

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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DOCKET NO. P- \_\_\_\_\_

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DIRECT TESTIMONY

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WITNESS: ALAN B. COHN

SUBJECTS: DEFAULT SERVICE PROGRAM  
TARIFF CHANGES

MARKET RATE TRANSITION  
DEFERRAL PROGRAM TARIFF CHANGES

DATED: SEPTEMBER 10, 2008

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**DIRECT TESTIMONY  
OF  
ALAN B. COHN**

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**I. INTRODUCTION AND PURPOSE OF TESTIMONY**

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

7 A. My name is Alan B. Cohn. My business address is PECO Energy Company, 2301  
8 Market Street, Philadelphia, Pennsylvania 19103.

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

10 A. I am employed by PECO Energy Company (“PECO” or the “Company”) as Manager  
11 of Revenue Analysis in the Regulatory group.

12 **3. Q. Please describe your educational background.**

13 A. I received a Bachelor of Science Degree in Commerce and Engineering from Drexel  
14 University in 1980. In 1985, I received a Masters Degree in Business Administration  
15 from Drexel. In addition, I have completed the American Gas Association (“AGA”)  
16 Gas Rate Fundamentals Course at the University of Wisconsin and the AGA  
17 Advanced Gas Rate Course at the University of Maryland.

18 **4. Q. Please describe your work experience with PECO.**

19 Upon graduation from college in 1980, I was hired by PECO as a Rate Analyst in the  
20 Cost and Load Analysis Section of the Rate Division. In 1987, I was appointed  
21 Supervisor of the Economic Analysis Section in PECO’s Rates and Regulatory

1 Affairs Division. Since that time, I have held various management positions in  
2 PECO's Rates and Regulatory Affairs Department and Strategic Planning Department  
3 with responsibility for managing base rate case filings, cost of service studies and  
4 financial and economic analyses.

5 **5. Q. Have you previously testified before this Commission or other regulatory**  
6 **bodies?**

7 A. Yes. I have testified in regulatory proceedings before the Pennsylvania Public Utility  
8 Commission ("Commission"), the Federal Energy Regulatory Commission and the  
9 Maryland Public Service Commission. A listing of the cases in which I have  
10 submitted testimony is attached hereto as Exhibit ABC-1.

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

12 A. The purpose of my testimony is to explain changes to PECO's electric service tariff  
13 that need to be made before January 1, 2011 because, as of that date: (1) PECO's  
14 Competitive Transition Charge ("CTC") and Intangible Transition Charge ("ITC")  
15 will terminate; (2) the caps on PECO's generation rates charged to customers taking  
16 default service will expire; and (3) pursuant to Section 2807(e) of the Public Utility  
17 Code, PECO will "acquire electric energy at prevailing market prices" to meet the  
18 needs of customers that purchase default service and "recover fully all reasonable  
19 costs" of providing that service. PECO's default service generation procurement plan  
20 is summarized by Richard G. Webster in PECO Statement No. 1 and described in  
21 greater detail by William J. Patterer in PECO Statement No. 2. Additionally, I will  
22 discuss the Company's Market Rate Transition Deferral Program, which is a

1 component of the Company's overall plan to mitigate the transition to market-priced  
2 generation supply service.

3 **7. Q. Have you identified the specific tariff changes PECO is proposing?**

4 A. All of the changes proposed by PECO are shown in the clean and redlined versions of  
5 PECO's electric service tariff that I am sponsoring as PECO Exhibit ABC-2. For  
6 purposes of discussing those changes in my testimony, I am grouping them into seven  
7 broad categories, as explained below.

8 **8. Q. Please provide a summary of your testimony.**

9 A. First, I will explain technical and conforming changes in definitions, rules and  
10 regulations that must be made to accommodate the end of CTCs, ITCs and capped  
11 generation rates. These include, for example, removing references to the CTC and  
12 ITC and revising tariff language that will not apply after PECO ceases to furnish  
13 service at capped generation rates under its existing rate design.

14 Second, I will identify rate provisions and riders that are being eliminated because  
15 they cannot be applied when PECO no longer offers default service at capped  
16 generation rates. These include, for example, the Capacity Reservation Rider and the  
17 Off Peak Service Rider.

18 Third, I will explain the changes PECO proposes to make to specific rate provisions  
19 and rate schedules because of the expiration of CTCs, ITCs and capped rates and  
20 PECO's procurement of generation at market prices for default service on and after  
21 January 1, 2011.

1 Fourth, I will explain the basic rate design PECO proposes to use to recover the costs  
2 of providing default generation service. Specifically, PECO's goal is to have a single  
3 generation service rate for each procurement class (*i.e.*, the customer groups for  
4 which PECO will separately acquire generation). As I also explain, PECO proposes  
5 to phase out, over three years, the demand-based declining blocks for energy and  
6 capacity charges that are embedded in its current rate structure. As part of this  
7 discussion, I will explain the Company's proposed Generation Service Adjustment  
8 ("GSA"). The GSA will reflect changes in default customers' rates, including the  
9 reconciliation of PECO's generation procurement costs and the revenues it bills to  
10 default service customers. I will also explain the mechanics of the GSA and provide  
11 calculations illustrating how it works.

12 Fifth, I will explain the changes to PECO's Universal Service Fund Charge ("USFC")  
13 required by modifications to the current customer assistance program. The need for  
14 these changes is driven by the expiration of PECO's generation rate caps and the  
15 introduction of default generation service rates based on the market price of power.  
16 Mr. Manus McHugh explains the proposed changes to the customer assistance  
17 program in detail in PECO Statement No. 7.

18 Sixth, I will explain the interruptible and economic development rates PECO  
19 proposes to adopt, in place of its existing interruptible and economic development  
20 rates, to reflect the post-2010 market price environment.

21 Finally, I will discuss the Company's Market Rate Transition Deferral Program and  
22 the tariff rider PECO is proposing to implement that program.

1                   **II.     TECHNICAL AND CONFORMING CHANGES**

2                   **A.     Definition Of Terms And Explanation Of Abbreviations**

3   **9.   Q.    What are the principal changes PECO proposes to make to the “Definition Of**  
4           **Terms And Explanation Of Abbreviations” shown at pages 6 to 9 of its electric**  
5           **service tariff?**

6           A.   PECO proposes to revise this portion of its electric service tariff to remove definitions  
7           and abbreviations that pertain to transition or stranded costs, the recovery of those  
8           costs, and the rate caps imposed by Section 2807 of the Public Utility Code.

9           Specifically, PECO proposes to delete the following defined terms:

- 10           (1)   Competitive Default Service;
- 11           (2)   Competitive Transition Charge or CTC;
- 12           (3)   Intangible Transition Charge or ITC;
- 13           (4)   Qualified Transition Expense;
- 14           (5)   Statutory Rate Cap Period;
- 15           (6)   Statutory Transition Period; and
- 16           (7)   Transition or Stranded Costs.

17           In addition, in order to conform to the terminology used in the Commission’s  
18           regulations and policy statement on default service, references to “provider-of-last-  
19           resort” or “PLR” service will be replaced with “default” service. For the same  
20           reason, “Default Service Provider (DSP)” will be added as a defined term. PECO  
21           also proposes to add “Electric Distribution Company (EDC)” and “Alternative  
22           Energy Portfolio Standards (AEPS)” as defined terms because they are used  
23           elsewhere in the tariff. Finally, references to the “Joint Petition for Full Settlement,”

1 when used in the context of billing and metering, have been replaced with “Electric  
2 Generation Supplier Coordination Tariff.”

3 **10. Q. Does PECO propose to make any other changes to this section?**

4 A. No, not at this time.

5 **B. Rules And Regulations**

6 **11. Q. What are the principal changes PECO proposes to make to the “Rules and  
7 Regulations” shown at pages 10 to 28 of its electric service tariff?**

8 A. The principal changes consist of the following:

9 (1) Removing references to the CTC, ITC and Transition or Stranded Costs  
10 (Rules 2.2, 13.1, 17.4 and 18.1);

11 (2) Removing references to PLR service or replacing them with the term  
12 “Default Service” (Rules 1.1 and 4.4);

13 (3) Removing references to the Joint Petition For Full Settlement of PECO’s  
14 restructuring proceeding (Rules 1.8, 10.10, 14.1, 14.7, 14.9 and 17.2);

15 (4) Substantially revising the definition of “Special Contracts,” for the reasons  
16 I explain below (Rule 4.6);

17 (5) Deleting subsection (d) of Rule 15.3, for the reasons I explain below; and

18 (6) Adding Rules 22.1 to 22.7, which deal with the designation of  
19 procurement classes, for the reasons I explain below.

20 **12. Q. Describe the revisions PECO is proposing to Rule 4.6 – Special Contracts and  
21 explain why those revisions are necessary.**

22 A. PECO is removing the part of this rule that allow the Company to enter into special  
23 contracts with certain large customers that have a competitive alternative to service  
24 from PECO. The Company-provided discount contemplated by these contracts was to

1 be reflected as a reduction of the CTC. Because the CTC will cease to exist as of  
2 January 1, 2011, there will be no element of PECO's rate that can absorb such a  
3 discount. Additionally, the large customers eligible for Rule 4.6 will be offered  
4 hourly priced default service, and PECO will pass through the cost of obtaining that  
5 power on their behalf, as the Commission's default service regulations provide.  
6 Discounting the generation supply rate would reduce the price charged to customers  
7 to below PECO's incremental cost, which is not permitted under Rule 4.6

8 **13. Q. Explain why PECO is deleting subsection (d) of Rule 15.3.**

9 A. Rule 15.3 states the power factor adjustments that are applied to customers' metered  
10 usage data. Subsection (d) pertains to the power factor adjustment for customers that  
11 take service under the Large Interruptible Load Rider ("LILR"). As I discuss in  
12 Section V, below, PECO proposes to eliminate the LILR. Accordingly, subsection  
13 (d) of Rule 15.3 should also be eliminated. In general, the power factor adjustment  
14 set forth in Rule 15 will only apply to the transmission and distribution portion of a  
15 customer's bill.

16 **14. Q. Why is PECO proposing to add Rules 22.1 through 22.7?**

17 A. As explained by Mr. Patterer (PECO Statement No. 2), PECO proposes to divide its  
18 default customers into four classes (Residential, Small Commercial, Medium  
19 Commercial and Large Commercial and Industrial) for purposes of procuring electric  
20 power to meet those customers' default service requirements. Each default customer  
21 will be assigned to a procurement class based on the criteria discussed by Mr.  
22 Patterer. Rules 22.1 through 22.7 provide that PECO will review its customer

1 accounts and designate the procurement class for each customer by November 1 of  
2 each year based on: (1) in the case of an existing customer that had been taking  
3 service from PECO during the entire evaluation period, the customer's maximum  
4 measured demand during the evaluation year; and (2) in the case of a new customer  
5 (*i.e.*, one that had not received service from PECO during the entire evaluation year  
6 or one that moves into PECO's territory during the current year), the estimated  
7 diversified maximum demand based on the information supplied in the customer's  
8 Application for Service and Meter. Under Rule 22.3, the evaluation year will be the  
9 12-month period from June 1 to May 31. Accordingly, the procurement class  
10 assignments that will become effective on January 1, 2011 will be based on the peak  
11 measured demand during the period June 1, 2009 to May 31, 2010. In the case of  
12 residential customers, there is only one procurement group, and sorting by peak  
13 demand is not necessary. Maximum measured demands will have to be obtained for  
14 all commercial and industrial customers. Rule 22.5 provides that a customer's  
15 procurement class cannot be changed by the customer or by PECO except on  
16 November 1 of each year. Rules 22.6 and 22.7 discuss how to assign a new customer  
17 to a procurement class.

18 **15. Q. Does PECO propose to make any other changes to the Rules and Regulations in**  
19 **its electric service tariff?**

20 A. No, not at this time.

1                   **III.     RATE PROVISIONS AND RIDERS BEING ELIMINATED**

2 **16.   Q.   Please identify the rate provisions that PECO proposes to eliminate.**

3           A.   PECO proposes to eliminate the rate provisions set forth at pages 30 to 31 of its  
4           electric service tariff that: (1) impose the CTC and ITC; (2) state special rules for  
5           charging the CTC and ITC to customers with on-site generation; (3) establish the Net  
6           Securitization Adjustment (“NSA”) and state the associated Securitization Rate  
7           Reduction (“SRR”) and ITC; and (4) show the Effective Rate Table, which displays  
8           the SRR and ITC by rate class. Because the CTCs and ITCs will expire as of  
9           December 31, 2010, the rate provisions identified above will no longer apply and  
10          should be eliminated from the Company’s electric service tariff.

11 **17.   Q.   Please identify the Riders that PECO proposes to eliminate.**

12          A.   The Riders that PECO proposes to eliminate fall into three broad groups:

13                   **Riders Offering Interruptible Service.** These consist of the Curtailment HT Rider,  
14                   the LILR, the Interruptible Rider-1 (“IR-1”) and the Interruptible Rider-2 (“IR-2”).  
15                   These Riders, which, in one way or another, offer reduced energy prices in exchange  
16                   for the customer’s willingness to curtail or interrupt usage, will not apply when PECO  
17                   no longer provides service at capped generation rates. As I will explain in Section  
18                   VII, below, PECO proposes to replace these Riders with new interruptible rate  
19                   provisions that are integrated with the PJM Interconnection LLC’s (“PJM”) program  
20                   for demand side response.

1           **Riders Offering Economic Development Incentives.** These consist of the  
2           Economic Efficiency Rider (“EER”), the Incremental Process Rider (“IPR”), the  
3           Employment and Economic Recovery Rider (“E2R2”), and the Keystone Opportunity  
4           Zone Rider (“KOZR”). The EER and the IPR are load and business retention rates  
5           that discount demand and energy prices for employers that show they have  
6           competitive alternatives to taking service from PECO. These Riders cannot be  
7           applied after 2010 when PECO will no longer provide service at capped generation  
8           rates because the discount these customers receive is reflected, in large part, as a  
9           reduced CTC. Distribution rates were **not** discounted under the EER and the IPR.  
10          Furthermore, the Commission’s default service regulations recommend hourly pricing  
11          for customers that take service under the EER, which all have peak loads that exceed  
12          1 MW. The IPR provides a discount on new electric processes that increase load by  
13          at least 50 kW and could be provided by a competitive alternative. The discount is  
14          taken from the CTC and therefore is eliminated as the CTC goes away post 2010.

15          The E2R2 is an economic development rate designed to grow load and create new  
16          jobs. The E2R2 discount is principally reflected as a credit against energy and  
17          capacity charges and the CTC. After 2010, PECO will be competitively procuring its  
18          default service generation supply and, therefore, could not offer a discount on energy  
19          and capacity unless other customers subsidize it or PECO’s generation supplier  
20          agrees to discount its price.

21          Finally, the KOZR, by its terms, is set to expire as of December 31, 2010, and, in any  
22          event, is also inapplicable in the post-rate cap period because the KOZR discounts  
23          customers’ CTCs. As I will explain in Section VII, below, PECO proposes to replace

1 all of the Riders offering economic development incentives with new economic  
2 development initiatives that are tailored to the post-rate cap environment.

3 **Riders For Which Pricing Is Based On PECO Providing Fixed Generation**

4 **Rates.** These consist of the Capacity Reservation Rider, Off-Peak Rider, Seasonal  
5 Capacity Rider, and Auxiliary Service Rider. Generally, when these riders were  
6 adopted, they offered pricing that was tied, either directly or indirectly, to fixed  
7 generation rates and the rate design that prevailed before electric restructuring. These  
8 Riders were continued during the period rate caps were in place. The pricing or other  
9 terms incorporated in them have no application after generation rate caps expire.

10 For example, the Capacity Reservation Rider was designed to offer firm capacity in  
11 the non-summer months for LILR customers. The LILR will be discontinued in its  
12 current form. Under PJM-based interruptible programs, which will replace the LILR,  
13 there is no penalty for a customer's failing to interrupt when called upon to do so in  
14 non-summer months. Furthermore, the pricing under the Capacity Reservation Rider  
15 is based on values derived from the PJM monthly capacity market, and, since PJM  
16 adopted the Reliability Pricing Model ("RPM"), there is no longer a monthly capacity  
17 market.

18 The Off-Peak Rider, which is available to commercial and industrial customers, was  
19 grandfathered over 35 years ago. This Rider is being eliminated because it is not  
20 consistent with the Commission's regulations and policy statement, which call for a  
21 single price for each procurement class. Customers with demands exceeding 500kW  
22 can select hourly pricing if they have significant off-peak usage. The Seasonal

1 Capacity Rider is being eliminated for Energy and Capacity Charges because it only  
2 applies to customers with demands greater than 500 kW. Under PECO's default  
3 service plan, and as provided in the Commission's regulations, large commercial and  
4 industrial customers will default to hourly pricing. Under hourly pricing, a  
5 customer's demand charges will be based on the RPM (capacity) charges assessed for  
6 the customer, which are equal monthly charges, not seasonal charges.

7 For the Auxiliary Service Rider, distribution charges will remain the same, but  
8 generation charges will change. The energy supply charges, whether firm or  
9 interruptible, will be the generation supply adjustment applicable to the customer.

#### 10 **IV. PROPOSED CHANGES TO EXISTING RATES AND RIDERS**

11 **18. Q. Please provide an overview of the various rate schedules that appear in PECO's**  
12 **electric service tariff.**

13 A. There are seventeen rate schedules in PECO's electric service tariff, which I discuss  
14 in the groups set forth below:

15 **Residential.** These consist of Rate R (Residential Service), Rate RT (Residential  
16 Time of Use Service), Rate RH (Residential Heating Service) and Rate OP (Off-Peak  
17 Service).

18 **Rate CAP (Customer Assistance Program).** Rate CAP is a discounted residential  
19 rate that applies to qualifying low-income customers. The discounts vary depending  
20 upon the customer's level of income. The Company expects to continue CAP rates  
21 after 2010. However, the design of the rate and the discount percentages are being

1 modified to better align with affordability criteria. Additionally, the Company will be  
2 proposing a modification to the current USFC to reflect changes to the CAP rate and  
3 to fully recover costs of the program. As I previously mentioned, Mr. McHugh  
4 discusses the changes PECO is proposing to the CAP program. The modifications to  
5 the CAP and the USFC are discussed later in my testimony.

6 **Rate RS-2 (Net Metering Service).** Rate RS-2 is available to customers that take  
7 service under other rate schedules and install technology that generates electricity  
8 from Tier I or Tier II alternative energy sources, as determined by the criteria set forth  
9 in the Alternative Energy Portfolio Standards (“AEPS”) Act.

10 **Rate GS (General Service).** This rate schedule is available for non-residential  
11 customers served at secondary voltage levels (in general, 277/480 volts or less),  
12 which includes office space, government buildings and professional, commercial and  
13 industrial establishments. In general, this rate schedule covers non-residential service  
14 that is not eligible for service at higher voltage levels. Rate Schedule GS employs  
15 declining blocks for both variable distribution service charges and energy and  
16 capacity charges.

17 **Rate PD (Primary Distribution Power Service).** This rate schedule is available to  
18 customers that can take service at primary voltage levels, subject to certain limitations  
19 that are spelled out in the Company’s tariff. This rate schedule is used by customers  
20 that are larger than those served under Rate GS, but not as large as those eligible for  
21 service directly from PECO’s high tension lines. Rate Schedule PD employs

1 declining blocks for both variable distribution service charges and energy and  
2 capacity charges.

3 **Rate HT (High-Tension Power Service).** This rate schedule is available to  
4 customers that can take service directly from PECO's high-tension power lines.  
5 PECO's largest customers use this rate schedule. Rate Schedule HT employs  
6 declining blocks for both variable distribution service charges and energy and  
7 capacity charges.

8 **Outdoor And Traffic Lighting.** This category includes rates that apply to outdoor  
9 lighting and traffic lighting and consists of the following: Rate POL (Private Outdoor  
10 Lighting), Rate SL-P (Street Lighting In City of Philadelphia), Rate SL-S (Street  
11 Lighting – Suburban Counties), Rate SL-E (Street Lighting – Customer-Owned  
12 Facilities), Rate AL (Alley Lighting In City of Philadelphia) and Rate TL (Traffic  
13 Lighting Service).

14 **Rate BLI (Borderline Interchange Service).** This rate applies to electric service the  
15 Company supplies under reciprocal agreements to neighboring electric utilities for  
16 resale to the other utilities' customers that can be served more efficiently from  
17 PECO's distribution lines.

18 **Rate EP (Electric Propulsion).** This rate is available only to the National Rail  
19 Passenger Corporation (AMTRAK) and the Southeastern Pennsylvania  
20 Transportation Authority (SEPTA) under the terms, and subject to the restrictions, set  
21 forth in PECO's tariff.

1 **19. Q. Please describe the principal revisions PECO proposes to make to the rate**  
2 **schedules (other than Rate CAP) listed above.**

3 A. There are two principal changes PECO is proposing that are common to all of those  
4 rate schedules. First, the provisions imposing and setting forth the CTC for each rate  
5 will be removed because the CTC will expire as of December 31, 2010. Second, the  
6 provisions stating the energy and capacity charges for each rate schedule will be  
7 substantially revised to provide for the recovery of costs incurred by PECO for  
8 default generation service. I will explain the second change in greater detail in  
9 Section V, where I discuss the proposed GSA. As part of these changes, PECO  
10 proposes to phase out: (1) the declining blocks for energy and capacity charges that  
11 are currently incorporated in Rate Schedules GS, PD and HT; and (2) the special rates  
12 currently offered for space and water heating. At the conclusion of the phase-out  
13 period, there will be a single default service charge for each customer class, as I will  
14 discuss later.

15 **20. Q. Are there other proposed revisions to specific rate schedules that you care to**  
16 **mention?**

17 A. Yes. For Rate Schedules R, RT, RH and OP, PECO proposes to eliminate the  
18 seasonal differential in energy and capacity pricing and the Monthly Pricing Option.  
19 For Rate Schedule RS-2, PECO proposes to eliminate item 4 under "Billing  
20 Provisions," which deals with stranded cost recovery in the event a customer's self-  
21 generation reduces its usage by 10% or more. That term will not apply after the CTC  
22 expires. For Rate Schedules HT and EP, PECO proposes to eliminate the time-of-use

1 adjustments, which will be inapplicable after PECO begins furnishing default service  
2 using generation acquired at market prices since these customers will likely be on  
3 hourly pricing for default service or, if offered, a fixed price contract..

4 **21. Q. Please identify the Riders that PECO will retain but proposes to revise and**  
5 **explain the proposed revisions.**

6 A. Several riders that will be affected by PECO's proposed changes in generation rate  
7 design cannot be eliminated because they also contain provisions that apply to the  
8 non-generation portion of eligible customers' bills. Specifically, these are the Night  
9 Service Riders for Rates GS, PD and HT, the Cooling Thermal Storage Rider, the  
10 Casualty Rider, the Construction Rider and the Emergency Energy Conservation  
11 Rider, all of which were designed to work in conjunction with PECO's current rate  
12 design and which contain declining blocks and demand charges. In addition, the  
13 Night Service Riders and Cooling Thermal Storage Rider were designed to encourage  
14 customers to move usage to off-peak periods. To that end, these Riders provide that a  
15 customer's peak demand registered in off-peak periods will be ignored in calculating  
16 its billing demand. Because customers on these Riders maintain relatively low on-  
17 peak demand (relative to their off-peak demand), their hours-use-of-demand is higher  
18 because of the way billing demand is calculated under the Riders. And, because  
19 hours-use-of-demand determines the blocks in which a customer's energy usage is  
20 priced, these customers have a larger portion of their usage billed in the lower-priced  
21 trailing blocks. When PECO adopts a rate design with a single price for all of the  
22 energy supplied to a default service customer, it will not be able to offer lower-priced,  
23 off-peak generation supply to customers on these Riders. Accordingly, the Night

1 Service Riders and the Cooling Thermal Storage Riders are being revised to eliminate  
2 the provisions that, in effect, provided lower prices for off-peak energy usage. The  
3 Casualty Rider, the Construction Rider and the Emergency Energy Conservation  
4 Rider are linked to the demand ratchet, which will no longer exist. Therefore, these  
5 riders will not apply to generation. However, by their terms, all of the Riders  
6 identified above provide customers the opportunity to obtain lower prices for non-  
7 generation (distribution) charges by ignoring their off-peak demands in calculating  
8 their billing demand. These provisions of the Riders, which affect only a customer's  
9 distribution charges, will remain in place.

10 **V. DEFAULT GENERATION SERVICE RATES AND THE GENERATION**  
11 **SERVICE ADJUSTMENT**

12 **22. Q. Explain, generally, how PECO approached the process of developing the retail**  
13 **rate design to recover the cost of providing default generation service after**  
14 **December 31, 2010.**

15 A. PECO's rate design process followed four general principles. First, comply with the  
16 provisions pertaining to default service rate design that are set forth in the  
17 Commission's default service regulations (52 Pa. Code §54.187) and the  
18 Commission's policy statement on default service (52 Pa. Code §§69.1808 –  
19 60.1810). Second, keep the rate design as simple and customer friendly as possible.  
20 Third, avoid inter-class subsidization to the maximum extent practicable. Fourth,  
21 attempt to mitigate potentially disruptive changes in rate design by, for example,  
22 phasing-in certain changes to the extent permitted by the Commission's regulations.

1 23. Q. Please summarize the provisions of the Commission's default service regulations  
2 and policy statement pertinent to the design of default service rates.

3 A. The Commission's regulations provide that default service rates should: (1) recover  
4 all of the reasonable costs incurred by the default service provider to furnish default  
5 service; and (2) be based on the average cost to acquire supply for each customer  
6 group (Section 54.187(a)). This provision is amplified by Section 69.1808 of the  
7 Commission's policy statement, which states that default service rates should recover  
8 generation, transmission, supply management and administrative costs and applicable  
9 taxes. The policy statement also states that default supply acquisition costs include  
10 "wholesale energy, capacity, ancillary [services], applicable RTO or ISO  
11 administrative and transmission costs" as well as "congestion costs."

12 The regulations further provide that default customers should be offered a "single rate  
13 option" identified as the "price-to-compare" ("PTC") (Section 54.187(b)). Both the  
14 regulations (Section 54.187(c)) and the policy statement (Section 69.1810) direct that  
15 default service rates should not contain demand charges or declining blocks.

16 However, the Commission's final order adopting the regulations and policy statement  
17 (p. 37) acknowledges the need for flexibility in applying this mandate: "If a DSP  
18 finds that the elimination of declining blocks or demand charges would lead to an  
19 increase of 25% or more for any customer class, it should propose to gradually phase  
20 out these design elements through a series of annual adjustments."

21 The regulations direct default service providers to use an automatic adjustment clause  
22 established under Section 1307 of the Public Utility Code to recover default service

1 costs. The regulations provide further that the costs incurred and revenues collected  
2 under the automatic adjustment clause should be compared and reconciled and that  
3 over or under-collections should be refunded or recouped, as applicable, with interest  
4 (Section 54.187(e) and (f)). The default service rates established under the clause  
5 must be adjusted at least quarterly (monthly for customers with loads exceeding 500  
6 kW) to ensure the full recovery of all costs reasonably incurred in acquiring  
7 electricity at prevailing market prices and to reflect seasonal variations in the cost of  
8 electricity (Section 54.187(h) – (j)).

9 Section 54.187(g) states that default service providers should include rate options for  
10 demand side response and demand side management, as the Commission may direct.

11 **24. Q. Explain the key elements of PECO's proposed default service rate design.**

12 A. There are four key elements to the Company's proposed rate design:

- 13 • The default service rates will recover generation and administrative costs  
14 associated with acquiring the necessary supply to serve default service  
15 customers, as well as any transmission costs that are not recovered in PECO's  
16 current, unbundled transmission rates. A list of the PJM costs and who is  
17 responsible for paying them is contained in the Supply Master Agreement that  
18 is being sponsored by Mr. John McCawley.
- 19 • The default service cost recovery mechanism will be an automatic adjustment  
20 clause (the GSA) established under the authority of Section 1307 of the Public

1 Utility Code. The charges established by the GSA will be the default service  
2 rates charged to default service customers.

- 3 • Separate default service rates will be established for each procurement class  
4 (as defined in Mr. Patterer's testimony). All components of default service  
5 and transmission costs (as delineated above) will be summed and stated as a  
6 PTC on a customer's bill. The unbundled generation charges (GSA), the  
7 applicable transmission charges, and the charges for AEPS compliance for  
8 each procurement class will be set forth on separate schedules in PECO's  
9 tariff. All customers in a procurement class will pay the same price per kWh  
10 after the phase-out of the demand and declining block elements of existing  
11 Rates GS, PD and HT. (I will explain the phase-out of those rate elements  
12 later in my testimony.)
- 13 • The default service rates will be adjusted quarterly for procurement classes  
14 comprising customers with maximum peak demand up to 500 kW (*i.e.*,  
15 residential and small and medium-sized commercial customers). For the  
16 larger commercial and industrial procurement class, which comprises  
17 customers with maximum peak demand greater than 500 kW, there will be a  
18 limited number of adjustments necessary because these customers will either  
19 receive hourly-priced service or will be served under a fixed price contract for  
20 one year. Each adjustment period, except the first two (for reasons I will  
21 explain), will reconcile generation procurement costs and billed customer  
22 revenues for a preceding quarter (or month).

1 **25. Q. Please identify the portions of PECO’s proposed electric service tariff that**  
2 **contain the tariff language to implement the proposed default service rates and**  
3 **GSA mechanism.**

4 A. The applicable tariff provisions are shown at pages 31-34 of PECO Exhibit ABC-2.  
5 Each rate schedule in PECO’s electric service tariff will refer to, and incorporate by  
6 reference, the GSA. As shown at pages 31-32, as part of the tariff provision  
7 establishing the GSA, there will be a single schedule showing the default service rates  
8 for each customer class that is being offered a fixed price product. The terms of  
9 hourly-priced service that PECO will offer to customers with peak demands of 500  
10 kW and higher are set forth on page 33 of its proposed electric service tariff.

11 **26. Q. Please explain further the costs PECO will recover through the proposed default**  
12 **service rates, which you discussed in the first key element above.**

13 A. PECO’s default service rates will recover the costs of providing default service. The  
14 generation supply costs include the cost of energy, capacity, ancillary services, AEPS  
15 compliance and any charges assessed by PJM on load serving entities except network  
16 transmission service to deliver power to the PECO zone and costs assigned to load  
17 under PJM’s Regional Transmission Expansion Plan (“RTEP”). All of the  
18 aforementioned costs will be borne by the successful bidders in the competitive  
19 procurement process that PECO will use to contract for full requirements service to  
20 meet its default service obligations. If, and to the extent that, PECO needs to obtain  
21 energy directly from the spot market, it will also procure the associated capacity,  
22 ancillary services, and Alternative Energy Credits (“AECs”). At this time, PECO

1 expects to competitively source its potential spot market purchases. These costs will  
2 also be recovered in default service rates. Additionally, the default service rates will  
3 recover PECO's administration costs for obtaining default supply, such as the cost of  
4 the independent monitor and the cost associated with the filing and approval of its  
5 default service plan. Other costs allowed under the Commission's regulations, such  
6 as those for information technology changes necessary for PECO's proposed  
7 mitigation plans, are to be included in a non-by-passable charge assessed to all  
8 customers. This charge is discussed in the Company's Market Rate Transition Phase-  
9 In Filing.

10 **27. Q. What is the Company's estimate of the cost to prepare and gain approval of its**  
11 **default service plan?**

12 A. Exhibit ABC-3 provides an estimate of the cost associated with the filing and  
13 approval of PECO's default service plan (approximately \$4.0 million). The  
14 Company intends to amortize these costs over the plan period of three years and  
15 recover them on a per kWh basis as part of the GSA.

16 **28. Q. Will the Company include its consumer education and rate mitigation costs in**  
17 **the GSA?**

18 A. No. Consumer education and rate mitigation costs will be recovered through a  
19 separate, non-by-passable charge that will be included in distribution charges and  
20 excluded from the PTC. The cost recovery mechanism for these costs is discussed in  
21 greater detail in the Company's Market Rate Transition Phase-In Filing.

1 **29. Q. Please explain why periodic adjustment of the default service rates under the**  
2 **GSA is necessary?**

3 A. Because PECO's default supply will consist of an array of full requirements contracts  
4 all of which will include an element of spot energy purchases, the cost of default  
5 service can change from quarter to quarter. Additionally, there will be under or over-  
6 collections from the preceding quarter because of differences between estimated and  
7 actual costs, differences in customer usage and billing lag. Accordingly, each  
8 adjustment period, PECO will revise its default service rates to reflect anticipated  
9 changes in procurement costs and the reconciliation of prior period costs and  
10 revenues.

11 **30. Q. What reconciliation periods will be used for the GSA?**

12 A. For procurement groups comprising customers with peak loads under 500 kW,  
13 reconciliation will occur quarterly. Filings will be made no later than 80 days after  
14 the end of a calendar quarter, and the rate will be effective on the first day of the  
15 quarter that begins after the filing. Each procurement class will have its own  
16 reconciliation. Based upon these criteria, the first such reconciliation will be for the  
17 quarter ending March 2011, and the over/under-collection component of the  
18 reconciliation will be effective for the quarter starting July 1. In accordance with  
19 Section 1307(e) of the Public Utility Code, the Commission's Bureau of Audits will  
20 audit the GSA and reconciliation mechanism once per year.

21 Exhibit ABC-4 is a timeline that shows, graphically, the relevant reconciliation and  
22 application periods relative to the filing and effective dates. As you can see, there

1 will be a lag of one full quarter between the first application period and the first  
2 reconciliation period. Also, there will be a lag between PECO's incurring default  
3 supply costs and the recovery of those costs from customers in the first application  
4 period. Currently, PECO implements rate changes on the first full meter reading  
5 cycle after the effective date of the change. Depending upon the magnitude of the  
6 increase, this practice could cause a substantial under-collection in January 2011. In  
7 order to mitigate this potential impact, PECO will prorate the rate change in January.  
8 This will reduce the impact but not eliminate it because customers' meters are read,  
9 and bills are issued, on staggered cycles over each month. Purchased power costs  
10 will change as of January 1, but billed revenue for January will reflect only  
11 approximately one-half month of new rates. Assuming that new rates are higher than  
12 PECO's capped rates, cost recovery will, in effect, "ramp up" during the first  
13 application period until it hits a steady state. Even with this mitigation, PECO will  
14 unavoidably have a significant under-collection for its first reconciliation period. To  
15 deal with this issue, PECO proposes that the under-collection for the first  
16 reconciliation period not be recovered in its entirety in the next application period but,  
17 instead, be amortized over a twelve-month period beginning July 1, 2011.

18 For purposes of the large commercial and industrial group (>500kW) any necessary  
19 reconciliation will be on a monthly basis. The reconciliation will lag three months  
20 behind the month the costs were incurred. In other words, the reconciliation for  
21 January would be in April.

1 **31. Q. Earlier you mentioned that PECO plans to phase-out the demand-based**  
2 **declining blocks in its current rates. Please explain why PECO believes a phase-**  
3 **out is appropriate.**

4 A. As I previously explained, Rates GS, PD and HT contain demand-based declining  
5 blocks. The usage in each block is based on the customer's hours of use of billing  
6 demand within the billing month. Usage that extends into the lower, trailing blocks  
7 reflects the higher load factors of customers that have usage in those blocks. In other  
8 words, the lower prices in the trailing blocks are based on the customer's more  
9 consistent use of energy resources as measured by its load factor. Moving to a single  
10 PTC, as the default service regulations require, will eliminate this method of pricing  
11 and charge all customers the average price per kWh for their procurement class  
12 regardless of their individual load profiles. Solely as a consequence of that change,  
13 customers that have high load factors and, therefore, have substantial usage in the  
14 lower, trailing blocks, will experience an increase in price that could be significant.  
15 Conversely, customers that have low load factors and, therefore, have usage priced in  
16 the relatively higher-priced early block(s), would experience reduced unit prices  
17 solely as a result of the proposed change. In order to mitigate the effect of its  
18 proposed rate design changes, PECO is proposing to phase-out its declining block  
19 rates over three years.

20 **32. Q. Please explain how PECO will design the default service rates that will apply**  
21 **during the period declining blocks are being phased out.**

1 A. As noted above, PECO plans to phase-out its declining block rate structure for  
2 customers on Rates GS, PD, and HT that have peak loads of up to 500 kW. (For  
3 customers with peak loads above 500 kW, declining blocks will be eliminated in their  
4 entirety as of January 1, 2011.) Exhibit Nos. ABC-5 and ABC-6 to my testimony  
5 show how the rates under the phase-out are developed. The base assumption is that  
6 the general rate structure in Year One will not change. Recognizing that the  
7 Commission wants to eliminate demand charges, the Company decided that instead of  
8 increasing the demand charge by the average percentage increase, it will keep the  
9 demand charge the same in the first year. All energy price blocks will be increased  
10 by the average percentage increase for the energy portion of the generation  
11 component of the bill. This establishes the pricing in Year One. The final year's  
12 pricing is known because all blocks will be set at the same price in Year Three.

13 The next step in the phase-out is establishing prices for Year Two. These prices will  
14 be the midpoint between the Year Three and Year One prices. In developing the  
15 phase-out prices, Rates GS, PD, and HT will be divided into procurement classes  
16 because each class could have different pricing. Exhibit ABC-7 to my testimony  
17 shows, illustratively, the effect of the phase-out on customers with various load  
18 factors.

19 **33. Q. Will PECO develop the prices for the phase-out of energy price differentials**  
20 **reflected in residential Rates RH and OP in a similar manner?**

21 A. Yes. Consistent with the commercial and industrial rate design phase-out process,  
22 PECO will keep the existing rate design for Rates RH and OP in 2011. In Year Two

1 of the phase-out, it will move half way to the proposed final year rate design, which  
2 will have a single price for all energy. This will mitigate the impact of the transition  
3 on Rate RH and OP customers. Exhibit ABC-8 to my testimony provides an example  
4 of how the phase-out will work for these rates.

5 **34. Q. Does PECO propose to recover the cost of complying with the AEPS Act as part**  
6 **of its default service rates?**

7 A. Yes, in part. As explained by Mr. Patterer, the Company proposes to include  
8 purchases for AEPS compliance in its full requirements default service generation  
9 supply contracts. However, the Commission has approved the Company's Tier I  
10 (non-solar) banking proposal. Pursuant to the approved plan, PECO expects to  
11 purchase AECs and bank them for use during the period from 2011 through 2013.  
12 The cost PECO incurs for Tier I (non-solar) credits purchased under the plan will be  
13 recovered by the cost-recovery mechanism previously approved for that purpose by  
14 the Commission in the aforementioned AEPS proceeding at Docket P-00072260.  
15 PECO's plan provides for the purchase of approximately 2.25 million AECs over a  
16 five-year period. To the extent additional credits are required to comply with the  
17 AEPS Act, default service generation suppliers will be responsible for providing the  
18 necessary AECs.

19 **35. Q. Does PECO's proposed default service rate design meet the requirements of the**  
20 **Commission's default service regulations and comply with the guidance**  
21 **provided in the Commission's policy statement?**

1 A. Yes, for all the reasons I discussed above, I believe that the Company's proposal  
2 complies with the regulations and is consistent with the guidance provided in the  
3 policy statement.

4 **36. Q. Turning for a moment to PECO's distribution rates, the Commission's**  
5 **regulations and policy statement provide that default service providers should**  
6 **eliminate the declining block structure embedded in their "wires" (distribution)**  
7 **charges. When does PECO expect to change the design of its distribution rates**  
8 **to eliminate declining blocks?**

9 A. PECO's distribution rate design will not change until PECO's next distribution rate  
10 case. In that case, PECO will set forth its approach for eliminating declining blocks  
11 from its distribution rates.

12 **37. Q. Have you provided an illustrative calculation of the GSA?**

13 A. Yes. Exhibit ABC-9 to my testimony provides an illustration of the calculation of the  
14 GSA for procurement class1 (GSA(1)). The exhibit shows a calculation of the  
15 GSA(1) for three quarters, with the third quarter containing the true-up associated  
16 with the first quarter. The exhibit also illustrates how the calculated GSA is adjusted  
17 to reflect the phase-out of the current rate design.

18 **38. Q. What costs will be included in the Company's PTC?**

19 A. The Company's PTC will include costs associated with energy supply, including  
20 energy, capacity, ancillary services, AEPS costs, network transmission and associated  
21 costs, the cost of any third party monitor involved in procurement of supply, and costs

1 associated with gaining approval of the supply plan. Exhibit ABC-10 shows a  
2 hypothetical calculation of the PTC.

3 **VI. CUSTOMER ASSISTANCE PROGRAM AND UNIVERSAL SERVICE FUND**  
4 **CHARGE**

5 **39. Q. Please provide a brief summary of PECO's existing CAP rates and the USFC**  
6 **that recovers the incremental costs of that program.**

7 A. PECO's CAP program currently consists of five rates. They are CAP A, B, C, D,  
8 and E. Each rate offers a different percentage discount, with applicability determined  
9 by income. Table I below shows the discounts for each rate:

10 Table I

Rate	Income Level	Discount
	% of FPL	
Cap A	<25%	\$12 for 1st 1000 kWh/month
Cap B	<25%	85% for 1st 650 kWh/month
Cap C	25%-50%	75% for 1st 650 kWh/month
Cap D	50%-100%	50% for 1st 650 kWh/month
Cap E	100%-150%	25% for 1st 650 kWh/month

11  
12 There are similar CAP rates for the residential heating class (Rate RH). All changes  
13 discussed below also apply to the Rate RH CAP customers also.

14 **40. Q. Why is PECO proposing revisions to its CAP rates?**

1 A. When PECO's generation rate caps expire, prices will increase for all PECO's  
2 customers. Because affordability is a key issue for the low-income customers, PECO  
3 is modifying its CAP specifically to assist low-income customers as they transition to  
4 the post-rate cap environment.

5 **41. Q. How does PECO propose to revise its CAP rates?**

6 A. As will be explained more fully in the testimony of Mr. McHugh, the Company is  
7 going to establish a discount, stated as a percent, to apply to the regular residential  
8 rate that will achieve an affordable bill for the majority of customers within each CAP  
9 rate category. The percentage discount will change on an annual basis with the price  
10 of energy and apply only to the first 650 kWh per month. If the price of energy goes  
11 up, the discount will increase. Conversely if the price of energy goes down, the  
12 discount will be lowered. Similarly, the affordable payment levels used to calculate  
13 the appropriate discount will also escalate as the poverty level rises.

14 **42. Q. What is the estimated rate impact of these proposed changes on PECO's CAP**  
15 **customers?**

16 A. The rate impact on residential customers will depend upon the revenue shortfall from  
17 the CAP customers. The post-2010 revenue shortfall or discount depends upon the  
18 increase in cost in 2011. Exhibit ABC-11 to my testimony shows an estimate of the  
19 cost of the new CAP program. The estimate is provided in two steps. First, I  
20 estimate what the change would cost based upon existing rates. Next, I calculate the  
21 estimated discount based upon an estimate of the 2011 increase. The estimated  
22 increase for residential customers is the same increase used in formulating the

1 Company's Market Rate Transition Phase-In Program, and is discussed in detail in  
2 my testimony submitted with that filing. To calculate the increased cost, Exhibit  
3 ABC-11 compares the estimated total dollar discount under the current program to the  
4 estimated discount under the revised program. The estimate will be based on the  
5 projected CAP enrollment in the year the surcharge applies. For example, the  
6 surcharge that will go into effect on January 1, 2011, will be based on an estimate of  
7 the 2011 enrollment level. The rate impact associated with the program improvement  
8 will be calculated by taking the increased discount and reducing it by 27% to reflect  
9 avoided bad debt expense and reduced working capital needs. The estimated net  
10 incremental cost will be added to the base USFC amount to be recovered from all  
11 residential customers. The Company will track the actual incremental cost using a  
12 form, such as that provided on page 4 of Exhibit ABC-11 for each CAP rate. The  
13 incremental cost will be compared to the revenue from the surcharge to determine any  
14 over or under-recovery. The Company will include interest on any over or under  
15 recovery when reconciling the cost and revenues.

16 **43. Q. Why does the proposed change in CAP rates require a change in the USFC?**

17 A. The current USFC is designed to collect \$383 per customer per year. This amount  
18 will not be sufficient to cover the modifications PECO is proposing in CAP rates  
19 following the expiration of generation rate caps.

20 **44. Q. How does PECO propose to change its existing USFC?**

21 A. The existing USFC will remain. However, a post-2010 program enhancement  
22 provision will be added to allow for additional cost recovery needed to accommodate  
23 the program enhancements being proposed by the Company.

1 45. Q. How often will PECO modify the discount to CAP customers' rates?

2 A. The discounts will be reviewed annually as part of PECO's USFC reconciliation  
3 filing. Each year, the Company will have the Applied Public Policy Research  
4 Institute for Study and Evaluation (APPRISE) apply the Commission's affordability  
5 guidelines against the CAP customer population to determine the discount that will  
6 assure approximately 90% of PECO's CAP customers have affordable rates. The  
7 resulting discount will apply to the first 650 kWhs only.

8 46. Q. Will the current rate schedule for Rate CAP need to be revised to accommodate  
9 the program modifications?

10 A. Yes. The CAP Rider currently in PECO's tariff will be eliminated and replaced with  
11 a CAP Rider that will contain the discount to be applied to standard residential  
12 service bills. The discount will apply equally to all unbundled components of the bill  
13 subject to a maximum discount level based upon a 650 kWh bill. The new CAP tariff  
14 pages are included in Exhibit ABC-2.

15 47. Q. What if the discount calculated under the new CAP Rider exceeds the maximum  
16 discount in the Commission's regulations?

17 A. As noted in the testimony of Manus McHugh, the Company will scale back the  
18 discounts on a pro rata basis to keep the cost of the program within the limits  
19 established by the Commission. Page 3 of Exhibit ABC-11 illustrates how the scale  
20 back would work. As shown there, all discounts would be scaled back by the ratio of  
21 the maximum allowed discount per customer to the calculated affordable discount

1 such that the total discount provided to CAP customers does not exceed the  
2 guidelines.

3 **48. Q. Has the Company determined the new discount amounts for the CAP**  
4 **customers?**

5 A. No. The appropriate discounts under the enhanced program will not be determined  
6 until prices for 2011 are known. However, based upon current rates, the discounts  
7 necessary to provide affordable rates to approximately 90% of CAP customers are as  
8 follows: CAP A/B – minimum payment/90%; CAP C – 87%, CAP D – 67%; and  
9 CAP E – 30%. The affordability targets are discussed in Mr. McHugh’s testimony.

10 **VII. INTERRUPTIBLE AND ECONOMIC DEVELOPMENT RATES**

11 **A. Interruptible Rates**

12 **49. Q. Is PECO proposing new interruptible rates?**

13 A. Yes, it is proposing Rate IS-M – Interruptible Service-Mandatory and Rate IS-V –  
14 Interruptible Service-Voluntary. “Mandatory” and “voluntary” refer to the  
15 customer’s interruption of usage when asked to do so, as I will explain below. These  
16 two rate provisions are shown at pages 73 and 74 of PECO’s proposed electric service  
17 tariff (Exhibit ABC-2).

18 **50. Q. Are these interruptible rates in addition to the current interruptible rates that**  
19 **PECO offers?**

1 A. No. As noted previously, PECO is eliminating the interruptible rates currently  
2 offered in its tariff, which are not compatible with the competitive procurement of  
3 default service generation supply and the post-2010 pricing of default generation  
4 service. Moreover, and as explained below, the new interruptible rates PECO will  
5 offer will be consistent with PJM's current market structure and its demand response  
6 program.

7 **51. Q. Please explain the principal elements of Rate IS-M.**

8 A. The proposed mandatory interruption program will require participants to curtail a  
9 minimum of 100 kW of load when called upon to do so. The customer will be able to  
10 choose one of two methods to measure its compliance with an interruption request. A  
11 customer can either establish a firm demand level to which it must reduce load if  
12 called upon to do so or establish a guaranteed load-drop amount. Penalties for failing  
13 to interrupt will be those assessed by PJM under the rules of its demand response  
14 program. Interruptions under the mandatory program will be called by PJM and will  
15 be limited to ten events per year. In exchange for curtailing load, the customer will  
16 receive a monthly credit based upon a negotiated percentage of the Adjusted Zonal  
17 Capacity Price for applicable PJM auctions. Interruptions will be called when PJM  
18 determines that actual capacity shortages or other contingencies exist that could  
19 jeopardize the reliability of the transmission system.

1 **52. Q. Why would a customer choose to take service under Rate IS-M?**

2 A. Customers currently on a rate that calls for mandatory interruptions would be likely  
3 candidates to elect the proposed mandatory interruption rider. Depending on the  
4 value of capacity within PJM, customers not currently on an interruptible rate that,  
5 nonetheless, have the ability to reduce their load on short notice could realize savings  
6 from taking service on this rate.

7 **53. Q. Please explain the principal elements of Rate IS-V.**

8 A. The voluntary interruption program requires customers to be able to curtail a  
9 minimum of 10 kW of load. In order to measure the amount a customer curtails, and  
10 to calculate the customer's savings, a customer must have interval metering capable  
11 of thirty-minute reads. Under this program, curtailments can be called under three  
12 specific conditions: (1) shortages of capacity on the distribution system; (2) shortages  
13 of capacity on the transmission system; and (3) notification of an economic energy  
14 event. The level of load that a customer is deemed to have curtailed is determined by  
15 measuring metered load against the customer's normal load profile. The customer  
16 will be compensated for the curtailment based upon the energy curtailed, measured in  
17 the manner previously described, and the contractual value of the energy. Because  
18 this is a voluntary program, there is no penalty for non-compliance. A customer on  
19 this rate cannot participate concurrently in any other economic curtailment program.

1 **54. Q. Why would a customer choose to take service under Rate IS-V?**

2 A. The Company currently has customers enrolled under a similar program. Because the  
3 program is voluntary, a customer with some ability to curtail might benefit from  
4 participating in it. In order to limit participation to customers who are legitimately  
5 interested in curtailing load and to defray administrative costs, there is a monthly  
6 customer charge to cover program costs.

7 **B. Economic Development Rate**

8 **55. Q. Is PECO proposing a new economic development rate?**

9 A. Yes, PECO is proposing Rate EDR, which stands for the Economic Development  
10 Rider and which is shown at pages 70-71 of PECO's proposed electric service tariff  
11 (Exhibit ABC-2). This rate rider will replace the E2R2, the EER and the IRR.

12 **56. Q. Please explain the principal elements of the rate.**

13 A. The proposed EDR rate has an employment and load growth component and a  
14 business attraction and retention component. The employment and load growth  
15 component has three sections defining applicability – one for non-manufacturing  
16 customers, one for manufacturing customers, and one for Brownfield Redevelopment.  
17 To qualify for the rate, a non-manufacturing customer must increase load by at least 1  
18 MW, increase employment by ten jobs per MW and attain Leadership in Energy and  
19 Environmental Design ("LEED") certification at an existing location. In order for  
20 manufacturing customers to qualify, they must show an increase in employment of at  
21 least ten jobs and an increase in usage of 100 kW. Manufacturing and non-

1 manufacturing customers that add at least 100 kW of load at a certified Brownfield  
2 site will qualify for the rate under the Brownfield development provisions of the rate.  
3 New customers that qualify for the EDR will receive a discount of 15% on their  
4 variable distribution charges. The discount will apply to incremental usage for  
5 existing customers.

6 For the business attraction and retention component, a customer must document a  
7 viable competitive alternative to PECO's electric service and demonstrate that it will  
8 retain or attract at least 1 MW of load and 10 jobs in order to qualify. Qualifying  
9 customers can receive up to a 50% reduction in PECO's otherwise applicable variable  
10 distribution charges.

11 The discounts under this Rider will last for a period of five years. The incentives  
12 offered under the proposed Rider are structured as discounts to distribution rates in  
13 order maintain competitive neutrality relative to the products offered by electric  
14 generation suppliers.

15 **57. Q. Why is PECO proposing an economic incentive rate?**

16 A. With the elimination of the E2R2, the EER, the IPR, PECO will need a mechanism to  
17 attract and retain business for the communities in its service area. The proposed  
18 Rider effectively replaces the above-reference Riders as the economic development  
19 tool in PECO's tariff.

20 **58. Q. Will the Company be grandfathering the current E2R2 customers who are**  
21 **eligible for the full discount after 2010?**

1 A. Yes. Some customers currently on E2R2 and potentially new customers added to the  
2 rider may still be eligible to receive the full credit under that Rider after 2010. In  
3 order to resolve this issue, the Company is considering buying out the remaining  
4 energy, capacity and CTC discount owed to the customer. Any buyout would be  
5 based upon the customer's most recent annual usage that qualified for the discount.  
6 In the alternative, a comparable discount could be provided on the new tariff. The  
7 customer would then be converted to the new tariff for the remainder of the period it  
8 qualifies for the E2R2 and receive a discount from transmission and distribution  
9 charges only.

#### 10 VIII. MARKET RATE TRANSITION DEFERRAL PROGRAM

11 **59. Q. What is the Market Rate Transition Deferral Program?**

12 A. The Market Rate Transition Deferral Program ("Deferral Program") sets forth a  
13 separate price mitigation rate mechanism that the Company will offer to help  
14 customers manage the transition to market-priced generation supply. Unlike the  
15 Market Rate Transition Phase-In Program, which PECO has proposed in a separate  
16 filing, the Deferral Program will not begin until the generation rate caps expire on  
17 January 1, 2011. Under the Deferral Program, customers will receive a credit on their  
18 bill in the first year in order to mitigate the initial financial impact of any rate  
19 increase. The credit PECO will apply to a customer's bill represents the deferral of a  
20 portion of the increase, which the customer will ultimately pay to PECO in the future.  
21 The second year of the program would have rates at the full market price. Once the  
22 amount billed to a customer reflects the price of generation supply (*i.e.*, a credit is no

1 longer applied), a fixed monthly surcharge will be applied to the customer's bill to  
2 recover the deferred amount plus interest on the deferral at the statutory rate of 6%  
3 compounded monthly. The recovery period for deferred amounts will be two years .

4 **60. Q. How will the credit be calculated?**

5 A. Exhibit ABC-12 accompanying my testimony provides an example of how the credits  
6 will be calculated. The exhibit assumes a 25% increase. As shown, two equal annual  
7 increases of 11.6% would be required to get to full market rates. An additional 6%  
8 increase would then be necessary to recover any deferred revenue. The 6% increase  
9 would be in effect for two years. The second chart in Exhibit ABC-12 shows how the  
10 Deferral Program would fully recover all deferred revenue along with the 6%  
11 carrying charges within the total four-year timeframe. Once the final default  
12 generation supply cost is known for 2011, the Company will file a tariff and  
13 schedules showing the calculation of credits and surcharges based on those data.

14 **61. Q. Is the Company limiting the level of the annual increases?**

15 A. No. The Company's program will phase in any increase over two to three years and  
16 recover the deferred revenue over two or three years.

17 **62. Q. Does the Company's filing show a proposed credit and a proposed recovery**  
18 **surcharge?**

19 A. No, it does not, because the prices that will be in effect in 2011 are not currently  
20 known. At this time, the Company is simply proposing a methodology to calculate  
21 the credits and surcharges that will be implemented under the Deferral Program.

1 Using the rules described above, the credits and surcharges can be calculated based  
2 upon the actual prices when they become available. Exhibit ABC-12 provides an  
3 example of such a calculation. It should be noted that the Commission's regulations  
4 require a default service provider to offer a deferral program only if the rate increase  
5 to a customer class is 25% or higher. Accordingly, PECO will offer this proposed  
6 program to a customer class only if the class increase exceeds the 25% threshold.

7 **63. Q. Will the deferred payments be tracked on a customer class or customer-specific**  
8 **basis?**

9 A. The deferrals will be tracked on a customer-specific basis. If deferrals were not  
10 tracked in this manner, a customer could get the benefit of the deferral credit and later  
11 avoid paying the surcharge by withdrawing from the program. No reconciliation is  
12 required because the surcharge to recover the deferred payments will be set up like a  
13 loan amortization, and the customer will be billed a fixed monthly surcharge over a  
14 two year period to pay back the deferred amount.

15 **64. Q. How can customers enroll in the Deferral Program, and how will the Company**  
16 **promote the program?**

17 A. The same means available to customers to enroll in the Market Rate Transition Phase-  
18 In Program, which is described in the Company's Market Rate Transition Phase-In  
19 filing, will be available for enrollment in this program. The enrollment period will  
20 begin once PECO has all its full requirements contracts in place for 2011, because  
21 PECO will then be in a position to know the actual credits and surcharges. PECO  
22 will promote enrollment until December 31, 2010. The Deferral Program will be

1 promoted in the same manner, and using the same media as is used for the  
2 Company's Market Rate Transition Phase-In Program.

3 **65. Q. What happens if a customer drops out of the program or moves out of PECO's**  
4 **service territory?**

5 A. If a customer drops out of the program or moves out of PECO's service territory, any  
6 deferred revenue balance, including accrued carrying charges owed to PECO,  
7 becomes immediately payable to the Company.

8 **66. Q. Are all customers eligible for the program?**

9 A. No. The Program is only available for residential customers and non-residential  
10 customers in the small commercial and industrial procurement group. Additionally,  
11 customers cannot enroll in this program if they are already participating in the Market  
12 Rate Transition Phase-In Program. As with the Market Rate Transition Phase-In  
13 Program, CAP Rate customers are not eligible for the program.

14 **67. Q. Why is the Company imposing the restrictions you outlined above?**

15 A. These limitations are consistent with the Commission's regulations governing default  
16 service. The Commission's regulations require that a deferral program be offered  
17 only to residential and small commercial and industrial customers, and then only if  
18 the rate increase to those classes is 25% or more of their total bill.

19 **68. Q. Is the program available to customers purchasing their energy supply from an**  
20 **EGS?**

1 A. Yes. The program is designed to be competitively neutral from an electric choice  
2 perspective.

3 **69. Q. Is PECO proposing to recover the costs of the Deferral Program?**

4 A. Yes. The Company seeks to recover the cost of implementing and administering the  
5 Deferral Program, which include costs for information and billing system  
6 enhancements, customer notification and enrollment.

7 **70. Q. How does the Company propose to recover the costs you identified above?**

8 A. In its filing proposing a Market Rate Transition Phase-In Program, PECO proposed a  
9 fully reconcilable, non-by-passable charge under Section 1307 of the Public Utility  
10 Code to recover the costs of that program. In my testimony submitted with that  
11 filing, I explained that PECO would propose to use the same recovery mechanism to  
12 recover the costs of the Deferral Program and its Customer Education Plan. In this  
13 filing, PECO is proposing to use that same mechanism in the manner I previously  
14 described.

15 **71. Q. What is the estimated cost to customers of this program?**

16 A. The Company does not have a final cost estimate because the cost of enrollment is  
17 not yet known. However, the cost of the billing system enhancements, when  
18 amortized over the program period, would cost about \$0.01 - \$0.02 per month.

19 **72. Q. Does your testimony in the Market Rate Transition Phase-In Program filing  
20 explain how the proposed surcharge mechanism will work?**



## **APPENDIX A**

### **INDEX OF EXHIBITS**

<b>Exhibit ABC-1</b>	Listing of Prior Case Testimony
<b>Exhibit ABC-2</b>	Redlined Tariff
<b>Exhibit ABC-3</b>	Estimated Administrative Costs
<b>Exhibit ABC-4</b>	GSA Reconciliation Timeline
<b>Exhibit ABC-5</b>	Phase Out Rate Development
<b>Exhibit ABC-6</b>	Phase Out Rate Development
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<b>Exhibit ABC-12</b>	Market Rate Transition Deferral Program