

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PECO ENERGY COMPANY
FOR APPROVAL OF ITS DEFAULT
SERVICE PROGRAM AND RATE MITIGATION PLAN

DOCKET NO. P- _____

DIRECT TESTIMONY

WITNESS: RICHARD G. WEBSTER, JR.

SUBJECTS: DEFAULT SERVICE PROGRAM OVERVIEW,
RATE MITIGATION PLAN,
PROPOSED SCHEDULE OF PROCEEDINGS,
CUSTOMER NOTICE

DATED: SEPTEMBER 10, 2008

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**DIRECT TESTIMONY
OF
RICHARD G. WEBSTER, JR.**

4
I. INTRODUCTION AND PURPOSE OF TESTIMONY

5 **1. Q. Please state your full name and business address.**

6 A. My name is Richard G. Webster, Jr. My business address is PECO Energy Company,
7 2301 Market Street, 15th Floor, Philadelphia, Pennsylvania, 19103.

8 **2. Q. By whom are you employed and in what capacity?**

9 A. I am Director of Regulatory Affairs for PECO Energy Company ("PECO" or the
10 "Company").

11 **3. Q. What are your current duties and responsibilities as Director of Regulatory
12 Affairs?**

13 A. As Director of Regulatory Affairs, I am responsible for developing PECO's
14 regulatory strategy in Pennsylvania and its policy positions before the Pennsylvania
15 Public Utility Commission (the "Commission").

16 **4. Q. Please summarize your prior professional experience.**

17 A. I have over 23 years of experience in the energy industry, all with PECO and its
18 affiliates. I began my career in 1984 at PECO's predecessor company, Philadelphia
19 Electric, where I started as a Construction Engineer in the Nuclear Engineering
20 Department. In this position, I worked on the development and construction of the
21 Limerick nuclear plant's reactor units. In 1989, I joined PECO's Rates and

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 that 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.

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 testimony is to provide an overview of PECO's default service
7 program and comprehensive rate mitigation plan, including PECO's implementation
8 plan for procurement of electric generation to meet the needs of its default service
9 customers beginning January 1, 2011.

10 My testimony is divided into four parts. First, I provide background of
11 Pennsylvania's restructuring of its electric industry and describe PECO's basic
12 default service obligations. I then identify the principal factors that were considered
13 in developing PECO's proposed default service program.

14 Second, I provide an overview of the proposed program through an introduction of
15 the other witnesses who will provide testimony about its components in this
16 proceeding. These witnesses will testify regarding: (1) the details of PECO's default
17 service procurement and implementation plans, including the competitive process by
18 which PECO will procure default supply; (2) the master supply agreement that PECO
19 will enter into with default service suppliers; (3) PECO's proposed customer rates and
20 default service cost recovery mechanisms; and (4) PECO's expanded universal
21 service offering and retail choice programs.

1 Third, I explain how PECO's default service program is integrated with a
2 comprehensive rate mitigation plan, including market rate transition phase-in and
3 deferral customer options, new demand side response and energy efficiency offerings,
4 and a robust consumer education program (already approved by the Commission).¹
5 Together, PECO's default service program and PECO's rate mitigation plan fully
6 address the likely increases in the cost of electric generation as PECO's customers
7 move from "capped" rates to prevailing market prices.

8 Fourth, I describe PECO's proposed schedule for consideration of its default service
9 program and rate mitigation plan and discuss the actions PECO is taking to provide
10 notice to customers of these proceedings.

11 **II. PENNSYLVANIA ELECTRICITY RESTRUCTURING, DEFAULT SERVICE**
12 **OBLIGATIONS AND GUIDING PRINCIPLES**

13 **7. Q. Please discuss the background of the restructuring of Pennsylvania's electric**
14 **industry.**

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

¹ See *PECO Energy Company Consumer Education Plan for 2008-2012 Submitted in Compliance with May 10, 2007 Final Order at Docket No. M-00061957*, Docket No. M-2008-2032274 (Order entered August 7, 2008).

1 As the price of electricity and other forms of energy steadily rose in the 1970s and
2 1980s, consumers pressed their elected officials for the ability to choose their
3 electricity supplier. Consumers wanted a competitive market to develop that would
4 enable them to select from competing suppliers and choose the supplier that would
5 provide electricity to them at the best price. Consumers also wanted energy options –
6 such as conservation, efficiency and alternative energy programs – tailored to their
7 specific needs and preferences. In Pennsylvania, these efforts culminated with the
8 Competition Act.

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

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

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

19 Third, the Competition Act allowed electric utilities to separate their generation and
20 distribution functions. This resulted in construction, operating costs, and risks

1 associated with generation plants being shifted from utility consumers – who paid
2 these costs as part of regulated rates – to generation companies (and their
3 shareholders), who charged competitive market prices. Because of this change
4 generators were incentivized to become more efficient and innovative, thereby
5 producing more energy at lower costs.

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

11 **9. Q. Why were temporary rate caps put in place following the passage of the**
12 **Competition Act?**

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

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

17 A. The rate caps for several Pennsylvania utilities have already expired. As for PECO,
18 its transmission and distribution rate caps expired on December 31, 2006, and its
19 generation rate caps are set to expire on December 31, 2010, the last day of PECO’s

1 transition period established under the Competition Act and orders of this
2 Commission.²

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

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

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

² 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. Mr. Webster, please describe PECO's basic default service obligations.

2 A. As a Pennsylvania EDC, PECO currently provides provider-of-last-resort ("POLR")
3 electric generation service to all customers within its service territory who do not
4 select an EGS or who return to default service after being served by an EGS which
5 becomes unable or unwilling to serve. The electric generation service PECO
6 provides at fixed rates, as discussed above, is obtained through a power purchase
7 agreement between PECO and its affiliate, Exelon Generation. PECO's contract with
8 Exelon Generation expires on December 31, 2010, the same date fixed generation
9 rates for PECO's customers end.

10 After its transition period, PECO will become the "default service provider" ("DSP")
11 for its service territory and continue its obligation to serve those customers who do
12 not select an EGS or who contract for electric energy with an EGS and it is not
13 delivered. In order to fulfill this obligation, PECO will, pursuant to the Competition
14 Act, procure electric generation supply for default service customers at "prevailing
15 market prices" and is entitled to recover all of its reasonable costs for such
16 procurement.

17 Pursuant to the Commission's regulations, 52 Pa. Code §§ 54.181 *et seq.*, PECO is
18 obligated to file a default service program which sets forth how PECO will meet its
19 default service obligations, including its strategy for procuring generation supply, a
20 schedule for implementation, and a rate design to recover PECO's reasonable costs.

1 13. Q. What factors did PECO consider in developing its proposed default service
2 program?

3 A. The goal of PECO's proposed default service program is to ensure that default service
4 customers have access to a reliable supply of generation at prevailing market prices.
5 In determining how best to meet that goal, PECO was guided by several overarching
6 principles:

- 7 • Competitive forces will yield the best prices for customers and, therefore,
8 the development of retail and wholesale energy markets should continue to
9 be encouraged.
- 10 • Default service rates should strike an appropriate balance between
11 providing customers with rate stability and current market price signals
12 through tailored procurement strategies that reflect the different needs of
13 various customer types.
- 14 • Default service rates should be understandable and ensure a smooth
15 transition from existing rate caps to rates based on market prices.

16 14. Q. Do you believe that PECO's proposed default service program is consistent with
17 these principles?

18 A. Yes, I do. As discussed in the next section of my testimony and as explored in
19 greater detail by PECO's other witnesses, our default service program is designed to
20 (1) maximize the participation of wholesale and retail suppliers, (2) provide market-
21 responsive pricing while limiting exposure to market conditions at any one point in

1 time, and (3) recognize differences in customer class needs and preferences. We have
2 also sought to simplify our post-January 1, 2011 rate design and gradually, over three
3 years, phase out demand charges and block rates. PECO's plan also supports retail
4 competition through procurement of generation at prevailing market prices,
5 continuing PECO's existing retail competition programs and expanding customer
6 referral opportunities, appointing a retail choice ombudsman, and supporting
7 development of a common supplier coordination tariff by the Commission's Retail
8 Markets Working Group ("RMWG"). When combined with PECO's comprehensive
9 rate mitigation plan, PECO's default service program will ease the transition of
10 PECO's customers from "capped" rates to prevailing market prices in accordance
11 with the Commission's regulations and guidance.

12 **III. OVERVIEW OF PECO'S DEFAULT SERVICE PROGRAM**

13 **15. Q. What is PECO's procurement plan for default service supply?**

14 **A. Mr. William J. Patterer**, PECO's Manager, Regulatory Strategy and Regulatory
15 Affairs, provides detailed testimony regarding PECO's default service procurement
16 plan in PECO Statement No. 2. As Mr. Patterer explains, PECO is dividing its
17 customers into four different classes – Residential, Small Commercial, Medium
18 Commercial, and Large Commercial and Industrial. This division reflects the nature
19 of the load requirements of each customer class and a balancing of other factors,

1 including rate stability and the propensity of each class of customers to access
2 competitive markets.³

3 PECO has developed a tailored procurement strategy for each customer class,
4 reflecting a portfolio of full requirements contracts between PECO and suppliers.
5 Contract terms will range from one to three years (plus an additional five months to
6 adjust for PJM's planning year, which ends on May 31), and a percentage of the
7 contracts in each customer class will be based on the hourly "spot" market price for
8 energy in the day-ahead wholesale energy market operated by PJM Interconnection,
9 L.L.C. ("PJM").

10 The amount of load for each class to be served through contracts with suppliers will
11 be divided into slices, or "tranches," on which suppliers may bid. The portion of load
12 served by contracts with energy priced in accordance with the PJM day-ahead market
13 will range from five percent (5%) for PECO's Residential customers to fifteen
14 percent (15%) for Medium Commercial customers. For Large Commercial and
15 Industrial customers, PECO will offer default service based upon hourly PJM day-
16 ahead market prices. In addition, consistent with Section 69.1805 of the
17 Commission's Policy Statement, PECO will also offer a one-year fixed price optional
18 service for Large Commercial and Industrial customers for the period January 1, 2011
19 – December 31, 2011.

³ Because the Commission's Default Service Regulations (52 Pa. Code § 54.187) provide for division of customers into three groups with different peak loads for procurement purposes, PECO is requesting a waiver of the applicable regulations, as explained by Mr. Patterer in his testimony.

1 Suppliers will also be required to provide PECO with sufficient alternative energy
2 credits (“AECs”) for PECO to satisfy its compliance obligations under Pennsylvania's
3 Alternative Energy Portfolio Standards Act (the “AEPS Act”). To the extent PECO
4 has procured AECs independently in accordance with the AEC procurement approved
5 by the Commission in Docket No. P-00072260 or any additional approved AEC
6 procurements, those AECs will be allocated equitably to reduce the obligations of
7 suppliers.

8 Consistent with Commission regulations, PECO’s initial default service
9 implementation plan provides for acquisition of generation supply to cover the period
10 from January 1, 2011 to May 31, 2014, with the terms of some contracts extending
11 beyond May 31, 2014 to facilitate laddering of contract delivery periods.

12 **16. Q. Do you believe that PECO’s proposed default service procurement plan is a**
13 **sound approach to obtaining electric generation at prevailing market prices?**

14 A. Yes, I do. In addition, in PECO Statement No. 3, **Mr. Scott G. Fisher** of the
15 NorthBridge Group explains in detail why PECO’s proposed plan is a sound approach
16 to procure default service supply for PECO’s customers. As Mr. Fisher observes, the
17 plan captures the benefits of wholesale competition and is tailored to meet the needs
18 of customers while taking into account the different circumstances that each customer
19 group faces. The plan also provides an appropriate balance of rate stability and
20 exposure to current market price signals, with protection for customers against
21 adverse market outcomes. Based on an analysis of recent competitive solicitations,
22 Mr. Fisher also presents market evidence demonstrating that open solicitations for the

1 type of supply products that PECO is proposing to procure have involved high levels
2 of participation and competition, and have resulted in supply prices that represent
3 prevailing market prices.

4 **17. Q. You testified that PECO proposes to utilize full requirements contracts. What**
5 **are full requirements contracts?**

6 A. In his testimony, Mr. Fisher describes the nature of “full requirements” contracts in
7 detail. In brief, a full requirements contract requires a supplier to provide service that
8 includes energy, capacity, ancillary services, and any other services or products
9 necessary to serve a specified percentage of PECO’s default service load twenty-four
10 hours a day, three hundred and sixty-five days a year. The full requirements contracts
11 PECO will enter into with suppliers are “load following” contracts, which means that
12 the amount of energy and other services and products a supplier must provide will
13 vary depending upon PECO’s actual default service load. Procuring power through
14 full requirements, load-following contracts is distinct from what has been referred to
15 as “active portfolio management,” in which a utility manages its portfolio on a day-
16 to-day basis and procures separate block products (e.g., energy, capacity, ancillary
17 services) over different time periods for its default service load.

18 **18. Q. Has PECO developed an implementation plan as part of its default service**
19 **program?**

20 A. Yes. In accordance with the Commission’s regulations, PECO’s default service
21 program includes a detailed implementation plan. Mr. Patterer explains that PECO
22 will conduct a total of seven supply solicitations over a five-year period to avoid the

1 risks associated with procuring all of the required supply at a single time and to
2 achieve diversity of supply. The solicitations will also include “spot”-priced full
3 requirements contracts, with energy priced based upon PJM’s day-ahead market.
4 PECO has retained and seeks Commission approval for NERA Economic Consulting,
5 Inc. (“NERA”) to independently administer these contract solicitations, and in PECO
6 Statement No. 4, **Dr. Chantale LaCasse** of NERA explains the competitive
7 procurement process PECO will follow and NERA’s responsibilities.

8 **19. Q. Will PECO’s affiliate, Exelon Generation, be permitted to participate in this**
9 **competitive bid process?**

10 A. Yes. As explained by Dr. LaCasse, PECO’s proposed competitive procurement
11 process complies with the Commission’s code of conduct and includes protocols to
12 ensure that Exelon Generation does not receive an advantage in the bidding process
13 or any other aspect of PECO’s default service implementation plan. In addition, to
14 enhance supplier diversity, no supplier – including Exelon Generation – will be
15 permitted to provide more than 80% of the default supply for any one of PECO’s
16 procurement classes.

17 **20. Q. Does PECO’s default service implementation plan include the use of a standard**
18 **agreement with suppliers?**

19 A. Yes. In PECO Statement No. 5, **Mr. John J. McCawley**, PECO’s Director of
20 Energy Acquisition, describes PECO’s proposed Supply Master Agreement (“SMA”).
21 He reviews the rights and obligations of PECO and its suppliers under the SMA, and
22 explains why PECO intends to use a standardized contract with each of its suppliers.

1 In accordance with the Commission's regulations, Mr. McCawley also explains how
2 the SMA is consistent with PJM's legal and technical requirements for sale,
3 generation and transmission of electricity, as well as the specific contingency
4 provisions of the SMA that are designed to address a failure of a wholesale supplier
5 to meet its contractual obligations. These provisions include requirements for
6 suppliers to maintain certain credit levels and provide collateral to help protect PECO
7 and its customers from costs associated with being forced to obtain alternative
8 generation in the event of a supplier default. Because PECO's affiliate Exelon
9 Generation may participate in the procurement, PECO is seeking approval of the
10 SMA as an affiliated interest agreement.

11 **21. Q. What other contingency procedures does PECO propose in the event that a**
12 **supplier fails to satisfy its default service obligations?**

13 A. Mr. Patterer addresses other components of PECO's contingency planning in his
14 testimony. In the event that PECO fails to obtain sufficient approved bids for a
15 portion of default service supply in a procurement, the portions of supply that were
16 not awarded will be included in PECO's next default supply procurement. If
17 necessary, PECO will supply any unserved portion of its default service load from the
18 PJM-administered markets for energy, capacity and ancillary services and procure
19 sufficient AECs to satisfy any near-term obligations under the AEPS Act.

20 In the event of a supplier default, PECO will also initially rely on fulfilling that
21 supplier's portion of PECO's default service load through the PJM-administered
22 markets for energy, capacity, and ancillary services. If the default occurs within a

1 reasonable time before a scheduled procurement, the load served by the defaulting
2 supplier will be incorporated into that procurement. Otherwise, PECO will file a plan
3 with the Commission setting forth alternative procurement options and a request for
4 approval on an expedited basis.

5 **22. Q. Does PECO's default service program include a rate design plan?**

6 A. Yes. In PECO Statement No. 6, **Mr. Alan B. Cohn**, Manager, Revenue Analysis,
7 Retail Rates, describes PECO's proposed default service rate design plan. As Mr.
8 Cohn explains, PECO has strived to keep its new rates simple, while avoiding cross
9 subsidization of different rate classes and allocating costs in accordance with
10 principles of cost causation.

11 Consistent with these principles, PECO is proposing a generation service rate that
12 will consist of a single price for all customers in each of the four customer classes
13 identified by Mr. Patterer. This rate will be subject to quarterly reconciliation for
14 Residential, Small and Medium Commercial class customers, and monthly for Large
15 Commercial and Industrial class customers. As part of this rate design, PECO is
16 phasing out demand charges as well as declining block rates in accordance with the
17 Commission's regulations. In addition, PECO is introducing new interruptible and
18 economic development rates that reflect the post-2010 environment in which it will
19 acquire generation at prevailing market prices. These interruptible and economic
20 development rates are competitively neutral, meaning that discounts to transmission
21 and distribution charges under these rates are independent of whether the customer
22 receives generation service from PECO or an EGS, and generation-related credits for

1 default service customers are derived only from PJM's demand side response
2 programs (which are also available through EGSs and third-party curtailment service
3 suppliers).

4 **23. Q. Does PECO's default service program also include any rate changes for low-**
5 **income customers?**

6 A. Yes. The Commission is presently considering PECO's comprehensive universal
7 service plan,⁴ and in this proceeding PECO is seeking Commission approval for tariff
8 changes to its Customer Assistance Program ("CAP") commencing January 1, 2011,
9 after PECO's Program takes effect. In Statement No. 7, **Mr. Manus McHugh**,
10 PECO's Director of Revenue Management, describes the significant enhancements
11 that PECO is proposing for low-income customers. Generally, PECO's CAP
12 program provides low-income customers who have difficulty paying their electric bill
13 with financial assistance in the form of discounted rates. A person seeking CAP
14 benefits must have a household income level at or below 150% of the federally-
15 defined poverty level. If the customer satisfies this criterion, the customer is then
16 placed in different CAP levels depending upon its level of household income (e.g., 0-
17 50% of the federally-defined poverty level, 51-100%, or 101-150%).

18 The first proposed enhancement to PECO's CAP program is an increase in the
19 amount of discount PECO will provide to what CAP customers will pay – sometimes
20 known as their "energy burden" – to be consistent with the target affordability levels
21 identified in the Commission's policy statement on Customer Assistance Programs

⁴ See *PECO Energy Company Universal Services Three-Year Plan 2007 - 2009 Submitted in Compliance with 52 Pa. Code § 54.74*, Docket No. M-00061945.

1 (52 Pa. Code § 69.261 *et seq.*). Second, PECO is proposing a periodic adjustment
2 mechanism so that the discount levels will adjust based upon the commodity price for
3 electric generation service PECO obtains through its default service procurements.
4 Together, these two enhancements will allow PECO's low-income customers to
5 obtain electric utility service at costs that meet the Commission's definition of
6 affordability, even in the face of volatility in the wholesale generation market. The
7 costs of these programs, including foregone revenues, will be recovered in
8 distribution rates paid by PECO's residential customers through PECO's Universal
9 Service Fund Charge, as explained by Mr. Cohn in his testimony.

10 **24. Q. What steps is PECO taking to support retail electric competition at the end of its**
11 **transition period?**

12 A. PECO will further promote retail competition in several important ways. First, PECO
13 will establish default service rates at prevailing market prices based on the results of
14 competitive solicitations, significantly improving the opportunities of customers to
15 shop relative to today's generation rate caps. Second, as discussed by Mr. Cohn in
16 his testimony, PECO proposes to phase out its generation demand charges and energy
17 block pricing structure. This will allow default service rates to reflect market costs,
18 and will simplify the default service rate structure so that price comparisons with
19 competitive retail suppliers' offers will be easier to make.

20 Third, as discussed by Mr. McCawley, PECO is participating in the Commission's
21 new RMWG and anticipates expanding its support for retail competition through the
22 following initiatives:

- 1 • ***Expanding Customer Referral Opportunities.*** PECO believes that
2 customers should be given basic information about their ability to choose
3 alternative suppliers, along with their pricing and service offerings
4 compared to PECO's default service. PECO is therefore planning periodic
5 promotion of electric choice to both residential and commercial customers
6 through its Energy@Home and Energy@Work newsletters starting later
7 this year, as well as convening supplier information sessions regarding
8 customer referral options.
- 9 • ***Supporting Common Supplier Coordination Tariffs.*** PECO understands
10 that certain EGSs seek standardization of supplier tariffs across EDCs.
11 For this reason, PECO recommends that the RMWG establish a sub-
12 working group to propose a common format for supplier coordination
13 tariffs (taking into account certain areas that will vary between EDCs,
14 including metering).
- 15 • ***Appointing A Retail Choice Ombudsman.*** PECO supports naming of a
16 PECO employee as retail choice ombudsman responsible for responding
17 to questions from competitive retail suppliers, monitoring competitive
18 market complaints, and facilitating informal dispute resolution. PECO
19 will be officially designating an individual for this role. In addition,
20 PECO intends to participate in the RMWG's work to propose the roles and
21 responsibilities of the Commission's own retail choice ombudsman.

1 Finally, PECO will continue to administer a variety of programs to support retail
2 competition, and consider additional changes to these programs based upon the work
3 and recommendations of the RMWG. These programs are also discussed by Mr.
4 McCawley and include:

- 5 • **Purchase of Receivables (“POR”).** Under PECO’s POR program, PECO
6 pays EGSs, dollar-for-dollar, all undisputed EGS charges billed by PECO
7 regardless of whether or not the customer has paid PECO for the charges.
8 This program eliminates uncertainty regarding EGS credit and collection
9 activities, thereby allowing EGSs to more easily market to low-income
10 and poor credit customers.

- 11 • **Account Updates.** PECO maintains a system for regular updating of the
12 account information made available to EGSs that PECO customers have
13 agreed to release. This data may include (at the customer’s option)
14 customer account number, name, address, rate class, rate code, load
15 profile, 12 month usage, 12 months of demand (per customer, if
16 applicable) and capacity and transmission peak load contribution values.

- 17 • **Bill Ready Billing.** PECO offers three separate billing options for EGSs, a
18 “bill ready” service in which PECO transmits meter data to the EGS, the
19 EGS calculates its customers charges, and transmits those charges
20 electronically to PECO which then bills customers along with PECO
21 charges.

- **Dedicated Supplier Support.** PECO operates a dedicated supplier hotline telephone number and e-mail address that retail suppliers can use to ask questions or voice concerns that they may have.

PECO's new initiatives, coupled with the continuation of PECO's existing efforts supportive of retail markets, will further promote retail competition in PECO's service territory at the end of the transition period.

IV. PECO'S COMPREHENSIVE RATE MITIGATION PLAN

25. Q. What steps is PECO taking to mitigate the impact on customers of the likely price increases associated with the conversion from capped rates to market-based prices?

A. PECO has developed a comprehensive rate mitigation plan to ease the transition of its electric distribution customers from capped rates to market-based energy prices. I have already described several components of PECO's plan that are incorporated into its default service program and designed to mitigate prices, including:

- Competitive, laddered procurement of default generation;
- Phase-out of declining block rates;
- Increased discounts for participants in PECO's CAP program, with new features to address fluctuating generation prices;
- Competitively neutral economic development rates to support economic growth; and

- Expanded support for retail competition through customer referral and development of common supplier coordination tariffs as part of the Commission's RMWG.

In addition to the above, and consistent with the Commission's Policy Statement and other guidance, PECO's mitigation plan also includes the following:

- ***A Market Rate Transition Energy Efficiency Package ("EEP")***, with new energy efficiency and demand side response tools to help customers reduce their electric usage, particularly at times when demand (and prices) for electricity are highest;
- ***A Market Rate Transition Phase-In Program***, in which participating customers pay a specific additional amount on their monthly electric bills and receive interest (six percent (6%)) on that amount -- for the eighteen-month period from July 1, 2009 through December 31, 2010 -- in order to pre-pay a portion of the expected post-2010 market price increases;
- ***A Market Rate Deferral Program***, in which Residential and Small Commercial customers who receive price increases greater than 25% can receive a credit during the first two to three years after the expiration of rate caps, and then pay an additional charge in the following two to three years to pay the deferred portion of the earlier increases; and
- ***A Consumer Education Program***, which the Commission has already approved, to educate PECO's customers through extensive media, direct communication, and Web-based communication before, during, and after

1 PECO's transition period about the end of fixed rates, likely increases in
2 electricity costs, and their ability to shop for competitive generation service.

3 **26. Q. Mr. Webster, please describe PECO's Market Rate Transition Energy**
4 **Efficiency Package.**

5 A. The EEP, which is the subject of a separate filing before the Commission, offers
6 energy efficiency and demand response tools that customers can use to reduce their
7 electric consumption, including a residential direct load control program ("RDLC")
8 for central air conditioning systems; a Residential Real-Time Pricing Program that
9 will allow customers to be billed based on actual energy prices and benefit from
10 shifting their usage to lower-priced times of the day; reduced prices on energy
11 efficiency tools such as compact fluorescent lamps, programmable thermostats, and
12 insulation; and on-line energy audit software to help customers determine the best
13 steps for them to reduce their energy bills. Through the EEP, customers will have
14 additional ways to manage their energy bills and ease their transition to market rates
15 for generation. The EEP is also the first step towards PECO's goal of reducing its
16 total default service customer electric usage across all customer classes by 1%-2% of
17 its 2007 annual sales by the year 2014: reducing overall energy usage will not only
18 enable customers to save money directly, but will help mitigate future price increases
19 that result from increasing peak demands on the power system. The EEP is part of a
20 separate filing pending before the Commission and is discussed more fully in
21 testimony in that proceeding.

1 27. Q. Mr. Webster, what is the Market Rate Transition Phase-In Program?

2 A. The Market Rate Transition Phase-In Program (or "Phase-In Program"), which is also
3 the subject of a separate filing before the Commission, is a voluntary, opt-in pre-
4 payment price mitigation plan that PECO will offer to its residential, and small and
5 medium commercial class distribution customers. Participating PECO customers will
6 pay a specific amount, which will be added to their monthly electric bills from July 1,
7 2009 through December 31, 2010, in order to pre-pay a portion of the expected post-
8 2010 market price increases. The pre-payments will be placed in an account separate
9 from PECO's business accounts and accrue 6% interest per year compounded
10 monthly. The pre-payments and interest will then be refunded to participating
11 customers in the form of a monthly bill credit from January 1, 2011 through
12 December 31, 2012. PECO believes that the Phase-In Program is an option that will
13 enable participating customers to more easily transition to post-rate cap market prices.
14 It will accomplish this by allowing customers to gradually pay more on their electric
15 bills over the course of four years rather than abruptly switching to market prices.

16 In addition to being an opt-in program, the Phase-In Program is competitively neutral
17 and allows electricity consumers in PECO's service territory who have chosen an
18 EGS to participate. We believe the Phase-In Program will be an option that will help
19 many of our customers to more smoothly transition to market rates. I discuss the
20 program further in my testimony in PECO's Early Phase-In proceeding, which was
21 filed separately with the Commission. PECO has requested expedited treatment of
22 that filing so that we can make the program available for customers as soon as
23 possible.

1 **28. Q. Please explain PECO's Market Rate Transition Deferral Program.**

2 A. The Market Rate Transition Deferral Program (or "Deferral Program"), which is
3 included in this filing and for which PECO also seeks approval with its default
4 service program, is a voluntary alternative price mitigation tool PECO will offer its
5 residential and small and medium commercial class distribution customers. The
6 Deferral Program will be a post-rate cap offering and will take effect on January 1,
7 2011.

8 A Residential or Small Commercial customer who will experience a rate increase of
9 more than 25% will be able to enroll in the program and receive a credit during the
10 first two to three years after the expiration of rate caps. After the customer transitions
11 to full market prices, they will then pay the deferred portion of the increases through
12 an additional charge on their bills in the following two to three years. The surcharge
13 will include interest on the deferred amount of 6% per year. Mr. Cohn discusses
14 PECO's plans for calculating these credits and charges in his testimony. The
15 calculations are merely illustrative because 2011 prices are not known at this time.

16 **29. Q. Will customers who obtain their generation from an EGS be able to participate**
17 **in the Deferral Program?**

18 A. Yes. Similar to the Phase-in Program, the Deferral Program is competitively neutral.

1 **30. Q. Will PECO be seeking recovery of its Market Rate Transition Deferral Plan**
2 **costs?**

3 A. Yes, PECO will be seeking recovery of the costs of this program (e.g., information
4 systems and billing enhancements, customer notification and enrollment) as described
5 in the testimony of Mr. Cohn, consistent with the Commission's regulations and
6 Pennsylvania law. PECO plans to recover these costs through a non-bypassable,
7 reconcilable surcharge added to its distribution rates for Residential and Small
8 Commercial class customers. Recovery through distribution rates is appropriate
9 because the plan will help the distribution customer classes permitted to participate in
10 this program adjust to market prices for energy, regardless of whether they obtain
11 their generation through PECO or an EGS.

12 **V. PROPOSED LITIGATION SCHEDULE**

13 **31. Q. Mr. Webster, please explain the procedural schedule PECO has proposed for**
14 **this proceeding.**

15 A. Section 54.188 of the Commission's Default Service Regulations provides that the
16 Commission will issue an order within seven (7) months of the filing as to whether
17 the proposed default service program is consistent with the Competition Act. In
18 accordance with Section 54.188, PECO proposes the following schedule for this
19 proceeding:
20

September 10, 2008	Petition Filing
October 9, 2008	Prehearing Conference
October 30, 2008	Other Parties' Direct Testimony Due
November 25, 2008	Rebuttal Testimony Due
December 15-19, 2008	Hearings
January 14, 2009	Main Briefs
January 28, 2009	Reply Briefs
February 27, 2009	Recommended Decision
April, 2009	Commission Order

VI. NOTICE

1

2 **32. Q. How will PECO provide notice to its customers of this filing?**

3 A. PECO is providing extensive public notice of this filing to its customers. First, PECO
4 is including a stand-alone bill insert in all customer bills over a thirty-day period
5 beginning on October 1, 2008. This stand-alone bill insert will notify customers of
6 this filing, where they may obtain copies, and how they may participate in this
7 proceeding by filing comments or complaints with the Commission. Second, PECO
8 is publishing notices containing similar information in all of the major newspapers
9 serving PECO's service territory, and also issuing a press release to all major media
10 (newspapers, television and radio stations) in its service territory. All notices will
11 refer to PECO's website, (www.peco.com/know), where a copy of the entire filing
12 will be maintained. PECO is also serving copies of this filing on the Pennsylvania

1 Office of Consumer Advocate, the Pennsylvania Office of Small Business Advocate,
2 the Commission's Office of Trial Staff, PJM, and all EGSs registered in PECO's
3 service territory, and requesting the Commission publish notice of this filing in the
4 Pennsylvania Bulletin.

5 **VII. CONCLUSION**

6 **33. Q. Does this conclude your direct testimony?**

7 **A. Yes.**