

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION
DOCKET NO. P-2008-
PETITION OF PECO ENERGY COMPANY
FOR APPROVAL OF ITS MARKET RATE TRANSITION ENERGY EFFICIENCY
PACKAGE**

VOLUME 1 OF 1

COVER LETTER

PETITION

**APPENDIX A: PROPOSED TARIFF SUPPLEMENT
CONTAINING TERMS OF THE EEP COST
RECOVERY CHARGE, INCLUDING PROPOSED
RDLC RIDER**

PECO STATEMENT NO. 1

TESTIMONY OF FRANK J. JURUSKA

**PECO EXHIBIT FJJ-1: BENEFITS/COSTS OF ENERGY EFFICIENCY
PACKAGE**

**PECO EXHIBIT FJJ-2: DIAGRAM EXPLAINING RDLC TECHNOLOGY
FUNCTIONS**

**PECO EXHIBIT FJJ-3: ILLUSTRATION OF TYPICAL RDLC CONTROL
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PECO EXHIBIT FJJ-4: RESULTS OF TRC TEST

**PECO EXHIBIT FJJ-5: SUMMARY OF TOTAL ESTIMATED PROGRAM
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PECO EXHIBIT FJJ-6: SUMMARY OF ESTIMATED ENERGY SAVINGS

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DISTRIBUTION REVENUE**

PECO STATEMENT NO. 2

TESTIMONY OF RICHARD A. SCHLESINGER

**PECO EXHIBIT RAS-1: PROPOSED TARIFF SUPPLEMENT
CONTAINING TERMS OF THE EEP COST
RECOVERY CHARGE, INCLUDING PROPOSED
RDLC RIDER**

**PECO EXHIBIT RAS-2: DEMONSTRATION OF ENERGY
EFFICIENCY/DEMAND RESPONSE ANNUAL
RECONCILIATION**

**PECO EXHIBIT RAS-3: RESPONSES TO 52 PA CODE § 53.52
QUESTIONS**



An Exelon Company

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September 10, 2008

BY HAND DELIVERY

Mr. James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
Harrisburg, PA 17120

Re: Petition of PECO Energy Company for Approval of Its Market Rate Transition Energy Efficiency Package – Docket No. P-

Dear Secretary McNulty:

Enclosed please find an original and eight copies of the Petition of PECO Energy Company for Approval of Its Market Rate Transition Energy Efficiency Package. Included with the Petition are:

1. PECO Statement No. 1 - Direct Testimony of Frank J. Jiruska;
2. PECO Statement No. 2 - Direct Testimony of Richard A. Schlesinger.

If you have any questions regarding this filing, please do not hesitate to contact me at 215-841-5777.

Sincerely,

A handwritten signature in black ink, appearing to read "R Webster Jr".

Richard G. Webster, Jr.
Director
Regulatory Affairs

cc: Certificate of Service
Commissioner James H. Cawley, Chairman
Commissioner Tyrone J. Christy, Vice Chairman
Commissioner Wayne Gardner
Commissioner Kim Pizzingrilli
Commissioner Robert F. Powelson

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PECO ENERGY :
COMPANY FOR APPROVAL OF ITS : Docket No. P-2008-
MARKET RATE TRANSITION :
ENERGY EFFICIENCY PACKAGE :**

CERTIFICATE OF SERVICE

I hereby certify that I have this day served copies of the Petition of PECO Energy Company for Approval of its Market Rate Transition Energy Efficiency Package on the following persons and in the manner as set forth below, in accordance with the requirements of 52 Pa. Code § 1.54 and 52 Pa. Code § 54.185(b):

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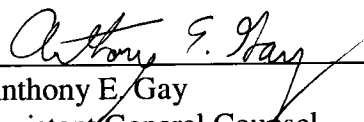
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Dated: September 10, 2008

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PECO ENERGY COMPANY :
FOR APPROVAL OF ITS MARKET RATE : DOCKET NO. P-
TRANSITION ENERGY EFFICIENCY :
PACKAGE :**

PETITION OF PECO ENERGY COMPANY

PECO Energy Company (“PECO”) hereby requests the Pennsylvania Public Utility Commission’s approval 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 set of energy efficiency and demand response tools that customers can use to reduce their electric consumption, including a compact fluorescent lamp (“CFL”) discount program, residential direct load control program (“RDLC”) for central air conditioning systems, and on-line energy audit software. Through the EEP, customers will have additional ways to manage their energy bills and will be able to transition more smoothly to market rates for generation.

The EEP is one part of PECO’s comprehensive default service program and rate mitigation strategy that includes, in addition, competitive and laddered procurement of default generation, early market rate phase-in and deferral programs, PECO’s proposed residential real-time pricing program, consumer education programs, and enhanced support for retail choice and low income customers. The new programs, outlined in the Petition, are currently projected to save approximately 1.13 million megawatt-hours over a ten year period and produce a net present value benefit to program participants of \$118.6 million. This is just a first step toward

achieving PECO's goal of reducing its cumulative default service customer electric usage across all customer classes by one to two percent (1%-2%) of its 2007 annual sales by the year 2014.

As part of this Petition, PECO also requests approval to establish under Section 1307 of the Public Utility Code (66 Pa. C.S. § 1307) an automatic adjustment clause to recover the costs PECO will incur to implement and administer the new energy efficiency and demand response programs included in the EEP for its customers. PECO's existing energy efficiency programs and demand-side response programs will continue to be funded through PECO's distribution rates.

In support of this Petition, PECO is submitting the prepared direct testimony of Frank J. Jiruska, PECO's Director of Energy and Marketing Services, and Richard A. Schlesinger, who is Principal Rate Administrator in PECO's Retail Rates Group. Mr. Jiruska's testimony (PECO Statement No. 1) and associated exhibits (PECO Exhibits FJJ-1 through FJJ-7) detail the individual components of the EEP and explain why PECO believes the public interest is served through its new energy efficiency and demand response programs. Mr. Schlesinger's testimony (PECO Statement No. 2) and associated exhibits (PECO Exhibits RAS-1 through RAS-3) describe the EEP-related tariff provisions, including the RDLC and PECO's proposed adjustment clause to recover the costs of its new energy efficiency and demand response programs.

PECO fully supports the Legislature's ongoing efforts to promote cost-effective energy efficiency and demand side response programs. To the extent that the Legislature enacts new initiatives in these areas during the pendency of this proceeding, PECO is prepared to modify its proposed EEP accordingly.

I. INTRODUCTION

1. PECO is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania with its principal office in Philadelphia, Pennsylvania. PECO provides electric delivery service to approximately 1.6 million customers.

2. As a Pennsylvania electric distribution company (“EDC”), as defined in Section 2803 of the Public Utility Code (66 Pa. C.S. § 2803), PECO also serves as provider-of-last-resort (“POLR”) to electric customers within its service territory. In accordance with its POLR obligations, PECO provides electric generation service to those customers who do not select an alternative electric generation supplier (“EGS”) or who return to default service after being served by an EGS that becomes unable or unwilling to serve. Currently, PECO provides POLR service to 1.4 million customers at fixed rates that are capped through December 31, 2010 at levels specified in settlement agreements approved by this Commission in 1998 and 2000.¹

3. When its existing generation rate caps expire, PECO will become the default service provider (“DSP”) within its authorized service territory and continue to have the obligation to furnish generation service to customers that are not served by an EGS. More specifically, under 66 Pa. C.S. § 2807(e)(3), PECO “shall acquire electric energy at prevailing market prices” to serve non-shopping customers and “shall recover fully all reasonable costs” of doing so. Based on current estimates of electric generation prices at the time PECO’s generation rate caps expire, PECO anticipates that customers, whether they choose an EGS or elect default service, will experience material increases in their electric bills.

¹ *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 (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 No. R-000973953 and P-00971265 (May 3, 1998).*

4. 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 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); *see also Policies to Mitigate Potential Electricity*, Docket No. M-00061957 (Order entered May 10, 2007).

5. 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 provides for the recovery of prudent and reasonable costs for utility conservation and load management programs (66 Pa. C.S. § 1319).

6. As discussed in Mr. Jiruska's direct testimony, PECO's EEP is a continuation and significant expansion of the energy efficiency and demand response tools PECO already provides for its customers. As the Commission has emphasized, these tools can help customers better manage future rate increases by reducing their overall electric consumption and particularly consumption during periods of high electricity demand (as defined by PJM Interconnection, L.L.C. ("PJM"), PECO's regional transmission organization).

II. THE MARKET RATE TRANSITION ENERGY EFFICIENCY PACKAGE

A. Continuation of Existing Energy Efficiency and Demand Response Programs

7. As part of the EEP, PECO intends to continue the following existing energy efficiency programs for residential customers:

a. **Energy-Saver Kits.** PECO offers Energy-Saver Kits to its customers that contain various energy efficiency items – for example, faucet aerators and compact fluorescent lamps (“CFLs”) – to help customers save on their energy bills. The kit, which is obtained through a third-party vendor and offered at a discounted price, will expand to include additional energy efficiency tools, such as energy efficient night lights and low-flow showerheads. The approximate cost of the kit will be \$20 or \$25 (depending upon the items selected), and full utilization of the kit can permit customers to save between \$150 to \$300 on their annual electric bills.

b. **The On-Line Energy Store.** PECO will continue to promote its On-Line Energy Store that PECO customers can visit through its website (www.peco.com/save), which offers a 20% discount off all energy efficiency product purchases. The store provides a wide array of products including CFLs, programmable thermostats, insulation, solar outdoor lighting, low-flow showerheads, and energy efficient night-lights. Customers’ energy savings vary depending on the products they purchase.

c. **The On-Line Home Energy Efficiency Calculators.** PECO’s On-Line Home Energy Efficiency Calculators enable customers to evaluate the energy consumption of the lighting and appliances they use. These calculators provide information that can be used to make informed decisions about operating lights, appliances, and heating and cooling systems already in the home, or can be used as a guide when considering the purchase of new lighting, appliances or heating and cooling equipment.

d. **Low-Income Usage Reduction Program (“LIURP”).** For low-income customers, PECO will continue LIURP, which supports energy efficiency and provides

energy bill relief for qualified low-income customers through home weatherization assistance, conservation education, and financial aid. This program is budgeted at \$5.6 million per year.

8. For commercial and industrial (“C&I”) customers, PECO will continue the following programs:

a. **The e-Valuator Program.** The “e-Valuator” Program is a web-based electrical energy monitoring tool available, for a fee, to PECO’s C&I customers. The program allows C&I customers to monitor and manage their energy consumption and load profiles. Customers in the program also have access to their historical usage data and the ability to view hourly and peak load data on a daily, monthly and annual basis.

b. **The “Smart Returns” Program.** The “Smart Returns” Program is a demand response program that pays PECO customers financial incentives for reducing their electric demand during times of high use or at the direction of PJM. It also provides benefits to all customers by reducing overall demand during peak periods.

B. New Energy Efficiency and Demand Response Programs

9. Through this Petition, PECO is seeking Commission approval to offer the following new energy efficiency and demand response programs as part of the EEP:

a. **Residential Direct Load Control.** RDLC is a voluntary demand response pilot program. Participating customers allow PECO to control their central air conditioning compressor(s) during periods of high demand determined by PJM or during localized transmission and distribution system constraints, which often result in high electricity prices. RDLC participants will receive a billing credit each month from June through September

each year in exchange for granting PECO the ability to control (i.e., cycle on and off) their air conditioner compressors. The amount of the monthly credit (\$5 or \$10) will depend upon the extent to which a customer will permit PECO to cycle its compressor. PECO anticipates enrolling 1,000 people during the first full year of this pilot program, and expanding enrollment up to 75,000 customers by 2013. The tariff supplement for the RDLC program is attached as Appendix A.

b. **Residential Compact Fluorescent Lamp Discount Program.**

Through this program, PECO proposes to provide discounts to customers who purchase CFLs through participating retailers. The initial phase of the program will include 500,000 lamps that will be discounted at the retailer's point-of-sale, and PECO anticipates providing up to 3,350,000 CFLs to customers over a five-year period. Through these CFLs alone, PECO anticipates a 1,134,750 MWh savings over ten years. PECO is offering this program through retail outlets in addition to its existing energy kit program in order to achieve a wider distribution of CFLs to its customers.

c. **Enhanced Residential On-Line Energy Audit.**

The Enhanced Residential On-Line Energy Audit is an application similar to PECO's existing on-line energy calculators with additional features to reflect a customer's actual usage and help the customer optimize savings. For example, customers will have the option to perform a simple audit or a more detailed audit in which specific information regarding their appliances and their home construction can be typed into the audit system. With this information, the audit program can estimate home energy usage and break down that usage into major categories such as heating, cooling, lighting, and appliances. The program will also include a "bill analyzer" that will combine the customer's home profile with the customer's actual billing data and local weather

data to illustrate where energy dollars are being used in the home. Customers will also be able to compare how their home performs to similar homes in the region.

10. In addition to the above programs, PECO intends to offer Phase I of its Residential Real Time Pricing Program (“RRTP”) to residential customers, which is the subject of a separate proceeding now before the Commission (Docket No. P-2008-2032333). Phase I of PECO’s RRTP is a voluntary program that will permit participating residential customers to receive electric generation service through PECO at hourly Day-Ahead energy prices established by PJM for PECO’s service territory instead of through current fixed rates. Under the program, participating RRTP customers will be notified daily of the hourly Day-Ahead Market prices and receive other price information regarding their usage. These RRTP tools will enable them to modify their energy consumption in response to energy price signals.

11. For both existing and new EEP programs, PECO intends to develop customer outreach strategies tailored for each program using press releases and other forms of media, the PECO web site, and PECO’s Energy@Home and Energy@Work newsletters as appropriate. Customer participation and program success will be measured based upon the nature of the program (i.e., number of CFLs sold, number of customers enrolled in on-line audit programs, amount of load reduced through RDLC, etc.).

III. COST RECOVERY

12. As set forth in the testimony of Mr. Jiruska, the costs of PECO’s existing energy efficiency and demand response programs for residential and C&I customers are recovered through PECO’s existing distribution rates. The RRTP Program, which is pending before the Commission for approval, includes a separate adjustment charge limited to the costs of RRTP.

13. The new energy efficiency and demand response programs described in paragraph 9, *supra*, will only be available to residential customers. In order to provide these programs, PECO will incur costs relating to designing, developing, and building the necessary IT infrastructure and communications pathways to implement the programs, program outreach and promotion, program administration (including the costs of this proceeding) and evaluation, and program incentives for participating customers. In addition, the new CFL program will also reduce customer usage and, as a consequence, also reduce PECO's electric distribution revenue from participating customers. PECO's current estimates of the costs for each of the new programs and lost revenue are addressed in Mr. Jiruska's testimony and exhibits.

14. PECO proposes to establish an adjustment clause (the "EEP Cost Recovery Charge") under Section 1307 of the Public Utility Code (66 Pa.C.S. § 1307) to recover the costs of implementing and administering the new EEP programs and lost revenue, as enumerated in the proposed tariff supplement attached as Appendix B. Because the EEP programs benefit all residential customers, the adjustment clause proposed by PECO will impose a fully reconcilable, non-bypassable charge on all PECO residential electric customers. As explained by Mr. Schlesinger in his testimony, the charge will be stated in cents per kilowatt hour and applied to the bill of each residential customer on a per kilowatt-hour basis by including it in the variable distribution charges. This charge will not be shown as a separate line item on customers' bills, and not included in the generation "price to compare." This is the same approach employed under PECO's Universal Service Fund Charge, which is also included in PECO's distribution rates.

15. The initial EEP Cost Recovery Charge will be filed promptly following Commission approval of this Petition. Thereafter, a revised charge will be filed with the

Commission on February 1 of each year to become effective on April 1 of the following year. Each annual charge will be based on an estimate of the expenditures for the year in which it will apply. Capital costs, if any, will be amortized over the useful lives of the underlying assets with interest at 6% on the unrecovered balance. If PECO files a base rate case before the costs are fully recovered, the remaining unrecovered balance will be included in PECO's rate base in that proceeding. Any credits received by PECO from PJM as a result of RDLC load qualifying under PJM demand response programs will be included in the calculations and thereby flowed through to customers.

16. Actual costs and revenues will be reconciled each year for a prior twelve-month period ending November 30. Any over or under-recovery, plus interest at 6%, will be reflected in the charge filed each February.

17. PECO proposes to file the first charge under the clause on the first of the month after Commission approval, with an effective date 60 days later. If PECO incurs costs before the effective date, those costs will be deferred and accrue interest at 6% until recovered.

IV. CUSTOMER NOTICE

18. PECO is providing public notice of this filing to its customers in several ways. PECO is including a stand-alone insert in all customer bills over a thirty-day period beginning on October 1, 2008. This stand-alone bill insert will notify customers of this filing, where they may obtain copies, and how they may participate in this proceeding by filing comments or complaints with the Commission. In addition, PECO is publishing notices containing similar information in all of the major newspapers serving PECO's service territory, and is also issuing a press release to all major media (newspapers, television and radio stations) in its service territory. Finally, all

notices will refer to PECO's website (www.peco.com/know) where a copy of the entire filing will be maintained.

19. In addition to the above notice, PECO is also serving copies of this filing on the Pennsylvania Office of Consumer Advocate, the Pennsylvania Office of Small Business Advocate, and the Commission's Office of Trial Staff.

20. PECO respectfully requests the Commission publish notice of this filing in the Pennsylvania Bulletin, with a reasonable deadline for intervention in this proceeding in light of the above notice PECO is providing. Should the Commission conclude that further notice of this filing is appropriate, PECO will provide such additional notice as directed by the Commission.

V. PROPOSED SCHEDULE

21. PECO proposes the following schedule for this proceeding:

| | |
|---------------------|--|
| September 10, 2008 | PECO's Petition And Direct Testimony Filed |
| October 7, 2008 | Prehearing Conference |
| October 28, 2008 | Other Parties' Direct Testimony |
| November 18, 2008 | Rebuttal Testimony |
| December 9-10, 2008 | Evidentiary Hearings |
| January 8, 2009 | Main Briefs |
| January 22, 2009 | Reply Briefs |
| March 1, 2009 | Recommended Decision |
| April, 2009 | Final Order |

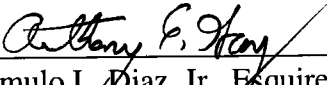
VI. CONCLUSION

For the reasons set forth above and in the testimony and exhibits accompanying this Petition, PECO requests that the Commission grant this Petition and enter an order:

(1) Approving PECO's proposed Market Rate Transition Energy Efficiency Package and permitting the tariff supplement for PECO's Residential Direct Load Control program, attached as Appendix A, to become effective on one day's notice after entry of the Commission's Order; and

(2) Approving PECO's proposed adjustment clause to recover the costs of designing, developing, implementing and administering PECO's new energy efficiency and demand response programs in its Market Rate Transition Energy Efficiency Package and permitting the tariff supplement, attached as Appendix B, to become effective on one day's notice after entry of the Commission's Order.

Respectfully submitted,


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September 10, 2008

For PECO Energy Company

VERIFICATION

I, Frank J. Jiruska, hereby declare that I am Director, Energy and Marketing Services of PECO Energy Company; that as such I am authorized to make this verification in its behalf; that the facts set forth in the foregoing Petition of PECO Energy Company for Approval of its Market Rate Transition Energy Efficiency Package are true and correct to the best of my knowledge, information and belief, and that I make this verification subject to the penalties of 18 Pa. C.S. § 4904 pertaining to false statements to authorities.



Frank J. Jiruska

Date: September 10, 2008