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February 28, 2014

VIA E-FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

**Re: Handling of Auction Revenue Rights for the PECO Default Supply Share
Docket No. P-2012-2283641**

Dear Secretary Chiavetta:

The purpose of this letter is to provide formal notification to the Commission of PECO Energy Company's ("PECO's") plans for handling Auction Revenue Rights ("ARRs") for the 2014-2015 PJM planning year.

Background

As an outcome of the approved settlement in PECO's 2008 Default Service Procurement case ("DSP I"), 75% of PECO's Residential default supply was provided under fixed-price, full requirements contracts, and the remaining 25% of supply was provided through a combination of block energy and spot market purchases.¹ These block and spot purchases are described as the "PECO Share".

In PECO's 2012 Default Service Procurement case ("DSP II"), PECO proposed to phase out the PECO Share replacing it with fixed-priced, full requirements products. In its Order entered October 12, 2012, the Commission approved PECO's proposal.² As a result, the PECO Share declined to 12% of PECO's Residential default supply.

¹ *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), at 6-7.

² *Petition of PECO Energy for Approval of Its Default Service Program*, Docket No. P-2012-2283641 (Order entered October 12, 2012), at 17.

Rosemary Chiavetta, Secretary
February 28, 2014
Page 2

In a January 30, 2014 Secretarial Letter, the Commission approved in part and denied in part the results of PECO's January 2014 full requirements default service supply Request for Proposals (RFP). Specifically, the Commission rejected the 24-month residential bid results because it determined that the results were non-competitive. This resulted in an additional percentage of 11.3% for the un-awarded tranches being included in the PECO Share (for a total of 23.3%).

PECO's ARR Approach for the PECO Share

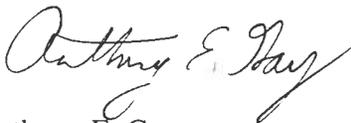
PECO is the load serving entity for the PECO Share. Accordingly, it has the option to receive ARR's in the annual PJM Financial Transmission Rights ("FTR") auction process and receive an allocation of revenues (or charges) from the annual FTR auction. An allocation of revenues would represent positive economic value. An allocation of charges would represent negative economic value.

PECO has considered its options to participate in the upcoming 2014-2015 ARR/FTR market and intends to implement a conservative ARR strategy that is likely to yield net positive economic benefits for Residential DSP customers. PECO, and its consultant, analyzed historic FTR auction outcomes and historic congestion patterns between the PECO Zone and generation units that have historically served load in the PECO Zone. PECO and its consultant have also used a wholesale market dispatch model to forecast ARR values for the 2014-2015 PJM planning year.

Similar to its participation in last year's FTR auction, PECO's intent is to participate only in Stage 1 of the ARR process and to obtain the value of the ARR's that it is successful in receiving from its nominations. PECO plans to flow the value of the ARR's to Residential DSP customers in the Generation Supply Adjustment.

Please do not hesitate to contact me should you have any questions regarding this letter.

Very truly yours,



Anthony E. Gay
Associate General Counsel

cc:

Via Electronic Mail and First-Class Mail

Certificate of Service

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PECO ENERGY :
COMPANY FOR APPROVAL :
OF ITS DEFAULT SERVICE : DOCKET NO. P-2012-2283641
PROGRAM II :

CERTIFICATE OF SERVICE

I hereby certify that I have this day served copies of the foregoing document in the above-captioned matter in the manner as set forth below, in accordance with the requirements of 52 Pa. Code § 1.54:

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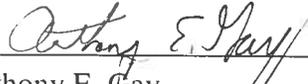
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Dated: February 28, 2014

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