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October 14, 2014

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

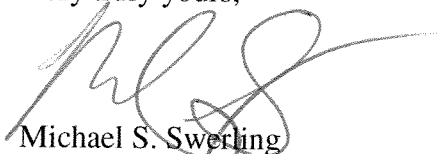
**Re: Investigation of Pennsylvania's Retail Natural Gas Supply Market
Docket No. I-2013-2381742**

Dear Secretary Chiavetta:

Pursuant to the August 21, 2014 Tentative Order in the above-referenced docket, enclosed please find **PECO Energy Company's Comments on the Tentative Order**.

Please do not hesitate to contact me should you have any questions regarding this filing.

Very truly yours,



Michael S. Swerling
Assistant General Counsel

MSS/adz

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Investigation of Pennsylvania’s Retail : **Docket No. I-2013-2381742**
Natural Gas Supply Market :

**COMMENTS OF PECO ENERGY COMPANY
ON THE COMMISSION’S TENTATIVE ORDER**

I. INTRODUCTION

PECO Energy Company (“PECO” or the “Company”) hereby submits comments to the Pennsylvania Public Utility Commission’s (“Commission’s”) August 21, 2014 Tentative Order¹, which begins the next phase of the Commission’s Retail Markets Investigation (“RMI”) of the natural gas industry. This phase will investigate issues identified in the Commission’s September 12, Order², this Tentative Order and additional issues that may be raised in comments to this Tentative Order. PECO appreciates the opportunity to comment on the various potential market enhancements to be investigated by the Office of Competitive Market Oversight (“OCMO”). As such, the Company believes that any market enhancements adopted in this investigation should foster and protect distribution system reliability and integrity. Additionally, market enhancements resulting from this Investigation should be designed to improve the customer experience with shopping for natural gas supply.

¹ See the *Investigation of Pennsylvania’s Retail Natural Gas Supply Market*, Docket No. I-2013-2381742 (Tentative Order entered on August 21, 2014).

² See the *Investigation of Pennsylvania’s Retail Natural Gas Supply Market*, Docket No. I-2013-2381742 (Order entered on September 12, 2013).

II. COMMENTS

Provision of Supplier of Last Resort Service

PECO agrees with the Commission's decision not to remove Natural Gas Distribution Companies ("NGDCs") from the Supplier of Last Resort ("SOLR") function,³ consistent with the outcome in the Electric RMI proceeding. According to the Commission:

While we understand that there may be changes required to SOLR service in order to develop a more robust and competitive retail natural gas marketplace, we do not believe it is appropriate, at this time, to remove NGDCs from the SOLR role. Instead, as was determined on the electric side, we propose that this Investigation focus on initiatives that can be implemented within the current SOLR structure to allow for a more competitive and beneficial retail natural gas marketplace for Pennsylvania ratepayers. However, we would like to make it clear that we may, at any point in time, revisit this decision.

(Tentative Order at 31).

The Commission further held that "the role of the NGDC as the SOLR is an issue which would be better examined at a later time, after recommendations which arise from this Investigation are implemented and have an opportunity to impact the market." (Tentative Order at 32). Such a consistent approach across the electric and natural gas industries will provide predictability for dual service suppliers, distribution companies,⁴ and customers.

³ The Commission's decision is consistent with 66 Pa.C.S § 2207(d), which states that:

The natural gas distribution company shall continue providing services as the supplier of last resort to all of its customers for all of the natural gas supply services described in subsection (a)(2), unless, at its discretion, it requests and receives commission approval to discontinue providing one or more such supplier of last resort obligation. In approving such a petition, the commission shall also approve another party as the alternative supplier of last resort for each customer or customer group for which the natural gas distribution company no longer provides such natural gas supply services.

Until such time as NGDCs request and the Commission approves their removal from the SOLR function, NGDCs shall continue to provide SOLR service.

⁴ A dual service supplier or distribution company provides both electric and natural gas supply services to customers.

Rate Unbundling

PECO agrees with the Commission that OCMO's investigation should not focus on further rate unbundling efforts. NGDCs were previously directed to: 1) unbundle natural gas procurement costs from base rates; and 2) revise their price to compares ("PTCs") to accurately reflect the unbundled costs.⁵ In accordance with the Commission's *Revised Final Rulemaking Order* in Docket No. P-2012-2328614, PECO's natural gas procurement costs were removed from base rates and included in the Commodity Charge portion of its Purchase Gas Cost ("PGC") rate, effective June 2013. These procurement costs formulate PECO's Gas Procurement Charge ("GPC").⁶ PECO believes that its recent unbundling efforts effectively reflect the appropriate separation between its role as a distribution company and its role as a SOLR⁷; and any further unbundling is premature at this time.

Assignment of Capacity and Use of Storage Assets

System reliability (including the assignment of capacity and storage of assets) is an essential distribution system function. Whether or not customers shop, NGDCs must maintain the integrity of the distribution system. According to 66 Pa.C.S. § 2205(a)(1):

⁵ See the Commission's *Revised Final Rulemaking Order in Natural Gas Distribution Companies and Promotion of Competitive Retail Markets*, Docket No. L-2008-2069114 (Order entered on July 23, 2011).

⁶ See the Commission's Order in the *Petition of PECO Energy Company – Gas Division – Pursuant to 66 Pa.C.S. § 1308(a) for Approval of its Proposed Tariff Revisions*, Docket No. P-2012-2328614 (Order entered on April 18, 2013).

⁷ In its September 12, 2013 Order, which initiated the *Investigation of Pennsylvania's Retail Natural Gas Supply Market*, Docket No. I-2013-2381742, the Commission asked the following question:

Are currently effective NGDC rates properly structured to reflect the separation between the costs of the NGDC's role as a distribution utility and its role as a Supplier of Last Resort (SOLR)?

In response to this question, the Office of Consumer Advocate ("OCA") and other commenters noted that many NGDC efforts to unbundle their natural gas procurement costs have not been in effect for a full year. (Tentative Order at 32). The OCA and Commission agreed that each NGDC's unbundling should be given time to operate before any further rate unbundling is considered. (Tentative Order at 32).

Each natural gas distribution company shall maintain the integrity of its distribution system at least in conformity with the standards established by the Federal Department of Transportation and such other standards practiced by the industry in a manner sufficient to provide safe and reliable service to all retail gas customers connected to its system consistent with this title and the commission's orders or regulations.

To ensure system reliability during the winter heating period (November through January) according to Section 2205(a)(1), the Company constantly reviews and manages weather conditions, customer usage trends, supply quantities that can be obtained from its contracts, amounts of natural gas withdrawals from its peak-shaving facilities, and the availability of spot market natural gas. Capacity and storage assets have allowed PECO to manage vast swings in demand associated with these variables, so its retail firm customers continue to receive reliable service during winter heating periods.

More specifically, PECO's firm storage and transportation contracts with interstate pipeline companies are designed to address seasonal swings in demand, including but not limited to design day projections. These resources also can react to intraday changes in projections and demand, resulting from significant variations in weather. The Company has procured its contracts through a competitive bidding process with an understanding of how much storage and transportation is required to deliver reliable supply to its firm customers. Each year, PECO reviews pipeline open seasons to see how its storage and transportation resources could be improved to further system integrity.

Additionally, PECO uses its LNG and Propane facilities to meet the peak day needs of its firm customers. These facilities must be managed in a very specialized manner. The amount of inventoried LNG and propane must be available to address customer demands throughout the entire winter heating season, including intraday swings and possible force majeure events, which could curtail the availability of natural gas on the interstate pipelines. A decision to operate

these facilities at any given time must be weighed against existing demand and potential future demand requirements.

Based on the Company's constant attention to and management of these factors and resources, PECO believes that it is best situated to continue in the important role of maintaining system reliability with the contracts and facilities described above. PECO also believes that any industry enhancements to capacity assignments and use of storage assets can be implemented without any need to shift its contracts and facilities to Natural Gas Suppliers ("NGSs") either in whole or in part. PECO suggests that OCMO review certain practices currently existing in the Company's Supplier Coordination Tariff to see if they can be more broadly applied throughout the Commonwealth to enhance capacity assignment and storage practices. Specifically, Rule 18.2 in PECO's Supplier Coordination Tariff addresses NGS concerns with mandatory capacity assignment. According to Rule 18.2:

18.2 Character of Service

Service under the DSO constitutes a limited exception to the otherwise applicable rules under this Tariff. An NGS taking service under the DSO (a) except as required under Rule 18.4, shall not be required to take assignment or release of the Company's Pipeline FT Capacity as otherwise required under Rule 10.4.1, Assignment of FT Pipeline Capacity and Determination of Aggregate Daily Contract Quantity; and (b) must Cash-out its Monthly Imbalance in accordance with Rule 18.5 below.

Under this rule, NGSs are not required to take the Company's capacity if they can obtain it elsewhere at a more competitive price. This provides suppliers with the freedom to obtain capacity at the cheapest price available. Accordingly, OCMO should investigate whether this type of tariff provision can work in other service territories.

Non-Discrimination in Access Points on NGDC Systems

The Company supports OCMO's investigation of discriminatory access to local production (NGDCs obtaining local default supply to the disadvantage of NGSs). PECO does not own any natural gas production, nor does it have any local production operations in its service territory. Although PECO agrees that access to local production should be provided in a non-discriminatory manner, consistent with NGDC system reliability and integrity requirements, OCMO should work to ensure that fair and balanced access exists for both NGDCs and NGSs.

System Balance, Tolerances and Penalties

PECO believes that OCMO's examination of tolerance bands and penalties should focus on preserving system reliability and integrity. While each distribution system is unique, improved coordination between NGDCs and NGSs can help mitigate the impacts of these penalties. Specifically, before the beginning of each month, PECO provides each Low Volume Transportation ("LVT") supplier with the exact amount of natural gas needed, in aggregate, to meet their total customer profiles. According to PECO's Supplier Coordination Tariff, Rule 10.7:

10.7 Determination of Aggregate Daily Delivery Quantities ("ADDQ"). Each month, the Company shall determine the ADDQ applicable to each Supplier's LVT Customer profile based on projected weather normalized consumption and based on application of the reconciliation procedures set forth in Rule 10.11. Each ADDQ shall be made available to the applicable Supplier via City Gate Solutions, or its successor, by nine (9) o'clock in the morning of the day prior to the first day of each calendar month. A Supplier's ADDQ shall remain unchanged throughout the applicable calendar month unless, as determined by the Company, operating conditions dictate that the ADDQ should be modified.

This type of coordination facilitates the avoidance of supplier penalties and allows the Company to maintain system integrity for its firm customers by avoiding system imbalance

issues. PECO suggests that OCMO review this practice and see if it can be more broadly applied throughout the Commonwealth.

Creditworthiness Requirements

PECO agrees with the Commission that NGDC creditworthiness requirements should be reasonably related to the risk of non-delivery. While security amounts should not be unreasonably overstated and act as a barrier to market participation, they must continue to be of a reasonable form and amount to address failures to deliver. PECO believes that its creditworthiness requirements are reasonable and have not acted as a barrier to market participation. In fact, PECO has been able to successfully resolve all NGS concerns raised regarding its credit standards in a manner that fostered market entry and provided adequate protections against the risk of non-delivery. PECO currently has 34 NGSs operating and competing to provide valuable supplier services to customers in its service territory.

Seamless Moves and Instant Connects

PECO is currently evaluating billing system enhancements that will provide Seamless Moves and Instant Connects to its electric customers per the Electric RMI.⁸ PECO will evaluate whether these enhancements can be leveraged to also apply to its natural gas customers.

Accelerated Switching Timeframes

PECO will implement the three day switching requirement that was adopted for electric customers⁹ by December 14, 2014. PECO will evaluate whether this enhancement can be leveraged to also apply to its natural gas customers.

⁸ See *Investigation of Pennsylvania's Retail Electricity Market: End State of Default Service*, Docket No. I-2011-2237952.

Low-Income Customer Shopping

Low-income shopping enhancements for natural gas customers should consider the outcome in PECO's recent Petition to establish Customer Assistance Program ("CAP") shopping for its low-income electric customers.¹⁰ The Commission's decision in that proceeding has been appealed by third parties and is under review by the Commonwealth Court. The Commonwealth Court's decision should allow PECO to refine its electric CAP shopping program as needed. PECO believes the final electric CAP shopping program can be applied to its natural gas customers. However, PECO expects that the Commonwealth Court's decision will have a broader application to a natural gas CAP shopping program. Therefore, PECO requests that any recommended enhancements to natural gas low-income shopping consider the impact that the Commonwealth Court's decision may have on PECO's electric CAP shopping program design.

Expanded Consumer Education about Shopping

PECO supports the Commission's efforts to improve the PAGasSwitch.com website and makes the following recommendations to improve the customer's experience therein. The website's *Gas Shopping Tool* could be enhanced to require that the "Contract Length" column be completed for each supplier. This would provide customers with a "one-stop-shop" experience for making fully informed comparisons of all available NGS offers. PECO also recommends the addition of a "Contract Term" column so customers would know upfront how long each NGS contract, especially fixed-price contracts, would be in effect. Another enhancement could be a new column that explains under what conditions a variable price contract might change.

⁹ See *Final-Omitted Rulemaking Order: Rulemaking to Amend the Provisions of 52 Pa.Code, Chapter 57 Regulations Regarding Standards for Changing a Customer's Electricity Generation Supplier*, Docket No. L-2014-2409383 (Order entered on April 3, 2014).

¹⁰ See the *Petition of PECO Energy Company for Approval of its Customer Assistance Program Shopping Plan*, Docket No. P-2012-2283641 (filed with the Commission on May 1, 2013).

Regarding a comprehensive consumer education plan to enhance the retail marketplace, PECO believes this notion should be fully explored with a proper and reasonable allocation of costs among NDGCs (50%) and NGSs (50%) with NGDC costs recovered through a non-bypassable surcharge mechanism.

Purchase of Receivables Programs

PECO supports examining natural gas purchase of receivables (“POR”) programs to determine best practices for consistent application among NGDCs. The Company notes that it has an electric and a natural gas POR program. Its existing 1% discount on purchased electric generation supplier (“EGS”) and NGS receivables (to reduce the balance of the implementation costs until the conclusion of the Company’s next distribution rate case¹¹) overall has proven largely successful and should be reviewed by OCMO.

Joint Natural Gas Distribution Company – Natural Gas Supplier Bill

PECO agrees with the Commission that the “joint bill” developed in the Electric RMI may equally benefit natural gas customers by increasing customer awareness and by developing a stronger customer recognition of, and relationship with, their suppliers. (Tentative Order at 48). In furtherance of this goal, PECO notes that it plans to implement a joint bill for both electric and natural gas customers in December 2014.

Account Number Access Mechanisms

PECO requests that OCMO investigate the benefits obtained from electric distribution company (“EDC”) portal mechanisms before deciding to adopt this requirement for natural gas customers. In PECO’s experience, the electric portal has not been widely used.

¹¹ See *Petition of PECO Energy Company for Approval of its Natural Gas Supplier Purchase of Receivables Program*, Docket No. P-2009-2143588 (filed with the Commission on November 20, 2009).

Migration Riders

Regarding the appropriate frequency of reconciliation mechanisms for migration riders, PECO agrees that any changes made in this area must be harmonized with legislative consideration of Pennsylvania House Bill 1188 (in the remainder of this year's legislative session). However, to the extent that House Bill 1188 is not passed this year, PECO provides the following comments.

Migration riders serve an important purpose for the proper recovery and allocation of Purchased Gas Costs ("PGC") costs attributable to SOLR customers, while they received the benefit of SOLR service. PECO notes that any revisions to the existing migration rider model must comply with 66 Pa.C.S § 1307(f)(ii) and relevant Commission regulations.

Electronic Data Protocols

PECO has utilized an Electronic Data Interchange ("EDI") system for all NGSs since the beginning of the Company's Gas Choice program. Pursuant to the Company's Supplier Coordination Tariff, all NGSs must be tested to use the EDI system before serving customers. PECO also uses the EDI system to exchange data with electric suppliers. This system has worked as an effective tool to manage customer bills. Therefore, PECO requests approval of its EDI system as an allowable standard in the Commonwealth.

Cost Recovery

Some of the market enhancements to be investigated in the Tentative Order may require NGDCs to incur additional costs if accepted. Accordingly, NGDCs should be permitted to recover all reasonable costs incurred to implement any competition-related activities on a full and current basis.

III. CONCLUSION

PECO appreciates the opportunity to comment on the Tentative Order and asks that the Commission favorably consider its comments. PECO looks forward to working with the Commission, OCMO and other stakeholders as the Investigation progresses.

Respectfully Submitted,



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