

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place  
Harrisburg, Pennsylvania 17101-1923  
(717) 783-5048  
800-684-6560

FAX (717) 783-7152  
consumer@paoca.org

April 13, 2016

Rosemary Chiavetta, Secretary  
PA Public Utility Commission  
Commonwealth Keystone Bldg.  
400 North Street  
Harrisburg, PA 17120

Re: 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-2016-2534980

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Answer, Notice of Intervention, and Public Statement in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

/s/ Aron J. Beatty  
Aron J. Beatty  
Senior Assistant Consumer Advocate  
PA Attorney I.D. # 86625

Attachment

cc: Honorable Cynthia Williams Fordham, ALJ  
Certificate of Service

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PECO Energy Company	:	
For Approval of its Default Service	:	
Program for the Period Service Plan	:	Docket No. P-2016-2534980
For the Period from June 1, 2017 Through	:	
May 31, 2019	:	

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ANSWER  
OF THE  
OFFICE OF CONSUMER ADVOCATE

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**I. INTRODUCTION**

On March 17, 2016, PECO Energy Company (PECO or the Company) filed its Petition for Approval of its Default Service Plan for the Period from June 1, 2017 through May 31, 2019 (DSP IV or the Plan) pursuant to 66 Pa. C.S. § 2807(e) of the Pennsylvania Public Utility Code, the Default Service Regulations of the Pennsylvania Public Utility Commission (Commission), and the Commission’s Policy Statement on Default Service.

In its Petition, PECO proposes to acquire supply for residential customers by procuring the mix of laddered one-year and two-year full requirements products, with two-month spacing between the start of the contract delivery periods, long-term products consisting of five-year full requirements products and spot purchases. Petition at ¶ 14. PECO proposes to purchase approximately 96% of its residential customer default service load through the laddered one- and two-year full requirements products with the remaining 4% of default service supply for residential customers from the mix of long-term products and spot purchases. Petition at ¶ 14. The winning bidders for the default service supply contracts will also be responsible for transferring Tier I and Tier II Alternative Energy Credits (AECs) to PECO in order to meet

PECO's requirements of the Alternative Energy Portfolio Standards Act (AEPS) associated with the amount of default service load served by that supplier. Petition at ¶ 25.

The Plan for residential default service will be for a two-year duration, starting on June 1, 2017 and ending on May 31, 2019. Petition at 1. No supplier will be permitted to provide more than fifty percent (50%) of the default service supply for any one of PECO's procurement classes. Petition at ¶ 22.

PECO has proposed to continue the existing DSP III Contingency Plan in the event that one or more tranches are not fully subscribed through the procurement process, or in the event that a winning bidder defaults prior to the time for delivery. See Petition at 14-15. For those tranches, PECO will assume the responsibility for any tranches that are unfilled in default service supply. Petition at ¶ 26. Any unfilled tranches will be procured from PJM-administered markets for energy, capacity and ancillary services. Id. PECO will obtain sufficient AECs at market prices to satisfy the near-term obligations under the AEPS Act. Id. PECO proposes that if the default occurs within a reasonable time before a scheduled procurement, the unfilled tranches will be included in PECO's next scheduled procurement. Petition at ¶ 27. Alternatively, PECO will file a plan with the Commission regarding alternative procurement options and a request for approval of the plan on an expedited basis. Id.

PECO does not propose rate design changes for residential customers. Petition at ¶ 28. Additionally, PECO proposes to continue the Standard Offer Program from June 1, 2017 through May 31, 2019. Petition at ¶ 33.

## **II. ANSWER**

The OCA has preliminarily reviewed the Company's Petition and identified a number of issues presented by the filing. The OCA anticipates that additional issues will arise as a more

comprehensive review of PECO's filing is undertaken and after discovery is conducted. The preliminary issues identified by the OCA include:

A. Default Service and Implementation Plans

1. Procurement Classes, Program Term, and Supply Portfolio

In DSP IV, PECO proposes to continue for two years the basic procurement strategy used during DSP III for residential customers, consisting of a blend of laddered one-year and two-year full requirements contracts. Petition at ¶ 14. These purchases will comprise approximately 96% of PECO's purchases. Id. The remaining four percent (4%) of the default service supply portfolio will consist of a mix of long-term products of five years (approximately 3%) and spot market purchases (approximately 1%). Id. See also Petition at ¶ 19.

The OCA submits that further evaluation is necessary to determine whether the proposed purchasing plan will provide the least cost over time for residential customers in accordance with the requirements of Act 129. The OCA intends to examine the type and mix of resources, the procurement methodologies, and the two-year duration of the plan, to ensure that the products and the plan are designed to provide reasonable and stable rates while meeting the requirements of Act 129.

2. Competitive Bid Solicitation Process and Independent Evaluator

As the Company did in DSP II and DSP III, PECO proposes to solicit bids for default service supply that would extend beyond the DSP IV term to avoid problems associated with procuring significant amounts of supply at a single point in time when prices may be the highest. Petition at ¶ 18. PECO proposes to again use NERA as the independent third-party evaluator. Id. at ¶ 22. The Request for Proposal (RFP) would require that no supplier be

permitted to provide more than fifty percent (50%) of the default service supply for any one of PECO's procurement classes. Id.

The OCA submits that the Commission should review the Company's proposed RFP and the solicitation process to ensure that the contracts are procured in the most effective manner in compliance with the Commission's regulations.

### 3. Consistency with Regional Transmission Organization Requirements

PECO also states that its program is “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.” Petition at ¶ 24, citing 52 Pa. Code § 54.185(e)(4). PECO's Supplier Master Agreements (SMA) will continue to impose requirements on both PECO and its suppliers to maintain specific qualifications under applicable PJM agreements and rules and all other regulatory authorizations necessary to perform the contractual obligations. Petition at ¶ 24. Suppliers seeking to provide default service must be able to establish that they can fulfill the technical and regulatory requirements of the SMA, including demonstration that there is no impediment to becoming a Load Serving Entity (LSE) under PJM's rules. Id.

The Commission should carefully examine the Company's proposed procedures to ensure that potential suppliers meet all technical and regulatory requirements as necessary under PJM's rules.

### 4. AEPS Compliance

PECO avers that it will continue to satisfy its AEPS Act obligations by requiring each full requirements default service supplier to transfer Tier I and Tier II alternative energy credits (AECs) to PECO. Petition at ¶ 25. The AEC credits will correspond to PECO's obligations

associated with the amount of default service load served by that supplier. Petition at ¶ 25. In addition, PECO proposes to 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. Petition at ¶ 25. PECO will use its AEC inventory to meet AEPS obligations not met by fixed price full requirements suppliers and procure additional AECs, if necessary, through PECO's Tier I and Tier II "balancing" procurements. Id.

The OCA submits that this methodology should be examined to determine whether it produces the lowest reasonable cost for alternative energy credits and whether it appropriately supports the development of the alternative requirements needed under the AEPS Act.

B. Contingency Plans

In light of the two month interval between the procurement and delivery of supply in DSP IV, PECO will assume responsibility of the LSE for any tranches that are unfilled in default supply procurement or the event that PECO experiences a supplier default under the SMA. Petition at ¶ 26. For those tranches, PECO avers that it will procure default service supply from PJM-administered markets for energy, capacity and ancillary services. Id. PECO will obtain sufficient AECs at market prices or from the Company's AEC inventory to satisfy the near-term obligations under the AEPS Act. Id. PECO proposes that if the default occurs within a reasonable time before a scheduled procurement, the unfilled tranches will be included in PECO's next scheduled procurement. Petition at ¶ 27. Alternatively, PECO will file a plan with the Commission regarding alternative procurement options and a request for approval of the plan on an expedited basis. Id.

The OCA submits that the Commission should carefully review the Company's contingency plans for effectiveness and efficiency to meet the requirements of Act 129.

C. Rate Design and Cost Recovery

PECO proposes to maintain the same rate design approved in DSP III for residential customers. Petition at ¶ 28. PECO requests full and current cost recovery of all DSP IV costs incurred. Petition at ¶ 32.

The OCA submits PECO's residential rate design should be examined to help promote price stability. Further, any cost recovery permitted should be examined to ensure that it is consistent with the Public Utility Code, applicable regulations and Commission Orders, and sound ratemaking principles.

D. Retail Market Enhancements

1. Standard Offer Program

PECO proposes to continue the Standard Offer Program (SOP) and to continue the cost recovery mechanism established in the DSP II program. Petition at ¶ 33. The cost recovery established in the DSP II program provided that costs would be recovered through an EGS participant fee of \$30 per enrolled customers, with any remaining costs recovered: (1) fifty percent (50%) from the EGSs through a 0.2% Purchase of Receivables discount and (2) fifty percent (50%) from residential and small commercial default service customers via the GSA. Petition at ¶ 33. The parties to the Partial Settlement of DSP III agreed that the Standard Offer Program would continue until the earlier of: (1) six months following a Commission Order modifying the SOP as a result of a settlement reached through the stakeholder process outlined elsewhere in the Partial Settlement; (2) a Commission Order modifying the SOP as a result of a statewide investigation of standard offer customer referral programs; or (3) May 31, 2017. See Petition of PECO Energy Company for Approval of its Default Service Program for the Period from June 1, 2015 through May 31, 2017, P-2014-2409362, Opinion at Order at 16

(Dec. 4, 2014). The OCA submits that the Company's proposal to continue the SOP beyond May 31, 2017 should be reviewed to ensure that the program is reasonable and consistent with Commission Orders.

E. Procedural Issues

PECO provides a proposed procedural schedule in its Petition. Petition at ¶ 34. The OCA will work with all parties to develop a mutually agreeable procedural schedule.

### III. CONCLUSION

WHEREFORE, the Office of Consumer Advocate respectfully requests that this matter be set for hearings. Hearings are necessary to ensure that the default service rates that will be charged starting June 1, 2017 are just and reasonable and otherwise consistent with Pennsylvania law.

Respectfully Submitted,

/s/ Aron J. Beatty  
Aron J. Beatty  
Senior Assistant Consumer Advocate  
PA Attorney I.D. # 86625  
E-Mail: ABeatty@paoca.org

Candis A. Tunilo  
Assistant Consumer Advocate  
PA Attorney I.D. # 89891  
E-Mail: CTunilo@paoca.org

Counsel for:  
Tanya J. McCloskey  
Acting Consumer Advocate

Office of Consumer Advocate  
5th Floor, Forum Place  
555 Walnut Street  
Harrisburg, PA 17101-1923  
Telephone: (717) 783-5048  
Facsimile: (717) 783-7152

DATE: April 13, 2016  
219385

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PECO Energy Company :  
For Approval of its Default Service :  
Program for the Period Service Plan : Docket No. P-2016-2534980  
For the Period from June 1, 2017 Through :  
May 31, 2019 :

I hereby certify that I have this day served a true copy of the following documents, the Office of Consumer Advocate's Answer, Notice of Intervention and Public Statement, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 13<sup>th</sup> day of April 2016.

SERVICE BY HAND DELIVERY and FIRST CLASS MAIL

Phillip C. Kirchner, Esquire  
Bureau of Investigation & Enforcement  
400 North Street  
Harrisburg, PA 17120

SERVICE BY E-MAIL and FIRST CLASS MAIL

Romulo L. Diaz, Jr., Esquire  
W. Craig Williams, Esquire  
Exelon Business Services Company  
2301 Market Street, S23-1  
Philadelphia, PA 19101-8699

Thomas P. Gadsden, Esquire  
Kenneth M. Kulak, Esquire  
Brooke E. McGlinn, Esquire  
Morgan, Lewis & Bockius  
1701 Market Street  
Philadelphia, PA 19103  
*PECO Energy*

Elizabeth Rose Triscari, Esquire  
Office of Small Business Advocate  
300 North Second Street, Suite 202,  
Harrisburg, PA 17101

Charis Mincavage, Esquire  
Adeolu A. Bakare, Esquire  
Alessandra L. Hylander, Esquire  
McNees, Wallace & Nurick LLC  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
*PAIEUG*

/s/ Aron J. Beatty  
Candis A. Tunilo  
Assistant Consumer Advocate  
PA Attorney I.D. # 89891  
E-Mail: CTunilo@paoca.org

Aron J. Beatty  
Senior Assistant Consumer Advocate  
PA Attorney I.D. # 86625  
E-Mail: ABeatty@paoca.org

Counsel for  
Office of Consumer Advocate  
555 Walnut Street  
5th Floor, Forum Place  
Harrisburg, PA 17101-1923  
Phone: (717) 783-5048  
Fax: (717) 783-7152  
219522