

Richard G. Webster, Jr.
Vice President
Regulatory Policy and Strategy

Telephone 215.841.4000 ext 5777
Fax 215.841.6208
www.peco.com
dick.webster@peco-energy.com

PECO
2301 Market Street, 515
Philadelphia, PA 19103

Direct Dial: 215 841 5777

April 1, 2014

VIA ELECTRONIC FILING

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

RE: PECO Energy Company's Annual Asset Optimization Plan
Docket No. M-2014-

Dear Ms. Chiavetta:

Enclosed for filing in the above referenced matter is PECO Energy Company's Annual Asset Optimization Plan. If you have any questions regarding this filing, please do not hesitate to contact me.

Respectfully submitted,



Richard G. Webster, Jr.
VP, Regulatory Policy and Strategy
For PECO Energy Company

RGW/dlk

cc: Parties of Record

CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served a copy of the **2014 Annual Asset Optimization Plan** relating to **PECO Energy Company's Gas Long Term Infrastructure Improvement Plan**, on the following persons in the matter specified in accordance with the requirements of 52 Pa. Code § 1.54:

VIA ELECTRONIC MAIL AND FIRST CLASS MAIL

Tanya J. McCloskey
Acting Consumer Advocate
Office of Consumer Advocate
Forum Place, 5th Floor
555 Walnut Street
Harrisburg, PA 17101-1923
tmccloskey@paoca.org

John R. Evans
Small Business Advocate
Office of Small Business Advocate
Commerce Building, Suite 1102
300 North Second Street
Harrisburg, PA 17101
jorevan@pa.gov

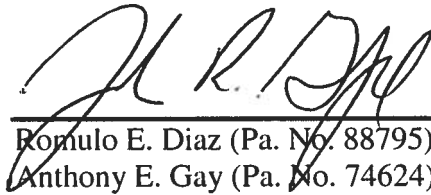
Jonnie E. Simms
Director
Bureau of Investigation and Enforcement
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120
josimms@pa.gov

Paul T. Diskin
Director
Bureau of Technical Utility Services
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120
pldiskin@pa.gov

Charis Mincavage
McNees Wallace & Nurick LLC
P.O. Box 1166
100 Pine Street
Harrisburg, PA 17108-1166
cmincavage@mwn.com
Counsel for PAIEUG

Arthur Z. Schwartz, Esquire
Advocates for Justice and Reform Now, PC
c/o Schwartz, Lichten & Bright
275 Seventh Avenue, Suite 1760
New York, NY 10001
districtleader@msn.com
*Counsel for Pennsylvania Communities
Organizing for Change*

Charles T. Joyce, Esquire
Spear Wilderman, P.C.
230 South Broad Street, Suite 1400
Philadelphia, PA 19102
cjoyce@spearwilderman.com
*Counsel for Local 614 – International
Brotherhood of Electric Workers*



Romulo E. Diaz (Pa. No. 88795)
Anthony E. Gay (Pa. No. 74624)
Jack R. Garfinkle (Pa. No. 81892)
PECO Energy Company
2301 Market Street
Philadelphia, PA 19103
Phone: 215.841.4608
Fax: 215.841.3389
E-mail: Jack.garfinkle@exeloncorp.com

Dated: April 1, 2014

PECO ENERGY COMPANY
ANNUAL ASSET OPTIMIZATION
PLAN
Docket No. M-2014-

PECO ENERGY COMPANY
ANNUAL ASSET OPTIMIZATION PLAN
Docket No. M-2014-

I. INTRODUCTION

On February 14, 2012, Governor Corbett signed into law Act 11 of 2012 (“Act 11”), which amended the Public Utility Code in several respects, including the addition of Subchapter B (66 Pa. C.S. §§ 1350-1360), which authorizes the Pennsylvania Public Utility Commission (“PUC” or “Commission”) to approve a distribution system improvement charge (“DSIC”) upon petition by an electric distribution company, a natural gas distribution company, a water utility or a wastewater utility. In addition, Subchapter B sets forth various requirements that must be satisfied by a qualifying utility in order to establish a DSIC and to recover the reasonable and prudent costs to repair, improve or replace eligible property.

On August 2, 2012, the Commission entered its Final Implementation Order in *Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (“Implementation Order”). Most of the Implementation Order is devoted to explaining how the Commission intends to implement the provisions of Subchapter B. Among other things, the Implementation Order sets forth the Commission’s expectations with regard to the contents of: (1) a Long Term Infrastructure Improvement Plan (“LTIIIP”), which must be filed as a precursor to a request to establish a DSIC (*see* 66 Pa.C.S. § 1352); and (2) Annual Asset Optimization Plans (“AAO Plans”), which must be filed each year by a utility that has an approved DSIC and LTIIIP (*see* 66 Pa.C.S. § 1356).

The Commission noted in the Implementation Order that, in their view, AAO Plans are intended to provide the Commission and the public an overall status report regarding a utility’s progress in making infrastructure improvements pursuant to its Commission-approved LTIIIP (*see* Implementation Order at 30). The Commission expects that AAO

Plans will demonstrate compliance and progress in meeting the LTIP and to identify a utility's near-term construction projects that will be funded by the DSIC, consistent with the LTIP.

On March 14, 2013, the Commission entered a Proposed Rulemaking Order ("2013 Order") to establish the procedures and criteria for the filing and subsequent periodic review of LTIPs. Section 121.6 of the 2013 Order included proposed required elements for, and procedures for filing, AAO Plans (*see* 2013 Order at §121.6). Comments to the 2013 Order were filed by a number of interested parties. On January 2, 2014 the Independent Regulatory Review Commission ("IRRC") submitted comments to the Commission regarding the 2013 Order. The Commission has not yet issued a Final Order in this docket.

Pursuant to Act 11 and the 2013 Order, the required AAO Plan elements are as follows: (1) a description of all eligible property repaired, improved and replaced in the immediately preceding 12 month period pursuant to the utility's LTIP; and (2) a detailed description of all the facilities to be improved in the upcoming 12 months.¹

On May 9, 2013 the Pennsylvania Public Utility Commission ("PUC") approved PECO's LTIP, covering the period 2013 to 2022. Although PECO does not yet have an approved DSIC, and is therefore, not required to make an AAO Plan filing, PECO is providing this AAO Plan on an information-only basis. This filing is the first annual update to PECO's approved LTIP.

PECO is filing copies of this AAO Plan with the Commission's Bureau of Investigation and Enforcement, the Office of Consumer Advocate, the Office of Small Business Advocate and the interested parties that were a part of the proceeding in which PECO's LTIP was approved (Docket No. P-2013-2347340).

¹ The 2013 Order also proposed including as a required element of an AAO Plan "system reliability data for the prior 5 years." A number of parties, including the IRRC, commented on the necessity of including this information as it is beyond the scope of Act 11 and is not relevant for non-electric utilities. As no Final Order has been entered regarding this matter, PECO has not included system reliability data in this AAO Plan filing.

II. REQUIRED ELEMENTS OF THE AAO PLAN

Description of all Eligible Property Repaired, Improved and Replaced in the Immediately Preceding 12-Month Period Pursuant to PECO's LTIP²

Exhibit A attached hereto provides summary data with respect to main and service replacements that were made in LTIP year 2013. As shown in Exhibit A, PECO met its 2013 LTIP goals for both main replacement and service replacement. In fact, the main replacement mileage achieved exceeded the high end of the estimated range for the LTIP. The LTIP had estimated 27-32 miles of main would be replaced, whereas actual results were 33 miles of main were replaced. This represents an increase of 18 miles over the high end of PECO's historic annual replacement baseline. The replaced main consisted of:

- 18.9 miles of cast iron main;
- 7.1 miles of bare steel main;
- 6.4 miles of wrought iron main; and
- 0.6 miles of ductile iron main.

The majority of the mains replaced were located in Delaware and Montgomery counties.

With respect to service replacements, the LTIP estimated that a total of 2,800 bare steel services would be replaced in 2013. PECO ended 2013 with a total of 3,035 service replacements consisting of 2,546 bare steel services, 413 coated steel services and 76 copper services.

PECO had fewer bare steel service replacements primarily because the mix of main replacements, leaks and blockages repaired during calendar year 2013 impacted fewer bare steel services, but did include approximately 500 coated steel and copper services.

² Some commentators to the 2013 Order noted that it was not certain from when the 12-month period set forth in the Act should be measured. As no Final Order has yet been entered regarding this issue, PECO has used the 12-month calendar period for reporting purposes, which is consistent with how it reports similar information to the U.S. Department of Transportation.

Although PECO replaced fewer bare steel services than anticipated for 2013, PECO does still intend to replace all bare steel services by the end of the 10-year LTIP period.

Description of the Facilities to be Improved in the Upcoming 12-Month Period (2014)

For LTIP year 2014, PECO expects that it will meet its goal to replace approximately 27-32 miles of main, consisting of cast iron, wrought iron, ductile iron and bare steel main. In addition, PECO expects to replace approximately 2,800 services in 2014, consisting primarily of bare steel. PECO expects that the majority of the mains to be replaced in 2014 will be located in Delaware and Montgomery counties.

EXHIBIT A

PECO ENERGY COMPANY
ANNUAL ASSET OPTIMIZATION PLAN FOR 2013
SUMMARY OF LTIP EXPENDITURES
ACTUAL VS. PLANNED

	2013 Plan	2013 Actual	2014 LTIP
Base Main (Miles)	11.0 -15.0	13.3	11.0 - 15.0
Accelerated Main (Miles)	16.0 - 17.0	19.7	16.0 - 17.1
Total	27.0-32.0	33	27.0-32.1
Base Services (each)	2200	2200	2200
Accelerated Services (each)	600	346	600
Total *	2800	2546	2800

Million \$	2013 Plan	2013 Actual	2014 LTIP
Base Main	\$ 13.5	\$ 13.2	\$ 15.0
Accelerated Main	\$ 19.3	\$ 20.5	\$ 19.1
Total Main	\$ 32.8	\$ 33.7	\$ 34.1
Base Services	\$ 1.2	\$ 1.5	\$ 1.8
Accelerated Services	\$ 1.0	\$ 0.6	\$ 1.0
Total Services	\$ 2.2	\$ 2.1	\$ 2.8
Facilities Relocation	\$ 3.1	\$ 3.0	\$ 3.1
Total	\$ 38.1	\$ 38.8	\$ 40.0

* In 2013 PECO replaced a total of 3035 services versus the targeted 2800.
The 3035 consists of 2546 bare steel, 413 coated steel, and 76 copper services.
Only the bare steel services are included in the table.