

**PECO ENERGY COMPANY
STATEMENT NO. 1**

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PECO ENERGY COMPANY
FOR EXPEDITED APPROVAL OF ITS MARKET RATE
TRANSITION PHASE-IN PROGRAM**

DOCKET NO. P- _____

DIRECT TESTIMONY

WITNESS: RICHARD G. WEBSTER, JR.

**SUBJECTS: DETAILS OF PECO ENERGY COMPANY'S
MARKET RATE TRANSITION PHASE-IN
PROGRAM**

DATED: SEPTEMBER 10, 2008

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1 Regulatory Department as a Regulatory Liaison/Rate Engineer. As a Regulatory
2 Liaison/Rate Engineer, I was PECO's contact with the Commission on issues
3 concerning rates and other regulatory matters. I was later promoted to Manager of
4 Regulatory Affairs and served in the position for several years. During this time, I
5 played an active role in PECO's restructuring, which was prompted by the Electricity
6 Generation Customer Choice and Competition Act of 1996 (the "Competition Act"),
7 66 Pa. C.S. §§ 2801-2812 *et seq.*

8 In 1999, I became Manager of PECO's Solutions Delivery Project, which was a
9 combined initiative of PECO's business and information technology ("IT")
10 professionals to implement the many IT changes necessary to support Electric and
11 Gas Customer Choice. In 2001, I was promoted to Director, Integrated Solutions, and
12 was responsible for ongoing PECO initiatives to update and improve the Company's
13 information systems, including its Automated Meter Reading capability.

14 From 2002 to 2003, I served in a rotational assignment at Exelon Energy Delivery
15 ("EED") in its Strategic Planning Group. After a brief return to PECO's Rates and
16 Regulatory Group, I served as EED's Merger Integration Lead from 2005 through
17 2006 during Exelon's efforts to merge with PSEG, Inc. In 2007, I returned to the
18 Rates and Regulatory Group and assumed my current position as Director of
19 Regulatory Affairs.

1 **5. Q. What is your educational background?**

2 A. I earned my Bachelor of Science degree in Civil Engineering from the University of
3 Delaware in 1984. I earned my Masters of Business Administration from Villanova
4 University in 1993.

5 **6. Q. What is the purpose of your testimony?**

6 A. The purpose of my direct testimony is to discuss the details of PECO's proposed
7 Market Rate Transition Phase-In Program (sometimes herein, the "Phase-In
8 Program").

9 **7. Q. How is your testimony organized?**

10 A. For purposes of context, I begin by discussing the background of Pennsylvania's
11 electric industry restructuring in the 1990s. I will explain at a high level why
12 restructuring was undertaken, how it provided significant benefits to Pennsylvania's
13 electric consumers, and the temporary purpose of the rate caps that were implemented
14 as part of restructuring. I will also explain why generation rate caps are set to expire
15 in PECO's service territory at the end of 2010, how that will ultimately benefit
16 consumers, and what PECO's role will be as an electric distribution company post-
17 2010.

18 Second, I will provide an explanation of PECO's Phase-In Program. I will explain
19 why PECO is offering this program to electric consumers in its service territory, how
20 the Phase-In Program will work, what customers are eligible for the program, and

1 why PECO believes the program is consistent with the Commission's orders and
2 policy statements concerning price mitigation programs.

3 Third, I will briefly discuss how PECO plans to recover the costs of the Phase-In
4 Program. My testimony on this point will provide an overview of PECO's cost
5 recovery plans. Mr. Alan Cohn, PECO's Manager of Revenue Analysis, will discuss
6 PECO's proposed cost recovery mechanism and tariff in detail in his direct testimony
7 (PECO Statement No. 2). Finally, I will explain why PECO is seeking expedited
8 approval for its Phase-In Program.

9 **II. PENNSYLVANIA ELECTRICITY RESTRUCTURING, DEFAULT SERVICE**
10 **OBLIGATIONS AND GUIDING PRINCIPLES**

11 **8. Q. Please discuss the background of the restructuring of Pennsylvania's electric**
12 **industry.**

13 A. Electric industry restructuring was prompted in Pennsylvania, and across the United
14 States, in the early 1990s by consumers wanting to obtain their electricity through
15 market competition instead of the traditional regulatory model. Before restructuring,
16 an electric utility would provide the generation, transmission, and distribution of
17 electricity to consumers in its service territory. Consumers could not choose their
18 electric generation supplier, and the costs for their supplier's services were bundled
19 into one rate that was set through a regulatory ratemaking process.

20 As the price of electricity and other forms of energy steadily rose in the 1970s and
21 1980s, consumers pressed their elected officials for the ability to choose their
22 electricity supplier. Consumers wanted a competitive market to develop that would

1 enable them to select from competing suppliers and choose the supplier that would
2 provide electricity to them at the best price. Consumers also wanted energy options –
3 such as conservation, efficiency and alternative energy programs – tailored to their
4 specific needs and preferences. In Pennsylvania, these efforts culminated with the
5 Competition Act.

6 **9. Q. What did passage of the Competition Act accomplish?**

7 A. Several things. First, the Competition Act created a framework that gave consumers
8 the ability to choose their electric generation supplier (“EGS”). In other words, they
9 no longer had to purchase the generation component of their electricity from their
10 local electric utility.

11 Second, the Competition Act required electric utilities to unbundle the generation,
12 transmission, and distribution components of their rates. This made their pricing
13 more transparent and made it possible for consumers to compare prices between
14 electric distribution companies (“EDCs”) like PECO and EGSs when shopping for a
15 generation supplier.

16 Third, the Competition Act allowed electric utilities to separate their generation and
17 distribution functions. This resulted in construction, operating costs, and risks
18 associated with generation plants being shifted from utility consumers – who paid
19 these costs as part of regulated rates – to generation companies (and their
20 shareholders), who charged competitive market prices. Because of this change
21 generators were incentivized to become more efficient and innovative, thereby
22 producing more energy at lower costs.

1 Fourth, the Competition Act and restructuring settlements thereunder resulted in
2 temporary caps on generation, transmission and distribution rates that, in the
3 following years, kept these rates below market prices. These transitional caps (or
4 “fixed rates”) provided Pennsylvania’s electric consumers with billions of dollars in
5 savings while other commodity costs increased over the same period.

6 **10. Q. Why were temporary rate caps put in place following the passage of the**
7 **Competition Act?**

8 A. The purpose of the caps was to ease the transition of consumers from regulated rates
9 to market prices. But the caps were only intended to be a bridge to the competitive
10 market, not a permanent regulatory substitute for the market.

11 **11. Q. When are the rate caps set to expire?**

12 A. The rate caps for several Pennsylvania utilities have already expired. As for PECO,
13 its transmission and distribution rate caps expired on December 31, 2006, and its
14 generation rate caps are set to expire on December 31, 2010, the last day of PECO’s
15 transition period established under the Competition Act and orders of this
16 Commission.¹

¹ See *Application of PECO Energy Company, Pursuant to Chapters 11, 19, 21, 22, and 28 of the Public Utility Code for Approval of (1) a Plan of Corporate Restructuring, Including the Creation of a Holding Company and (2) the Merger of the Newly Formed Holding Company and Unicom Corporation*, Docket No. A-110550F0147 (Order entered June 22, 2000); *Application of PECO Energy Company for Approval of its Restructuring Plan Under Section 2806 of the Public Utility Code, et al.*, Docket Nos. R-000973953 and P-00971265 (Order entered May 3, 1998).

1 12. Q. You mentioned previously how the Competition Act benefited consumers when
2 it was passed. How will it benefit them in the future, specifically with rate caps
3 expiring?

4 A. The Competition Act – and the expiration of rate caps and move to market pricing
5 that it established – will benefit customers in the future by allowing competitive
6 market forces to discipline the supply of, and demand for, electricity from diverse
7 providers. As I mentioned earlier, the traditional regulatory model was not working
8 to keep electricity prices from rising. Consumers were captive to one supplier, and
9 for some suppliers, the “cost-plus” model provided little incentive to operate more
10 efficiently or to innovate.

11 With the expiration of rate caps and the transition to a fully competitive market,
12 consumers will benefit from being able to choose their electric supplier based on the
13 supplier’s price for electricity, as well as the supplier’s conservation and alternative
14 energy options. Faced with competition, suppliers will have to offer better-priced and
15 more innovative products than the next company or exit the market. Consumers will
16 ultimately benefit from this dynamic.

17 13. Q. What will PECO’s role be in this competitive, post-rate cap environment?

18 A. PECO will be the electric distribution provider for all consumers in its service
19 territory and the default generation service provider for consumers in its territory that
20 do not exercise their choice to select an alternative EGS, or whose EGS fails to
21 supply their electricity. However, even though PECO will be the default generation
22 service provider, Pennsylvania law requires that its post-cap rates reflect “prevailing

1 market prices.” This makes sense, because if PECO were permitted or required to
2 undercut market rates, other generation suppliers would not be able to compete with
3 PECO and a competitive market could not exist.

4 Nonetheless, PECO will provide tools and options to electric consumers in its service
5 territory to help them transition from rate caps to market-based pricing. One of these
6 tools is PECO’s Phase-In Program.

7 **III. DESCRIPTION OF PECO’S MARKET RATE TRANSITION PHASE-IN**
8 **PROGRAM**

9 **14. Q. What is PECO’s Market Rate Transition Phase-In Program?**

10 A. The Phase-In Program is a pre-payment price mitigation plan that is one component
11 of PECO’s comprehensive Rate Mitigation Plan to ease the transition of its customers
12 from regulated, capped energy rates to market-based energy prices.

13 **15. Q. What are the other components of PECO’s Rate Mitigation Plan?**

14 A. The other components of PECO’s Rate Mitigation Plan include its default service
15 program with competitive, laddered procurement, expanded retail competition
16 programs and phase-out of declining rate blocks, increased discounts for low-income
17 customers, a Market Rate Transition Deferral Program to help customers defer
18 expected post-rate cap price increases, a Market Rate Transition Energy Efficiency
19 Package, and a Customer Education Plan to increase customer awareness of rising
20 energy prices and how they can more smoothly transition to those prices.² PECO’s

² PECO’s Customer Education Plan was approved by the Commission by Order entered August 8, 2008 at Docket No. M-2008-2032274.

1 Deferral Program and Energy Efficiency Package are discussed in detail in the
2 Company's separately filed Petition for Approval of its Default Service Program and
3 Rate Mitigation Plan and its Petition for Approval of its Market Rate Transition
4 Energy Efficiency Package.

5 **16. Q. Returning to the Market Rate Transition Phase-In Program, how will the**
6 **program work?**

7 A. Participating PECO customers will pay a specific amount that will be added to their
8 monthly electric bills from January 1, 2009 through December 31, 2010 in order to
9 pre-pay a portion of the expected post-2010 market price increases. The pre-
10 payments will be placed in an account separate from PECO's business accounts and
11 accrue 6% interest per year compounded monthly. The pre-payments and interest
12 will then be refunded to participating customers in the form of a monthly bill credit
13 from January 1, 2011 through December 31, 2012.

14 **17. Q. Why is PECO offering the Phase-In Program to its customers?**

15 A. PECO believes that the Phase-In Program is an option that will enable participating
16 customers to more easily transition to post-rate cap market prices. It will accomplish
17 this by allowing customers to gradually pay more on their electric bills over the
18 course of three and one-half years rather than abruptly switching to market rates.

19 **18. Q. Will enrollment in the Phase-In Program be automatic?**

20 A. No. Participation in the Phase-In Program is entirely voluntary. Therefore, to
21 participate customers will have to enroll in, or opt-in, to the program. Likewise, as a

1 voluntary program, customers can exit at any time by providing advance notice to the
2 Company or by terminating their PECO service. They will then have their pre-
3 payment amounts refunded with interest through either a check or bill credit.

4 **19. Q. Will the Phase-In Program be available to all of PECO's distribution customers?**

5 A. With the exception of customers on PECO's Customer Assistance Plan ("CAP"),
6 customers whose accounts are in arrears, and large Commercial and Industrial
7 ("C&I") customers, the Market Rate Phase-In Program will be available to all PECO
8 customer classes.

9 **20. Q. Please explain why CAP customers, collections customers and large C&I**
10 **customers are not included in the Phase-In Program.**

11 A. CAP customers are billed a set monthly amount based on their individual ability to
12 pay. Therefore, the additional monthly pre-payment charge would likely be a
13 hardship for these customers. With regard to customers whose accounts are in
14 arrears, PECO wants to work with payment troubled customers to get them current on
15 their bills. The Phase-In Program, which would add another charge to their bills,
16 would be counterproductive to this effort.

17 As for large C&I customers, these customers have the greatest ability and propensity
18 of PECO's customer base to shop for competitive energy prices. Accordingly, PECO
19 decided to focus its efforts on providing an early phase-in transition option for its
20 residential, small and medium C&I, and street lighting customers.

1 A. **Can eligible electricity consumers in PECO's service territory that have chosen**
2 **an alternative EGS participate in the Phase-In Program?**

3 A. Yes, so long as they meet the criteria of the Market Rate Transition Phase-In Program
4 (for example, they are not in arrears), they can participate in the program, regardless
5 of whether an EGS is their generation supplier.

6 21. **Q. Is the Phase-In Program competitively neutral?**

7 A. Yes. In addition to being open to eligible consumers that have chosen an alternative
8 generation supplier, the Phase-In Program's credits and charges are non-bypassable
9 and will not affect the Price-To-Compare on PECO's bills. In fact, the Phase-In
10 Program's charges and credits will appear separately from the generation charges on
11 PECO's bill.

12 22. **Q. How will consumers be notified of the Phase-In Program and when can they**
13 **begin to enroll?**

14 A. After the Commission enters an Order approving PECO's Phase-In Program, the
15 Company will educate customers and open a 60-day enrollment period. PECO will
16 notify customers of the Phase-In Program through bill inserts, media advertisements,
17 e-mails to our electronically billed customers, and notices on the PECO website.
18 Customers will be able to enroll by calling a toll-free telephone number, responding
19 electronically through the internet, or by returning an enrollment card in a postage-
20 paid envelope.

1 23. Q. Will customers be able to sign up for the program after the 60-day enrollment
2 ends?

3 A. No. Once the enrollment period ends, the Phase-In Program will not be available to
4 new customers. The reason for this is that we want customers to be able to take full
5 advantage of the mitigation benefits provided by the program's pre-payment and
6 interest features.

7 24. Q. Are there any circumstances under which a customer that is enrolled in the
8 Phase-In Program can be removed from the program?

9 A. Yes. If a customer enrolled in the Phase-In Program subsequently becomes a CAP
10 customer, the customer will be removed from the program and its pre-payments will
11 be returned with interest. In addition, if a customer misses two consecutive monthly
12 pre-payments, the customer will be removed from the program and its earlier pre-
13 payments will be returned with interest.

14 25. Q. Is the Phase-In Program consistent with the Commission's regulations and
15 orders concerning price mitigation programs?

16 A. Yes. The Phase-In Program is a voluntary, opt-in program. It is competitively
17 neutral, open to residential, small and medium C&I, and street lighting customers,
18 and it is designed to provide customers with a transition option from capped rates to
19 market-based prices. Accordingly, the Company believes that the Phase-In Program

1 is consistent with the Commission's Default Service regulations, its Policy Statement,
2 and its recent decision approving PPL Electric Utilities' Rate Stabilization Plan.³

3 **IV. MARKET RATE PHASE-IN PROGRAM COST RECOVERY**

4 **26. Q. You mentioned earlier that PECO will seek recovery for its Market Rate**
5 **Transition Phase-In Program costs. Please describe the costs that PECO intends**
6 **to recover.**

7 A. PECO will seek recovery of its Phase-In Program implementation and administration
8 costs. By these costs, I mean the costs of the information and billing system upgrades
9 necessary for the program to function properly, the costs for customer outreach, and
10 the costs for customer enrollment.

11 **27. Q. How, and from which customers, will PECO will recover these costs?**

12 A. PECO plans to recover its Phase-In Program costs through a non-bypassable,
13 reconcilable surcharge on the bills of all PECO distribution customers except large
14 C&I customers. The Phase-In Program and the cost recovery mechanism will be
15 implemented through a tariff supplement, which Mr. Cohn discusses more fully in his
16 testimony.

³ *Petition of PPL Electric Utilities Corporation for Approval of a Rate Stabilization Plan, Opinion and Order, Docket No. P-2008-2021776 (Order entered Aug. 7, 2008).*

1 **V. REQUEST FOR EXPEDITED APPROVAL**

2 **28. Q. Why is PECO seeking expedited approval for its Phase-In Program?**

3 A. PECO is seeking expedited approval of its Phase-In Program so that customers can
4 have the benefit of eighteen months of program pre-payments and interest to help
5 manage their transition to market prices in 2011. Accordingly, the Company is
6 requesting that the Commission approve the Phase-In Program on or before February
7 27, 2009 so that PECO can implement it beginning on July 1, 2009. PECO is
8 proposing the following procedural schedule, which has been crafted to meet those
9 dates:

September 10, 2008	PECO's Petition and direct testimony filed
September 24, 2008	Prehearing Conference
October 1 and 10, 2008	Technical conferences and settlement discussions among the parties
October 17, 2008	Other parties' direct testimony
October 21, 2009	Additional technical conference and settlement discussions
November 6, 2008	Rebuttal testimony
November 20-21, 2008	Evidentiary hearings
December 15, 2008	Main briefs
December 22, 2008	Reply briefs
January 22, 2009	Recommended Decision
February 27, 2009	Final Order

1 **29. Q. In your opinion, is there any reason why the Commission should not approve the**
2 **Phase-In Program on an expedited basis?**

3 A. Obviously, I am not aware of, nor insensitive to, the Commission's workload.
4 However, from the standpoint of the structure of PECO's Market Rate Phase-In
5 Program, I do not believe the Program presents any issues that should delay its
6 implementation.

7 As I mentioned earlier, the Phase-In Program is consistent with the Commission's
8 Default Service Regulations and Policy Statement. Moreover, it is very similar to the
9 PPL Rate Stabilization Plan recently approved by the Commission. Also, the Phase-
10 In Program is only one component of PECO's comprehensive strategy to help
11 customers more easily transition from capped rates for energy to market prices.

12 **VI. CONCLUSION**

13 **30. Q. Please summarize your direct testimony.**

14 A. PECO has prepared a comprehensive package of programs to ease the transition of its
15 customers from capped, regulated rates to market based-pricing. The Market Rate
16 Transition Phase-In Program is one of these programs, which PECO has filed
17 separately so as to facilitate expedited approval.

18 The Company respectfully asks that the Commission approve PECO's Phase-In
19 Program on an expedited basis so that it can be in place by February 2009. In doing
20 so, the Commission will be providing electric customers in PECO's service territory
21 with a mitigation tool – that will be followed by additional tools – that will enable

1 them to more smoothly transition to the expiration of 12 years of capped electric
2 rates.

3 **31. Q. Does this conclude your direct testimony?**

4 A. Yes.