

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>PETITION OF PECO ENERGY</b>	:	
<b>COMPANY FOR APPROVAL OF ITS</b>	:	
<b>DEFAULT SERVICE PROGRAM FOR</b>	:	<b>DOCKET NO. P-2016-2534980</b>
<b>THE PERIOD FROM JUNE 1, 2017</b>	:	
<b>THROUGH MAY 31, 2019</b>	:	

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**STATEMENT OF PECO ENERGY COMPANY  
IN SUPPORT OF THE JOINT PETITION FOR PARTIAL SETTLEMENT**

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**July 28, 2016**

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**I. INTRODUCTION**

On July 28, 2016, PECO Energy Company (“PECO” or the “Company”), the Pennsylvania Public Utility Commission’s (“Commission”) Bureau of Investigation and Enforcement (“I&E”), the Office of Consumer Advocate (“OCA”), the Office of Small Business Advocate (“OSBA”), the Philadelphia Area Industrial Energy Users Group (“PAIEUG”) and the Retail Energy Supply Association (“RESA”) (collectively, the “Joint Petitioners”) filed with the Commission a Joint Petition For Partial Settlement (“Joint Petition”) in the above-captioned proceeding. The Joint Petitioners reserved one issue for briefing, which involves PECO’s plan to allow low-income customers participating in the Company’s Customer Assistance Program (“CAP”) to shop for electric generation supply.<sup>1</sup> This Statement in Support (the “Statement”) is filed pursuant to Paragraph 46 of the Joint Petition.

The settlement set forth in the Joint Petition (the “Settlement”) was reached after an extensive investigation by the parties of PECO’s proposed Default Service Program for the period June 1, 2017 to May 31, 2019 (“Original DSP IV Proposal”), which included substantial

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<sup>1</sup> Direct Energy Services, LLC (“Direct Energy”), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”), and the Tenant Union Representative Network and Action Alliance of Senior Citizens of Greater Philadelphia (“TURN et al.”), which are parties to this proceeding, have authorized the Joint Petitioners to represent that they do not oppose the Settlement. Noble Americas Energy Solutions LLC (“Noble”) is the only party to this proceeding that has indicated it opposes the Settlement. PECO will address any issues that may be raised by Noble in opposition to the Settlement in briefing.

discovery, the submission of direct, rebuttal and surrebuttal written testimony and an evidentiary hearing. In addition, the parties engaged in discussions and negotiations about the terms of the Settlement over an extended period.

PECO is in full agreement with each of the reasons the Joint Petitioners stated the Settlement is in the public interest. In this Statement, following a summary of the Settlement, PECO offers additional reasons why the Settlement is in the public interest and should be approved.

## **II. SUMMARY OF THE SETTLEMENT**

In the Original DSP IV Proposal, PECO proposed to continue most of the existing plans and programs approved by the Commission in PECO's third default service proceeding ("DSP III").<sup>2</sup> Under the Settlement, PECO's Default Service Program ("Revised DSP IV") is generally consistent with many features of the Original DSP IV Proposal. PECO's default service customers will be divided into three procurement classes: the Residential Class, the Small Commercial Class, and the Consolidated Large Commercial and Industrial Class. The current Medium Commercial and Large Commercial and Industrial classes, which both receive hourly-priced default service as of June 1, 2016, will be consolidated into a single procurement class – the Consolidated Large Commercial and Industrial Class. Under the Settlement, PECO's Revised DSP IV will have a four-year term, beginning June 1, 2017 and ending May 31, 2021, instead of a two-year term, with a stakeholder collaborative in January 2018 to address any issues with the products or programs approved as part of the Revised DSP IV Program and in place during the four-year term.

For the Residential Class, PECO will continue to procure a mix of one-year and two-year fixed-price full requirements ("FPFR") products of which approximately 96% of the supply will

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<sup>2</sup> 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").

be in the form of one-year and two-year FPFR products, with six month spacing between the commencement of contract delivery periods. During the Revised DSP IV period, the remaining approximately 4% of Residential Class supply currently obtained through 17-month FPFR products and residual spot market purchases will be replaced by 24-month FPFR products (for approximately 3% of Residential default service load) and spot purchases directly from the energy markets operated by PJM (for approximately 1% of Residential default service load) instead of a five-year FPFR product as PECO originally proposed. The Small Commercial Class load will be supplied by equal shares of one-year and two-year FPFR products. Finally, with respect to the Consolidated Large Commercial and Industrial Class, PECO will continue to solicit hourly-priced contracts for full requirements products for all default service supply.

Each of the contracts for the Residential and Small Commercial Classes will be procured through a competitive sealed-bid Request for Proposals (“RFP”) process approximately two months prior to delivery of energy under the contract, with hourly-priced contracts for the Consolidated Large Commercial and Industrial Class procured annually. In order to facilitate selection and transfer of PJM Auction Revenue Rights (“ARRs”) to wholesale default service suppliers under the procurement schedule, PECO will continue to employ a consultant for ARR analysis and selection.

The Joint Petitioners further reached agreement on other undisputed procurement-related issues, including continuation of the contingency plans approved in prior default service programs for unsuccessful procurements and wholesale supplier defaults, continuation of the DSP III form of supplier master agreement (“SMA”), with limited changes to reflect technical clarifications, compliance with Pennsylvania’s Alternative Energy Portfolio Standards (“AEPS”) Act, and the appointment of NERA Economic Consulting, Inc. (“NERA”) as an independent third-party evaluator of PECO’s default service procurements.

In addition, the Joint Petitioners agreed upon limited tariff changes related to consolidation of the Medium Commercial and Large Commercial and Industrial procurement classes as well as rate design changes to streamline the recovery of hourly-priced default service costs. Under the Settlement, hourly-priced default service rates will be filed on a quarterly basis instead of a monthly basis and over/under collections of default service costs for the Consolidated Large Commercial and Industrial Class will be reconciled on a semi-annual basis instead of a monthly basis. PECO will continue to be responsible for and recover the PJM charges specified in the Company's Non-Bypassable Transmission charge and will continue to recover Network Integration Transmission Service ("NITS") and Non-Firm Point-to-Point Transmission costs associated with default service customers through its bypassable Transmission Service Charge. Under the Settlement, PECO will also implement additional measures to enhance the transparency of NITS costs and charges.

PECO will continue its existing, Commission-approved Electric Generation Supplier ("EGS") Standard Offer Program ("Standard Offer Program" or "SOP") for the Revised DSP IV term, with conditions agreed to by the Joint Petitioners. PECO will revise its SOP call center scripts and other related documents to complete the transaction that was the subject of the customer's call and obtain affirmative consent before marketing the SOP, as well as to clarify the nature of the SOP's discounted price. In addition, PECO will perform additional training recommended by the OCA. Finally, PECO will convene an EGS workshop to discuss potential operational enhancements to improve administration of the SOP.

### **III. THE SETTLEMENT IS IN THE PUBLIC INTEREST AND FULLY SATISFIES THE REQUIREMENTS OF THE COMPETITION ACT AND THE COMMISSION'S DEFAULT SERVICE REGULATIONS**

Under the Electricity Generation Customer Choice and Competition Act, 66 Pa.C.S. § 2801 *et seq.* (the "Competition Act"), PECO, as a Pennsylvania electric distribution company

(“EDC”) and default service supplier, has a fundamental obligation to provide competitively procured, reliable electric generation service to default service customers at least cost over time. 66 Pa. C.S. § 2807(e)(3.4). PECO’s Revised DSP IV – its fourth default service program – contains all of the elements required by the Commission’s default service regulations (52 Pa. Code §§ 54.181 – 54.190) and its Policy Statement on Default Service (52 Pa. Code §§ 69.1801-69.1817), including implementation plans, procurement plans, contingency plans, rate design plans, and associated tariff pages.

As described in the Settlement and in this Statement, PECO’s Revised DSP IV is designed to obtain a competitively-procured “prudent mix” of contracts as required by the Public Utility Code. The type of FPFR contracts that PECO will procure for default service customer supply has already been approved by the Commission and is well-tested in the marketplace. *See* PECO St. No. 3, pp. 8-10, 26. PECO’s Revised DSP IV default service portfolios, which build on the success of PECO’s prior default service programs, will continue to support the competitive retail market while providing customers with significant protection against changing market conditions and an appropriate degree of rate stability consistent with the objectives of the Competition Act. *See* PECO St. No. 3, pp. 25-27, 33-34; PECO St. No. 3-R, pp. 12-16. Accordingly, and as described in detail below, PECO’s Revised DSP IV fully satisfies each of the requirements of the Competition Act and the applicable Commission regulations on default service and should be approved.

**A. PECO’s Procurement Classes Are Appropriate and in the Public Interest**

The Commission’s regulations (52 Pa. Code § 54.187) and Policy Statement (52 Pa. Code § 69.1805) provide that default service providers should design procurement classes based upon peak loads of 0-25 kW, 25-500 kW, and 500 kW and greater, but default service providers may propose to depart from these specific ranges, including to “preserve existing customer classes.”

*See* 52 Pa. Code § 69.1805. In the Settlement, the Joint Petitioners agree to PECO's proposed DSP IV procurement classes: the Residential Class, the Small Commercial Class, and the Consolidated Large Commercial and Industrial Class. Joint Petition, ¶¶ 13-16. Each procurement class is comprised of established rate schedules under PECO's tariff and reflects differences between the classes with respect to customer usage and shopping patterns. The separation of the Residential and Small Commercial procurement classes reflects the different characteristics of those classes and reduces the potential that continuing increases in shopping in one customer group will result in a higher default service price for the other customer group PECO St. No. 2, p. 6. In addition, the consolidation of all customers receiving hourly-priced default service into a single procurement group – the Consolidated Large Commercial and Industrial Class – reflects similarities in shopping trends, streamlines the Company's competitive solicitation process, and simplifies the reconciliation of over/undercollection of default service costs. *Id.*, p. 7. In order to implement the procurement classes under the Settlement, the Joint Petitioners have requested that, if necessary, the Commission grant PECO a waiver of the specific peak load class criteria in 52 Pa. Code § 54.187. Joint Petition, ¶ 44.

**B. The Length of the Revised DSP IV Procurement Plan Is Proper**

The Commission's regulations provide that the term of a default service program subsequent to the initial program will be determined by the Commission. *See* 52 Pa. Code § 54.182(d). In its Original DSP IV Proposal, PECO proposed a two-year term (June 1, 2017 to May 31, 2019), consistent with the Commission's Default Service Policy Statement, 52 Pa. Code § 69.1804 and the length of the term of PECO's second and third default service programs. PECO St. No. 2-R, p. 3. The OCA recommended a four-year term on the grounds that a longer program term will reduce litigation costs and PECO's costs to administer its default service programs. *See* OCA St. Nos. 1, pp. 19-20 & 1-SR, pp. 10-11.

In the Settlement, the Joint Petitioners agreed to a four-year DSP IV term. During this longer term, PECO will convene a stakeholder collaborative in January 2018, with a follow-up collaborative in February 2018, if necessary, to discuss any aspect of the products or programs approved in the DSP IV Program, as well as other retail market enhancement issues that relate to PECO's provision of default service. This collaborative will provide an opportunity for parties to make recommendations for changes to DSP IV if any party believes market conditions have significantly changed during the period following the Commission's issuance of its final Order in this proceeding and January 2018. *See* Joint Petition, ¶ 12.

The Revised DSP IV term is reasonable because a longer program reduces administrative costs for customers, the parties, PECO and the Commission. Furthermore, the January 2018 collaborative ensures that PECO can evaluate and refine its procurement plan to address developing market conditions, if necessary.

**C. The Procurement Plan For The Residential Customer Class Is In The Public Interest**

In its Original DSP IV Proposal, PECO proposed to continue the procurement design established in DSP III with 96% of the total portfolio comprised of a mix of one-year (40%) and two-year (60%) FPFR products with delivery periods that overlap on a semi-annual basis. Under the Original DSP IV Proposal, the remaining approximately 4% of Residential Class supply currently obtained through 17-month FPFR products (with residual spot-market purchases) would be replaced by five-year FPFR products (approximately 3%) and spot purchases (approximately 1%). PECO St. Nos. 2, pp. 12-13 & 2-R, pp. 4-5.

The OCA supported PECO's proposal to procure one- and two-year FPFR products for Residential customers. OCA St. No. 1, p. 8. However, the OCA recommended replacement of the five-year FPFR products and spot market purchases with a 50 MW block energy contract and

spot market purchases and sales, asserting that suppliers will include an “excessive” risk premium in any five-year FPFR product. OCA St. Nos. 1, pp. 7-16 & 1-SR, pp. 5-8.

In the Settlement, the Joint Petitioners agree to PECO’s original proposed Residential Class portfolio with one revision. In particular, PECO’s proposed five-year FPFR products will be replaced with two-year FPFR products, which will be procured in the scheduled Spring 2017 procurements and again in the scheduled Spring 2019 procurements under the stipulated four-year procurement plan. Joint Petition, ¶ 17. The use of two-year FPFR products instead of a five-year FPFR product or block energy contract represents a compromise between PECO and the OCA regarding the procurement design for the Residential Class.

The Joint Petitioners further agreed to PECO’s original proposal to procure all FPFR contracts, including those contracts for the Residential Class, approximately two months prior to delivery of the energy in March or September of each year of the stipulated four-year procurement plan. See Joint Petition, ¶¶ 18, 20 & Exh. A. In order to facilitate selection and transfer of PJM ARRs to wholesale default service suppliers, the Joint Petitioners agree that PECO will continue to employ a consultant for ARR analysis and selection. See Joint Petition, ¶ 18.

In sum, the Settlement continues PECO’s basic DSP III procurement strategy which has attracted robust, competitive participation in PECO’s procurements, resulted in reasonable prices, provided price stability benefits for Residential customers and further expanded retail choice in PECO’s service territory. See PECO St. No. 3, pp. 9-20. The use of one- and two-year FPFR products will continue to provide an appropriate level of price stability, which the Commission is required to consider under the Competition Act.<sup>3</sup> The Residential Class procurement plan thus fully complies with the Competition Act’s requirement to competitively

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<sup>3</sup> See Final Order, *Implementation of Act 129 of October 15, 2008; Default Serv. and Retail Elec. Mkts.*, Docket No. L-2009-2095604 (October 4, 2011), p. 40.

procure a “prudent mix” of supply resources designed to ensure “adequate and reliable service” at the “least cost to customers over time.” *See* 66 Pa.C.S. §§ 2807(e)(3.1), (3.2), (3.4).

**D. The Procurement Plan For The Small Commercial Customer Class Is In The Public Interest**

In its Original DSP IV Proposal, PECO proposed to replace the DSP III mix of 100% one-year FPCR products with equal shares of one-year and two-year FPCR products, with six-month spacing between the commencement of contract delivery periods. PECO St. No. 2, pp. 13-14. The OSBA supported PECO’s proposed change to the procurement strategy for the Small Commercial Class. *See* OSBA St. No. 1, pp. 3-4.

The Settlement adopts PECO’s original proposed Small Commercial Class procurement plan. Joint Petition, ¶¶ 20-21. PECO will procure the FPCR products for Small Commercial customers in the same manner as the Residential Class. *See id.*, Exh. A.

Like the Residential Class, the portfolio of FPCR products for Small Commercial customers constitutes a “prudent mix” of supply resources as required by the Competition Act. The use of one- and two-year FPCR products for the Small Commercial Class under the Settlement 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. PECO St. No. 3, p. 22.

**E. The Procurement Plan For The Consolidated Large Commercial and Industrial Customer Class Is In The Public Interest**

The Settlement adopts PECO’s original proposal to continue to procure hourly-priced full requirements products annually, in March, for all default service supply for the Consolidated Large Commercial and Industrial Class. Joint Petition, ¶¶ 22-23 & Exh. A. Similar to the Residential and Small Commercial Class procurement plans, the Settlement’s procurement plan for these customers complies with the Competition Act’s requirements.

## **F. The Settlement Establishes A Competitive Procurement Process**

The Commission's regulations require that a default service plan include copies of agreements to be used in the procurement of electric generation supply for default service customers, including SMAs and RFPs. 52 Pa. Code § 54.185(e)(6). In the Original DSP IV proposal, PECO proposed that all procurements would continue to be administered by NERA using a competitive, sealed-bid RFP process. *See* PECO St. No. 2, p. 5. The OCA recommended that bidders be allowed to place conditional or contingent bids in the RFP process. *See* OCA St. Nos. 1, pp. 16-19 & 1-SR, pp. 12-17.

In the Settlement, the Joint Petitioners agreed to PECO's original proposal for a competitive, sealed-bid RFP process and the form SMA that suppliers will be required to execute set forth in PECO Exhibit JJM-3. Joint Petition, ¶¶ 26-27 & Exh. B. Consistent with Section 54.185(e)(4) of the Commission's regulations, suppliers will bid on "tranches" corresponding to a percentage of the actual default service customer load. Winning suppliers will be obligated to supply full requirements load-following service, which includes energy, capacity, ancillary services, and all other services or products necessary to serve a specified percentage of PECO's default service load in all hours during the supply product's delivery period.<sup>4</sup> *Id.* The RFP documents set forth in Exhibit B and PECO Exhibit CL-3 are based on the DSP III RFP documents that have yielded competitive outcomes. *See* PECO St. No. 4, pp. 7-8. Accordingly, the comprehensive RFP documents agreed to by the Joint Petitioners satisfy the Competition Act's requirements of a competitive procurement process, with prudent steps to negotiate favorable generation supply contracts and obtain contracts at least cost. 66 Pa.C.S. § 2807(e)(3.7). In addition, the Settlement resolves differences between PECO and the OCA regarding the design of the procurement process.

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<sup>4</sup> PECO remains responsible for all distribution services to its default service customers, as well as transmission costs described in Section II.H, *infra*.

### **G. Other Procurement and Implementation Plan Requirements**

The Settlement also includes agreement among the Joint Petitioners regarding other procurement and implementation plan components which were uncontested.

**Contingency Plans.** In accordance with the Commission’s regulations at 52 Pa. Code § 54.185(e)(5), the Settlement appropriately provides for continuation of PECO’s contingency plans approved by the Commission in PECO’s prior default service programs. Joint Petition, ¶¶ 24-25.

**AEPS Compliance.** Both the Competition Act and the AEPS Act require default service providers, like PECO, to obtain an increasing percentage of electricity sold to retail customers from alternative energy sources as measured by alternative energy credits (“AECs”). *See* 66 Pa.C.S. § 2807(e)(3.6); 73 Pa.C.S. §§ 1648.1 *et seq.* Under the Settlement, as in DSP III, PECO will continue to require each full requirements default service supplier to transfer Tier I and Tier II AECs to PECO corresponding to PECO’s AEPS obligations associated with the amount of default service load served by that supplier. Joint Petition, ¶ 30.

In addition, PECO will continue to allocate AECs obtained through its prior Commission-approved AEC procurements towards suppliers’ AEPS obligations in accordance with each customer class and the percentage of load served by each supplier. PECO will retain a percentage of its AECs to meet the AEPS requirements associated with any default service customer load not supplied by full requirements contracts. PECO will also buy and sell AECs as required to meet AEPS requirements and manage its inventory of AECs obtained in prior procurements as previously authorized by the Commission. *Id.*, ¶ 31.

**Independent Evaluator.** The Commission’s default service regulations provide that the competitive bid solicitation process shall be subject to monitoring by the Commission or an independent third party selected by a default service provider in consultation with the

Commission. *See* 52 Pa. Code § 54.186(c)(3). The Joint Petitioners agree to the appointment of NERA to continue as independent evaluator for PECO’s default service procurements. Joint Petition, ¶ 28.

**Affiliate Relations.** Under the Commission’s default service regulations, affiliates of PECO are permitted to participate in the Company’s competitive procurements for default service supply, *see* 52 Pa. Code § 54.186(b)(6), provided that appropriate protocols are in place to ensure that such affiliates do not receive an advantage in the competitive procurement and the competitive process complies with the Commission’s codes of conduct. The Commission has previously approved PECO’s SMA as an affiliated interest agreement and PECO is maintaining the same protocols and other protections in the Revised DSP IV to be administered by the Independent Evaluator. *See* Exh. B; PECO St. No. 4, pp. 7-12. Thus, pursuant to Section 2807(e)(3.1)(iii)(B) of the Competition Act, the Joint Petitioners have requested that the Commission approve the form SMA set forth in PECO Exhibit JJM-3 as an affiliated interest agreement as required under 66 Pa.C.S. § 2102. Joint Petition, ¶ 29.

**H. The Settlement Continues PECO’s Commission-Approved Rate Design With Improvements To Streamline the Recovery of Hourly-Priced Default Service Rates and Enhance the Transparency of Certain PJM Charges**

In its Original DSP IV Proposal, PECO proposed to essentially maintain its current rate design, which fully complies with the Commission’s default service regulations and the Public Utility Code, whereby PECO recovers default service costs from default service customers through a Generation Supply Adjustment (“GSA”) charge. Consistent with the Public Utility Code and the Commission’s default service regulations, PECO proposed to continue to project and adjust default service rates for the Residential and Small Commercial Classes on a quarterly basis and to reconcile the over/under collection component of the GSA (known as the “E-Factor”) on a semi-annual basis. PECO St. No. 5, pp. 4-5. However, for its Original DSP IV

Proposal, PECO proposed two adjustments to streamline the operation of the GSA for customers receiving hourly-priced default service. First, PECO proposed to revise its GSA procurement classes to reflect the transition of medium commercial customers to hourly-priced default service on June 1, 2016 in accordance with the Commission's Order in PECO's DSP III proceeding. *See* PECO St. No. 5, pp. 7-8. Second, PECO proposed 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. *See id.*, pp. 9-10. Finally, PECO proposed to continue to be responsible for and recover the same categories of PJM charges approved by the Commission in the Company's DSP III proceeding for recovery through its Non-Bypassable Transmission Charge and Transmission Service Charge ("TSC"). *See* PECO St. No. 2, pp. 10-11.

The OCA proposed semi-annual E-Factor reconciliation using a twelve-month refund or recovery period. OCA St. Nos. 1, p. 20 & 1-SR, pp. 18-22. With respect to the collection of PJM billing charges, RESA recommended measures to enhance the transparency of NITS costs, which are currently recovered through PECO's bypassable TSC. RESA St. No. 1, pp. 4-5.

The Settlement adopts PECO's original proposed rate design. Under the Settlement, the Joint Petitioners agree that PECO shall be permitted to file the GSA and Reconciliation tariff pages set forth in Exhibits ABC-2 and ABC-3 to PECO Statement No. 5 to become effective June 1, 2017.<sup>5</sup> Joint Petition, ¶¶ 35-36. The Settlement represents a compromise developed by the Joint Petitioners concerning the reconciliation of PECO's default service and resolves the differences between PECO and the OCA on this issue. A quarterly rate filing schedule for the Consolidated Large Commercial and Industrial Hourly Pricing Adder will reduce administrative burden on both the Company and Commission Staff. By using a semi-annual rather than

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<sup>5</sup> PECO will address any Commission determinations regarding the collection of PJM bill charges via a non-bypassable transmission charge in a subsequent compliance filing.

monthly schedule for the reconciliation of over/under collections for the Consolidated Large Commercial and Industrial Class, fluctuations in default service prices will be smoothed out and result in clearer price signals for both customers and EGSs. PECO St. No. 5, pp. 10-11. While the Commission's regulations do not prescribe a time period for reconciliation adjustments, PECO believes that semi-annual reconciliation appropriately balances the Company's goal of mitigating volatility with the Commission's concern about maintaining the Price-to-Compare ("PTC") as a price signal for customers and EGSs. PECO St. No. 5-R., pp. 2-3. In order to implement quarterly filing of hourly-price default service rates and semi-annual reconciliation of the E-Factor for all default service customers under the Settlement, the Joint Petitioners have requested that, if necessary, the Commission grant PECO a waiver of the rate design provisions in 52 Pa. Code § 54.187. Joint Petition, ¶ 45.

The Settlement also addresses RESA's concern regarding the ability of load serving entities ("LSEs") to estimate and analyze future NITS charges by implementing measures to enhance the transparency of NITS costs in PECO's service territory. Specifically, PECO will provide notice to EGSs and default service suppliers of any FERC filings that modify PECO's NITS rate through publication on the Company's supplier-support and procurement websites and will establish a NITS-dedicated webpage providing information about the NITS rate applicable to LSEs in PECO's service territory. *See* Joint Petition, ¶ 39.

#### **I. PECO's Revised DSP IV Will Continue The Standard Offer Program Consistent With the Commission's Guidance**

On April 29, 2011, the Commission initiated its extensive Investigation of Pennsylvania's Retail Electricity Market at Docket I-2011-2237952 (the "Retail Markets Investigation"), which ultimately led to the Commission proposing that PECO and other default service providers undertake a variety of retail market enhancements, which the Commission then approved as part of PECO's second default service program proceeding ("DSP II"). In its final order in the Retail

Markets Investigation, the Commission issued its proposed model for the “End State of Default Service” and observed that standard offer customer referral programs will “improve the overall operation of the competitive market in the near term.”<sup>6</sup> Consistent with the Commission’s directives in the Retail Markets Investigation, during DSP II, PECO implemented its Standard Offer Program under which Residential and Small Commercial default service customers contacting PECO’s customer service center are presented with an opportunity to select among a group of EGSs who have voluntarily chosen to offer customers a twelve-month contract priced at least 7% below PECO’s applicable PTC at the time of the offer. In PECO’s DSP II proceeding, the Commission approved recovery of 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.<sup>7</sup> In the DSP III Order (pp. 25-26), the Commission approved continuation of the Standard Offer Program, including the cost recovery mechanisms approved in the DSP II Orders, as “beneficial to customers.” During DSP III, PECO enhanced the operation of the Standard Offer Program in several respects, including revisions to the SOP call center scripts to clarify the nature of the discounted price and its interplay with the PTC and amendment of the program rules to allow EGSs to participate on a per class basis. PECO St. No. 2, pp. 19-20. In its Original DSP IV Proposal, PECO proposed to extend the SOP during DSP IV in the same format as in DSP III.

*Id.*

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<sup>6</sup> See *Investigation of Pennsylvania’s Retail Elec. Mkt.: End State of Default Serv.*, Docket No. I-2011-2237952 (Order entered February 15, 2013) (the “End State Order”), pp. 12-13.

<sup>7</sup> See *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. 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, the “DSP II Orders”).

The OCA generally supported continuation of the SOP, but proposed to impose a sunset date of May 31, 2019 and several conditions regarding the presentation and marketing of the SOP to customers, including modifications to PECO's call handling process and revisions to SOP training materials and scripts. OCA St. Nos. 2, pp. 25-32 & 2-SR, pp. 2-8. The OCA also proposed that PECO perform a survey to obtain information about participating customers' understanding of and experience with the SOP. OCA St. No. 2, pp. 32-33. RESA recommended that PECO review its SOP rules and implement necessary changes to ensure that SOP suppliers are provided with up-to-date customer account information in the enrollment process. RESA St. No. 1, pp. 5-6.

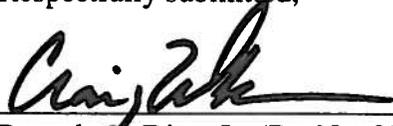
Under the Settlement, PECO will continue its currently-effective SOP, including the cost recovery mechanisms last approved by the Commission in the DSP III Order, until May 31, 2021. Joint Petition, ¶ 40. To address the OCA's concern regarding the presentation of the SOP to customers, PECO will revise the scripts and training materials used by PECO and the third-party administrator of the SOP, Allconnect, to incorporate the specific disclosures outlined in Paragraph 41 of the Joint Petition. In addition, the Settlement provides for additional training of Allconnect representatives as recommended by the OCA. Specifically, PECO will incorporate the topics outlined in Paragraph 42 of the Joint Petition into Allconnect's ongoing refresher training sessions for its customer service representatives. Finally, to address RESA's concern regarding accurate customer account information for SOP enrollment, PECO will convene an EGS workshop to discuss potential operational enhancements to improve administration of the SOP. *See* Joint Petition, ¶ 43.

The SOP operational changes agreed to as part of the Settlement carefully balance the interests of customers and participating EGSs. Accordingly, continuation of the SOP under the Settlement is beneficial to customers and in the public interest.

#### IV. CONCLUSION

For the reasons set forth above and in the Joint Petition, PECO's Revised DSP IV embodied in the Settlement builds on the successful products and programs approved by the Commission in DSP III, which will allow PECO to continue to meet its default service obligations and to further enhance the retail electric market. Moreover, the Settlement terms have been carefully designed to resolve, in a reasonable fashion, the issues and concerns that were raised by the testimony in this case without the need for additional costly litigation. Accordingly, the Settlement is in the public interest and should be approved without modification.

Respectfully submitted,



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