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June 13, 2012

**VIA HAND DELIVERY**

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
P.O. Box 3265  
Harrisburg, PA 17120

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**Re:   Petition of PECO Energy Company for Expedited Approval of its Dynamic Pricing Plan Vendor Selection and Dynamic Pricing Plan Supplement, Docket No. P-2012-2297304**

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Dear Secretary Chiavetta:

Enclosed please find an original and three copies of the Answer of PECO Energy Company in Opposition to the Petition to Intervene and Opposition of Reliant Energy Northeast LLC.

Copies of the Answer are being served on the parties as indicated on the attached Certificate of Service.

Please feel free to contact me directly if you have any questions or require additional information.

Very truly yours,

*Thomas P. Gadsden/mmw*

Thomas P. Gadsden

TPG/tp  
Enclosures

c:   Per Certificate of Service

Philadelphia Washington New York Los Angeles San Francisco Miami Pittsburgh Princeton Chicago Minneapolis  
Palo Alto Dallas Houston Harrisburg Irvine Boston London Paris Brussels Frankfurt Beijing Tokyo

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PECO ENERGY COMPANY** :  
**FOR APPROVAL OF ITS SMART METER** : **DOCKET NO. P-2012-2297304**  
**TECHNOLOGY PROCUREMENT AND** :  
**INSTALLATION PLAN** :

**PECO ENERGY COMPANY'S ANSWER IN OPPOSITION  
TO THE PETITION TO INTERVENE AND  
OPPOSITION OF RELIANT ENERGY NORTHEAST LLC**

PECO Energy Company (“PECO” or the “Company”) hereby responds to the Petition to Intervene and Opposition (the “Petition”) filed by Reliant Energy Northeast LLC (“Reliant”) on May 17, 2012 at the above-captioned docket.<sup>1</sup> As explained herein, Reliant: (1) mischaracterizes the one-time, statutorily required Time-of-Use (“TOU”) pilot program PECO is proposing to offer; (2) challenges terms of participation in the program that were well known to Reliant when it responded to PECO’s January 24, 2012 Request for Proposals (“RFP”) and when it was subsequently selected as a vendor for the program; and (3) seeks relief that cannot be granted without jeopardizing the integrity of a competitive procurement process and timely implementation of the program as well as PECO’s ability to maximize its \$200 million Department of Energy (“DOE”) Smart Grid Investment Grant (“Stimulus Grant”). Reliant’s Petition should, therefore, be denied.

**INTRODUCTION**

The fundamental question before the Commission is simple. It is whether PECO’s proposed one-time, Dynamic Pricing Plan pilot program is a statutorily required electric

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<sup>1</sup> PECO responds to the Petition pursuant to the regulations of the Commission at 52 Pa. Code § 5.66, and the June 7, 2012 Secretarial Letter in this docket granting a one week extension of time for any interested party, including, but not limited to, PECO, to file an answer to Reliant’s Petition to Intervene and Opposition.

distribution company (“EDC”) default service program, or whether it is an electric generation supplier (“EGS”) marketing program. Reliant argues it is the latter.<sup>2</sup> However, both Act 129 of 2008 and the Commission’s orders clearly state that the pilot program is a statutorily required default service program.<sup>3</sup>

This fundamental difference between Act 129 and the Commission’s orders on one hand, and Reliant’s position on the other, is the genesis of the claims raised by Reliant, whom PECO proposed as its TOU Supply Vendor in its Dynamic Pricing Plan Supplement and April 2, 2012 Petition. PECO sought this approval in a good faith attempt to comply with the Commission’s recommendation that “EDCs *contemplate* contracting with an EGS in order to satisfy their [Act 129] TOU requirement.”<sup>4</sup> (Emphasis added.)

Reliant first claims that PECO proposes to exclude Reliant’s name from the customer bill as the EGS providing TOU pricing and instead to include PECO’s name and program call center telephone number on the bill, potentially causing customer confusion and in contradiction to Commission regulations. However, these bill presentment terms were in the program’s RFP and, in any event, PECO is willing to place Reliant’s name on the bill. Moreover, PECO understood that Reliant agreed that the program call center telephone number would be on the bill so that customers could ask the Program Management Vendor questions about the program *thereby avoiding customer confusion*.

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<sup>2</sup> See, e.g., Reliant’s Petition at para. 17, analogizing the Dynamic Pricing Program to “supplier referral [and] opt-in aggregation” programs.

<sup>3</sup> See 66 Pa. C.S. §§ 2807(f)(5) (“By January 1, 2010 . . . a default service provider shall submit to the commission one or more proposed time-of-use rates and real-time price plans.”). See also *Investigation of Pennsylvania’s Retail Electricity Market: Recommendations Regarding Upcoming Default Service Plans*, Docket No. I-2011-2237952 (Order entered December 16, 2011) (“Retail Market Order”), at 44 (“In the October 14 Order, the Commission recommended that EDCs contemplate contracting with a retail EGS to provide time of use (TOU) rates in effort to alleviate the challenges that EDCs face with offering *the statutorily required generation product*.”). (Emphasis added).

<sup>4</sup> *Retail Market Order*, at 47.

Second, Reliant claims that PECO's proposal to return customers to default service at the end of the program is inconsistent with the Commission's "current rules." However, the rules to which Reliant refers are Commission guidelines and orders relating to services solely offered by EGSs or to supplier referral and opt-in aggregation programs. Reliant does not cite any rules or orders relating to one-time, statutorily required default service programs.

Finally, Reliant makes the nebulous claim that safeguards are required to protect Reliant from "potential regulatory problems caused by having a separate vendor" provide the program management services for which Freeman, Sullivan & Company was the successful bidder. However, the RFP materials clearly stated that there could be a separate program management vendor and with this knowledge, Reliant was free not to bid on the program if it was concerned about this potential. In any event, the proper avenue for Reliant to address these concerns in the first instance was with PECO in advance of the competitive bidding process (which did not occur) and not to seek to litigate them before the Commission after having successfully participated in that process.

Finally, as PECO noted in its original Petition, the Company requested expedited Commission approval so that it could promptly implement the Dynamic Pricing Program pilot and thereby maximize the availability of matching funds from the \$200 million grant awarded to PECO as part of the Department of Energy's ("DOE") Smart Grid Investment Grant ("Stimulus Grant") Program.<sup>5</sup> The unsubstantiated relief sought by Reliant (e.g., assignment to an ALJ "for hearings to develop a factual record") would significantly delay the implementation of PECO's proposed pilot program, would be detrimental to PECO's Stimulus Grant funding, and thereby could increase program costs to customers.

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<sup>5</sup> At present, there is a "spend deadline" of September 30, 2013 for matching funds and the Company would like to implement as much of the Plan as possible before that deadline.

For all of these reasons, Reliant's Petition should be denied. PECO responds to the specific allegations in Reliant's Petition below.

## I. ANSWER

### A. Background

1. Admitted.

2. Admitted.

3. It is admitted that, in January 2012, PECO issued an RFP for TOU Supply and TOU Program Management Services and that, by letter dated March 8, 2012, PECO informed the Commission that the vendor selection process had been completed. It is denied that the RFP invited interested respondents to become "the supplier of record" for TOU customers. By way of further answer, PECO avers that the RFP, a copy of which is attached hereto as Appendix A and is incorporated herein by reference, speaks for itself.<sup>6</sup>

4. Admitted.

5. It is admitted that Reliant, which was not a party to the Company's original Dynamic Pricing Plan proceeding at Docket No. M-2009-2123944, and which was selected as PECO's TOU Energy Supply Vendor as part of PECO's current Dynamic Pricing Plan (the "Plan"),<sup>7</sup> was not formally served with a copy of PECO's April 2, 2012 Petition. However, PECO advised Reliant of all material aspects of the Plan before it was filed, asked Reliant to comment on specific sections of the Plan before it was filed (which Reliant did, and which

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<sup>6</sup> Reliant asserts repeatedly that it is, or will become, the designated "supplier of record" or "EGS of record" for customers who enroll in PECO's TOU pilot program. While it is unclear what significance Reliant ascribes to this description of its role, PECO rejects this characterization.

<sup>7</sup> Supplement to PECO Energy Company's Initial Dynamic Pricing and Customer Acceptance Plan, which is Attachment I to PECO's April 2, 2012 Petition.

comments PECO incorporated into the final filing), advised Reliant when the Plan would be filed, and provided Reliant with a courtesy copy after it was filed.

**B. Petition To Intervene**

6. It is admitted that Reliant was not formally served with a copy of PECO's April 2, 2012 Petition. It is denied that Reliant "only just became aware of this filing" for the reasons noted in Paragraph 5.

7. Admitted.

8. Admitted.

9. Admitted. By way of further answer, the Commission's regulations at 52 Pa. Code § 5.72(a) further provide that the interest claimed must be "necessary or appropriate to the administration of the statute under which the proceeding is brought."

10. Denied, for the reasons set forth, *infra*.

11. Denied, for the reasons set forth *infra*. By way of further answer, PECO specifically denies Reliant's assertions: (a) that Reliant has an interest as a "representative of EGSs" in this matter; and (b) that other EGSs could be harmed if the Company's April 2, 2012 Petition is approved. To the contrary, the Petition relates solely to a one-time, pilot program of limited duration for which the winning vendors have already been selected. Indeed, no other EGSs have expressed any interest in this proceeding and none could be "harmed" or otherwise affected by approval of PECO's Plan.

12. It is admitted that PECO's proposed Dynamic Pricing Plan Supplement was attached to its April 2, 2012 filing as Attachment 1. By way of further answer, PECO avers that the Dynamic Pricing Plan Supplement speaks for itself. It is denied that the Dynamic Pricing Plan Supplement will have "a material effect on the provision of TOU service in PECO's service territory." To the contrary, the Dynamic Pricing Plan Supplement relates solely to a one-time,

pilot program of limited duration and, regardless of who supplies the product for that program, EGSs will remain free to fashion and offer their own TOU service.

13. Denied.

**C. Opposition**

14. It is denied that PECO's proposed TOU pilot program, as set forth in the Dynamic Pricing Plan Supplement attached to its April 2, 2012 filing, is "inconsistent with Commission regulations regarding EGS practices." To the contrary, and as more fully explained *infra*, the TOU pilot program was submitted by PECO in compliance with its Act 129 statutory obligation, as a default service provider, to offer TOU rates and/or real-time pricing to customers that have been provided with smart meter technology. That PECO, at the Commission's suggestion, is willing to subcontract out the responsibility to assemble and provide the necessary power supply, does not convert its one-time TOU pilot program into an EGS competitive alternative.

15. It is denied that 52 Pa. Code § 54.4(b)(7) requires that Reliant's name and contact information appear on the bills issued to customers participating in PECO's TOU pilot program. As previously explained, the TOU pilot program is being provided by PECO in its default service role, as is required by Act 129, and not by Reliant as an EGS. Moreover, and as discussed, *infra*, Reliant was fully aware when it responded to PECO's January 24, 2012 RFP that its name and contact information would not appear on TOU customer bills. Reliant did not have to respond to the RFP if it disagreed with its terms. In any event, and as noted previously, PECO is willing to place Reliant's name on the bill.

16. It is denied that PECO's "branding" of its one-time, pilot TOU product, which was made clear to Reliant in PECO's RFP, is in any way contrary to the Commission's "consumer protection regulations." As explained in paragraphs 13 and 14, *supra*, the TOU pilot program is a tariff offering required by Act 129 to be made available by PECO in its capacity as

a default service provider. Moreover, the primary purpose of the program is to gather information regarding: (1) customer interest in TOU service; (2) the effectiveness of various technology offerings and promotional strategies; and (3) the impacts associated with different TOU rate packages, and **not** to generally “[educate] customers about the choices available to them in the competitive marketplace.” The learnings from the pilot program will be available to any EGS interested in offering TOU rates to customers in the future.

17. Denied. Contrary to Reliant’s assertions, PECO’s TOU pilot program is neither a “supplier referral program” or an “opt-in aggregation program”, but instead is being offered as a form of default service that PECO is mandated to provide by Act 129. Moreover, the TOU pilot is not contrary to the Commission’s *Interim Guidelines*, which did not address in any way EDC default service products or pilot programs,<sup>8</sup> nor is it contrary to the “clear direction” of the Commission’s *Intermediate Work Plan Final Order* which, where cited by Reliant, explicitly referred to the Standard Offer Customer Referral Program.<sup>9</sup>

18. It is denied that Reliant, as the winning bidder solely for the TOU Supply function, has “ultimate responsibility” for marketing, solicitation, enrollment or customer service as it relates to PECO’s TOU pilot program or that the winning bidder selected to perform these functions (*i.e.*, Freeman, Sullivan & Company) will be involved in assisting Reliant fulfill its “EGS obligations.” Indeed, Reliant was on notice when it responded to PECO’s January 24, 2012 RFP that it was entirely possible that the TOU Supply and TOU Program Management roles could be bifurcated. Reliant chose to submit a bid nonetheless and its belated concerns

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<sup>8</sup> Indeed, Reliant fails to acknowledge that the explicit purpose of the *Interim Guidelines* was to “set forth advance customer notification schedules for the expiration of [an EGS] fixed term agreement, or proposed [EGS] changes in terms of service, including, but not limited to, an increase in generation charges or contract termination for reasons other than failure to pay for service rendered and/or EGS service abandonment.” *Interim Guidelines Order*, Appendix A at I.

<sup>9</sup> *Intermediate Work Plan Final Order*, at 32.

over the sufficiency of undefined “safeguards” – which, in any event, is a matter that should have been raised in pre-bid discussions with PECO instead of presented after its selection in an attempt to litigate the matter before the Commission – should be disregarded.

19. It is denied that approval of PECO’s one-time, pilot TOU proposal would harm the development of the competitive market or confuse customers. To the contrary, Reliant’s apparent attempt to recast PECO’s Act 129 default service pilot as a “supplier referral program” or an “opt-in aggregation program” could cause customer confusion and severely impair the purpose of the pilot program, which is to gather information regarding customer interest in TOU service; the effectiveness of various technology offerings and promotional strategies; and the impacts associated with different TOU rate packages. By way of further answer, PECO avers that the relief sought by Reliant would substantially delay the implementation of PECO’s proposed TOU pilot program to the detriment of customers, and PECO’s Stimulus Grant (which could increase program costs to customers), and would likely require that the RFP bidding process be reopened.

## II. NEW MATTER

### A. Reliant Mischaracterizes The Nature Of PECO’s Proposed TOU Service

20. Throughout its Petition, Reliant repeatedly asserts that PECO’s proposed TOU pilot program, if implemented in accordance with the terms set forth in its April 2, 2012 filing, will somehow impair Reliant’s ability to comply with the Commission’s regulations regarding the provision of EGS service (*see, e.g.*, references to alleged inconsistencies with “EGS practices” (¶ 14); Reliant’s perceived role as “EGS of record” (¶¶ 15-17); and the need to support “fulfilling EGS obligations” (¶18)). Indeed, Reliant even stakes out a claim for itself as “a representative of EGSs that could be harmed” if PECO’s Plan Supplement is approved (¶ 11).

21. The simple answer to Reliant's posturing is that PECO's TOU pilot program is not being offered by an EGS and is not akin to a "supplier referral program" or an "opt-in aggregation program," as Reliant erroneously implies. To the contrary, the TOU pilot program is an integral component of PECO's Dynamic Pricing and Customer Acceptance Plan submitted in compliance with Act 129 of 2008. In initially approving that plan in its April 14, 2011 Order at Docket No. M-2009-2123944, the Commission left no doubt as to the pilot program's nature, scope and purpose:

Act 129 requires electric distribution companies and default service providers, such as PECO, to submit "one or more proposed time-of-use rate and real-time price plans" for customers who have smart meters. 66 Pa.C.S. § 2807(f)(5).  
(Order, p. 6).

\* \* \*

It is essential that default service providers develop the appropriate combination of marketing and educational strategies that will attract customers to the program and cost-based rate designs that will induce participating customers to alter their consumption patterns. PECO's Dynamic Pricing Plan should provide valuable insights into the design and implementation of successful load management rate programs and should be adopted, subject to the modifications discussed, *infra*.  
(Oder, p. 7).

\* \* \*

. . . PECO's Dynamic Pricing Plan is being offered only to default service customers in response to PECO's statutory requirements under 66 Pa.C.S. § 2807(f)(5) as a default service provider not an EDC.

22. It should also be noted that the Commission's April 14, 2011 Order approved a Joint Petition for Settlement executed by PECO, the OCA and the OSBA. The Settlement Agreement supplemented PECO's Dynamic Pricing Plan by adding specific provisions relating to ongoing stakeholder involvement; the use of additional TOU test cells; the collection of

information concerning “vulnerable populations”; the allocation of plan development costs; and the treatment of payment troubled customers. For example, the Commission observed that provisions added by the Settlement would “protect customers from the potential risks of participating in the TOU and CPP and provide valuable experience on the effects of these protections on dynamic price participation.”

23. By attempting to recast PECO’s TOU pilot as an EGS program or service, Reliant, which could have participated in the proceeding at Docket No. M-2009-2123944, but chose not to, would seriously undermine the Settlement previously approved by the Commission.

**B. Reliant Should Be Estopped From Challenging The Terms Of PECO’s TOU Pilot Program**

24. PECO’s April 2, 2012 filing was the culmination of a lengthy process during which PECO made abundantly clear its views regarding the nature, scope and purpose of its Dynamic Pricing Plan. Moreover, as noted previously, PECO’s proposed TOU pilot was the subject of a separate proceeding at Docket No. M-2009-2123944 in which the details of the program were carefully scrutinized and ultimately approved by the Commission in its April 14, 2011 Order.

25. Following the issuance of the Commission’s October 14, 2011 Tentative Order at Docket No. I-2011-2237952, beginning in November 2011, PECO held webinars, meetings and calls with the EGS community and other interested stakeholders to describe PECO’s plans to contract with an EGS to satisfy the TOU requirement. Thereafter, on January 17, 2012, PECO asked interested EGSs to provide non-binding notice of their intent to bid as a contractor for PECO’s Dynamic Pricing Plan Program. A number of suppliers responded and, on January 24, 2012, PECO issued its RFP.

26. The issues that Reliant now seeks to raise were squarely addressed in the RFP. For example, the RFP, at pages 19-20, set forth PECO's "branding" principles and clearly delineated the EGSs' limited role in the pilot program. Similarly, the RFP left no confusion as to PECO's intentions regarding the possible bifurcation of TOU Supply and TOU Program Management roles, stating in an accompanying Instruction Memo: "PECO will be evaluating Tasks 1 & 2 individually, and reserves the right to award either Task 1 or Tasks 1 & 2 to any EGS bidding on both tasks. **(Note: To be clear, any EGS who has bid on Tasks 1 & 2 may, at PECO's discretion, be awarded only Task 1 . . .)**" (emphasis supplied). In addition, potential bidders were provided copies of PECO's original Dynamic Pricing Plan, the Joint Petition for Partial Settlement executed by PECO, the OCA and the OSBA, and the Commission's April 14, 2011 Order approving same. Moreover, it was explicitly discussed with Reliant that at the end of the program, customers would be presented with options that included staying with Reliant on a rate plan that Reliant might choose to offer, switching to another EGS, or returning to PECO on the applicable default rate.

27. In short, Reliant was fully aware of the terms and conditions later embodied in the April 2, 2012 Dynamic Pricing Plan Supplement. Nonetheless, after having been selected as the winning applicant for the TOU Supply role, Reliant now seeks to rewrite the rules to which it implicitly agreed by submitting a bid. Because Reliant's efforts in this regard are totally inappropriate and potentially undermine the integrity of a competitive procurement process, its Petition to Intervene should be denied.

**C. The Relief Requested By Reliant Cannot Be Granted Without Causing Unnecessary Delay, Additional Expense and Potentially Jeopardizing PECO's Stimulus Grant Funding**

28. Reliant asks that the Commission: (1) direct PECO to amend the Plan, as proposed by Reliant; or (2) assign the April 2, 2012 Petition to the Office of Administrative Law

Judge (“OALJ”) for hearings “to develop a factual record.” Either alternative would unnecessarily delay the implementation of the TOU pilot program, cause PECO to incur substantial additional expense, and jeopardize PECO’s Stimulus Grant funding, all of which eventually would have result in additional costs to customers. Accordingly, if faced with those options, PECO would have to seriously consider withdrawing its April 2, 2012 filing and proceeding with its previously approved Dynamic Pricing Plan.<sup>10</sup>

29. As to Reliant’s first and, presumably, preferred alternative, it would be entirely inappropriate for the Commission to unilaterally direct PECO to simply amend its Plan in contravention of terms which Reliant was fully aware when it was selected as PECO’s proposed TOU Supply Vendor. Indeed, the only fair thing to do under the circumstances would be to issue a new RFP, and give all potentially interested parties an opportunity to bid on the revised Plan. This, of course, could take several months and would unquestionably entail further costs. In contrast, should Reliant be successful in subverting this proceeding to gain a competitive advantage, then any future bid process would be similarly vulnerable.

30. With regard to Reliant’s fallback position, as noted above, referral to OALJ would cause considerable delay and additional expense to customers, and, in PECO’s opinion, would serve no useful purpose. Reliant has not identified any “facts” in dispute. To the contrary, its objections to the Petition and Plan Supplement stem entirely from its erroneous interpretation of the obligations imposed on PECO by Act 129 and its desire to recast what the Commission has correctly described as a “statutorily required generation product”<sup>11</sup> as a “supplier referral program” or an “opt-in aggregation program.”

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<sup>10</sup> As discussed, *supra*, PECO is under no statutory obligation to partner with EGSs in the provision of TOU service.

<sup>11</sup> See *Investigation of Pennsylvania’s Retail Electricity Market: Recommendations Regarding Upcoming Default Service Plans*, Docket No. I-2011-2237952 (Order entered December 16, 2011) (“*Retail Market Order*”), at 44.

### III. CONCLUSION

For the foregoing reasons, PECO requests that Reliant's Petition to Intervene and Opposition be denied.

Respectfully submitted,

*Anthony E. Gay/mmw*

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June 13, 2012

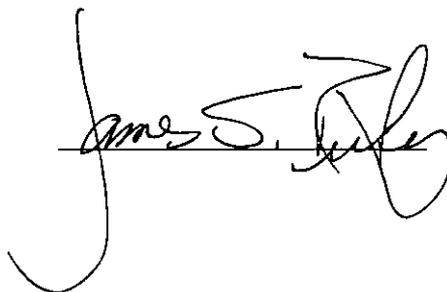
*Counsel For PECO Energy Company*

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**VERIFICATION**

I, JAMES S. REILEY, hereby state that the facts above set forth are true and correct to the best of my knowledge, information and belief, and that I expect PECO Energy Company to be able to prove the same at any hearing in this matter. I understand the statements herein are made subject to the penalties of 18 Pa C.S. § 4904 (relating to unsworn falsification to authorities).

Date: June 12, 2012

A handwritten signature in black ink that reads "James S. Reiley". The signature is written in a cursive style with a large initial "J" and a stylized "R".

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An Exelon Company

**Statement of Work:  
Implementation of PECO Dynamic Pricing Customer  
Acceptance Pilot Plan  
2012-2014**

**January 24, 2012**

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## Introduction

PECO Energy Company ("PECO") has embarked upon a \$650 million technology initiative which is one of the largest investments in the company's more than 100 year history. This investment in technology will help bring PECO's infrastructure to the next level, enabling us to provide electric service more reliably and efficiently and provide energy use information to our customers in a more timely fashion.

Work is underway at PECO to upgrade metering technology for all of our 1.6 million electric customers during the next 10 years – 5 years earlier than required under Pennsylvania law, thanks in part to a \$200 million stimulus grant awarded by the US Department of Energy. The grant also allowed PECO to expand the number of meters initially being installed from 100,000 to 600,000. We currently are in the process of finalizing our roll-out plan, but expect to begin installing this new technology in our service territory by early 2012.

This technology will equip customers with the information they need to better understand how they use energy and how they can save energy. With this technology will come future new products and services for customers, like incentives for using energy during times of the day when prices are lower.

PECO requests proposals from qualified entities to implement a comprehensive Dynamic Pricing pilot program to gain understanding of customer acceptance of, and load response to, a time varying rate. This rate will be offered in combination with various enabling technologies to residential and small and medium sized commercial and industrial ("S/MC&I") customers using various marketing strategies. The purpose of this program is to identify effective combinations rates and technologies, customer education, and promotional strategies as well as to evaluate risk tolerance. The insights gained from this project will enable PECO and Retail Suppliers in the PECO footprint to *effectively offer dynamic pricing on a broader scale as PECO completes its installation of new metering technology (Advanced Metering Infrastructure or AMI meters)*. We expect the results to provide insights on how best to empower customers to make informed decisions regarding their energy usage and take control of their energy future.

The contract award will extend from Q1 2012 through Q1 2014. The implementation vendor will act as the Program Manager of this project and will be responsible for all

aspects of implementation planning and execution of this pilot program with direction from internal PECO departments.

PECO requests proposals from qualified Implementation Vendors to implement a Dynamic Pricing pilot program designed to meet all Pennsylvania Act 129 requirements related to dynamic pricing plus PECO's DOE dynamic pricing related Commitments as outlined in its stimulus grant execution plan.

The revisions to this Statement of Work are a result of the Retail Markets Investigation Order in which The PA PUC Competitive Markets Investigation Tentative Order of Oct. 14th stated,

- "... present law ... clearly mandates that default service providers establish and provide time-of-use (TOU) rates to customers with smart meters. This requirement has presented challenges for EDCs."
- "In an effort to alleviate the challenges that EDCs have faced with offering TOU rates, the Commission recommends that EDCs contemplate contracting with a retail EGS to help satisfy this statutory requirement."

Exelon comments on the Tentative Order included,

- "Exelon generally supports the Commission's recommendation, and believes that ... the Public Utility Code ... permits ... either bidding out the provision of TOU service to an EGS ... or contracting with a conservation service provider (CSP) to manage the offering in lieu of the EDC doing so within the scope of its default supply."
- "The Commission has already approved a TOU program for PECO."
- "Exelon requests that ... an EDC should be provided flexibility in the implementation of its TOU program ... to ensure that technical issues ... will be addressed ... in collaboration with stakeholders and ... in coordination with other ... requirements, including ... PECO's ... obligations to the United States Department of Energy..."

The dynamic rate will be offered to residential and small and medium sized commercial and industrial ("S/MC&I") customers. There will be a limited number of alternative packages offered to residential customers that include an In-Home-Display (IHD), a Programmable Communicating Thermostat (PCT), and first year bill protection. There will be a single package offered to S/MC&I customers that includes a PCT. The customer education and marketing materials will be developed through comprehensive

customer focus groups to determine effective messages for residential and commercial customers. The insights gained from this project will enable PECO to effectively plan to meet our obligation to offer dynamic pricing to all customers who receive new metering technology (Advanced Metering Infrastructure or AMI meters).

The contract award is expected to extend from Q1 2012 through Q1 2014. The Implementation Vendor will act as the Program Manager of this project and will be responsible for all aspects of implementation planning and execution of this program with direction from internal PECO departments.

## **Background**

On October 15, 2008, House Bill 2200 was signed into law as Act 129 of 2008 (the Act). Act 129 became effective on November 14, 2008, and imposes new requirements on electric distribution companies ("EDCs") in Pennsylvania, with an overall goal of reducing energy consumption and demand. Among other things, Act 129 directed that EDCs with at least 100,000 customers file for Pennsylvania Public Utility Commission ("PUC") approval, a smart meter technology procurement and installation plan. On June 24, 2009, the PUC issued its implementation order which established minimum standards for smart meter capability and expectations for deployment of smart meters.

As implemented, Act 129 requires that smart meter technology must provide customers with direct access to and use of price and consumption information, to include, (1) direct information on their hourly consumption, and (2) time-of-use rates and real-time price programs. In response to this requirement, on October 28, 2010, PECO filed a petition with the PUC to approve its Initial Dynamic Pricing and Customer Acceptance Plan ("the Plan"), which was approved by the PUC on April 14, 2011. PECO also applied for and received funding under the Federal Stimulus Grant program American Recovery & Reinvestment Act (ARRA). Commitments associated with that grant are outlined in the Project Overview below.

On April 29, 2011 the PA PUC initiated an investigation into Pennsylvania's retail electricity market. The result of that investigation has been the issuance of a final Order on December 15, 2011 wherein the Commission has strongly recommended that EDC's meet their obligation to offer time of use rates as specified under Act 129 through an EGS. In response to the retail markets investigation, PECO has revised its plan and is issuing this RFP to carry out that plan.



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For more information on Act 129 visit the PA PUC's Web site at:  
[http://www.puc.state.pa.us/electric/Act\\_129\\_info.aspx](http://www.puc.state.pa.us/electric/Act_129_info.aspx).

To view PECO's original filing of its Initial Dynamic Pricing and Customer Acceptance  
Plan visit the PA PUC's Website at:  
<http://www.puc.state.pa.us/pcdocs/1128426.docx>

## **PECO Dynamic Pricing Pilot Overview**

### **Pilot Plan Overview and Requirements**

Summary of PECO's dynamic pricing related requirements under Act 129 and DOE Commitments as outlined in its stimulus grant execution plan that are fulfilled as part of this project.

These requirements and commitments are summarized as follows:

- Provide customer with education and awareness of alternate rate structures including potential customer benefits
- Offer customers in-home technology designed to have an impact on their ability to better manage their electricity usage and control costs
- Ensure that marketing and educational material is presented in multiple languages (English and Spanish at a minimum)
- Understand ways to reach inner-city populations with information designed to help them better control their energy usage/costs
- Provide access to energy usage and analytical tools via the web (e.g. bill comparisons of the dynamic rate vs. a flat rate)
- Offer a dynamic pricing rate to every customer who receives a smart meter (the intent here is to review the results of the program and then make a recommendation to the PA PUC on how to meet this requirement based on those results)
- File an annual report analyzing the program's effect on customers' energy demand and consumption and wholesale market prices (scope note: the first report is part of this plan, ongoing reports are out of scope)

The dynamic rate(s) will be offered to residential and small and medium sized commercial and industrial ("S/MC&I") customers. There will be a limited number of alternative packages offered to residential customers that include an In-Home-Display (IHD), a Programmable Communicating Thermostat (PCT), and first year bill protection. There will be a single package offered to S/MC&I customers that includes a PCT. The customer education and marketing materials will be developed through comprehensive customer focus groups to determine effective messages for residential and commercial customers. The insights gained from this project will enable PECO to effectively plan to

meet our obligation to offer dynamic pricing to all customers who receive new metering technology (Advanced Metering Infrastructure or AMI meters).

Table 1 summarizes the offers:

Description	IHD	PCT	Est. No. of Solicitations	Estimated Enrollment
#1) Residential: standard promotional letter explaining the offer, benefits, and how to enroll			5,000	200
#2) Standard offer #1 above plus the offer of an IHD	200		5,000	200
#3) Standard offer #1 above plus the offer of a PCT		200	5,000	200
#4) Standard offer #1 above plus the offer of first year bill protection			5,000	200
#5) Offers #2 and #4 combined	200		5,000	200
#6) Offers #3 and #4 combined		200	5,000	200
#7) CAP customer outreach through community groups offering IHD's	200		5,000	200
#8) Small/Medium C&I: Standard promotional message delivered via telemarketing plus PCT		200	5,000	200
<b>Totals</b>	<b>600</b>	<b>600</b>	<b>40,000</b>	<b>1600</b>

PECO will select approximately 40,000 customers divided into 8 different test (treatment) groups. Each test group will be conducted simultaneously but will evaluate a different aspect of the offer. The customer samples will be drawn from among customers who are AMI deployed and will be selected specifically to ensure that treatment populations are comparable to the greater PECO population so that results can be extrapolated to the broader PECO population.

## **Dynamic Pricing Implementation Tasks**

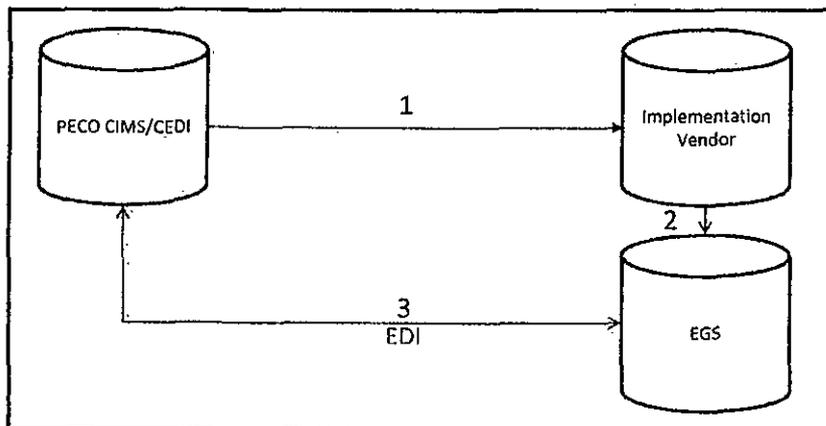
### **Task 1: Product price offering (commodity)**

- **Develop dynamic pricing rate structure and pricing algorithm**
  - Develop rate structure: Propose a time of use rate structure and explain why it is the one PECO should use. PECO prefers to see a price that is established at the start of the project and stays constant for the entire year. This will simplify marketing and communications. If the bidder proposes a price that changes periodically throughout the year, explain how the benefits outweigh the extra customer explanation. PECO requests that the bidder propose a comparable flat rate for comparison purposes. The successful EGS will also be required to participate in stakeholder conference calls to understand issues associated with alternate structures as the rates will be filed as part of the PA PUC approval process.
  - Develop pricing algorithm: Since the bids will be evaluated nearly a year in advance of when prices will be set, it is important to establish in advance how prices offered to customers will be calculated. Bidders are to provide a formula that utilizes visible market-based inputs that can be replicated at the time prices are set that result in the exact prices offered to customers.
  - Propose an illustrative price: Provide an illustrative price including date certain current market visible inputs for the proposed TOU structure. NOTE: PECO will use this illustrative price as part of the overall proposal evaluation as the successful bidder will be required to use the algorithms and inputs that produced the prices for customer offerings.
  - Length of offer: For the duration of the pilot maintain the dynamic rate available to all customers in the pilot plus a willingness to make the rate available to any eligible PECO customer who requests it. This is intended to address interested friends and neighbors who hear about the program from among those who receive a solicitation.
  
- **Development and Administration**
  - All development and administration costs are to be included in the bid package. These costs will be evaluated in PECO's selection process. A pricing template is included in the Bidders Response Template.
  - The bidder will be required to make any required modifications to their billing system in order to calculate the generation charges for the

proposed dynamic rate. PECO will remain in a Bill Ready mode for this project.

**NOTE:** PECO and the EGS and/or Implementation Vendor will exchange enrollment, switching, and billing transactions that conform to the current PA EDEWG EDI standards process. Specifically, the EGS is required to send enrollment / switching (814) and billing (810) transactions that conform to the associated Pennsylvania EDI Implementation Guide and associated processes. For customers that enroll PECO will provide interval data (867IU) to be used by the EGS for bill calculation. PECO prefers that the selected EGS already be certified to serve PECO customers and exchange data in the above manner and remain as such for the duration of the effort. The diagram below depicts the EGS performing Task 1 functions and the Implementation Vendor performing Task 2 functions as a way to maintain clarity of roles. If an EGS performs both tasks they will be providing both functions.

### Dynamic Pricing High Level Integration



**Explanation of Data Flow:**

1. PECO will supply the Implementation Vendor with a one time list of customers to solicit (~40,000)
2. The Implementation Vendor system interfaces directly with the selected EGS to send a file of customers to enroll.
3. The EGS sends enrollments to PECO using the existing EDI 814 enrollment process. PECO will send a confirmation back to the EGS also using the existing process (note: this approach may involve some changes to the format of the 814 transaction).

- o Per the PECO/EGS Brand Management Principles described below, PECO envisions that customers will be directed to call a single number with any

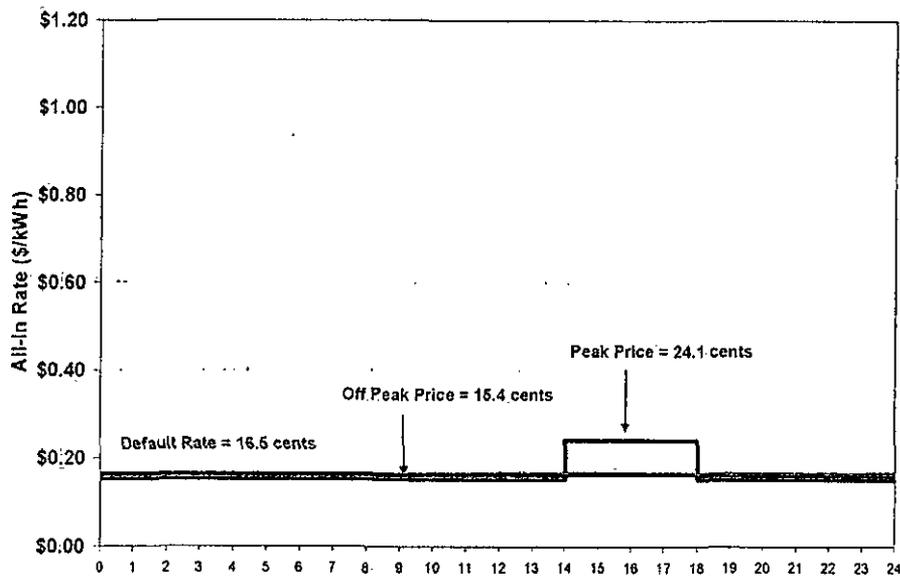
questions related to the dynamic pricing program. The number will connect them to an IVR selection where all questions will be answered per the requirements described below in Task 2, Call Center and Communication Support.

- o It is anticipated that minimal assistance from the EGS will be required during the analysis and reporting phase of the project, but to the extent that learnings are developed and shared, it will be important for the EGS to provide input and insight into this final product. For budget purposes the bidder is expected to include two half-day face-to-face meetings in Philadelphia.

The rate structures as PECO has submitted them are provided below for illustrative purposes. Note: The PA PUC has approved these rate structures for PECO supplied dynamic prices and may be helpful for an EGS in their consideration of a structure(s) they may want to use.

The TOU rate structure, as illustrated below, is composed of a higher-than-average price during the peak times and a lower-than-average price for all other hours. The peak hours are non-holiday weekdays throughout the year, and the off-peak hours are all others.

**TOU Rate Structure as Filed with PECO's Original Plan**



## **Task 2: Marketing and Administrative Related Tasks**

### **Provide education, marketing and facilitate customer acquisition consistent with Brand Management Principles**

- Work, in conjunction with PECO Communications and Marketing to create all materials required to market and support all treatment options as approved by PECO. Note: Final language, design etc is owned by PECO.
- In conjunction with PECO oversight conduct comprehensive focus groups among residential and commercial customers to develop marketing and customer education material
- Perform all aspects of acquisition including printing, postage, and enrollment activities
- Create appropriate versions of direct mail materials for all treatment options including offer letters, rate and product descriptions and differentiated messages between residential and commercial customers. Each distinct piece of marketing collateral will be assigned its own unique promotional code for tracking purposes. Again, PECO owns the language and approval of all materials
- Market to groups of demographically representative customers in the PECO deployment footprint as outlined above in Table 1
- Make multi-lingual versions of marketing collateral available to ethnically diverse customers (minimum of English and Spanish)
- Work closely with PECO and its communication team – all materials must be approved by PECO Communications to ensure alignment with corporate branding and standards.
- Community outreach targeted at low-income communities is an important element of the project. PECO will be responsible for identifying the groups with whom the Implementation Vendor will work and it is envisioned that these community groups will work with the Implementation Vendor to reach out to the selected communities. Work closely with these groups to educate them about the offers and equipment that they will be marketing, provide them with relevant materials of how to effectively utilize the technology to manage their energy usage and electric bills, and otherwise ensure that these treatment options are successfully executed.

Develop and host the program Website within the PECO.com site management to provide customer education, an enrollment path, and link to PECO's web presentment site where the customer will be able to view their interval data and get energy tips. Work with PECO Web presentment vendor to supply PECO provided / approved content for

dynamic pricing tips and relevant information that will be hosted on the web presentment site. The content on the program Website will have to be carefully created and restricted only to selected customers who are able to see program details. The program Website will be supported by Google Analytics to provide the additional level of data regarding the web traffic, customer preferences, etc. All materials will require advance approval of PECO. The Web content will be congruent in tone, manner and branding with the marketing material and collateral created for each treatment cell and provide the customers with detailed information regarding the rate structure, education on

**Provide call center and customer communication support**

- Provide an 800-number that customers can call, or be routed to, for enrollment (upon receipt of treatment solicitations) and inquiries about aspects of the service options to which they have enrolled (e.g., questions about rate periods and technologies). Design and create customer center call scripts
- The Call Center lines are to be operational 8 a.m. to 8 p.m. Monday through Friday, Eastern Time, Saturday 9a.m – 1p.m. Eastern Time. The Call Center performance metrics include, but not limited to, the following:
  - Answer 80 percent of the calls within 30 seconds
  - Call abandonment rate shall not exceed 3 percent
  - Respond and resolve email requests within one business day
  - Not provide network busy or call trunk blocking
- Develop inbound scripts and FAQ talking points for Call Center personnel who may receive inquiries about service offerings or customers that are enrolled inquiring about their IHD provisioning, billing related, or more general topics.
- General Call Center Operations
  - Maintain all correspondence involving customer inquiries (mail, email, etc.)
  - Resolve questions and functionality associated with the enabling technology
  - Report on call volume, type of contacts, subject of contact, speed of answer, work groups or systems that handled the calls and other metrics as requested by PECO
  - Record and archive customer phone interactions
  - Update PECO systems with all customer contacts in real-time
  - Route calls to the PECO General Call Center only as agreed
  - Route calls to other PECO offerings (e.g. Smart AC Saver Call Center)

- Establish a disaster recovery process to automatically route calls back to PECO in the event of an emergency and procedures to address offline work (e.g. correspondence, email, etc.)
- Enabling Technology Support
  - Device Installation & Management
  - Schedule the installation of IHDs
  - Troubleshoot non-functioning Enabling Technology (IHDs or PCTs) or request the IHD vendor to resolve issue with the customer
  - Schedule replacement of enabling technology
  - Walk customer through the functions of enabling technology
  - Process customer return of enabling technology
  - Document customer feedback on enabling technology
- Upload call logs to PECO on a weekly basis

**Create customer enrollment & de-enrollment channels including necessary IT integration with PECO**

- Offer customers the choice of enrolling in treatments by: returning a postage-paid post card, calling an 800 number or going to a website operated by the implementation vendor. The implementation vendor is expected to develop and operate an enrollment process that supports all three enrollment options.
- Allow other customers to enroll in dynamic pricing even if they do not receive a solicitation (e.g., they become aware of the offers through word of mouth). However, customers who enter the Plan without being invited must be carefully tracked. Note: the anticipated costs for these volunteer customers must be included in the bid.
- Process de-enrollment of customers who drop out of the treatment for whatever reason.
- Track de-enrollment due to account closures and other actions unrelated to the treatment, but will not have to survey these customers.
- Customers may only de-enroll via the call center at which time they will be asked questions about their experience in the program.

#### **Develop and maintain tracking systems**

- Maintain careful records concerning all customers who are offered participation. For each customer selected for each treatment, a unique record must be maintained concerning the test cell to which they were assigned, date solicitations were sent, the date that they accepted treatment (if they do), the date upon which they left the treatment (if they leave) and the reason for leaving.
- Maintain a digital database storing the above information and make the contents available to the M&E contractor upon request. In the course of developing the enrollment database, the implementation vendor is expected to consult with the M&E contractor to ensure that all information required for evaluation is collected and maintained during the course of the Plan.

#### **Select, deploy and maintain equipment**

- Five of the test cells call for providing participants with PCTs or IHDs. IHDs will also be offered to CAP rate customers to see if near-real time feedback influences their usage behavior. The enabling technology equipment must be able to provision with PECO's advanced meters on the Sensus™ system.<sup>1</sup> The EGS/ Implementation Vendor is expected to work with equipment vendors, PECO and Sensus staff to identify reliable products that will function seamlessly with PECO's AMI meters & network.
- The enabling technology will be purchased by PECO outside of this contract and the cost of the enabling technology should not be included in the budget for this project. However, all handling, warehousing and implementation costs associated with the equipment, plus all time spent in working with PECO on equipment selection, should be included. Bidders should demonstrate their knowledge of the types of equipment currently available and any relevant new functionality they feel may become available between now and when purchase decisions will need to be made. Bidders should also indicate when such purchase decisions will need to be made in order to begin device installation by January 2013.
- After the equipment has been acquired, it must be distributed to the premises in which it will be used. The EGS/Implementation Vendor will be responsible for all aspects of equipment deployment including installation (when necessary),

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<sup>1</sup> PECO expect all IHDs to be able to be compliant with Zigbee Energy Profile 2.0 either when purchased or through a firmware upgrade.

commissioning and ongoing support, including trouble shooting, technical support, and visits to the home if problems persist, etc. Bidders should describe in detail their proposed strategy for deploying all premise level equipment that will be used during the Plan. In preparing their proposal, bidders should assume that the following numbers of IHDs and PCTs will be deployed:

- 600 In-Home Displays (IHDs)
  - 600 Programmable Communicating Thermostat (PCTs)
  - 1,200 Total
- PCTs will require onsite installation and bidders should describe their approach to scheduling appointments, installation procedures, quality control procedures, and costs for PCT installation. For IHDs, installation and commissioning in person is preferred, however, if another method of provisioning is identified please include that information and its effectiveness. Unit installation costs should be provided for any anticipated volunteer participants (those who learn about the project from friends and neighbors), and priced separately. The vendor shall have adequate IHD and PCT installation resources that need to pass the PECO background check processes and adhere to appropriate PECO field safety & operations procedures. The EGS/Implementation Vendor should also provide customers the option to schedule their installation appointments via the web.

Note: PECO will purchase a DRMS software package that will integrate with the Sensus network. PECO will also provide the Implementation Vendor administrative access to enable provisioning and other necessary administrative functions for the duration of the pilot.

**Provide rate comparisons**

- Provide a comparison of the dynamic rate vs. otherwise applicable fixed rate. This information should be provided via various channels (i.e. directly on the customer bill or on the program website). Calculate the monthly difference between the amount electric generation charge under the dynamic price structure and the amount that they would have paid under an otherwise applicable flat rate. Maintain this information for all enrolled customers within the tracking system - reported to the M&E vendor on a monthly basis. Also provide the comparison as an over/under either on the customer's bill or on the web site or both. At the end of the year provide the data to PECO to fund the first year bill protect for applicable customers.

### Customer Education

Education in this Plan refers to enhanced information provided in conjunction with rate designed to help consumers make more informed energy-usage decisions. All customers in all treatments will receive a basic level of education that is appropriate for the chosen treatment. PECO envisions that approximately one-half of the enrolled customers would be chosen for a form of enhanced educational treatment. The educational package could take the form of providing consumers with practical examples of specific behaviors that other consumers have engaged in when facing dynamic rates or it might involve detailed load shape analysis designed, for example, to determine the weather-sensitive portion of load as input to provide guidance concerning air-conditioning use. Since many customers may not have a good idea of what activities use the most energy in general or during peak periods, the intent is to show customer how they can take control of their energy usage with actions which can maximize bill savings. PECO plans to evaluate the impact of enhanced information treatments to determine their impact on load and energy consumption.

Unlike factors that affect enrollment, which can be assessed shortly after a promotional campaign has been launched, determining the effect of enhanced information on load reduction and energy use requires a comparison between treatment and control customers for 6 to 12 months after the treatment is in effect. Starting prior to the summer of 2013, approximately one-half of customers that have signed up for the pilot will be selected for at least the enhanced education treatment. Energy use and demand response for this group will be compared to that of other customers to determine whether the enhanced education cases provide additional behavioral change in energy use levels or patterns. The customer satisfaction aspect of enhanced education will also be evaluated by the measurement and evaluation work described below. Education and feedback will also be provided to all customers through the program website as coordinated with the PECO web presentment website. There customers will be able to look at their usage patterns and read tips for maximizing savings.

### Distribute incentive checks

- Customers in three of the treatment options will be offered first year bill protection. Use the calculated the monthly difference between the amount electric generation charge under the dynamic price structure and the amount that they would have paid under an otherwise applicable flat rate (above) to determine whether a credit is due any customers. If there is a net cost to the customer on the dynamic rate at the end of one year, the Implementation Vendor will be required to distribute a bill protection

### **Provide overall project management and reporting**

#### **Project Planning and Preparation for Launch**

- Attend meetings that may take place as the project plans and schedule are finalized. Some of these meetings will involve outside stakeholders. At the beginning when many details of the project will be resolved, it will be essential for the vendor to be integrally involved with any applicable PECO internal team including but not limited to IT development, billing system development, marketing, call center operations and other aspects of project management. At the conclusion of the project initiation the EGS/Implementation Vendor is expected to produce a completed project plan and schedule. During the planning phases of the project (i.e., in advance of marketing campaigns) the vendor is expected to supply monthly progress reports indicating tasks underway, progress toward goals, budget expended, and any variances that are occurring in the performance of the tasks underway.

#### **Ongoing Project Management**

- Work collaboratively with PECO personnel following clearly established operational procedures such as call center handoff, billing options, data transfer, technology integration and on-going support

#### **Project Reporting**

- Throughout the project work collaboratively with the Measurement & Evaluation (M&E) vendor who will be selected under a separate RFP to provide the data analysis for report preparation as required by the Commission and DOE

#### **Reports required from project initiation through completion:**

- A comprehensive report describing the implementation plan and project schedule
- A marketing plan
- Weekly program enrollment reports by test cell
- Monthly program website activity reports (or per request)

- Weekly equipment (e.g. IHD or PCT) inventory reports
- Weekly installation reporting by technology type documentation

Reports required at the conclusion of the pilot

- A report at the end of the project (est. Q1 2014) that will present results for each of the test cells along with an analysis of usage, demand, and any other customer behavior modifications that occurred during the pilot. Demographic analysis will also be reported to better understand likely customers who can benefit from dynamic rates and those who are also likely to enroll. This report will present PECO's recommendation on offering dynamic rates to all customers who have an AMI meter installed.
- In addition, the EGS/Implementation Vendor will be required to provide reporting for the Department of Energy (DOE) information at a minimum regarding job creation (monthly), metrics and benefits including impacts (semi-annually).

**Brand Management Principles**

Note: To protect and enhance PECO's brand positioning in the marketplace, these brand management principles will be strictly adhered to by the EGS/Implementation Vendor(s) and monitored by PECO

**PECO's Role**

- All language used in all customer communications and touch points will be developed and approved by PECO Communications in conjunction with PECO Marketing
- Customers will access the program Website via PECO.com to ensure brand management content alignment
- Management of a single call center with support of all aspects of the program
  - Customer information and acquisition
  - Customer general and program billing inquiries
  - Technology installation appointment scheduling and support
  - Customer de-enrollment
  - Pilot close-out

**EGSs Role**

- Provide energy commodity for acquired customers
- Provide rate and billing information
- Inclusion of program name and call center number on monthly bill
- Opportunity to market additional offers to customers 90 – days prior to pilot completion

**Exclusions**

- EGS will not be allowed to cross-market and/or up-sell for the length of the pilot
- EGS will not be allowed to advertise or leverage partnership with PECO

### Schedule and Key Project Milestones

The following provides a high-level view of the key project phases. PECO reserves the right to adjust, as appropriate, the key vendor selection activity dates.

Phase	Activity	Start	End
Vendor Selection		Jan 24, 2012	Mar 8, 2012
	Event Open for Preview	Jan 24, 2012	
	Pre-bid Conference call	Jan 26, 2012	
	Bidder Q&A Submission	Jan 30, 2012	
	Bidder Q&A Conf. Call	Feb 2, 2012	
	Bidder Responses Due.	Feb 15, 2012	
	Down Selected Bidder Presentations or Conference Calls.	Feb 21, 2012	Feb 24, 2012
	Target Contract Award	Mar 8, 2012	
Approval	Contract Process (including submitting to PA PUC for expedited approval)	Mar 8, 2012	Apr 6, 2012
Planning & Operation	Integration with PECO IT, Focus groups, marketing material prep and printing, Call center readiness, IHD/PCT selection, notification systems developed and tested, web integration; NOTE: Vendors expected to begin work on 4/9/12	Apr 9, 2012	Jan 1, 2013
Evaluation & Closeout	Support M&E contractor in completing analysis, preparing reports for submittal to PA PUC	Jan 1, 2014	April 1, 2014

## APPENDIX A

### Developing the TOU & CPP Rates

#### I. TOU Rate for the Residential Class

There are four steps in developing a cost-based TOU rate that reflects future expectations of energy and capacity procurement costs.

**First, "shape" the forward prices using historical LMPs.** The "peak" and "off-peak" period definitions in the forward prices do not correspond to those periods as defined in the TOU rate. For example, the forward peak period is from 7 am to 11 pm on non-holiday weekdays and the TOU peak period is from 2 pm to 6 pm on non-holiday weekdays. To account for this difference, the forward prices are "shaped" using historical LMPs:

1. Calculate the average 5x16 forward price (\$58.28/MWh).
2. Using historical LMPs,<sup>2</sup> calculate the relationship of the average LMP during the TOU peak period to the average LMP during the 5x16 period (a ratio of 1.11-to-1)
3. Scale up the average 5x16 forward price using the factor developed in step 2 (resulting in an adjusted forward "peak" price of \$64.48/MWh)
4. Repeat this scaling process to also establish an adjusted off-peak forward price, using the average forward price for the non-5x16 hours and the associated LMPs (resulting in an adjusted "off-peak" forward price of \$45.32/MWh)

**Second, calculate the ratio of the shaped peak and off-peak forward prices.** The result is a peak-to-off-peak price ratio in the adjusted forward prices of 1.42-to-1.

**Third, use this ratio to create the peak and off-peak prices of the TOU rate.** At this stage, the revenue neutrality calculation depends on an assumed rate of 10 cents/kWh less the 0.58 cent capacity portion of this rate, or 9.42 cents/kWh.<sup>3</sup> The TOU prices are calculated using two constraints: (1) the TOU rate is revenue neutral to a 9.42 cents/kWh flat generation charge and (2) the peak to off-peak ratio of the TOU is the

<sup>2</sup> We are currently using LMPs for the period between April 2008 and March 2009. Using other years of LMPs would not significantly change the analysis.

<sup>3</sup> To calculate the capacity portion of the 10 cent assumed rate, we divide \$51.03 kW-year by the 8760 hours of the year, which equals 0.58 cents.



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same as that calculated in the adjusted forward prices (1.42). There is a unique solution to this problem, and the resulting generation rates are:

Peak: \$0.127 per kWh  
Off-Peak: \$0.090 per kWh

**Fourth, add the capacity adder to the peak price and adjust accordingly.** The peak price must also reflect a capacity cost of \$51.03 kW-year.<sup>4</sup> This is allocated evenly to the 1,044 peak hours of the TOU, resulting in peak price increase of roughly 5 cents per kWh. The off-peak rate is adjusted downward to offset the peak price increase and maintain revenue neutrality. Now, the revenue neutrality calculation is based off of the existing rate of 10 cents/kWh, which includes both energy and capacity. The result is the following generation rates:

Peak: \$0.176 per kWh  
Off-Peak: \$0.089 per kWh

With non-generation costs included, the all-in rates are:

Peak: \$0.241 per kWh  
Off-Peak: \$0.154 per kWh

**II. CPP Rate for the Residential, Small C&I, and Medium C&I Classes**

The CPP rate development is a relatively simple two-step process.

**First, calculate the critical peak price.** Given 15 critical peak days with a 4 hour critical peak period, there are 60 critical peak hours per year. As with the TOU rate, the capacity cost of \$51.03/kW-year is allocated across these 60 critical peak hours, creating a capacity adder of roughly 85.1 cents. Again, we assume a 10 cent per kWh existing generation charge, which includes a 0.58 cent capacity cost. To calculate the critical peak rate, we add the capacity adder to the existing rate less the capacity cost, equaling \$0.945/kWh.

<sup>4</sup> The average PJM capacity auction outcome for years 2009-2012.

**Second, solve the off-peak price for revenue neutrality.** In order to maintain revenue neutrality, the off-peak price is slightly different for each class due to differences in class load shapes. The assumed existing rate used in the revenue neutrality calculation is 10 cents/kWh. In this case, the generation-only off-peak rates are as follows:

Residential Class – Off-Peak: \$0.091 per kWh  
Small C&I Class – Off-Peak: \$0.092 per kWh  
Medium C&I Class – Off-Peak: \$0.092 per kWh

With non-generation costs included, the all-in rates are:

Residential Class – Critical Peak: \$1.009 per kWh  
Residential Class – Off-Peak: \$0.156 per kWh

Small C&I Class – Critical Peak: \$0.971 per kWh  
Small C&I Class – Off-Peak: \$0.118 per kWh

Medium C&I Class – Critical Peak: \$0.967 per kWh  
Medium C&I Class – Off-Peak: \$0.114 per kWh

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PECO ENERGY :  
COMPANY FOR EXPEDITED :  
APPROVAL OF ITS DYNAMIC : DOCKET NO. P-2012-2297304  
PRICING PLAN VENDOR SELECTION :  
AND DYNAMIC PRICING PLAN :  
SUPPLEMENT :**

**CERTIFICATE OF SERVICE**

I hereby certify and affirm that I have this day served a copy of the following Answer of PECO Energy Company in Opposition to the Petition to Intervene and Opposition of Reliant Energy Northeast LLC upon the following persons in the manner specified in accordance with the requirements of 52 Pa. Code § 1.54:

**VIA HAND DELIVERY**

Tanya J. McCloskey  
Senior Assistant Consumer Advocate  
Jennedy S. Johnson  
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