

Legal Department
2301 Market Street / S23-1
Philadelphia, PA 19101-8699

Direct Dial: 215-841-5974

March 17, 2016

VIA HAND DELIVERY

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
P.O. Box 3265
Harrisburg, PA 17105-3265

**Re: Petition of PECO Energy Company for Approval of Its Default Service Plan
for the Period from June 1, 2017 through May 31, 2019
Docket No. P-2016-**

Dear Secretary Chiavetta:

Enclosed for filing is the original unbound copy of the **Petition of PECO Energy Company for Approval of Its Default Service Plan for the Period from June 1, 2017 through May 31, 2019** (“DSP IV Petition”) with accompanying Direct Testimony and Exhibits. A CD containing searchable PDFs of the filing contents is also included.

A CD containing the DSP IV Petition, Direct Testimony and Exhibits is also being served upon the persons and in the manner indicated on the attached Certificate of Service. Hard copies of the filing are also being provided to the Office of Consumer Advocate, Office of Small Business Advocate, Bureau of Investigation & Enforcement, PJM Interconnection, L.L.C., and will be made available to those receiving the CD upon request.

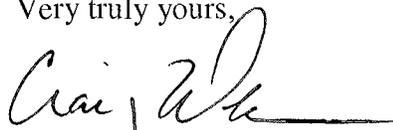
Kindly return a time-stamped copy of this letter in the self-addressed, stamped envelope that is enclosed.

PECO respectfully requests that notice of the filing of the DSP IV Petition and a date for intervention be published in the March 26, 2016 issue of the *Pennsylvania Bulletin*.

Rosemary Chiavetta, Secretary
March 17, 2016
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If you have any questions, please do not hesitate to contact me directly at 215-841-5974.

Very truly yours,



W. Craig Williams

Enclosures

cc: Per Certificate of Service (w/encls.)

The Honorable Gladys M. Brown, Chairman (w/encls.)

The Honorable Andrew G. Place, Vice Chair (w/encls.)

The Honorable John F. Coleman, Jr., Commissioner (w/encls.)

The Honorable Robert F. Powelson, Commissioner (w/encls.)

The Honorable Pamela A. Witmer, Commissioner (w/encls.)

Cheryl Walker-Davis, Director, Office of Special Assistants (w/encls.)

Paul T. Diskin, Director, Bureau of Technical Utility Services (w/encls.)

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PECO ENERGY :
COMPANY FOR APPROVAL OF ITS :
DEFAULT SERVICE PROGRAM FOR : **Docket No. P-2016-**
THE PERIOD FROM JUNE 1, 2017 :
THROUGH MAY 31, 2019 :

CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served a copy of the **Petition of PECO Energy Company for Approval of Its Default Service Program for the Period from June 1, 2017 through May 31, 2019** on the following persons in the matter specified in accordance with the requirements of 52 Pa. Code § 1.54:

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Patriot Energy Group, Inc.
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PES Brokers, Inc.
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Platinum Advertising II, LLC
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Power Brokers, LLC d/b/a
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Power Management Co., LLC
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Premier Energy Group, LLC
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Premiere Marketing LLC d/b/a
Premiere Energy Auction
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Progressive Energy Consultants, LLC
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Patch Energy Services, LLC
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Perigee Energy, LLC
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Planet Energy (Pennsylvania), Corporation
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Power Kiosk LLC
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Power Target LLC
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Premier Power Solutions, LLC
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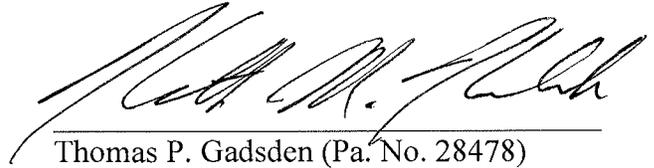
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Counsel for PECO Energy Company

Dated: March 17, 2016

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PECO ENERGY
COMPANY FOR APPROVAL OF ITS
DEFAULT SERVICE PROGRAM FOR
THE PERIOD FROM JUNE 1, 2017
THROUGH MAY 31, 2019** :
:
: **DOCKET NO. P-2016-**
:
:

PETITION OF PECO ENERGY COMPANY

Pursuant to 66 Pa.C. S. § 2807(e) of the Pennsylvania Public Utility Code (“Code”), the Default Service Regulations¹ of the Pennsylvania Public Utility Commission (the “Commission”) and the Commission’s Policy Statement on Default Service,² PECO Energy Company (“PECO” or the “Company”) hereby petitions the Commission for approval of its fourth Default Service Program (“DSP IV”), as set forth herein. PECO files this Petition in accordance with its responsibilities as the default service provider for its certificated service territory for the period from June 1, 2017 through May 31, 2019, following the expiration of its current default service program (“DSP III”).³ PECO requests that the Commission: (1) approve DSP IV, including its procurement plan, implementation plan, contingency plan, and associated procurement documents and agreements for default service supply (“the Plan”) for all PECO customers who do not take generation service from an alternative electric generation supplier (“EGS”) or who contract for energy with an EGS which is not delivered; (2) approve PECO’s

¹ 52 Pa. Code §§ 54.181-54.190; *see also Rulemaking Re Elec. Distribution Companies’ Obligation to Serve Retail Customers at the Conclusion of the Transition Period Pursuant to 66 Pa.C.S. § 2807(e)(2)*, Docket No. L-00040169 (Order entered May 10, 2007) (“*First Default Service Rulemaking Order*”); *Implementation of Act 129 of October 15, 2008: Default Serv. and Retail Elec. Mkts.*, Docket No. L-2009-2095604 (Order entered October 4, 2011) (“*Second Default Service Rulemaking Order*”) (collectively, the “Default Service Regulations”).

² 52 Pa. Code §§ 69.1801-1817; *see also Default Serv. and Retail Elec. Mkts.*, Docket No. M-2009-2140580 (Order entered September 23, 2011) (“Default Service Policy Statement”).

³ *See Petition of PECO Energy Co. for Approval of Its Default Serv. Program for the Period from June 1, 2015 through May 31, 2017*, Docket No. P-2014-2409362 (Order entered December 4, 2014) (“*DSP III Order*”).

proposed default service rate design and affirm PECO's right to recover all of its default service costs in accordance with 66 Pa.C.S. § 2807(e)(3.9); (3) approve NERA Economic Consulting, Inc. ("NERA") to continue as the independent third-party evaluator for PECO's default supply procurements; (4) grant a waiver of the rate design provisions of 52 Pa. Code § 54.187, to the extent necessary; (5) find that DSP IV includes prudent steps necessary to negotiate favorable generation supply contracts; (6) find that DSP IV includes prudent steps necessary to obtain least-cost generation supply on a long-term, short-term and spot market basis; (7) find that neither PECO nor its affiliates have withheld from the market any generation supply in a manner that violates federal law; (8) approve continuation of PECO's existing EGS Standard Offer Program, including the associated cost recovery mechanism approved in PECO's prior default service proceedings;⁴ and (9) approve PECO's proposed revised uniform Supply Master Agreement ("SMA") as an affiliated interest agreement under 66 Pa.C.S. § 2102.

This is PECO's fourth proposed program for default service under Pennsylvania's Electricity Generation Customer Choice and Competition Act, 66 Pa.C.S. §§ 2801-2812 (the "Competition Act"). Under DSP III, PECO continued to meet its default service obligations while fostering competition in retail electric markets by including more market-responsive products, modifying cost recovery mechanisms, and continuing or completing the implementation of certain retail market enhancements. In DSP IV, PECO is proposing to continue most of the existing and successful products and programs approved by the Commission in DSP III.

⁴ See *DSP III Order*, pp. 16, 25-26, 60; *Petition of PECO Energy Co. for Approval of Its Default Serv. Program*, Docket No. P-2012-2283641 (Order entered October 12, 2012) ("October 12 Order"). In the October 12 Order, the Commission approved PECO's DSP II with certain modifications and also directed PECO to submit new proposals for various elements of its proposed retail market enhancements, including cost recovery mechanisms. In response, PECO made a series of compliance filings (December 11, 2012; February 28, 2013; and April 15, 2013), which were approved by a Secretarial Letter issued January 25, 2013, an Order entered February 14, 2013, and an Order entered June 13, 2013, respectively (collectively, "*DSP II Orders*").

In accordance with the Competition Act, the Commission’s Default Service Regulations, and the Default Service Policy Statement, DSP IV is designed to enable PECO to obtain a “prudent mix” of procurement contracts and thereby ensure that default service customers have access to an adequate and reliable supply of generation at least cost over time. PECO therefore requests that the Commission approve DSP IV as requested herein and grant all other approvals necessary so that PECO can implement DSP IV on a timely basis for the benefit of its customers.

I. INTRODUCTION

1. PECO is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania with its principal office in Philadelphia, Pennsylvania. PECO provides electric delivery service to approximately 1.6 million customers.

2. As a Pennsylvania electric distribution company (“EDC”), PECO serves as default service provider to retail electric customers within its service territory in accordance with its obligations under Section 2807(e) of the Public Utility Code (66 Pa.C.S. § 2807(e)). As a default service provider, PECO provides electric generation service to those customers who do not select an EGS or who return to default service after being served by an EGS that becomes unable or unwilling to serve them. PECO’s current Commission-approved default service program expires on May 31, 2017.

3. Under Sections 2807(e) (3.1) - (3.2) and (3.4) of the Competition Act, PECO is required to obtain, through competitive procurement processes, a “prudent mix” of default service supply contracts designed to ensure “adequate and reliable service” at the “least cost to customers over time.” 66 Pa.C.S. § 2807(e)(3.7).

4. Section 54.185 of the Commission's Default Service Regulations provides that a default service provider should file a default service program with the Commission no later than twelve months before its current default service program will expire. Pursuant to the Default Service Regulations, such a default service program must include, *inter alia*: (1) a default service procurement plan, which sets forth PECO's strategy for procuring generation supply and complying with Pennsylvania's Alternative Energy Portfolio Standards Act, 73 P.S. § 1643.1 *et seq.* ("AEPS" or "AEPS Act"); (2) an implementation plan identifying the schedule and other details of PECO's proposed competitive procurements for default supply, with forms of supplier documents and agreements and an associated contingency plan; and (3) a rate design plan to recover all reasonable costs of default service, which includes rates, rules and conditions of service and revisions to its tariff. 52 Pa. Code § 54.185.

5. In promulgating the Default Service Regulations and Policy Statement, the Commission provided the following guidance for default service providers in designing a default service program:

- "In implementing default service standards, Act 129 requires that the Commission be concerned about rate stability as well as other considerations such as ensuring a 'prudent mix' of supply and ensuring safe and reliable service. *See* 66 Pa.C.S. §§ 2807(e)(3.2), (3.4) and (7). In our view, a default service plan that meets the 'least cost over time' standard in Act 129 should not have, as its singular focus, achieving the absolute lowest cost over the default service plan time frame but,

rather, a cost for power that is both adequate and reliable and also economical relative to other options.”⁵

- “The ‘least cost’ standard must give the [default service provider] 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.”⁶

6. In its *Investigation of Pennsylvania’s Retail Electricity Market* at Docket I-2011-2237952, the Commission directed PECO and other default service providers to undertake a variety of retail market enhancements and issued its proposed end state model for default service.⁷

7. PECO is proposing limited changes to its default service program and the products previously approved by the Commission in DSP III. This Petition summarizes PECO’s proposed DSP IV and, in so doing, identifies and describes the DSP IV procurement plan, implementation plan, contingency plan and mechanisms to recover all reasonable costs on a full and current basis. This Petition also incorporates the following statements, which are attached hereto:

⁵ *Second Default Service Rulemaking*, pp. 11-12.

⁶ *Second Default Service Rulemaking*, p. 38; *see also id.* at 56 (expressing preference for use of full requirements contracts in provision of default service).

⁷ *See generally Investigation of Pennsylvania’s Retail Elec. Mkt.: Intermediate Work Plan*, Docket No. I-2011-2237952 (Final Order entered March 2, 2012); *Investigation of Pennsylvania’s Retail Elec. Mkt.: End State of Default Serv.*, Docket No. I-2011-2237952 (Order entered February 15, 2013) (“*End State Order*”).

PECO Statement No. 1 – Testimony of Brian D. Crowe

Mr. Crowe is Vice President, Energy Acquisition, for PECO. His testimony provides an overview of PECO's DSP IV, including PECO's proposed litigation schedule for these proceedings and customer notice.

PECO Statement No. 2 – Testimony of John J. McCawley

Mr. McCawley is Director of Energy Acquisition for PECO. He describes PECO's proposed default service procurement, implementation, and contingency plans for DSP IV and continuation of PECO's Standard Offer Program.

PECO Statement No. 3 – Testimony of Scott G. Fisher

Mr. Fisher is a Principal of the NorthBridge Group, an economic consulting firm. Mr. Fisher provides an expert evaluation of PECO's proposed procurement plan as well as a review of "lessons learned" under the Company's prior default service programs, which includes a quantitative analysis of the prices obtained in PECO's previous default service supply solicitations.

PECO Statement No. 4 – Testimony of Dr. Chantale LaCasse

Dr. LaCasse is a Senior Vice President of NERA. Dr. LaCasse describes the procedures for PECO's procurement of default service supply, including changes proposed in DSP IV, as well as the role and responsibilities of NERA as the proposed independent evaluator.

PECO Statement No. 5 – Testimony of Alan B. Cohn

Mr. Cohn is PECO's Manager of Regulatory Strategy. Mr. Cohn describes PECO's existing Generation Supply Adjustment ("GSA") and proposed improvements in hourly-priced default service cost recovery.

8. In order to have sufficient time to undertake the competitive procurement process to obtain default generation supplies for service on and after June 1, 2017 as described in this Petition, PECO requests approval of DSP IV by December 2016. Accordingly, PECO respectfully requests that the Commission act upon this Petition on or before its scheduled December 8, 2016 public meeting date.

II. PECO'S DEFAULT SERVICE PROCUREMENT AND IMPLEMENTATION PLANS

A. Procurement Classes, Program Term And Supply Portfolio

9. Under DSP III, PECO conducts competitive procurements of wholesale power and associated services for four different default service customer classes: (i) Residential customers, (ii) Small Commercial customers with up to 100 kW of annual peak demand and lighting customers; (iii) Medium Commercial customers whose annual peak demand is greater than 100 kW but less than or equal to 500 kW; and (iv) Large Commercial and Industrial customers with annual peak demands greater than 500 kW. For DSP IV, PECO is proposing to maintain the same Residential and Small Commercial procurement groups, and thereby continue to reflect the nature of the load requirements of each customer class and other factors, including the evolution of competitive markets and rate stability.

10. As explained in the testimony of Mr. Crowe and Mr. McCawley, PECO is proposing one change to the procurement classes used in its prior default service programs. In accordance with the *DSP III Order* and the *End State Order*,⁸ PECO will implement hourly-priced default service for Medium Commercial customers on June 1, 2016. Accordingly, PECO proposes to consolidate the Medium Commercial and Large Commercial and Industrial classes into a single Consolidated Large Commercial and Industrial procurement group. Such consolidation streamlines the Company's competitive solicitation process, establishes common retail generation rates, and simplifies the reconciliation of overcollections and undercollections

⁸ See *DSP III Order*, pp. 8-10, 27-40, 61; *End State Order*, pp. 29-32.

of default service costs for all commercial and industrial customers receiving hourly-priced default service.⁹

11. In light of its favorable experience to date, PECO proposes to maintain the basic procurement strategy established in prior default service programs, which utilizes full requirements, load-following products, as well as short time periods between the solicitation and delivery of supply products.

12. A full requirements, load-following contract requires a supplier to provide energy, capacity, ancillary services, and all other services or products necessary to serve a specified percentage of default service load continuously over the term of the contract. Because the contract is load-following, the amount of energy and other services and products a supplier must provide will vary depending upon PECO's actual default service load.

13. During PECO's first two default service programs, load serving entities ("LSEs"), including EGSs, were responsible for transmission costs charged by PJM Interconnection, L.L.C. ("PJM"), including Generation Deactivation/Reliability Must Run ("RMR") charges, Expansion Cost Recovery charges and Transmission Enhancement (a/k/a Regional Transmission Expansion Plan "RTEP") charges. In the *DSP III Order* (p. 46), the Commission concluded that certain PJM transmission-related charges should be recovered from customers on a non-bypassable basis. Consistent with that finding, on June 1, 2015, PECO implemented a Non-Bypassable

⁹ The Commission's Default Service Regulations and Policy Statement provide that customers should be divided into three classes based upon peak load contributions of 0-25 kW, 25-500 kW, and 500 kW and above. *See* 52 Pa. Code §§ 54.187 & 69.1806. As Mr. McCawley explains in his testimony, the Commission has previously granted PECO a waiver from these regulations to support the 100 kW "breakpoint" among PECO's commercial customers. For DSP IV, lowering the customer segmentation threshold for the Consolidated Large Commercial and Industrial class appropriately separates smaller commercial customers from larger commercial and industrial customers who receive hourly-priced default service. In accordance with 52 Pa. Code § 54.185(g), PECO requests a waiver of the applicable provisions of the Default Service Regulations to implement this change.

Transmission Charge (“NBT”) to recover the following PJM charges from all distribution customers in PECO’s service territory: Generation Deactivation/RMR charges (PJM bill line 1930) set after December 4, 2014; RTEP charges (PJM bill line 1108); and Expansion Cost Recovery charges (“ECRCs”) (PJM bill line 1730). During DSP IV, PECO will also continue to be responsible for and will recover Network Integration Transmission Service (“NITS”) and Non-Firm Point-to-Point Transmission costs through its unbundled, bypassable Transmission Service Charge (“TSC”).

14. Under DSP III, the Residential class supply portfolio includes a blend of laddered one-year and two-year fixed-price full requirements products, with six-month spacing between the commencement of contract delivery periods. On December 31, 2015, the last block of PECO’s block and spot supply purchases initiated in DSP I (i.e., the long-term five-year 50 MW baseload energy block) expired. This supply product was replaced by two-tranches (approximately 3%) of 17-month fixed-price full requirements products and residual spot energy purchases directly from the energy markets operated by PJM (approximately 1%). Each of the supply contracts for the Residential class was procured approximately two months prior to the beginning of the applicable contract delivery period. Under DSP IV, PECO will continue to procure a mix of one-year (approximately 40%) and two-year (approximately 60%) fixed-price full requirements, load-following products for approximately 96% of the Residential default service load. The remaining approximately 4% of the default service supply portfolio for the Residential class will consist of a mix of five-year fixed-price full requirements products (approximately 3%) and spot energy purchases (approximately 1%).¹⁰ As in DSP III, each of the

¹⁰ Inclusion of such five-year products in DSP IV is consistent with the Competition Act’s provisions addressing long-term purchase contracts of more than four years in the “prudent mix” of default service supply products. See 66 Pa.C.S. Section 2807(e)(3.2)(iii).

products will be procured approximately two months prior to the beginning of the applicable delivery period. As Mr. Fisher explains in Statement No. 3, the overall mix of products for the Residential class satisfies the Public Utility Code's "prudent mix" requirement.

15. The Small Commercial class is currently served with one-year fixed-price full requirements products, each laddered with six-month spacing between the commencement of delivery periods. PECO is proposing to replace the current mix of products with equal shares of one-year and two-year fixed-price full requirements products. Each of the products for the Small Commercial class will continue to be procured approximately two months prior to delivery of the energy. As Mr. Fisher explains, the revised procurement strategy for the Small Commercial class provides price stability benefits for all small non-residential customers who may not have the knowledge or resources to elect a competitive EGS offering that provides the price stability they seek.

16. With respect to the Consolidated Large Commercial and Industrial class, PECO proposes to continue to procure all default service supply through spot-priced full requirements products on an annual basis.

17. PECO's DSP IV encompasses default service procurement for the above classes for the period beginning June 1, 2017 through May 31, 2019. This term is consistent with the Commission's Policy Statement, which recommends that default service programs following an initial program run for a two-year period. *See* 52 Pa. Code § 69.1804 ("Subsequent [default service] programs should be for two years, unless otherwise directed by the Commission.").

18. DSP IV includes some Residential and Small Commercial class supply products with delivery periods that extend beyond May 31, 2019 (the end of the DSP IV period). The extension of contracts beyond the term of a default service program is permitted by the

Commission’s regulations and is consistent with the procurement design approved by the Commission in DSP II and DSP III. *See* 52 Pa. Code 54.186(b)(4) (“Procurement plans may include solicitations and contracts whose durations extend beyond the program period.”). The laddering of contract delivery periods (extending beyond May 31, 2019) will better ensure that customers are not exposed to the potential rate volatility associated with replacing a large portion of default service supply in a short period of time.

19. The following table summarizes the proposed procurement plan for each customer class:

Residential	Small Commercial	Consolidated Large Commercial and Industrial
<ul style="list-style-type: none"> • 96% of the load is supplied by a mix of products in the following proportions: <ul style="list-style-type: none"> ○ Approximately 40% 1-year fixed-price full requirements (“FPFR”) products with delivery periods that overlap on a semi-annual basis ○ Approximately 60% 2-year FPFR products with delivery periods that overlap on a semi-annual basis • The other 4% of the load will be supplied by a five-year FPFR product (approximately 3% of the supply) and spot purchases (approximately 1% of the supply) • All products are procured approximately two months before delivery of the product begins 	<p>Transition to:</p> <ul style="list-style-type: none"> • 50% 1-year FPFR products • 50% 2-year FPFR products • Delivery periods overlap on a semi-annual basis • All products are procured approximately two months before delivery of the product begins 	<ul style="list-style-type: none"> • 100% spot-priced full requirements products, with 1-year delivery periods • All products are procured approximately two months before delivery of the product begins

20. Each seller of full requirements default service supply will deliver a percentage of PECO’s default service load pursuant to the terms of the SMA. As envisioned by the Commission in the *End State Order*, PECO is proposing to continue to use the uniform SMA developed through the Office of Competitive Market Oversight (“OCMO”) SMA stakeholder

process, which has functioned well during DSP III, with a few technical revisions noted by Mr. McCawley.¹¹

B. Competitive Bid Solicitation Process And Independent Evaluator

21. As described by Mr. McCawley, PECO intends to solicit bids for default service supply beginning in February 2017. PECO's proposed solicitations extend over the DSP IV term and are intended to avoid problems associated with procuring significant amounts of supply at a single point in time when prices may be highest.

22. Consistent with DSP III, all bids for default service supply will be obtained through a fair, non-discriminatory, and competitive request for proposals ("RFP") process conducted by an independent third-party evaluator, and PECO proposes to retain NERA in this independent evaluator role for DSP IV. In her testimony, Dr. LaCasse of NERA describes limited changes to the RFP rules for DSP IV, which focus on streamlining the electronic solicitation process. Dr. LaCasse also discusses PECO's proposal to maintain the DSP III "load cap" so that no supplier will be permitted to provide more than 50% of the default supply for any one of PECO's procurement classes at any point in time during DSP IV.

23. As Dr. LaCasse explains, PECO's proposed competitive procurement process complies with the Commission's codes of conduct and includes protocols to ensure that PECO's wholesale generation affiliates do not receive an advantage in the bidding process or any other aspect of PECO's default service implementation plan. As with PECO's prior default service plans and in order to permit the participation of wholesale generation affiliates of PECO in its default supply competitive procurements (as allowed by Section 54.186(b)(6) of the Default

¹¹ These changes proposed by PECO include non-material modifications suggested by the Independent Evaluator over the course of the DSP III procurement cycle to facilitate competition and improve bidder participation in accordance with Section I.1.9 of the RFP Rules.

Service Regulations, 52 Pa. Code § 54.186(b)(6)), PECO also respectfully requests that the Commission approve the revised uniform SMA as an affiliated interest agreement under 66 Pa.C.S. § 2102.

C. Consistency With Regional Transmission Organization Requirements

24. In accordance with the Default Service Regulations, PECO's Program is also "consistent with the legal and technical requirements pertaining to the generation, sale and transmission of electricity of the [regional transmission organization] in whose control area the DSP is providing service." 52 Pa. Code § 54.185(e)(4). As explained by Mr. McCawley, PECO's SMA will continue to impose requirements on both PECO and its suppliers to maintain specific qualifications under applicable PJM agreements and rules, as well as all other regulatory authorizations (including those of the Federal Energy Regulatory Commission) necessary to perform all contractual obligations. Furthermore, as described by Dr. LaCasse, suppliers seeking to bid to provide default service generation must be able to establish that they can fulfill all technical and regulatory requirements of the SMA, including demonstrating that there is no impediment to becoming an LSE under PJM's rules.

D. AEPS Compliance

25. As Mr. McCawley describes in his testimony, PECO will continue to satisfy its AEPS obligations with respect to sales to default service customers by requiring each full requirements default service supplier to transfer Tier I (including solar photovoltaic) and Tier II alternative energy credits ("AECs") to PECO corresponding to PECO's AEPS obligations associated with the amount of default service load served by that supplier. In addition, PECO will continue to allocate AECs obtained through its AEC procurements to suppliers in accordance with the peak load of each customer class and the percentage of load served by each

supplier. PECO will use its AEC inventory to meet AEPS obligations not met by fixed-price full requirements suppliers, and procure any additional required AECs through PECO's Tier I and Tier II "balancing" procurements previously authorized by the Commission.¹²

III. CONTINGENCY PLANS

26. In accordance with the Default Service Regulations (52 Pa. Code § 54.185(e)(5)), PECO has included contingency plans in DSP IV to address the possibility that PECO does not obtain sufficient supply through its procurement processes or experiences a supplier default under the SMA. In light of PECO's schedule of procurements and the short period between the procurement and delivery of supply, PECO will assume the responsibility of an LSE for any tranches that are unfilled in a default supply procurement. For those tranches, PECO will procure default service supply from PJM-administered markets for energy, capacity, and ancillary services and obtain sufficient AECs at market prices or from the Company's AEC inventory to satisfy any near-term obligations under the AEPS Act. For products with supply periods of six months or more, the unfilled tranches will be included in PECO's next scheduled procurement with a shortened supply period so that the product delivery will conclude on the same end date as originally anticipated.¹³

27. In the event of a supplier default and the immediate need to obtain default service supply that PECO otherwise would have received, PECO will initially rely on filling that supplier's portion of PECO's default service load through PJM-administered markets. If the

¹² See *Petition of PECO Energy Company for Approval to Procure Tier II Alternative Energy Credits and Additional Tier I and Solar Alternative Energy Credits*, Docket No. P-2010-2210975 (Order entered February 14, 2011).

¹³ As Mr. McCawley explains, since the commencement of DSP III, the Commission has approved all bids for tranches of fixed-price full requirements products solicited for the Residential class and therefore PECO is not proposing to continue to file an alternative procurement plan within fourteen days of the rejection of bids for six or more Residential tranches.

default occurs within a reasonable time before a scheduled procurement, the load served by the defaulting supplier will be incorporated into that next procurement. Otherwise, PECO will file a plan with the Commission with alternative procurement options and a request for approval of that plan on an expedited basis.

IV. RATE DESIGN AND COST RECOVERY

28. In DSP IV, PECO proposes to maintain essentially the same rate design approved by the Commission in DSP III with certain modifications to streamline the recovery of hourly-priced default service costs.

29. First, PECO is proposing to revise its GSA procurement classes to reflect the Company's proposed consolidation of all commercial and industrial customers receiving hourly-priced default service into a single Consolidated Large Commercial and Industrial procurement group.

30. Second, PECO is proposing a quarterly default service rate filing schedule for the Consolidated Large Commercial and Industrial Class, with semi-annual reconciliation of the over/undercollection component of the GSA. Consistent with the Commission's Default Service Regulations (52 Pa. Code § 54.187(k)), currently, the Large Commercial and Industrial GSA for each month is filed 45 days prior to the start of the month, and the Medium Commercial GSA will be filed on a similar schedule commencing June 1, 2016. To align this filing schedule with PECO's other procurement classes and reduce administrative burden on both the Company and Commission Staff, PECO proposes to file the Consolidated Large Commercial and Industrial Class hourly-priced default service rates on a quarterly, instead of monthly, basis.

31. Under DSP III, PECO compares its actual default service supply costs to the revenue that is billed to customers under the GSA for default service and reconciles the differences in these amounts monthly for all commercial and industrial customers receiving hourly-priced default service. This timing, in combination with billing cycle lag (the time between when default service supply costs are incurred and revenue to pay those costs is billed), can result in substantial month-to-month swings in the over/under collection component of the GSA. In order to reduce these fluctuations for Consolidated Large Commercial and Industrial customers, PECO is proposing to reconcile the over/undercollection component of the GSA (known as the “E-Factor”) on a semi-annual basis. This change will reduce potentially significant fluctuations in default service rates and provide better information for customer shopping decisions.

32. PECO also requests that the Commission expressly affirm PECO’s right to full and current recovery of all costs to implement DSP IV in accordance with 66 Pa.C.S. § 2807(e)(3.9).

V. RETAIL MARKET ENHANCEMENTS

33. During DSP II and DSP III, PECO implemented a variety of programs to support EGSs and expand retail choice. These programs include PECO’s Standard Offer Program, a new/moving customer referral program, use of an EGS selected through a competitive bid process to provide the commodity service associated with PECO’s time-of-use pilot offering, enhanced customer account number access for EGSs, and beginning July 1, 2016, seamless moves and instant connect. As described by Mr. Crowe, since June 1, 2015, the Standard Offer Program has resulted in over 55,000 residential customer and 3,000 small commercial customer referrals to an EGS that has voluntarily chosen to offer customers a twelve-month contract priced

at 7% below PECO's default service rate at the time of the offer. Based on this success, PECO proposes to continue offering the Standard Offer Program from June 1, 2017 through May 31, 2019. Consistent with PECO's existing tariff and the *DSP II Orders*, the Company further proposes to continue to recover Standard Offer Program costs through an EGS participant fee of \$30 per enrolled customer, with any remaining costs recovered in the following manner: (1) fifty percent from EGSs through a 0.2% Purchase of Receivables discount; and (2) fifty percent from residential and small commercial default service customers via the GSA.

VI. PROCEDURAL ISSUES AND COMMISSION APPROVAL

34. In accordance with the nine-month period for approval of a default service plan under Section 2807(e)(3.6) of the Public Utility Code, PECO proposes the following schedule for this proceeding:

March 17, 2016	Petition Filing
April 12, 2016	Prehearing Conference
June 3, 2016	Other Parties' Direct Testimony Due
June 24, 2016	Rebuttal Testimony Due
July 8, 2016	Surrebuttal Testimony Due
July 14-15, 2016	Oral Rejoinder and Hearings
August 5, 2016	Initial Briefs
August 19, 2016	Reply Briefs
September 30, 2016	Recommended Decision

VII. NOTICE

35. In accordance with Section 54.188 of the Commission's Default Service Regulations, PECO is providing public notice of this filing to its customers in several ways. First, PECO will include a stand-alone insert in all customer bills over a thirty-day period beginning on April 1, 2016. This stand-alone bill insert will notify customers of this filing, where they may obtain copies of the filing, and how they may participate in this proceeding by filing comments or complaints with the Commission. In addition, PECO will publish notices containing similar information in all of the major newspapers serving its service territory. Finally, all notices will refer to PECO's website, (peco.com/rates), where a copy of the entire filing will be maintained.

36. In addition to the above notices, PECO is also serving copies of this filing on the Pennsylvania Office of Consumer Advocate, the Pennsylvania Office of Small Business Advocate, the Commission's Bureau of Investigation and Enforcement, PJM, the Philadelphia Area Industrial Energy Users Group and all EGSs registered in PECO's service territory.

37. PECO respectfully requests that the Commission publish notice of this filing in the *Pennsylvania Bulletin*, with a reasonable deadline for intervention in this proceeding in light of the above notice PECO is providing and PECO's proposed schedule. Should the Commission conclude that further notice of this filing is appropriate, PECO will provide such additional notice as directed by the Commission.

VIII. CONCLUSION

Based upon the foregoing, including the attached testimony and exhibits, PECO respectfully requests that the Commission grant this Petition and enter an order, pursuant to the requirements of 66 Pa.C.S. § 2807(e)(3.7):

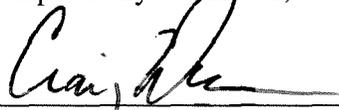
- (1) Approving PECO's proposed DSP IV, including its default service procurement plan, implementation plan, contingency plan and related bidder rules, SMA, credit documents, and other associated agreements, for all PECO customers who do not take generation service from an alternative electric generation supplier or who contract for energy with an alternative electric generation supplier which is not delivered;
- (2) Approving NERA Economic Consulting, Inc. to continue as the independent third-party evaluator for PECO's default supply procurements;
- (3) Finding that DSP IV includes prudent steps necessary to negotiate favorable generation supply contracts;
- (4) Finding that DSP IV includes prudent steps necessary to obtain least-cost generation supply on a long-term, short-term and spot market basis;
- (5) Finding that neither PECO nor its affiliates have withheld from the market any generation supply in a manner that violates federal law;
- (6) Granting a waiver of the rate design provisions of 52 Pa. Code § 54.187 to permit PECO to procure generation for three procurement classes, quarterly filing of hourly-priced default service rates and semi-annual reconciliation of the over/under collection component of the GSA for all default service customers as set forth herein;
- (7) Approving PECO's proposed tariff changes related to the consolidation of all commercial and industrial customers receiving hourly-priced default service into a single

procurement group, and affirming PECO's right to recover all of its default service costs in accordance with 66 Pa.C.S. § 2807(e)(3.9);

(8) Approving continuation of PECO's Standard Offer Program and the associated cost recovery mechanism; and

(9) Approving PECO's proposed revised uniform Supply Master Agreement under 66 Pa.C.S. § 2102.

Respectfully submitted,



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Dated: March 17, 2016

For PECO Energy Company