

**PECO ENERGY COMPANY
STATEMENT NO. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PECO ENERGY COMPANY
FOR APPROVAL OF ITS
DEFAULT SERVICE PROGRAM
FOR THE PERIOD FROM
JUNE 1, 2015 THROUGH MAY 31, 2017

DOCKET NO. P-2014-_____

DIRECT TESTIMONY

WITNESS: CHANTALE LACASSE

SUBJECTS: RFP PROCESS, PRODUCTS, LOAD CAPS,
ROLE OF INDEPENDENT EVALUATOR
AND RFP PROTOCOLS

DATED: MARCH 10, 2014

TABLE OF CONTENTS

	Page
I. INTRODUCTION AND PURPOSE OF TESTIMONY	1
II. PROPOSAL FOR MODEST CHANGES TO THE RFP PROCESS TO IMPROVE EFFICIENCY AND CONFORM TO THE UNIFORM SMA	7
III. CALCULATION OF TRANCHE TARGETS AND APPLICABLE LOAD CAPS.....	14
IV. NERA’S ROLE AS INDEPENDENT EVALUATOR	16
V. CONCLUSION	16

1 sale of spectrum licenses. Starting in 1998, I provided consulting advice on
2 competitive bidding processes and on antitrust matters on a freelance basis.

3 I joined NERA in 2001. My consulting experience at NERA has principally
4 consisted of providing conceptual advice on the design of competitive bidding
5 processes, of providing detailed practical advice on their implementation, and of
6 managing the bidding processes themselves. My recent engagements have been
7 as follows.

8 First, I provided advice to and assisted PECO Energy Company (“PECO” or the
9 “Company”) in the design, implementation and administration of a competitive
10 bidding process for the Company’s default service programs for the periods from
11 January 1, 2011 to May 31, 2013 (“DSP I”) and June 1, 2013 to May 31, 2015
12 (“DSP II”). I developed some of the elements of the procurement plans and
13 drafted the rules for the implementation. I reviewed some of the elements
14 designed by PECO and provided advice so that the Requests for Proposals
15 (“RFPs”) used to solicit bids would attract strong participation and yield prices
16 consistent with the market. NERA served as the Independent Evaluator for
17 PECO’s RFP under DSP I for full requirements products and for block energy and
18 currently serves as the Independent Evaluator for the RFP under DSP II for full
19 requirements products. In this role, NERA manages the competitive bidding
20 process as approved by the Pennsylvania Public Utility Commission
21 (“Commission”). NERA responds to bidder questions; maintains a web site to
22 provide information to bidders; qualifies bidders; and administers the bidding
23 procedures by which bids are received and evaluated.

1 Second, I have assisted other utilities in Pennsylvania in designing and
2 implementing competitive bidding processes for their procurement of default
3 service. PPL Electric Utilities Corporation (“PPL Electric”) retained NERA to
4 serve as Independent Evaluator starting in 2007. NERA administered PPL
5 Electric’s RFPs for the procurement of full requirements products for its
6 Competitive Bridge Plan. NERA continued in this role for PPL Electric’s
7 subsequent default service programs and administered the RFPs for full
8 requirements products, block energy, alternative energy credits (“AECs”), long-
9 term supply, and monthly products. I provided advice to Pennsylvania Power
10 Company (“Penn Power”) in 2005, and again later for its first Default Service
11 Program following its integration into the PJM footprint, regarding the design and
12 implementation of a competitive solicitation to procure full requirements supply
13 for its default service customers. I provided advice to the Metropolitan Edison
14 Company (“Met-Ed”) and to the Pennsylvania Electric Company (“Penelec”) in
15 2006, and again later for their first Default Service Programs, for the procurement
16 of full requirements products for their default service customers. NERA also
17 served as the Independent Evaluator for Met-Ed, Penelec, and Penn Power during
18 the implementation of their first Default Service Programs.

19 Third, in New Jersey, I have served as the auction manager for the statewide
20 Basic Generation Service auctions (the “BGS Auctions”) since their inception.
21 Every year I provide advice on improvements to the competitive bidding process
22 and assist the four New Jersey electric distribution companies (“EDCs”) in
23 formulating their proposal for submission to the New Jersey Board of Public

1 Utilities (“Board”). I manage the competitive bidding process as approved by the
2 Board by responding to bidder questions; maintaining a web site to provide
3 information to bidders; preparing and leading training sessions for bidders;
4 qualifying bidders; administering the bidding procedures by which bids are
5 received and processed in accordance with procedures approved by the Board;
6 and finally provided a report to the Board concerning the central aspects and
7 results of the Auction Process. After each auction, I have advised the EDCs
8 concerning potential improvements to the Auction Process. The BGS Auctions
9 have been successful at attracting robust participation and each year the Board has
10 approved the auction results.

11 Fourth, in Illinois, I have assisted the Illinois Power Agency (“IPA”) since its
12 creation in 2008 with the procurement of standard block products and renewable
13 energy credits for the portfolio of Commonwealth Edison Company (“ComEd”).
14 Before each procurement event, NERA administers a comment process on the
15 contract terms and credit instruments and takes these comments into account
16 when finalizing the standard forms of the contract and credit instruments that all
17 suppliers will use. I prepare detailed rules for the conduct of the competitive
18 bidding processes and serve as procurement administrator and evaluator. At the
19 conclusion of the bidding process, NERA prepares a confidential report for the
20 Illinois Commerce Commission.

21 Fifth, in Ohio, I provided advice to Ohio Power Company (“AEP Ohio”) in
22 designing and implementing a Competitive Bidding Process (“CBP”) to procure
23 supply for Standard Service Offer (“SSO”) customers under its Electric Security

1 Plan. I also participated in the stakeholder process to develop collaboratively
2 specific elements of the CBP. AEP Ohio has retained NERA to serve as Auction
3 Manager for their CBP. Additionally, in 2004 and 2005, I managed the
4 competitive bidding processes to procure supply for the default service customers
5 of the Ohio FirstEnergy Companies.

6 Finally, NERA has been retained on other occasions where I have been called
7 upon to advise on the design and implementation of competitive bidding
8 processes, most notably by the Independent System Operator of New England in
9 its redesign of certain aspects of the forward capacity market; by the Legal
10 Services Commission (UK) in its design of a competitive bidding process for the
11 procurement of legal aid services; and by the Comisión Nacional de Energía
12 (Spain) in its implementation of a competitive bidding process for the
13 procurement of base load products.

14 **4. Q. What is your educational background?**

15 A. I hold an Honors B. Soc. Sc. in Economics (1983) and an Honors B.A. in
16 Mathematics (1984) from the University of Ottawa (Canada). I hold an M.A.
17 (1986) and a Ph.D. in Economics (1991) from the University of Western Ontario
18 (Canada).

19 **5. Q. Have you prepared an Exhibit that sets forth your professional experience
20 and educational background?**

21 A. Yes. PECO Ex. CL-1 is my curriculum vitae and it provides those details.
22

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

2 A. In this default service program (“DSP III”), PECO is proposing to continue to
3 procure full requirements supply through an RFP process for all of its default
4 service customers. The full requirements supply is on a fixed-price basis except
5 for the Large Commercial and Industrial Class where the energy is priced to the
6 PJM day-ahead market. My testimony:

- 7 • Describes the RFP process, proposes modifications to improve the
8 RFP process and conform the process to PECO’s proposed supplier
9 master agreement (“Uniform SMA”), and explains why the RFP
10 process should be approved;
- 11 • Reviews the product structure proposed by PECO for DSP III and
12 discusses PECO’s proposal to continue the current limit to the amounts
13 that any one supplier can bid and win (the “load cap”);
- 14 • Reviews the calculation of the number of tranches to be procured; and
- 15 • Summarizes NERA’s role as independent evaluator and the protocols
16 that NERA will follow to conduct the solicitations under the RFP
17 process.

18 **7. Q. What exhibits are attached to and incorporated in your direct testimony?**

19 A. To my testimony are attached:

- 20 • The RFP Rules (PECO Ex. CL-2), which contains a number of
21 appendices, including the forms that potential suppliers would use to
22 submit their qualifications; and

- The RFP Protocol (PECO Ex. CL-3), which describes how NERA will manage the RFP process and will communicate with all parties.

8. Q. How is the remainder of your testimony organized?

A. Section II of my testimony reviews the key elements of the RFP process and explains the proposed changes to this process for DSP III. Section III summarizes the products proposed to be procured in DSP III and the calculation of the number of tranches to be procured. Section IV summarizes the activities that NERA will undertake in its role as Independent Evaluator as provided in more detail in the RFP Protocol.

II. PROPOSAL FOR MODEST CHANGES TO THE RFP PROCESS TO IMPROVE EFFICIENCY AND CONFORM TO THE UNIFORM SMA

9. Q. Has the RFP Process under DSP II been successful?

A. Yes. Under DSP II, the Commission has thus far approved the results of every solicitation for fixed-price full requirements service for the Small Commercial and Medium Commercial Classes and for spot-price full requirements service for the Large Commercial and Industrial Class. Additionally, the Commission has approved the results of every solicitation for the Residential Class except for the results of the twenty-four month product in the January 2014 solicitation. As was the case under DSP I, solicitations have generally attracted robust participation and produced prices for customers that are consistent with then-current market conditions. The main activities of each solicitation, including the submission of possible modifications to the credit instruments, the qualification of bidders, and the submission of bids, were completed successfully and on schedule.

1 **10. Q. Are you proposing changes to the RFP process?**

2 A. I am proposing minor modifications and improvements to the RFP process. As I
3 testified, the RFP process under DSP II has been successful and the modifications
4 that I propose build on this success. The majority of the elements of the RFP
5 process would remain unchanged. The modifications and improvements that I
6 propose either have the objective of conducting the solicitations more efficiently
7 or are necessary to conform to the Uniform SMA.

8 **11. Q. What are the key elements of the RFP process used under DSP II?**

9 A. The key elements of the RFP process are:

- 10 • The communication with bidders;
- 11 • The qualification of bidders;
- 12 • The submission and evaluation of bids; and
- 13 • The reports provided to the Commission.

14 **12. Q. Please describe how the Independent Evaluator communicates with bidders.**

15 A. The RFP Protocol establishes how NERA communicates with bidders. In
16 particular, the Protocol specifies the procedures for managing the dissemination
17 of information to bidders and ensuring that information is provided fairly and
18 equally to all bidders. In order to provide information to bidders on a fair and
19 equal basis, NERA maintains a web site that provides bidders with access to data,
20 including hourly usage data, number of retail customers, and capacity peak load
21 contributions. The web site also allows bidders to submit questions concerning
22 the RFP process and/or data provided. If PECO receives any questions directly,
23 PECO directs those questions to NERA.

1 NERA responds individually to each questioner and posts the question and
2 answer to the frequently asked questions (“FAQs”) page of the RFP web site so
3 that all bidders have access to the same information. When necessary, NERA
4 draws on PECO’s expertise in drafting responses after the identity of the
5 questioner is redacted.

6 NERA communicates with bidders regarding the status of their proposals or bids
7 with individuals directly authorized to assist with the RFP process. This is
8 essential to maintain the confidentiality of the bidder’s information. A bidder
9 submits its proposal in two parts and, after processing each part, NERA notifies
10 the bidder of the status of its proposal. Any notification that a bidder has
11 qualified to continue in the RFP process, along with any documents necessary for
12 such participation, are delivered by secure file transfer to individuals directly
13 authorized to assist with the RFP process.

14 **13. Q. Please describe how the Independent Evaluator qualifies bidders.**

15 A. The bidder qualification process requires bidders to submit their proposals in two
16 parts. All representations and certifications required in the RFP process must be
17 made by a single individual. This individual must be an individual who can bind
18 the bidder and is authorized to undertake contracts, including the Uniform SMA,
19 which is the standard contract that suppliers and PECO execute for the provision
20 of default service supply. Such an individual is an “Officer of the RFP Bidder”
21 and has the option of submitting all of the representations for the RFP processes
22 (“Part 1” and “Part 2”) at once.

1 In the Part 1 proposal, all bidders are required to submit to a creditworthiness
2 assessment and have the opportunity to propose modifications to the standard
3 credit instruments. Bidders that are not existing suppliers are also required to
4 demonstrate that they can fulfill all technical and regulatory requirements of the
5 Uniform SMA and are asked to provide information for the preparation of the
6 Uniform SMA and, if applicable, for preparation of the guaranty. The bidder
7 must represent that it is bidding independently and that all information provided is
8 accurate and will remain valid throughout the RFP process. The requirements and
9 representations required of the bidder have been modified from DSP II to conform
10 to the Uniform SMA.

11 In the Part 2 proposal, all bidders provide pre-bid security to support their bids.
12 Under DSP I and DSP II, bidders that were not existing suppliers were also
13 required to submit a signed supply master agreement with the Part 2 Proposal and,
14 if the bidder was relying on the financial standing of a guarantor, the bidder was
15 required to submit a guaranty. To improve the efficiency of the RFP process,
16 under DSP III, only winning bidders will be required to provide these documents.
17 A bidder certifies that the bids it submits will be binding and agrees to promptly
18 execute the Uniform SMA, the transaction confirmations, and, if the bidder is
19 relying on the financial standing of a guarantor, the guaranty, upon approval of its
20 winning bids by the Commission.

21 For each part of the proposal, NERA evaluates whether the bidder has submitted
22 all information and documents in a manner consistent with the RFP process.

1 NERA advises the bidder of any deficiencies in the proposal and provides a pre-
2 determined period to cure any such deficiencies.

3 **14. Q. Please describe how bidders submit bids and how the Independent Evaluator**
4 **evaluates the bids.**

5 A. After qualifying to bid, pursuant to completing the Part 1 and Part 2 proposals,
6 bidders may submit their bids or price offers. A bidder submits a separate price
7 offer for each tranche that it wishes to supply, stated in dollars per MWh. A
8 bidder may bid on as many tranches as are available subject to load cap
9 restrictions and provided that these bids are supported by sufficient pre-bid
10 security. A bidder uses a spreadsheet provided by the Independent Evaluator to
11 enter its bids and submits its bids through a secure electronic interface.

12 Bids are evaluated on a price-only basis. For each product, NERA selects the
13 lowest-priced bids to fill the available tranches and identifies these to the
14 Commission as winning bids.

15 **15. Q. Please describe the reports that NERA submits to the Commission in its role**
16 **as Independent Evaluator.**

17 A. NERA provides two confidential reports to the Commission. Ten days before
18 bids are due, if desired by the Commission, NERA provides a 'Market
19 Information Report'. This report summarizes the then-current market conditions.
20 NERA is available for any questions or any supplemental information request
21 from the Commission in this regard. Further, if there are significant changes in

1 market conditions in the ten-day period immediately preceding the bid date,
2 NERA updates its analysis for the Commission.

3 The day after bids are due, NERA provides to the Commission a full factual
4 report on the results of the solicitation. This report summarizes the efforts to
5 inform potential suppliers of the solicitation, the results of the procedure to
6 qualify bidders, as well as the results of the evaluation of the bids. The
7 Commission renders a decision on the results of the solicitation within one
8 business day of the submission of the report. If the Commission does not act
9 within one business day of receiving the confidential report, the results of the
10 solicitation are deemed approved.

11 **16. Q. What changes are you proposing to the RFP process?**

12 A. I am proposing the following modifications to the RFP process.

- 13 • Minor changes to the specific language of representations and
14 warranties for bidder qualification to conform to the Uniform SMA;
- 15 • Requiring only winning bidders to execute the Uniform SMA and
16 related documents; and
- 17 • Allowing bidders to submit portions of their Part 1 and Part 2
18 proposals electronically via a secure customized application website.

19 **17. Q. How will changes to the timing of execution of the SMA and related
20 documents improve the RFP process?**

21 A. Currently, the Uniform SMA and related documents, including the guaranty for
22 those bidders relying on the financial standing of a guarantor, are prepared and

1 executed by all bidders in conjunction with their submission of the Part 2 forms.
2 Requiring only winning bidders to execute those documents will save the time
3 and effort in the preparation of the documents for bidders that do not win and also
4 streamlines the Part 2 proposal process for bidders. I would expect this to reduce
5 the administrative cost of each solicitation and the burden of participation for
6 bidders, which will continue to promote robust participation in the RFP process.

7 **18. Q. How will the submission of certain Part 1 and Part 2 forms electronically**
8 **improve the RFP process?**

9 A. Currently, all Part 1 and Part 2 forms are submitted in hard copy. Using an online
10 platform for particular aspects of the RFP process, as appropriate and if cost-
11 effective, reduces the amount of time for a bidder to submit its proposal.
12 Information submitted in a prior solicitation is saved and available for the bidder
13 as a starting point. Furthermore, an online form can be easier to complete as
14 certain fields in the form would only appear if appropriate for the particular
15 circumstances of a bidder. Although the entire RFP process cannot be moved
16 online (e.g., the pre-bid letter of credit must be submitted as a hardcopy
17 document), allowing the submission of certain forms online should reduce the
18 burden to bidders and encourage participation.

19 **19. Q. Are NERA's proposals on these items reflected in PECO Ex. CL-2, the**
20 **proposed RFP, and in PECO Ex. CL-3, the RFP Protocol?**

21 A. Yes.

22

1 **III. CALCULATION OF TRANCHE TARGETS**
2 **AND APPLICABLE LOAD CAPS**

3 **20. Q. Please summarize the products PECO proposes to procure under DSP III.**

4 A. For procurement and rate design purposes, PECO divides its customers into the
5 following classes:

- 6 • Residential;
- 7 • Small Commercial (below 100 kW);
- 8 • Medium Commercial (100 kW to 500 kW);
- 9 • Large Commercial and Industrial (“Large C&I”) (over 500 kW).

10 As was the case under DSP II, PECO proposes to continue to procure full
11 requirements supply through an RFP process for all of its default service
12 customers. The full requirements supply is on a fixed-price basis except for the
13 Large Commercial and Industrial Class where the energy is priced to the PJM
14 day-ahead market.

15 Under DSP III, default service supply for the Residential Class would consist
16 primarily of overlapping one-year and two-year contracts procured approximately
17 two to four months prior to delivery. In addition, as Mr. McCawley explains in
18 PECO Statement No. 3, PECO is proposing to replace the 50 MW block of the
19 five-year product from DSP I that expires on December 31, 2015 with a four year,
20 five-month full requirements product split into two tranches.

21 Default service supply for the Small Commercial Class would consist of laddered
22 one-year contracts also procured approximately two to four months prior to
23 delivery. Default service supply for the Medium Commercial Class would consist

1 of six-month contracts (no laddering) procured shortly before the beginning of
2 each supply period. Finally, default service supply for the Large C&I Class
3 would consist of spot-priced twelve-month full requirements contracts.

4 **21. Q. Please explain the calculation of tranche targets for the products under DSP**
5 **III.**

6 A. The tranche target for a Class is the total number of tranches procured for that
7 Class. The tranche size, as used in the RFP Rules, is the percentage of the Default
8 Service Class load represented by a tranche.

9 Under DSP III, PECO proposes to maintain the tranche size of the Residential
10 Class and to procure a total of 62 tranches. The remaining 1.06% of the default
11 service residential customer load will be supplied through spot purchases.

12 For the Small Commercial and Medium Commercial Classes, PECO will procure
13 the same number of tranches as in DSP II (i.e., 24 and 12 tranches, respectively).

14 For the Large C&I Class, PECO will procure 8 tranches. This is the same number
15 of tranches procured in the last solicitation under DSP II in which this Class was
16 included. As was the case under DSP II, to account for the growing number of
17 these customers that take service from an EGS, the RFP Rules allow PECO and
18 the Independent Evaluator to re-size these tranches if the amount of default
19 service load changes during the course of DSP III.

20 **22. Q. Is PECO proposing a change to the load cap percentage for DSP III?**

21 A. No. As in DSP II, each supplier may not hold at any one time more than 50% of
22 all tranches for a Class. For purposes of this calculation, tranches won by a

1 supplier under DSP II that have a supply period that continues into the DSP III
2 period are included.

3 **IV. NERA'S ROLE AS INDEPENDENT EVALUATOR**

4 **23. Q. Do you propose any changes to the division of responsibilities for the**
5 **administration of the RFP Process?**

6 A. No.

7 **24. Q. Do you propose any changes to the RFP Protocol regarding interactions**
8 **between NERA and PECO?**

9 A. No. The process has worked well and there is no reason for change.

10 **V. CONCLUSION**

11 **25. Q. Dr. LaCasse, does this conclude your direct testimony?**

12 A. Yes.