Duquesne has continued to modify its Default Service model over time  
10 and found ways to advance competition as the service requirements and markets for the  
11 different customer classes have evolved. We have been able to do this while keeping the  
12 interests of our customers in clear sight.

13 Just and reasonable rates for customers that choose not to shop require some  
14 framework of regulation. Duquesne Light believes that the EDCs, as regulated  
15 companies, are best able to meet these responsibilities over the long term and balance  
16 those responsibilities with the requirement of creating and maintaining a competitive  
17 retail market.

18 In a recent survey of our residential customers, 91% know they have the right to  
19 choose their electric supplier. Two thirds of all customers are considering now or would  
20 consider switching their electric supplier. One third would not switch at this time or did  
21 consider it and decided not to switch. Based upon what our customers are telling us, a  
22 conclusion could be made that 91% know they can shop, 30% have chosen to shop, one  
23 third have decided not to shop and that preference not to shop should be respected.

1           While customer shopping is flourishing in the Duquesne Light territory, and, with  
2 residential customer switching increasing in recent quarters, Duquesne Light submits that  
3 the measure of the success of retail markets and default service models is not just about  
4 the level of customer shopping. There are other important measures such as providing  
5 reliable and stable default service, educating customers so that they understand the  
6 important aspects of retail markets, providing simple to compare rates so they can make  
7 informed choices streamlining shopping procedures to facilitate retail competition,  
8 ensuring customers know they can shop and respecting the customer's right of choice  
9 Given the significant level of competition in our service territory and customer awareness  
10 of their ability to choose a supplier, we believe that a path of continued improvement  
11 rather than significant change is the best approach. For these reasons, the Company  
12 should remain the default supplier in its service territory for the foreseeable future.  
13 Removal of the EDC from the default supplier role should be a remedy of last resort to be  
14 employed only where progress toward improved competition is not being achieved.  
15 While Duquesne prefers to remain the default service provider and to handle customer  
16 interactions, we are open to exploring ways to maximize the benefits of competition for  
17 electric energy supply, to minimize price and to reduce risk, all of which benefits  
18 customers. Duquesne believes there are opportunities to continue to advance competition  
19 for customers, and is looking forward to participating in this investigation of retail  
20 competition. Thank you for the opportunity to express these views today.

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**Customer Shopping  
in Duquesne's Service Area**  
(All customers)

