

Proposed Changes to Electric Tariff No. 3

Information furnished with the filing of rate changes under 52 Pa. Code, Section 53.52(a)

(a)(1) The specific reason for each change.

PECO Energy Company ("PECO") proposes to implement a Market Rate Transition Energy Efficiency Package ("EEP") to help its electric distribution customers manage the transition from PECO's capped generation rates to market-priced generation, which will occur on January 1, 2011. The EEP is a suite of energy efficiency and demand response tools that customers can use to reduce their electric consumption, including a compact fluorescent lamp discount program ("CFL"), a residential direct load control program ("RDLC") for central air conditioning systems and enhanced on-line energy audit software to analyze customer usage ("EA"). The CFL and EA components of the EEP do not require specific rates or terms of service to be set forth in PECO's electric service tariff. However, the RDLC program is a new service that PECO will offer through a separate provision of its electric service tariff. PECO proposes to revise its electric service tariff to add an RDLC rider.

In addition, PECO proposes to revise its electric service tariff to establish an automatic adjustment clause under Section 1307 of the Public Utility Code (66 Pa. C.S. § 1307) to recover the costs PECO will incur to implement and administer all of the new energy efficiency and demand response programs that are being added through the EEP. PECO's existing energy efficiency programs, which are included in the EEP, will continue to be funded through PECO's distribution rates.

(a)(2) The total number of customers served by the utility.

As of July 31, 2008, PECO Energy served approximately 1.6 million electric customers.

(a)(3) A calculation of the number of customers, by tariff subdivision, whose bills will be affected by the change.

All residential service customers (approximately 1.4 million as of July 31, 2008) will be affected by the Section 1307 cost recovery mechanism. This includes customers served under Rate Schedules R, RH, RT, RS-2, OP, and the CAP Rider.

The exact number of residential customers who elect to take service under the proposed RDLC rider is not known at this time.

(a)(4) The effect of the change on the utility's customers.

The RDLC Program is a voluntary demand response program whereby participating customers allow PECO to control their central air conditioning compressor during periods of high demand or localized transmission and distribution system constraints, which often result in high electricity prices. RDLC participants will receive an incentive each month during the four-month period of June through September in exchange for PECO's ability to control (i.e., cycle on and off) their air conditioner compressors.

The proposed cost recovery mechanism will impose a non-bypassable, reconcilable charge to recover the costs of the EEP.

(a)(5) The effect, whether direct or indirect, of the proposed change on the utility's revenue and expenses.

PECO will incur additional incremental administrative and infrastructure costs and expenses associated with the entire EEP including costs relating to designing, developing, and building the necessary IT infrastructure and communications pathways to implement the programs, program outreach and promotion, program administration, program incentives for participating customers, and program evaluation. The CFL program will also reduce customer usage and, as a consequence, reduce PECO's electric distribution revenue. The RDLC program, however, will allow PECO to receive payments, in the form of billing credits from PJM Interconnection, LLC, for the load that can be interrupted under the RDLC rider. PECO proposes to reflect those payments as a credit to offset some of the costs of the EEP. Under PECO's proposed cost recovery mechanism, customers will receive an additional charge, which will be included in their distribution rates, to provide for full recovery of the EEP program costs net of payments received from PJM for interruptible load under the RDLC.

(a)(6) The effect of the change on the service rendered by the utility.

Under the RDLC, participating residential customers would have their central air-conditioning systems interrupted for the specified program periods whenever a program event is called, as defined in the RDLC rider. No other changes in service are anticipated from the proposed tariff changes.

(a)(7) A list of factors considered by the utility in its determination to make a change. The list shall include a comprehensive statement as to why these factors were chosen and the relative importance of each. This subsection does not apply to a

portion of a tariff change seeking a general rate increase as defined in 66 Pa. CS 1308.

PECO decided to offer the EEP, including the RDLC program, because its transition period ends on December 31, 2010, when the existing caps on generation supply rates will expire and it wanted to offer customers a means of reducing consumption in order to help mitigate the transition to market-priced generation supply service. The cost recovery mechanism will enable PECO to recover the costs of the EEP.

(a)(8) Studies undertaken by the utility in order to draft its proposed change. This paragraph does not apply to a portion of the tariff change seeking a general rate increase as defined in 66 Pa. C.S. 1308.

None.

(a)(9) Customer polls taken and other documents, which indicate customer acceptance and desire for the proposed change. If the poll or other documents reveal discernable public opposition, an explanation of why the change is in the public interest shall be provided.

PECO reviewed a marketing research study performed by Chartwell, Inc. regarding Utility Load Control Programs. This document provided information about trends and program elements in utilities' load control programs and several case studies.

As to other elements of the EEP, the costs of which would be recovered through the proposed cost recovery mechanism, PECO contracted with The Shelton Group to perform a telephone survey of 400 customers to determine attitudes about energy efficiency programs. When this group was asked about participating in a curtailment or direct load control program, 21.4% said they were likely or very likely to participate. When the surveyed customers were asked about their likelihood to purchase a compact fluorescent lamp when provided with an immediate rebate reducing the cost to \$1.00 per bulb, 58.5% responded that they were likely or very likely to participate. When asked to select two rebate programs in which they would participate, 35.8% of PECO customers surveyed responded that they would be likely to participate in a CFL point-of-purchase rebate program as one of those programs.

(a)(10) Plans the utility has for introducing or implementing the changes with respect to ratepayers.

PECO plans to promote the EEP programs through one or more of the following communications channels: online information, press releases, direct mail, bill inserts and newsletters.

(a)(11) F.C.C., FERC, or Commission orders or ruling applicable to the filing.

The Commission has emphasized the need for promotion of energy efficiency, conservation and demand side response to address increases in energy costs expected to occur at the time generation rate caps expire. See, e.g., Investigation of Conservation, Energy Efficiency Activities, and Demand Side Response by Energy Utilities and Ratemaking Mechanisms to Promote Such Efforts, Docket No. M-00061984 (Order entered September 28, 2006). The Commission's regulations for the procurement of generation for default service customers anticipate future mandates for demand side response programs. See 52 Pa. Code § 54.187(g). All of these initiatives will impose costs on EDCs. In that regard, the Public Utility Code also provides for the recovery of prudent and reasonable costs for utility conservation and load management programs (66 Pa. C.S. § 1319).