

**PECO ENERGY COMPANY  
STATEMENT NO. 4**

**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: CHANTALE LACASSE

SUBJECTS: PROCUREMENT SCHEDULE,  
BIDDER QUALIFICATION,  
BID PROCEDURES, CONTINGENCY PLAN,  
ROLE OF INDEPENDENT EVALUATOR,  
DEFAULT SERVICE PLAN ISSUES

DATED: SEPTEMBER 10, 2008

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1 licenses. Starting in 1998, I provided consulting advice on competitive bidding  
2 processes and on antitrust matters on a freelance basis.

3 I was hired by NERA in 2001. My consulting experience at NERA has principally  
4 consisted of providing conceptual advice on the design of competitive bidding  
5 processes, of providing detailed practical advice on their implementation, and of  
6 managing the bidding processes themselves. My recent engagements have been as  
7 follows.

8 **First**, I have assisted utilities in Pennsylvania in designing and implementing  
9 competitive bidding processes for their procurement of default service. In 2005, I  
10 provided advice to Pennsylvania Power Company (“Penn Power”) in its design of the  
11 Interim Supply Plan for its default service customers. I also served as Independent  
12 Evaluator for its Requests for Proposals (“RFPs”). NERA continues to serve as the  
13 Independent Evaluator for Penn Power’s competitive bidding processes for the  
14 procurement of default service. In 2006, I assisted the Metropolitan Edison and  
15 Pennsylvania Electric Companies with their competitive bidding process to select  
16 electricity suppliers for each company’s default service customers. In 2007, NERA  
17 was retained by PPL Electric Utilities Corporation to serve as its Independent  
18 Evaluator for its Competitive Bridge Plan. This plan uses a competitive bidding  
19 process to select electricity suppliers for customers taking default service in 2010.

20 **Second**, in New Jersey, I have served as the auction manager for the Basic  
21 Generation Service auctions (the “BGS Auctions”) since their inception. Every year I  
22 provide advice on improvements to the competitive bidding process and assist the

1 four New Jersey Electric Distribution Companies (“EDCs”) in formulating their  
2 proposal for submission to the New Jersey Board of Public Utilities (“BPU”). I  
3 manage the competitive bidding process as approved by the BPU by responding to  
4 bidder questions; maintaining a web site to provide information to bidders; preparing  
5 and leading training sessions for bidders; qualifying bidders; and administering the  
6 bidding procedures by which bids are received and processed in accordance with  
7 procedures approved by the BPU.

8 **Third**, in Illinois, I assisted Commonwealth Edison Company (“ComEd”) with its  
9 procurement plan for standard block products and renewable energy credits. In this  
10 assignment, I prepared detailed rules for the conduct of the competitive bidding  
11 processes and served as procurement administrator and evaluator. At the conclusion  
12 of the bidding process, I prepared a confidential report for the Illinois Commerce  
13 Commission. In 2006, I served as the auction manager for the 2006 Illinois Auction  
14 on behalf of ComEd and the Ameren Illinois Utilities. The 2006 Illinois Auction  
15 involved the purchase of approximately \$10 billion of fixed-price electric supply  
16 service for retail customers of ComEd and the Ameren Illinois Utilities.

17 **Finally**, NERA has been retained on other occasions where I have been called upon  
18 to advise on the design and implementation of competitive bidding processes, most  
19 notably by the Legal Services Commission (UK) in its design of a competitive  
20 bidding process for the procurement of legal aid services; by the Comisión Nacional  
21 de Energía (Spain) in its implementation of a competitive bidding process for the  
22 procurement of base load products; and by the New York Independent System  
23 Operator on its design of a forward capacity market.

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

2 A. I hold an Honors B. Soc. Sc. in Economics (1983) and an Honors B.A. in  
3 Mathematics (1984) from the University of Ottawa (Canada). I hold an M.A. (1986)  
4 and a Ph.D. in Economics (1991) from the University of Western Ontario (Canada).

5 **5. Q. Have you prepared an Exhibit that sets forth your professional experience and**  
6 **educational background?**

7 A. Yes. PECO Exhibit CL-1 is my curriculum vitae and it provides those details.

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

9 A. NERA was asked by PECO Energy Company (“PECO” or the “Company”) to advise  
10 and assist it with regard to the design, implementation, and administration of a default  
11 service procurement plan. My testimony describes NERA’s role in that process and  
12 explains why, in my view, the elements of the proposed procurement plan that NERA  
13 developed with PECO and reviewed are reasonable and should be approved.

14 **7. Q. What exhibits are attached to and incorporated in your direct testimony?**

15 A. As explained by Mr. Patterer in PECO Statement No. 2, PECO will award contracts  
16 in seven distinct supply solicitations through a Request for Proposal (“RFP”). I have  
17 attached to my testimony the RFP form for awarding supply responsibility for fixed-  
18 price full requirements service and spot-price full requirements service (PECO Ex.  
19 CL-2). The RFP contains a number of appendices, including the forms that potential  
20 suppliers would use to submit their qualifications. Additionally, I have prepared

1 PECO Ex. CL-3, an RFP Protocol that describes how NERA will manage the RFP  
2 process and will communicate with all parties.

3 **8. Q. How is the remainder of your testimony organized?**

4 A. NERA has several distinct roles in this assignment and I have organized my  
5 testimony around those roles. First, and as I mentioned previously, NERA worked  
6 closely with PECO in designing certain elements of its proposed procurement plan  
7 and in developing certain plan documents, including the RFP and RFP Protocol.  
8 Section II of my testimony presents the results of this work and discusses certain key  
9 issues that had to be resolved. Second, PECO has asked NERA to serve as the  
10 Independent Evaluator (“IE”) of the procurement process. Section III sets forth the  
11 activities that NERA will undertake in that role and elaborates on the interactions  
12 between NERA and PECO that will occur during the implementation phase. Third,  
13 NERA was asked to evaluate several specific plan components adopted by PECO.  
14 Section IV of my testimony discusses the reasonableness of those decisions.

15 **II. KEY ELEMENTS OF PECO’S DEFAULT SERVICE PLAN**

16 **9. Q. Which elements of PECO’s Default Service Program was NERA asked to**  
17 **design?**

18 A. PECO requested that NERA develop specific proposals on the following items:

- 19 • the detailed RFP schedule, working from a general schedule developed by  
20 PECO;
- 21 • bidder qualification requirements;

- 1 • bid security requirements;
- 2 • the process for managing bidder qualification and notifying bidders;
- 3 • the process for evaluating requests by suppliers to modify credit
- 4 documents;
- 5 • bid submission format;
- 6 • bid evaluation procedures;
- 7 • a contingency plan if a solicitation does not result in the acquisition of all
- 8 supply sought;
- 9 • protocols for managing the solicitations and communications to ensure
- 10 that a PECO affiliate does not receive any advantage;
- 11 • procedures for communicating with bidders with respect to data and other
- 12 bidder questions; and,
- 13 • the process for informing winning and losing bidders of the results of the
- 14 Commission's review and returning bid security.

15 **10. Q. Are NERA's proposals on these items reflected in PECO Ex. CL-2, the proposed**  
16 **RFP, and in PECO Ex. CL-3, the RFP Protocol?**

17 A. Yes.

1 **11. Q. Please provide a brief summary of the proposal on each item, explaining how the**  
2 **proposal is consistent with the Commission’s regulations as well with PECO’s**  
3 **procurement objectives as articulated in Mr. Webster’s testimony.**

4 A. Certainly. I will start with the procurement schedule. PECO’s Default Service  
5 Program calls for PECO to acquire tranches of full requirements supply to meet its  
6 DSP load obligations. As explained by Mr. Patterer, these tranches will be defined on  
7 a class basis with PECO procuring supply for four customer classes – Residential,  
8 Small Commercial, Medium Commercial, and Large Commercial and Industrial  
9 (“Large C&I”). For each customer class, PECO will procure both fixed-price full  
10 requirements tranches and spot-price full requirements tranches with the mix varying  
11 by customer class. All spot-price tranches will have an initial term of 17 months and  
12 subsequent terms of 12 months. Fixed-price tranches for the Residential class will  
13 have initial terms of 17, 29, and 41 months and subsequent terms of 12 and 36  
14 months. Fixed-price tranches for the Small Commercial class will have initial terms  
15 of 17 and 29 months and subsequent terms of 12 and 24 months, while fixed-price  
16 tranches for the Medium Commercial class will have initial terms of 17 months and  
17 subsequent terms of 12 months. A fixed-price option will also be offered to  
18 customers in the Large C&I class for a period of 12 months at the beginning of the  
19 default service program term.

20 The solicitations will seek bids by product, as defined by three elements: the  
21 customer class, the supply period, and the type (*i.e.* fixed-price or spot-price). The  
22 figure below shows the various products that PECO is proposing to procure.

<b>Residential</b>	<b>Small Commercial</b>	<b>Medium Commercial</b>	<b>Large Commercial and Industrial</b>
<ul style="list-style-type: none"> <li>• 5% spot-price full requirements</li> <li>• 30% 1-year fixed-price full requirements</li> <li>• 65% 3-year laddered fixed-price full requirements</li> </ul>	<ul style="list-style-type: none"> <li>• 10% spot-price full requirements</li> <li>• 50% 1-year fixed-price full requirements</li> <li>• 40% 2-year laddered fixed-price full requirements</li> </ul>	<ul style="list-style-type: none"> <li>• 15% spot-price full requirements</li> <li>• 85% 1-year fixed-price full requirements</li> </ul>	<p>Option A (default):</p> <ul style="list-style-type: none"> <li>• 100% spot-price full requirements</li> </ul> <p>Option B:</p> <ul style="list-style-type: none"> <li>• 100% 1-year fixed-price full requirements</li> </ul>

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PECO informed NERA that it desired to spread the procurement of the products for which delivery commences in January 2011 over three time periods; that the 17-month products should be solicited in the fall of 2009 and 2010, and in the spring of 2010; and that the 29-month and 41-month products should be solicited in the spring and fall of 2010. Further, PECO has decided to solicit 12-month fixed-price tranches in the spring of 2010 for the optional fixed-price product to be offered to Large C&I customers. All spot-price full requirements products that commence delivery on January 1, 2011 will be solicited in the fall of 2010. All fixed-price products to commence delivery on June 1 of subsequent years (i.e., when the process is synchronized with the PJM planning year) will be solicited in roughly equal amounts through solicitations in the fall of the prior year and the spring of the current year. All spot-price products that commence delivery on June 1 will be solicited in the spring of the current year. Working from these guidelines, NERA reviewed other announced solicitations, selected dates that did not conflict with announced solicitations, divided the tranches of each product to be solicited over the general

1 schedule outlined by PECO, and produced the detailed schedule set forth in the RFP.  
2 This detailed schedule includes dates for qualification of potential suppliers,  
3 submission of bids, and other salient dates of the management of the solicitation.

4 **12. Q. Do you believe that the proposed procurement schedule is appropriate?**

5 A. Yes. The schedule is structured so that PECO uses multiple competitive  
6 procurements and spot market purchases to meet its obligations. In so doing, PECO  
7 reduces the risk of acquiring all supply at a time of unusual price volatility. This is  
8 consistent with the Commission's regulations. PECO also provides for procurement  
9 reasonably close to the start of the delivery period so that the schedule is also  
10 consistent with PECO's objective, as articulated by Mr. Webster, of striking an  
11 appropriate balance between rate stability and the need to provide customers current  
12 market price signals.

13 **13. Q. Please summarize the bidder qualification requirements and process that PECO**  
14 **proposes to utilize.**

15 A. Potential suppliers will be required to demonstrate that they can fulfill all technical  
16 and regulatory requirements of the Supplier Master Agreement ("SMA"), which is the  
17 standard contract that suppliers and PECO will execute for the provision of default  
18 service supply. In particular, they will certify that they are or have no impediment to  
19 becoming a PJM load serving entity. Suppliers also will be required to submit to a  
20 creditworthiness assessment and will submit a signed SMA. As part of this process,  
21 potential suppliers will further acknowledge that all bids are binding, agree to  
22 promptly execute transaction confirmations for winning bids, and provide bid security

1 that could be forfeited if they fail to honor their undertakings. Potential suppliers will  
2 have the opportunity within the qualification process to request non-material changes  
3 to credit instruments. Finally, potential suppliers will certify that they are bidding  
4 independently and have no knowledge of the bids of any other supplier.

5 **14. Q. Please describe the proposed bid security requirements.**

6 A. The proposed bid security is \$250,000 per fixed-price tranche and \$125,000 per spot-  
7 price tranche. Based on NERA's experience, this level of bid security is in the range  
8 generally applicable for such solicitations. It is not so high as to discourage qualified  
9 suppliers and at the same time it is significant enough to ensure that suppliers take  
10 their undertaking seriously. It is one of the "other reasonable assurances of a supplier  
11 of electric generation services' ability to perform," as called for in Section  
12 54.186(c)(2) of the Commission's regulations (52 Pa. Code § 54.186(c)(2)).

13 **15. Q. What is the proposed process for requesting modifications to the credit**  
14 **documents?**

15 A. In the solicitations that NERA has administered, suppliers have used different banks  
16 to provide letters of credit ("LOCs"), many of which insist upon certain minor  
17 stylistic items. Accordingly, we propose that potential suppliers be allowed to request  
18 non-material changes to the bid security LOC, as well as to the LOC appended to the  
19 SMA for posting credit during the supply period. To the extent that NERA and  
20 PECO agree that a requested change does not lessen the effectiveness of the LOC, the  
21 change would be accepted. All changes accepted would be posted on a web site and  
22 would be available to all potential suppliers. We believe this will increase the pool of

1 institutions willing to provide potential suppliers with LOCs and, as a result, could  
2 increase the pool of bidders.

3 Potential suppliers are also allowed to request non-material changes to the standard  
4 form of the guaranty appended to the SMA. It is our experience that some potential  
5 suppliers have corporate policies that preclude them from using any form of guaranty  
6 during the term of the contract other than the form that is their own and that they use  
7 in the usual course of business. Accordingly, we propose that suppliers also be  
8 allowed to propose an alternate form of guaranty. PECO and NERA would evaluate  
9 the alternate form to ensure that it provides credit protections to PECO and its  
10 customers that are substantially similar to the credit protections provided to PECO by  
11 the standard form of guaranty.

12 These proposals are consistent with § 69.1802 of the Commission's policy statement,  
13 which seeks to encourage the entry of new wholesale suppliers. Further, these  
14 proposals are consistent with PECO's objective of encouraging the development of  
15 wholesale energy markets, as articulated by Mr. Webster.

16 **16. Q. Please describe the bid submission format and bid evaluation procedures.**

17 A. Each bidder will be required to submit a separate bid for each tranche that it wishes to  
18 supply, stated in dollars per MWh, and, at its discretion, may bid on as many tranches  
19 as are available subject to load cap restrictions. Bidders will enter their bids in a  
20 spreadsheet and will transfer the electronic file to the IE through a secure interface.

1 Bids for each product will be stacked from lowest to highest up to the total number of  
2 tranches solicited for that product, i.e., the product’s “tranche target”. The lowest-  
3 priced bids up to the tranche target will be provided to the Commission as winning  
4 bids. This is consistent with Section 54.186(c)(4) of the Commission’s regulations  
5 (52 Pa. Code § 54.186(c)(4)), which states that: “The DSP or Third Party Evaluator  
6 shall review and select winning bids through a competitive bid solicitation process in  
7 a non-discriminatory manner based on the price determinative bid criteria set forth  
8 consistent with subsection (c) (1) (VI).” While the term “price determinative bid  
9 criteria” is not defined, I interpret it to mean that, once bidders are qualified, bids are  
10 selected using a price-only evaluation. If the last tranche or tranches could be  
11 satisfied by different bidders at identical prices, the IE will apply the tie-breaking  
12 criteria set forth in the RFP, which, in general, award tranches in the following order:  
13 (1) to the bidder who, if awarded the tranche, would hold the fewest number of  
14 tranches for the product for any one month during the product term; (2) to the bidder  
15 who, if awarded the tranche, would hold the fewest number of tranches for the class  
16 in question for any one month during the product term; and then (3) to the bidder  
17 who, if awarded the tranche, would hold the lowest amount of tranches in the  
18 aggregate for any one month during the product term. If a tie were to remain, it  
19 would be broken by random selection. This tie-breaking procedure can only increase  
20 supplier diversity. The price determinative nature of the evaluation process and  
21 explicit tie-breaking procedures are consistent with the Commission’s regulations and  
22 PECO’s objective of encouraging a competitive wholesale market.

1 Winning bids will be reported to the Commission on the day that bids are received.  
2 The Commission then has one business day to accept or reject the results of the  
3 solicitation by accepting or rejecting each winning bid. If the Commission does not  
4 act within one business day, the results of the solicitation are deemed approved.

5 **17. Q. Please describe the proposed contingency plan in the case of a solicitation that**  
6 **does not result in acquisition of all supply sought.**

7 A. The proposed contingency plan calls for moving any tranches not procured in a given  
8 solicitation to the next scheduled solicitation in which the same product is purchased  
9 (if there is such a solicitation). If there is no subsequent solicitation in which the  
10 same product is procured and tranches remained unfilled, PECO will assume  
11 responsibility for the unfilled tranches of that product as a PJM load serving entity  
12 and will acquire the necessary supply through PJM-administered markets.

13 **18. Q. Please describe the RFP Protocol that you have attached as PECO Ex. CL-3.**

14 A. The RFP Protocol establishes how NERA will manage the RFP process and will  
15 communicate with potential suppliers, PECO, and Commission Staff. The aim of the  
16 RFP Protocol is to specify procedures to manage the dissemination of information to  
17 potential suppliers, to process proposals, and to evaluate proposals. These procedures  
18 are designed so that information is provided fairly and equally to all potential  
19 suppliers, and so that no one potential supplier can gain an advantage. These  
20 procedures identify the RFP information that will be made available to PECO and  
21 also the confidentiality of such information. In particular, this document provides  
22 that PECO will not receive information concerning losing bids and that PECO will

1 respond to questions from potential suppliers without knowing the identity of the  
2 questioner.

3 **19. Q. What procedures for communicating with bidders with respect to data and other**  
4 **bidder questions are proposed in the RFP Protocol?**

5 A. As required by the Commission's regulations, bidders will have access to:

- 6 (1) hourly usage data,
- 7 (2) number of retail customers,
- 8 (3) capacity peak load contribution ("PLC"),
- 9 (4) historical monthly retention figures,
- 10 (5) estimated loss factors, and
- 11 (6) customer size distributions.

12 These data will be posted on a publicly available web site, which will be managed by  
13 NERA. NERA will update these data on a monthly basis. NERA will solicit  
14 comments from potential suppliers on the form and nature of the data provided and  
15 will implement a Frequently Asked Question ("FAQ") process. Potential suppliers  
16 will be encouraged to submit to NERA through the web site all questions concerning  
17 the RFP process and/or the data provided. If PECO receives any questions directly,  
18 PECO will direct those questions to NERA. NERA will respond individually to each  
19 questioner and will post the question and answer to the RFP web site. NERA, as  
20 necessary, will draw on PECO's expertise in drafting responses. However, when

1 PECO is asked to assist in answering a question, the identity of the questioner will be  
2 redacted.

3 **20. Q. Why is PECO Ex. CL-3 a stand-alone document as opposed to being appended**  
4 **to the RFP?**

5 A. The Commission's regulation at 52 Pa. Code § 54.186(b)(5)(i) calls for protocols to  
6 ensure that a DSP's affiliate supplier "does not receive an advantage in the  
7 solicitation and evaluation of competitive bids, or other aspect of the implementation  
8 plan." While compliance with this requirement could possibly be achieved by  
9 making the protocol part of the RFP, I believe it is more appropriate for it to be a  
10 stand-alone document. The RFP and its appendices are bidder-focused and generally  
11 describe the elements of the competitive bidding process and the procedures that  
12 potential suppliers will follow in order to participate. The RFP Protocol is focused on  
13 specific procedures that NERA and PECO will follow and that may or may not  
14 involve potential suppliers directly.

15 **21. Q. What are the proposed processes regarding Commission review of the**  
16 **solicitation results, for informing winning and losing bidders of the results, and**  
17 **for returning bid security?**

18 A. As discussed above, NERA will select a list of winning bids on a price-determinative  
19 basis up to the tranche target, applying the tie-breaking procedures specified in the  
20 RFP as necessary, and provide the Commission a report of the results on the day bids  
21 are received. In this report, NERA will summarize the efforts to inform potential  
22 suppliers of the solicitation, the procedure to qualify bidders, as well as the results of

1 the evaluation of the bids. Prior to the bid date, if desired by the Commission, NERA  
2 will provide another report to summarize then-current market conditions. NERA will  
3 be available for any questions or any supplemental information request from the  
4 Commission. Upon submitting the winning bids to the Commission, NERA will  
5 notify each bidder with respect to the disposition of each of its bids, that is, if the bid  
6 was a winning bid and is being presented to the Commission for its approval or not.

7 As I explained above, the Commission has one business day in which to approve or  
8 reject each of the winning bids. If the Commission does not act to accept or reject  
9 within one business day, winning bids would be deemed approved. A winning bid  
10 that has been approved by the Commission is a binding obligation on the bidder and  
11 PECO. Immediately upon receiving Commission approval or rejection (or at the end  
12 of the business day in the case of no action), NERA will notify PECO personnel of  
13 the approved bids and suppliers, and will notify all suppliers as to which of their bids  
14 were approved. Suppliers will have three business days to execute the transaction  
15 confirmations for all approved bids.

16 Once PECO informs NERA that a supplier has executed all confirmations related to  
17 its approved bids, that supplier's bid security will be returned as soon as practical.  
18 Bid security put up by losing suppliers will be returned one business day after bids  
19 are approved. The prompt return of bid security will be conditioned upon the bidders  
20 not having violated any undertakings agreed to as part of the RFP.

21 **22. Q. Will certain bid information be kept confidential?**



- 1 • interface with the bidders for resolving bidder questions and posting
- 2 questions and answers;
- 3 • processing applications and qualifying bidders;
- 4 • managing the process to review proposed modifications to credit
- 5 documents;
- 6 • administering bid submission procedures;
- 7 • training potential suppliers in bid submission;
- 8 • receiving and evaluating bids;
- 9 • keeping Commission Staff informed of solicitation results and market
- 10 developments;
- 11 • preparing and submitting to the Commission a report identifying winning
- 12 bids; and,
- 13 • informing bidders and PECO as to the results of each solicitation and the
- 14 Commission's acceptance or rejection of the winning bids.

15 **24. Q. Has NERA previously performed these functions?**

16 A. Yes. NERA has managed well over 20 competitive bidding processes in which it has  
17 performed these activities for utilities, regulators, and governmental entities. I have  
18 been involved in all and indeed have led most of these efforts.

1 **25. Q. Please elaborate on the interactions between NERA and PECO as part of the**  
2 **implementation of the Default Service Program and, in particular, on the access**  
3 **that PECO may have to confidential information.**

4 A. PECO will designate specific individuals that will take part in the implementation of  
5 the Default Service Program. These individuals, as well as designated individuals  
6 from NERA, will sign the Confidentiality Statement included as an appendix to the  
7 RFP and will commit to strictly adhere to the RFP Protocol. NERA, as IE, will  
8 maintain a master list of individuals who can have access to confidential information  
9 and each individual on that list can only discuss confidential information with another  
10 individual on that list. In implementing each solicitation, NERA, as the IE, will be  
11 the interface with bidders, respond to bidder questions, process qualifications, receive  
12 bids, and communicate results. PECO will have a supporting role during the  
13 implementation of each solicitation, consisting primarily of the following:

- 14 • Development of data that NERA then posts to the web site and updates as  
15 necessary;
- 16 • Response to bidder inquiries, particularly on data methodology and the  
17 SMA, after NERA has redacted the identity of the questioner;
- 18 • Review with NERA of financial information provided by bidders with  
19 their qualification package to determine the credit line that would prevail  
20 under the terms of the SMA;

- 1                   • Review with NERA of alternate guaranty forms submitted by bidders  
2                   (once NERA has redacted the identity of the proposing party) to determine  
3                   whether the alternate form of guaranty provides substantially similar credit  
4                   protections to the credit protections provided to PECO by the standard  
5                   form of guaranty;
  
- 6                   • Review with NERA of modifications to credit instruments proposed by  
7                   bidders (once NERA has redacted the identity of the proposing party) to  
8                   determine whether the modifications are non-material in nature;
  
- 9                   • Review with NERA of bid security (once NERA has redacted the identity  
10                  of the bidder and the amount) to determine whether the bid security  
11                  instruments follow the standard formats or only include approved changes.

12                  In addition, and assuming the Commission approves the results of a solicitation,  
13                  NERA will provide PECO with the information necessary to administer the winning  
14                  contracts, namely the identity of the successful suppliers, the amount that they will  
15                  supply of each product, and the price for each product and supplier based on its  
16                  approved bids for that product. Other than the information that it needs to administer  
17                  the contracts, PECO will not have access to confidential information that is bidder-  
18                  specific.

1     **IV.    REVIEW OF CERTAIN ELEMENTS OF THE PLAN DEVELOPED BY PECO**

2     **26.   Q.    What elements of PECO's proposed Default Service Program was NERA asked**  
3           **to evaluate?**

4           A.    The Default Service Program elements that NERA was asked by PECO to review are  
5           as follows:

- 6                   •   the selection of class groupings and whether the groups were of an  
7                   appropriate aggregate size;
- 8                   •   the viability of the spot-price full requirements products;
- 9                   •   the information to be provided to potential suppliers concerning retail rate  
10                  design; and,
- 11                  •   the appropriateness of and method for implementing load caps.

12    **27.   Q.    Please comment on PECO's selection of customer class groupings.**

13           A.    For procurement and rate design purposes, PECO has proposed to divide its  
14           customers into the following classes:

- 15                  •   Residential;
- 16                  •   Small Commercial (below 100 kW);
- 17                  •   Medium Commercial (100 kW to 500 kW);
- 18                  •   Large Commercial and Industrial (Large C&I) (over 500 kW).

1 Specifically, NERA was asked as to the advisability of imposing a 25 kW maximum  
2 for Small Commercial customers, as suggested in the Commission's regulations.  
3 NERA advised PECO that the use of a 25 kW maximum, coupled with its proposed  
4 product mix and two-year laddering, was not optimal as there would likely be reduced  
5 bidder interest in the two-year product for the Small Commercial class. In response,  
6 PECO provided NERA data on the number of tranches that would be implicated  
7 using 40 kW and 100 kW as alternative breakpoints. The 40 kW maximum did not  
8 improve the situation. In our opinion, however, a 100 kW maximum would alleviate  
9 any concern about bidder interest under the circumstances and its ultimate selection  
10 by PECO is therefore reasonable.

11 **28. Q. What advice did you provide regarding the viability of the spot-price products?**

12 A. It is my opinion that the products designed by PECO are viable. I base this on the  
13 fact that the New Jersey EDCs have been procuring similar products for seven years  
14 and have had success in attracting bids and achieving competitive prices.

15 **29. Q. Please provide your opinion on the issue of the information to be provided to  
16 potential suppliers concerning retail rate design.**

17 A. I believe that it is important that potential suppliers have information concerning the  
18 design of rates and, more specifically, how retail rates will be developed from bid  
19 prices. First, bidders will want to assess the potential for switching or migration.  
20 Rate design and translation will affect this. For example, a simple per kWh rate  
21 applied to larger customers may make higher load factor customers more likely to  
22 migrate. Similarly, a single annual rate may make seasonal customers more or less

1 likely to migrate. PECO has therefore proposed to provide a tool to potential  
2 suppliers that will take as input the supplier's assumption as to the weighted average  
3 procurement cost for the class and produce as output the pre-mitigation rates for each  
4 major rate schedule. This will reflect the block and demand charge phase out. In my  
5 opinion, this is necessary information and will help bidders assess migration risk.

6 Second, bidders may be interested in the overall level of rates, as rate levels affect  
7 usage. In this regard, PECO will provide bidders a complete description of its  
8 mitigation proposal. While mitigation is competitively neutral and will not affect  
9 migration, it will affect overall rate levels and hence could affect usage levels. In my  
10 opinion providing bidders a full description of the mitigation program is appropriate.

11 **30. Q. Please comment on the appropriateness of having load caps and on PECO's**  
12 **proposed method for implementing load caps.**

13 A. PECO has proposed to cap the amount of fixed-price load served at any one time by  
14 any one supplier for a customer class at 80%. It is my understanding that this  
15 proposal is being made to promote supplier diversity and to reduce the exposure of  
16 any one class to the default of a single supplier, as recommended in the  
17 Commission's policy statement at § 69.1802(a).

18 The load cap will be implemented so that if a supplier were to win all fixed-price  
19 tranches for which it is permitted to bid, the supplier would not exceed the load cap  
20 with respect to the aggregate fixed-price supply bought to date by PECO for any  
21 month for that class. For example, assume that there are 50 fixed-price tranches for  
22 the Residential class for delivery starting January 1, 2011. These tranches cover

1 various supply periods (17-months, 29-months, and 41-months periods), but all  
2 include common months, such as January 2011. Assume that supply for 20 tranches  
3 will be procured in the first solicitation for this class. The most tranches that a  
4 supplier could bid and win would be 16 (80% of 20). At the end of the solicitation,  
5 PECO will have contracted for 20 tranches and the class will have a maximum 80%  
6 exposure to any one supplier. Assume that supply for 10 additional tranches will be  
7 procured in the second solicitation for this class, all for supply periods that also  
8 include January 2011. Suppose that Supplier A won 16 tranches in the first  
9 solicitation. Supplier A would be limited to bidding on 8 tranches in the second  
10 solicitation. Each of the other suppliers (who could have won at most 4 of the  
11 remaining 4 tranches in the first solicitation) would be able to bid on all 10 tranches.  
12 In this way, each supplier can supply at most 24 (80%) of the 30 tranches procured  
13 through the first two solicitations.

14 With laddering, the procurement of a new product will share months with products  
15 already procured in previous solicitations. A three-year tranche with delivery  
16 beginning in June of 2012 for a given class will share months with 29-month or 41-  
17 month products procured in previous solicitations for that class. The same principle  
18 would apply to determine the load cap that applies to any one supplier. We will  
19 consider the aggregate supply for any month for that class, the limit of 80%, and each  
20 supplier's position entering the solicitation. This will ensure that for any period and  
21 for any class there is supplier diversity.

22 I believe that such a load cap is reasonable as it is in accord with the goal of the  
23 Commission's policy statement with respect to supplier diversity and limits each

1 class' exposure to the default of any supplier. Further, load caps can also increase  
2 competition by making suppliers that may be interested in supplying modest amounts  
3 more willing to compete. This may be especially true in a case where one supplier is  
4 serving the entire load before the Default Service Program is implemented, as is the  
5 case with PECO. Increasing the number of bidders can elicit better bids from other  
6 bidders and can help maintain bidder interest over time. Hence, I also believe that  
7 instituting a load cap is likely to have positive competitive effects.

8 **V. CONCLUSION**

9  
10 **31. Q. Dr. LaCasse, does this conclude your direct testimony?**

11 **A. Yes.**