

PECO
2014 Winter Readiness Overview
October 30, 2014

PECO Energy Company (“PECO” or the “Company”), through its extensive Winter Readiness Program, is prepared to provide least-cost, reliable natural gas service to its customers during the upcoming winter season.

I. PECO’s Winter Readiness Program

PECO’s Winter Readiness Program ensures system reliability, maintains customer safety, and aims for continuous improvement. The extensive Winter Readiness Program requires the Company to review, inspect, maintain and modify items involving safety, corrective maintenance, preventative maintenance, scheduling, procedures, contracts, emergency preparedness, training, transmission, communications, natural gas supply and customer care - all prior to the winter period.

A. PECO Gas Operations 2014 Winter Preparedness:

As we prepare for winter, some of PECO’s major areas of focus include, but are not limited to, the following:

i. Employee Safety/Readiness

PECO reinforces employee safety, year-round, by conducting training and adhering to procedures. Additionally, PECO performs at least one annual natural gas safety drill, which prepares personnel to respond to major leaks, blockages, and other significant conditions. These drills familiarize personnel with PECO’s safety response procedures (including any changes thereto). PECO further ensures that it has the personnel available for proper event response by entering into mutual assistance agreements with other utility companies in other states.

ii. Natural Gas System Readiness

PECO routinely performs numerous preventative maintenance activities, including regulator station and valve inspections; annual review/update of regulator pressure settings; and installation of temporary regulator stations to address Zero Degree days. Winter critical projects are also employed to eliminate pressure constraints that could exist during periods of high demand. For the 2014/2015 winter season, PECO identified and completed 12 main and service projects designed to withstand prolonged zero degree temperatures.

PECO’s preparedness activities enhance service reliability to customers during times of inclement weather. These activities include securing contingency plans, conducting leak surveys, looking at capacity risk areas, readying snow removal

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equipment, and checking compressed natural gas (“CNG”) trailers and portable CNG kits.

PECO also conducts several drills to prepare its natural gas distribution system for severe weather/operating conditions. Specifically, the Company’s Winter Readiness Drill simulates: 1) the effects of a “Zero Degree” day; 2) severe winter weather, (including ice, snow, and high winds); 3) facility damage (such as a main hit by a contractor) during winter conditions; and 4) electric outage scenarios during winter conditions. The Winter Readiness drill will take place on November 4, 2014. PECO also conducts a “Gas Load Reduction Emergency” procedure tabletop drill on an annual basis, in which personnel review all procedures related to a natural gas load reduction crisis. PECO’s Emergency Preparedness organization has developed a system blackout tabletop drill with our Transmission System Organization to review the Company’s procedures relating to a total or partial system blackout.

Other winter readiness efforts include increasing capacity to meet customer heating demands, entering into contracts for the adequate supply of natural gas, preparing vehicles for the winter and utilizing snow removal vendors.

In addition, PECO is in the process of filling its liquefied natural gas (LNG) and propane peak shaving facilities by November 1, 2014, to supplement natural gas supplies during high demand days. PECO also fills its underground storage facilities located off interstate pipelines throughout the year when prices are low to provide customers with the most competitive price available. The Company’s hedging activities lock in prices during the course of the year to limit the amount of natural gas purchased during winter months, when natural gas market prices generally peak. As discussed below, PECO has sufficient supplies to meet the needs of its customers this winter. PECO also has tested its system and completed a full check of readiness tasks to ensure that reliable natural gas service will be delivered to customers.

iii. Frost Survey

PECO’s Frost Survey protocols mitigate natural gas leaks by requiring proactive leak surveys of cast iron mains during the frost season (when cast iron mains are more likely to break). PECO’s Frost Surveys are conducted per procedure from November 1 to April 1. Each year on November 1, PECO begins to monitor low temperatures on a daily basis and only executes surveys when specific frost temperature conditions exist. Once PECO observes a five-day rolling average low temperature of at least 32 degrees Fahrenheit, the Frost Surveys of cast iron mains begin. The surveys are prioritized according to break history. Frost Surveys are discontinued once the five-day rolling average temperature rises above 32 degrees. This process continues until April 1.

PECO also performs accelerated Frost Surveys when conditions warrant additional action. When PECO experiences three cast iron main breaks within a single

day, it initiates accelerated surveys. During this time, PECO's Leak Survey mechanics conduct surveys on double shifts over a 48-hour period. Once the 48-hour period expires, PECO reverts back to its normal average low temperature-driven Frost Survey protocols.

iv. Emergency Dispatch

PECO's Emergency Response Organization provides the necessary management and support for emergency incidents, mitigates threats to public and personnel safety, and ensures safe and reliable delivery of service to customers. PECO's Emergency Response Plan incorporates an incident management approach to streamline and coordinate emergency response efforts.

PECO has established an expectation that all natural gas emergency odor calls will be fielded within one hour. Additionally, PECO monitors the National Weather Service for winter storm warnings when the average daily temperature is forecasted to be 5 degrees Fahrenheit or below. When such warnings are issued and a storm is likely, PECO will prepare and develop the appropriate response plan. As part of those plans, PECO personnel will be ready to respond to natural gas odor calls within one hour and clear ice and snow from natural gas meters and regulators.

B. Communications and Outreach

PECO has integrated communication plans, which clearly establish the roles, responsibilities and guidelines necessary to maintain and enhance employee and public perceptions during operational emergencies or other situations. Specifically, the Company's Crisis Communications Plan is intended to:

1. Keep employees and the public informed about the Company's readiness and/or response efforts in an emergency/crisis that impacts operations, customer service or employee/public safety.
2. Demonstrate command and control during an emergency/crisis by defining clear roles and responsibilities, and identifying available staffing and resources.
3. Ensure all external communications are coordinated with various stakeholders.
4. Provide guidance and direction for communications activities during crisis management, helping to mitigate the crisis and expedite recovery.

This plan commences when a significant event occurs that has the potential to generate extensive news media coverage and/or public scrutiny. For example, a significant system issue could affect the organization's normal operations and also could have a political, legal and financial impact to the business. Similarly, a crisis could be caused by human error, mechanical problems, weather conditions or force majeure

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events. These types of events, revelations, allegations or circumstances threaten the integrity, reputation or survival of an individual or organization. PECO's crisis communications plan mitigates these threats by providing accurate and timely information to customers, employees and key stakeholders. This aids in event recovery and returning to normal operating conditions.

C. Gas Supply and Planning:

PECO will meet its obligation to provide least cost natural gas to its firm customers for the winter of 2014-2015 in a safe and reliable manner by utilizing various sources of firm transportation capacity, storage, and supply assets to meet design day and design winter day demands.

i. Peak Design Day Evaluation

PECO uses a design temperature of zero (0) degrees Fahrenheit – an average of hourly temperatures over a 24-hour period. The design temperature of zero degrees is a reasonable compromise between reliability and cost because it provides reasonable assurance that firm service customers are not likely to face service interruptions, while keeping the costs for peak day capacity at an acceptable level. For the 2014/2015 winter, PECO's design day is 795,350 Mcf or 840,685 Dth.

ii. System Supply Requirement Review – Capacity Planning

To ensure PECO meets its firm delivery commitments, the Company applies a multi-tier approach to its capacity and supply utilization plan, including deliveries of supply from: (1) Firm Transportation ("FT") contracts; (2) firm contracted storage; and (3) on-system peak facilities or contracted peak deliveries.

PECO's FT contracts with interstate pipelines provide an integral part of its overall gas supply reliability plans. These contracts provide firm delivery rights and geographic diversity of supply (through the firm supply receipt location capacity rights guaranteed in the contracts). During the last two years, this supply diversity has been further enhanced as Marcellus Shale supply has become more readily available.

PECO will supplement the supply from its six long-term natural gas supply contracts with supplies withdrawn from storage and delivered under storage-related FT contracts.

PECO also will utilize its two peak shaving facilities to inject firm supplies directly into its distribution system (on an as-needed basis). PECO's LNG facility can provide 161,710 Dth on a peak day, and its propane facility can provide another 25,750 Dth on a peak day.

Finally, PECO will supplement these services with other firm winter delivered services totaling 79,627 Dth per day. A portion of the winter delivered services will be supplied by PECO's natural gas suppliers ("NGSs") pursuant to the Gas Choice Program, as they elect the Delivered Service Option.

iii. Interstate Supply & Contract Arrangements

PECO's annual firm transportation contracts with Texas Eastern and Transcontinental (Transco) pipelines and firm transportation contract with Eastern Shore Natural Gas pipeline provide maximum daily transportation capacity during the winter months.

Under the foregoing contracts, PECO flows natural gas purchased under long-term, seasonal, and spot purchase agreements with its suppliers, which, represents about one third of PECO's peak day supply requirements. PECO also has additional transportation contracts with Texas Eastern, and Panhandle Eastern Pipeline Company that are used to flow natural gas in and out of particular storage fields. PECO has another transportation contract with UGI Utilities. Under its current supply contracts, PECO can purchase natural gas from numerous, liquid natural gas trading hubs and transport that natural gas on a firm basis from receipt to delivery at PECO's city gates.

iv. Utility and Contract Storage Inventory Delivery Plans

About one third of PECO's design day requirements and one third of PECO's total winter deliveries will be sourced from six interstate pipeline storage contracts. These storage contracts either include transportation or are matched with one of PECO's FT contracts to ensure firm delivery. PECO's contract storage utilization plan ensures that the maximum withdrawal capability exists as a source of natural gas from December 1 through February 15. This withdrawal capability is available because PECO's inventory (associated with any of the storage contracts) does not dip below levels that would trigger an automatic reduction of withdraw capability by the pipelines. PECO can inventory a total of 20 Bcf of natural gas under its six storage contracts. PECO's storage inventory was at least 96% full by October 30. PECO must leave space in its inventory for injections that may be necessary due to warm days in November.

As stated above, PECO also has on-system propane and LNG storage facilities. The inventory in these facilities is withdrawn in the winter when: (1) system demand projections exceed PECO's firm transportation and storage contract supplies; and (2) intraday changes in forecasted weather increase demand requirements so rapidly, that unscheduled pipeline storage and transportation capacity could not be utilized. By November 1, 2014, the LNG facility, which has an inventory capacity of 1.2 Bcf, will be 100% full and the propane facility, which holds 1.98 million gallons of liquid propane, was at capacity.

Emergency Curtailment Plans

PECO's emergency curtailment plan has a three-phased approach:

- 1) Natural Gas Load reduction Crisis Phase I: Request for voluntary load reductions
- 2) Natural Gas Load Reduction Crisis Phase II: Mandatory reduction of industrial and commercial load
- 3) Natural Gas Load Reduction Crisis Phase III: Mandatory reduction of residential load

The curtailment crisis plan resolves PECO's inability to meet firm natural gas demand, due to inadequate supply predicated by pipeline company delivery issues, peak shaving facility issues, or a distribution system infrastructure event.

In addition, PECO conducts a test of its "Send Word Now" system in which a text and/or an audio message is sent to all customers served under PECO's various interruptible natural gas rates. These customers are notified to stop using natural gas. This annual test is scheduled for November 11, 2014.

v. Weather and Forecasting

As PECO's natural gas demand is highly temperature driven, the Company relies on a number of weather forecasting services and tools to aid in projecting natural gas system demand. For example, PECO's Gas Supply and Transportation Department, which has the responsibility of ensuring adequate supply, will review forecasts from Planalytics Inc. and Meteorlogix. These forecasts are used to make and adjust supply contingency plans, storage management, and purchasing requirements to ensure overall least cost and reliability.

PECO's Gas System Operators ("GSOs") are responsible for forecasting short-term load requirements (1 to 4 days) and rely on Meteorlogix to provide the weather forecast to aid them in this process. GSOs utilize historic data accessing SCADA historic demand information and analyze variables including temperature, time of year, wind speed, and warming and cooling trends, when making their short-term forecasts. The forecasted demand information is forwarded to Gas Supply and Transportation who use this information in their daily natural gas demand load balancing process.

D. Natural Gas Demand from Electric Generators

PECO does not have concerns about fuel availability during the winter season given the increased demand for natural gas as an electric generation fuel source.

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As discussed above regarding natural gas supply, PECO relies solely on firm transportation, storage, and supply contracts or on-system assets to meet its winter demand. Under the terms of the Company's contracts, the counter parties are required to deliver as contracted. Due in part to the robust influx of Marcellus and other shale gas, PECO believes that supply will be sufficient to meet winter needs.

There has been no increase to electric generation demand on PECO's distribution system. In addition, PECO's tariff provisions and enforcement of those provisions as they apply to electric generation customers provide sufficient protection for PECO's other natural gas customers. Electric generation deliveries and balancing requirements do not jeopardize PECO's ability to serve its other customers.

E. Polar Vortex Analysis

During the month of January 2014, PECO did not experience any system pressure problems. However, some of PECO's Interruptible customers used natural gas during called interruptions in contravention of applicable tariff provisions. Although PECO was able to maintain the integrity of its distribution system, the Company is taking steps to influence these customers to stop using natural gas during interruptions this winter. Accordingly, on October 3, 2014, the Company filed with the Pennsylvania Public Utility Commission ("Commission") a supplement to its Gas Service Tariff to change the penalty for the unauthorized use of natural gas during interruptions.¹ PECO believes that a revised penalty structure will deter the use of natural gas during interruptions so that system integrity may be preserved during this upcoming winter.

¹ See *Change to Unauthorized Use Penalty, PECO Energy Company Gas Tariff No. 2, Supplement No. 152 – effective December 4, 2014*, Docket No. R-2014-2446246 (filed with the Commission on October 3, 2014).