

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PECO ENERGY :
COMPANY FOR APPROVAL OF ITS :
SMART METER TECHNOLOGY : **DOCKET NO. M-2009-2123944**
PROCUREMENT AND INSTALLATION :
PLAN :

**PETITION FOR APPROVAL OF PECO ENERGY COMPANY'S
INITIAL DYNAMIC PRICING AND CUSTOMER ACCEPTANCE PLAN**

I. INTRODUCTION

PECO Energy Company (“PECO” or the “Company”) hereby petitions the Pennsylvania Public Utility Commission (the “Commission”) to approve PECO’s Initial Dynamic Pricing and Customer Acceptance Plan (the “Dynamic Pricing Plan” or “Plan”). The Plan continues the Company’s implementation of its Smart Meter Technology Procurement and Installation Plan (“Smart Meter Plan”)¹. By this Petition, PECO requests the Commission to: (1) find that the Dynamic Pricing Plan satisfies the requirements of Act 129 of 2008, 66 Pa. C.S. § 2807(f) (“Act 129” or the “Act”), and the Commission’s May 6, 2010 Order approving PECO’s Smart Meter Plan; and (2) approve PECO’s proposed tariff provisions and recovery of Dynamic Pricing Plan costs through the Company’s Generation Supply Adjustment (“GSA”) filings.²

PECO has been deliberate, measured and inclusive in developing its Plan. After careful analysis and input from stakeholders, PECO selected two initial dynamic rate options: Critical Peak Pricing (“CPP”) and Time-of-Use (“TOU”) Pricing. With these two initial pricing

¹ See *Petition of PECO Energy Company for Approval of its Smart Meter Technology Procurement and Installation Plan*, Docket No. M-2009-2123944 (Order entered May 6, 2010) (“*Smart Meter Order*”).

² PECO’s GSA was approved at Docket No. P-2008-2062739.

programs, the Company will employ an aggressive and robust “test and learn” approach to determine effective combinations of rate design, technology, marketing and educational strategies for its customers. The lessons learned from this initial testing will allow for the successful broad-scale deployment of dynamic rates throughout the Company’s service territory and will add to the general body of knowledge about customer acceptance of dynamic pricing rates.

II. BACKGROUND

1. PECO is a corporation duly organized 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 and natural gas delivery service to approximately 475,000 customers in Pennsylvania.

2. On October 15, 2008, Governor Edward G. Rendell signed Act 129 into law and it was subsequently codified in the Pennsylvania Public Utility Code. On June 24, 2009, the Commission entered an order providing standards and guidance for implementing the smart meter requirements of Act 129. *See Smart Meter Procurement and Installation*, Docket No. M-2009-2092655 (Order entered June 24, 2009) (“*Implementation Order*”).

3. Act 129’s smart meter provisions require each electric distribution company (“EDC”) with at least 100,000 customers to submit, for Commission approval, a smart meter technology procurement and installation plan. 66 Pa. C.S. § 2807(f). Each plan must describe the smart meter technologies the EDC proposes to install upon customer request at the customer’s expense, in new building construction and in accordance with a depreciation schedule not to exceed 15 years. *Id.* The Act further defines minimum smart meter technology

capabilities, including enabling time-of-use rates and real-time price programs, and provides for recovery of all prudent and reasonable costs. 66 Pa. C.S. §§ 2807(f), (g).

4. Act 129 also requires that specific kinds of rates be offered to customers who have been provided with smart meter technology. In particular, EDCs must submit “one or more proposed time-of-use rates and real-time price plans” by January 1, 2010, or at the end of the applicable generation rate cap period, whichever is later.³ 66 Pa. C.S. §§ 2807(f)(5). A time-of-use rate is defined as a rate that reflects the costs of serving customers during different time periods, including off-peak and on-peak periods, but not as frequently as each hour. *See* 66 Pa. C.S. § 2806.1(m). A real-time price is defined as a rate that directly reflects the different cost of energy during each hour. *Id.*

5. The Company filed its proposed Smart Meter Plan on August 14, 2009 and a settlement was achieved whereby most issues in the proceeding were resolved. The Commission approved PECO’s final Smart Meter Plan by Order entered May 6, 2010, including the Company’s plans to procure and install certain smart meter infrastructure, to initially deploy 600,000 smart meters, and to implement appropriate cost recovery mechanisms. *See Smart Meter Order*. The Smart Meter Plan details a two-phase strategy for the deployment of smart meter technology. The first phase comprises the selection, testing and validation of the smart meter technology to be deployed; the deployment of the advanced metering infrastructure communication network; the initial deployment of 600,000 smart meters; and the development of a program to test customer acceptance of initial dynamic pricing options. The second phase will complete the deployment of smart meters across PECO’s service territory.

³ PECO’s generation rate cap period ends on December 31, 2010.

6. As reflected in the *Smart Meter Order*, the parties to the settlement agreed to address several issues through a collaborative process, including the design of voluntary dynamic pricing programs and customer acceptance testing. *See Smart Meter Order*, pp. 9-11 (citing Settlement Petition, pp. 4-5). PECO has convened collaboratives on the following dates which, at least in part, focused on dynamic pricing matters: October 7, 2009, November 4, 2009, December 3, 2009, January 13, 2010, February 26, 2010, April 27, 2010, August 12, 2010, and October 20, 2010. At the August 12, 2010 collaborative meeting, the Company presented and received feedback from stakeholders on its comprehensive dynamic pricing proposal. At the October 20, 2010 meeting, PECO presented its revised proposal for the Plan.

7. The *Smart Meter Order* also directed PECO to respond to eight questions regarding sub-hourly metering. *See Smart Meter Order*, pp. 26-27. PECO's responses to those questions are attached as PECO Exhibit 2. PECO discussed these responses with stakeholders during the October 20, 2010 meeting.

III. CONTENTS OF PECO'S PETITION AND FILING

8. This Petition describes PECO's Dynamic Pricing Plan and proposed initial dynamic rates, which together will continue the Company's implementation of its Smart Meter Plan as well as address Act 129's dynamic rate requirements. This Petition includes the following statements and exhibits, which are attached hereto and incorporated herein by reference:

PECO Statement No. 1 – Direct Testimony of Frank J. Jiruska,
PECO Director of Energy and Marketing Services
(Providing an overview of PECO's Dynamic
Pricing Filing)

- PECO Statement No. 2** – Direct Testimony of Dr. Stephen S. George, Principal and Partner, Freeman, Sullivan & Co. (Describing the development and key components of the Dynamic Pricing Plan)
- PECO Statement No. 3** – Direct Testimony of Dr. Ahmad Faruqui, Principal with The Brattle Group (Describing the methodology used to derive the dynamic pricing rate designs)
- PECO Statement No. 4** – Direct Testimony of William J. Patterer, Manager of Regulatory Strategy and Regulatory Affairs for PECO (Describing the proposed tariffs, costs and cost recovery)
- PECO Exhibit 1** – PECO’s Initial Dynamic Pricing and Customer Acceptance Plan
- PECO Exhibit 2** – PECO’s Response to Sub-Hourly Metering Questions

IV. PECO’S INITIAL DYNAMIC PRICING PLAN

9. PECO is proposing to offer two different rate options as part of the Plan: CPP and TOU. The CPP rate features a discounted flat rate for all kWh consumed other than on those occasions when a critical day is called (critical days will be called 15 days per summer). On critical days, during a 4-hour peak period, customers will pay a premium for all kWh used. With the TOU rate, each weekday is divided into peak and off-peak periods, and customers pay a discounted rate for off-peak usage and a higher rate for peak period usage relative to PECO’s standard, non-time-differentiated tariff. After evaluating a variety of rate structures and considering stakeholder feedback, PECO ultimately selected to propose the CPP and TOU rates because they are understandable and send price signals that will incentivize cost-saving consumption changes among PECO’s customers. In addition, these rates satisfy Act 129’s “time-of-use” definition by reflecting the costs of serving customers during different time periods.

10. Residential customers (PECO Procurement Class 1) that are not enrolled in the Company's Customer Assistance Program ("CAP") will be eligible for both the CPP and TOU rates. CAP customers are not eligible because the current CAP discounts they receive far exceed any potential savings they could achieve under either dynamic pricing rate. As part of the Plan, however, PECO will provide a random sampling of CAP customers with in-home displays ("IHDs") and related educational materials in order to evaluate the effect of near real time information feedback on their energy usage.

11. In addition to non-CAP residential customers, small and medium commercial and industrial customers (which comprise PECO's Default Service Procurement Classes 2 and 3) will be eligible for the CPP rate.

12. No additional dynamic pricing options are being proposed for large commercial and industrial customers because, pursuant to PECO's approved Default Service Plan, those customers will already be offered a dynamic rate structure starting January 1, 2011 - hourly pricing. *See Petition of PECO Energy Company for Approval Of Its Default Service Program And Rate Mitigation Plan*, Docket No. P-2008-2062739 (Order entered June 2, 2009). This hourly pricing offering satisfies Act 129's "real-time price" definition by reflecting the different cost of energy during each hour.

13. As described in detail in the Plan, PECO will test these initial dynamic rates in order to: (1) better understand how to cost-effectively enroll customers in voluntary dynamic rate programs and related offerings; and (2) examine and understand the load impact of different dynamic rates and technology options.

14. The Company will employ a "test and learn" strategy that will package the CPP and TOU rates with different combinations of marketing, education, and enabling technology in

order to understand the effect on enrollment of each feature, including the rate itself. PECO will carefully track customer response data so that effective combinations of rates, technology, education and promotional strategies can be identified for future offerings. It is important to note that only those customers in the “test and learn” population (estimated to be between 150,000 and 200,000 customers) will be offered the opportunity to enroll in these options proactively. Nonetheless, any eligible customer that has a smart meter installed and is not part of the “test and learn” population may request to be placed on a dynamic rate.⁴

15. PECO will keep stakeholders and the Commission informed regarding Plan implementation through periodic meetings and annual reporting. The Company will continue to organize stakeholder update and feedback sessions in order to share information about the status of Plan implementation as well as results from the “test and learn” process. PECO will also prepare two reports for the Commission. The first will be an interim report at the end of 2013 that will present the “test and learn” results to date for customer acceptance and demand response. The report will also indicate how insights gained from the analysis will be applied in the 2014 “test and learn” enrollment and customer performance efforts. The second and final report will summarize key findings regarding customer acceptance and demand response for the entire “test and learn” process and provide insight concerning why certain offerings were more effective than others. Finally, the report will present PECO’s recommended combinations of rates, technologies, promotional strategies and customer education efforts to be offered to customers receiving smart meters.

⁴ In addition, if a customer does not yet have a smart meter, PECO will install a meter at the customer’s request once the 30-month grace period established in the *Implementation Order* has expired (late fall 2012).

V. COST RECOVERY AND PLAN BUDGET

16. In the *Smart Meter Order*, the Commission directed PECO to address how it intends to recover the default service costs of its dynamic pricing option. *Smart Meter Order*, p. 10. In the Company's original Smart Meter Plan filing, PECO requested that Dynamic Pricing Plan costs be recovered through the smart meter cost recovery mechanism proposed as part of PECO's Smart Meter Plan. However, in several recent orders, the Commission has found that costs associated with dynamic rates are appropriately recovered through default service cost recovery mechanisms. See *Pa. PUC v. PPL Electric Utilities Corporation*, Docket No. R-2009-2122718 (Order entered March 9, 2010) (approving recovery of TOU rate costs under PPL's Generation Supply Charge cost recovery mechanism); *Petition of Duquesne Light Company for Approval of a Time-of-Use Plan*, Docket No. P-2009-2149807 (Order entered June 23, 2010) (approving recovery of TOU costs through default service rates); see also *Petition of PECO Energy Company for Approval of its Act 129 Energy Efficiency and Conservation Plan and Expedited Approval of its Compact Fluorescent Lamp Program*, Docket No. M-2009-2093215 (Order entered February 17, 2010) (explaining that proposed dynamic pricing programs would be considered part of PECO's Default Service Plan and, therefore, it would be inappropriate to include program costs in the EE&C Plan budget or cost recovery mechanism). In light of these orders, PECO now proposes to recover Dynamic Pricing Plan costs through its GSA filings.

17. Plan costs will be included as administrative costs in the appropriate GSA cost recovery mechanism for Default Service Procurement Classes 1, 2 and 3, which correspond to PECO's residential, small commercial and medium commercial customer classes. Procurement Class 4 (PECO's large commercial and industrial customers) will not be assigned any costs because customers in this class are not eligible to enroll in the Plan's dynamic rates. Common

costs will be allocated to the appropriate GSA mechanism based on the proportion of the associated procurement class' projected GSA sales to the total projected GSA sales for Procurement Classes 1, 2 and 3. To the extent that certain costs are readily attributable to a particular class, those costs will be directly assigned.

18. In PECO's Smart Meter Plan, the initial budget for dynamic pricing customer acceptance programs was estimated to be \$13 million. Based on the Company's decision to target a "test and learn" population of around 150,000 to 200,000 customers, PECO now estimates its Plan costs to be \$11.6 million.

19. PECO has been awarded a \$200 million matching grant under the U.S. Department of Energy's Smart Grid Investment Grant Program. Dynamic Pricing Plan costs will be eligible for funding under the matching grants. The grants will be applied to the Plan costs prior to their inclusion in the GSA, effectively reducing the costs by approximately 48%.

VI. PROPOSED SCHEDULE

20. PECO proposes the following schedule for this proceeding:

October 28, 2010	Filing of the Plan
December 15, 2010	Other Parties' Comments Due
January 11, 2011	Reply Comments Due
February 24, 2011	Commission Order

VII. NOTICE

21. PECO will provide its customers with a bill insert related to this filing which will refer to PECO's website (www.peco.com/smart), where a copy of the entire filing will be maintained.

22. In addition to the above notice, PECO is serving copies of this filing on the Pennsylvania Office of Consumer Advocate, the Pennsylvania Office of Small Business Advocate, the Commission's Office of Trial Staff, and other parties to the Company's Smart Meter Plan proceeding.

23. PECO respectfully requests that the Commission publish notice of this filing in the *Pennsylvania Bulletin* on November 13, 2010 and further direct interested parties that, on or before December 15, 2010, they may: (1) seek to intervene in this proceeding by filing the appropriate notices/petitions; and (2) file comments regarding the Dynamic Pricing Plan. Should the Commission conclude that further notice of this filing is appropriate, PECO will provide such additional notice as directed by the Commission.

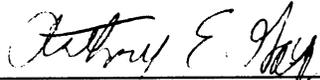
VIII. CONCLUSION

Based upon the foregoing, including the attached testimony and exhibits, PECO respectfully requests that the Commission grant this Petition and enter an Order:

(1) Approving PECO's Initial Dynamic Pricing and Customer Acceptance Plan and finding that the Plan satisfies the requirements of 66 Pa. C.S. § 2807(f) and the Commission's *Smart Meter Order*; and

(2) Approving PECO's proposed tariff provisions and the recovery of Dynamic Pricing Plan costs through the Company's GSA.

Respectfully submitted,



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For PECO Energy Company

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