

Morgan, Lewis & Bockius LLP  
1701 Market Street  
Philadelphia, PA 19103-2921  
Tel: 215.963.5000  
Fax: 215.963.5001  
www.morganlewis.com

**Morgan Lewis**  
C O U N S E L O R S   A T   L A W

Thomas P. Gadsden  
Partner  
215.963.5234  
tgadsden@MorganLewis.com

August 5, 2014

**VIA eFILING**

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
P.O. Box 3265  
Harrisburg, PA 17105-3265

**Re:   Petition of PECO Energy Company for Approval of Its Default Service Program  
From June 1, 2015 Through May 31, 2017  
Docket No. P-2014-2409362**

---

Dear Secretary Chiavetta:

Enclosed for filing is the Initial Brief of PECO Energy Company (“Initial Brief”) in the above-referenced matter.

As evidenced by the attached Certificate of Service, a copy of the Initial Brief has been served upon Administrative Law Judge Cynthia Williams Fordham, and all parties of record.

Should you have any questions, please contact me directly at 215.963.5234. Thank you.

Sincerely,



Thomas P. Gadsden

TPG/tp

Enclosures

c:     Per Certificate of Service (w/encls.)

Almaty Beijing Boston Brussels Chicago Dallas Dubai\* Frankfurt Harrisburg Houston Irvine London Los Angeles Miami  
Moscow New York Palo Alto Paris Philadelphia Pittsburgh Princeton San Francisco Tokyo Washington Wilmington

\*In association with Mohammed Buhashem Advocates & Legal Consultants

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PECO ENERGY COMPANY** :  
**FOR APPROVAL OF ITS DEFAULT** :  
**SERVICE PROGRAM FOR THE PERIOD** : Docket No. P-2014-2409362  
**FROM JUNE 1, 2015 THROUGH** :  
**MAY 31, 2017** :

**CERTIFICATE OF SERVICE**

I hereby certify and affirm that I have this day served a copy of **PECO Energy** Company's Initial Brief on the following persons in the matter specified in accordance with the requirements of 52 Pa. Code § 1.54:

**VIA ELECTRONIC MAIL AND HAND-DELIVERY**

Honorable Cynthia Williams Fordham  
Administrative Law Judge  
Pennsylvania Public Utility Commission  
801 Market Street, Suite 4063  
Philadelphia, PA 19107  
[cfordham@pa.gov](mailto:cfordham@pa.gov)

**VIA ELECTRONIC MAIL AND FIRST CLASS MAIL**

Daniel Clearfield  
Deanne M. O'Dell  
Sarah C. Stoner  
Eckert Seamans Cherin & Mellott, LLC  
213 Market Street, 8th Floor  
Harrisburg, PA 17101  
[dclearfield@eckertseamans.com](mailto:dclearfield@eckertseamans.com)  
[dodell@eckertseamans.com](mailto:dodell@eckertseamans.com)  
[sstoner@eckertseamans.com](mailto:sstoner@eckertseamans.com)  
*Counsel for RESA and Direct Energy  
Services, LLC*

Elizabeth Rose Triscari  
Assistant Small Business Advocate  
Office of Small Business Advocate  
Suite 1102, Commerce Tower  
300 North Second Street  
Harrisburg, PA 17101  
[etriscari@pa.gov](mailto:etriscari@pa.gov)

Johnnie E. Simms  
Director  
Bureau of Investigation & Enforcement  
Pennsylvania Public Utility Commission  
Commerce Keystone Building  
400 North Street, 2nd Floor  
Harrisburg, PA 17105-3265  
[josimms@pa.gov](mailto:josimms@pa.gov)

Charis Mincavage  
Adeolu A. Bakare  
McNees Wallace & Nurick LLC  
100 Pine Street  
P.O. Box 1166  
Harrisburg, PA 17108-1166  
[cmincavage@mwn.com](mailto:cmincavage@mwn.com)  
[abakare@mwn.com](mailto:abakare@mwn.com)  
*Counsel for PAIEUG*

David P. Zambito  
Cozen O'Connor  
305 North Front Street, Suite 400  
Harrisburg, PA 17101-1236  
[dzambito@cozen.com](mailto:dzambito@cozen.com)  
*Counsel for FirstEnergy Solutions Corp.*

Christy M. Appleby  
Candis A. Tunilo  
Lauren M. Burge  
Assistant Consumer Advocates  
Office of Consumer Advocate  
555 Walnut Street  
5th Floor, Forum Place  
Harrisburg, PA 17101-1923  
[cappleby@paoca.org](mailto:cappleby@paoca.org)  
[ctunilo@paoca.org](mailto:ctunilo@paoca.org)  
[lburge@paoca.org](mailto:lburge@paoca.org)

Harry S. Geller  
Patrick M. Cicero  
Pennsylvania Utility Law Project  
118 Locust Street  
Harrisburg, PA 17101  
[pulp@palegalaid.net](mailto:pulp@palegalaid.net)  
*Counsel for Coalition for Affordable Utility  
Services and Energy Efficiency in  
Pennsylvania*

Amy M. Klodowski  
FirstEnergy Solutions Corp.  
800 Cabin Hill Drive  
Greensburg, PA 15601  
[aklodow@firstenergycorp.com](mailto:aklodow@firstenergycorp.com)  
*Counsel for FirstEnergy Solutions Corp.*

Todd S. Stewart  
Hawke, McKeon & Sniscak LLP  
P.O. Box 1778  
100 North Tenth Street  
Harrisburg, PA 17105-1778  
[tsstewart@hmslegal.com](mailto:tsstewart@hmslegal.com)  
*Counsel for Interstate Gas Supply, Inc.*

Thomas J. Sniscak  
Todd S. Stewart  
Judith D. Cassel  
Hawke, McKeon & Sniscak LLP  
P.O. Box 1778  
100 North Tenth Street  
Harrisburg, PA 17105-1778  
[tjsniscak@hmslegal.com](mailto:tjsniscak@hmslegal.com)  
[tsstewart@hmslegal.com](mailto:tsstewart@hmslegal.com)  
[jdcassel@hmslegal.com](mailto:jdcassel@hmslegal.com)  
*Counsel for NextEra Energy Power  
Marketing, LLC*

Michael A. Gruin  
Stevens & Lee  
17 North Second Street, 16th Floor  
Harrisburg, PA 17101  
[mag@stevenslee.com](mailto:mag@stevenslee.com)  
*Counsel for PECO Energy Suppliers Group*

Charles E. Thomas, III  
Thomas, Long, Niesen & Kennard  
212 Locust Street, Suite 500  
P.O. Box 9500  
Harrisburg, PA 17108-9500  
[cet3@thomaslonglaw.com](mailto:cet3@thomaslonglaw.com)  
*Counsel for Noble Americas Energy Solutions LLC*

Becky Merola  
Government Affairs East  
Noble Americas Energy Solutions LLC  
5325 Sheffield Avenue  
Powell, OH 43065  
[bmerola@noblesolutions.com](mailto:bmerola@noblesolutions.com)  
*Counsel for Noble Americas Energy Solutions LLC*

  
Thomas P. Gadsden (Pa. No. 28478)  
Kenneth M. Kulak (Pa. No. 75509)  
Brooke E. McGlinn (Pa. No. 204918)  
Morgan, Lewis & Bockius LLP  
1701 Market Street  
Philadelphia, PA 19103-2921  
215.963.5234 (bus)  
215.963.5001 (fax)  
[tgadsden@morganlewis.com](mailto:tgadsden@morganlewis.com)

*Counsel for PECO Energy Company*

Date: August 5, 2014

**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-2014-2409362**

**INITIAL BRIEF OF  
PECO ENERGY COMPANY**

**Before Administrative Law Judge  
Cynthia W. Fordham**

Romulo L. Diaz, Jr.  
(Pa. No. 88795)  
Anthony E. Gay  
(Pa. No. 74624)  
W. Craig Williams  
(Pa. No. 306405)  
PECO Energy Company  
2301 Market Street  
Philadelphia, PA 19101

Thomas P. Gadsden  
(Pa. No. 28478)  
Kenneth M. Kulak  
(Pa. No. 75509)  
Brooke E. McGlinn  
(Pa. No. 204918)  
Morgan, Lewis & Bockius LLP  
1701 Market Street  
Philadelphia, PA 19103-2921

*Counsel for PECO Energy Company*

August 5, 2014

## TABLE OF CONTENTS

	Page
I. INTRODUCTION AND PROCEDURAL HISTORY.....	1
II. DEFAULT SERVICE PROCUREMENT AND IMPLEMENTATION PLANS.....	3
A. Summary Of PECO’s Position.....	3
B. Residential Class Procurement .....	8
1. Term Length Of Supply Contracts.....	8
a. Replacement Of Expiring Block Supply.....	8
b. RESA’s Alternative Portfolio for the Residential Class .....	9
2. Procurement Schedule .....	15
C. Small Commercial Class Procurement .....	16
D. Medium Commercial Class Procurement .....	17
E. Large Commercial And Industrial Class Procurement .....	19
F. Extension Of Supply Contracts Beyond May 31, 2017.....	20
G. Contingency Plans .....	21
H. Uniform Supply Master Agreement.....	24
I. Other Procurement And Implementation Plan Requirements .....	26
III. RATE DESIGN AND COST RECOVERY .....	29
A. Summary Of PECO’s Position.....	29
B. Reconciliation Of Default Service Costs And Revenues.....	33
C. Recovery Of Certain PJM Charges.....	37
IV. STANDARD OFFER PROGRAM.....	41
A. Summary Of PECO’s Position.....	41
B. Operational Changes.....	42
C. Implementation Costs .....	46
D. Standard Offer Program Collaborative .....	47
V. CONCLUSION.....	49

TABLE OF AUTHORITIES

	Page(s)
<b>CASES</b>	
<i>Default Serv. and Retail Elec. Mkts,</i> Docket No. M-2009-2140580 (Pa. P.U.C. Sept. 23, 2011) .....	5, 21
<i>I/M/O The Provision of Basic Generation Serv. For The Period Beginning June 1, 2014,</i> Docket No. ER13050378 (N.J.B.P.U. Feb. 12, 2014) .....	25
<i>Implementation of Act 129 of October 15, 2008; Default Service and Retail Electric Markets,</i> Docket No. L-2009-2095604, 2011 WL 4826268 (Pa. P.U.C. Oct. 4, 2011).....	5, 8, 12
<i>Investigation of Pennsylvania’s Retail Electricity Market: End State of Default Serv.,</i> Docket No. I-2011-2237952 (Pa. P.U.C. Feb. 15, 2014).....	passim
<i>Joint Petition of Metropolitan Edison Co., Pennsylvania Elec. Co., Pennsylvania Power Co. and West Penn Power Co. for Approval of Their Default Serv. Programs,</i> Docket Nos. P-2011-2273650, P-2011-2273668, P-2011-2273669 and P-2011- 2273670 (Pa. P.U.C. Aug. 16, 2012) .....	14, 38, 40
<i>Joint Petition of Metropolitan Edison Co., Pennsylvania Elec. Co., Pennsylvania Power Co. and West Penn Power Co. for Approval of Their Default Serv. Programs,</i> Docket Nos. P-2013-2391368, P-2013-2391372, P-2013-2391375 and P-2013- 2391378 (Pa. P.U.C. July 24, 2014) .....	passim
<i>Petition of Duquesne Light Co. For Approval of a Default Serv. Program and Procurement Plan,</i> Docket No. P-2012-2301664 (Pa. P.U.C. Jan. 23, 2013) .....	40
<i>Petition of PECO Energy Co. for Approval of (1) A Process to Procure Alternative Energy Credits during the AEPS Banking Period and (2) A Section 1307 Surcharge and Tariff to Recover AEPS Costs,</i> Docket No. P-00072260 (Pa. P.U.C. Dec. 26, 2007).....	27
<i>Petition of PECO Energy Co. for Approval of Its Default Serv. Plan and Rate Mitigation Plan,</i> Docket No. P-2008-2062739 (Pa. P.U.C. June 2, 2009) .....	6
<i>Petition of PECO Energy Co. for Approval of Its Default Serv. Program II,</i> Docket No. P-2012-2283641 (Pa. P.U.C. October 12, 2012).....	1
<i>Petition of PECO Energy Co. for Approval of Its Default Serv. Program II,</i> Docket No. P-2012-2283641 (Pa. P.U.C. February 14, 2013) .....	1, 48

<i>Petition of PECO Energy Co. for Approval of Its Default Serv. Program II, Docket No. P-2012-2283641 (Pa. P.U.C. June 13, 2013)</i> .....	1, 45
<i>Petition of PECO Energy Co. for Approval of Its Default Serv. Plan, Docket No. P-2012-2283641 (Pa. P.U.C. Jan. 24, 2014)</i> .....	34
<i>Petition of PECO Energy Co. for Approval of Its Smart Meter Technology Procurement and Installation Plan, Docket No. M-2009-2123944 (Pa. P.U.C. May 6, 2010)</i> .....	18
<i>Petition of PECO Energy Co. for Approval of Its Smart Meter Universal Deployment Plan, Docket No. PM-2009-2123944 (Pa. P.U.C. Aug. 15, 2013)</i> .....	18
<i>Petition of PECO Energy Co. for Approval to Procure Solar Alternative Energy Credits, Docket No. P-2009-2094494 (2009)</i> .....	27
<i>Petition of PECO Energy Co. for Approval to Procure Tier II Alternative Energy Credits and Additional Tier I and Solar Alternative Energy Credits, Docket No. P-2010-2210975 (Pa. P.U.C. Feb. 14, 2011)</i> .....	27
<i>Petition of PECO Energy Co. for Approval to Procure Tier II Alternative Energy Credits Through Independent Brokers, Docket No. P-2014-2408725 (Pa. P.U.C. Apr. 23, 2014)</i> .....	27
<i>Petition of Pike County Light &amp; Power Co. for Approval of Its Default Svs. Implementation Plan, Docket No. P-2011-2252042, (Pa. P.U.C. May 24, 2012)</i> .....	9
<i>Petition of PPL Elec. Utils. For Approval of a Default Serv. Program and Procurement Plan, Docket No. P-2012-2302074 (Pa. P.U.C. Jan. 23, 2013)</i> .....	35
<i>Popowsky v. Pennsylvania Pub. Util. Comm'n., 71 A.3d 1112 (Pa. Cmwlth. Ct. 2013)</i> .....	9, 12, 13
<i>Rulemaking to Amend the Provisions of 52 Pa. Code, Section 54.5 Regulations Regarding Disclosure Statement for Residential and Small Business Customers and to Add Section 54.10 Regulations Regarding the Provision of Notices of Contract Expiration or Changes in Terms for Residential and Small Business Customers, Docket No. L-2014-2409385 (Pa. P.U.C. Apr. 3, 2014)</i> .....	44

**STATUTES AND REGULATIONS**

66 Pa.C.S. § 2807(e) .....	1
66 Pa.C.S. § 2807(e)(3.2).....	9

66 Pa.C.S. § 2807(e)(3.4).....	3
66 Pa. C.S. § 2807(e)(3.6).....	26
66 Pa.C.S § 2807(e)(3.7).....	7, 49
66 Pa. C.S. § 2807(e)(3.7)(iii).....	29
66 Pa.C.S. § 2807(e)(7).....	31
73 Pa.C.S. § 1648.1 <i>et seq.</i> .....	26
52 Pa. Code §§ 54.181 – 54.189 .....	5
52 Pa. Code § 54.185(c).....	2
52 Pa. Code § 54.185(d) .....	21
52 Pa. Code § 54.185(e)(4) .....	28
52 Pa. Code § 54.185(e)(6) .....	24, 28
52 Pa. Code § 54.186(b)(6).....	28
52 Pa. Code § 54.186(c)(3) .....	27
52 Pa. Code § 54.187(g) .....	33
52 Pa. Code §§ 54.187(i) and (j).....	31, 33
52 Pa. Code § 54.187(k) .....	31
52 Pa. Code §§ 69.1801- 69.1817.....	1, 5
52 Pa. Code § 69.1804.....	7
52 Pa. Code § 69.1805(1) .....	21
52 Pa. Code § 69.1808 .....	30

## I. INTRODUCTION AND PROCEDURAL HISTORY

This proceeding was initiated on March 10, 2014, when PECO Energy Company (“PECO” or the “Company”) filed a Petition (“Petition”) pursuant to Section 2807(e) of the Pennsylvania Public Utility Code (the “Public Utility Code” or “Code”), 66 Pa.C.S. § 2807(e), requesting that the Pennsylvania Public Utility Commission (the “Commission”) approve PECO’s Default Service Program for the period from June 1, 2015 to May 31, 2017 (“DSP III”). DSP III is PECO’s third default service program and is designed to ensure that PECO’s default service customers continue to have access to an adequate and reliable electric generation supply at the least cost over time and to enable PECO to recover its costs of furnishing that service. As described in the Petition, PECO’s DSP III contains all of the elements of a default service plan required by the Code, the Commission’s default service regulations (52 Pa. Code §§ 54.181 – 54.189), and the Commission’s Policy Statement on Default Service (52 Pa. Code §§ 69.1801 – 69.1817), including procurement, implementation, and contingency plans, a rate design plan, and copies of the agreements and forms to be used in the procurement of default service supply. PECO’s Petition also proposes continuation of the Company’s Electric Generation Supplier (“EGS”) Standard Offer Program (“Standard Offer Program” or “SOP”), including the associated cost recovery mechanism, approved by the Commission as part of PECO’s current default service program.<sup>1</sup>

---

<sup>1</sup> See *Petition of PECO Energy Co. for Approval of Its Default Serv. Program II*, Docket No. P-2012-2283641 (Order entered October 12, 2012) (“*October 2012 Order*”). In the *October 2012 Order*, the Commission approved PECO’s DSP II with certain modifications and also directed PECO to submit new proposals for various elements of its proposed retail market enhancements. In response, PECO made a series of compliance filings (December 11, 2012; February 28, 2013; and April 15, 2013), which were approved by a Secretarial Letter issued January 25, 2013, an Order entered February 14, 2013 (“*February 2013 Order*”), and an Order entered June 13, 2013 (“*June 2013 Order*”), respectively (collectively, “DSP II Orders”).

Copies of the Petition were served in accordance with 52 Pa. Code § 54.185(c).

Additionally, on March 22, 2014, the *Pennsylvania Bulletin* published the Commission's Notice setting a deadline for filing protests, complaints or petitions to intervene by April 1, 2014 and scheduling a Prehearing Conference for April 12, 2014 before Administrative Law Judge ("ALJ") Cynthia W. Fordham. Thereafter, the following entities were afforded active party status in this case:

Office of Consumer Advocate	("OCA")
Office of Small Business Advocate	("OSBA")
Coalition for Affordable Utility Service and Energy Efficiency in Pennsylvania	("CAUSE-PA")
Direct Energy Services, LLC	("Direct Energy")
FirstEnergy Solutions Corp.	("FES")
Interstate Gas Supply	("IGS")
NextEra Power Marketing, LLC	("NEPM")
Noble Americas Energy Solutions, LLC	("Noble")
PECO Energy Suppliers Group	("PESG")
Philadelphia Area Industrial Energy Users Group	("PAIEUG")
Retail Energy Supply Association	("RESA")

At the Prehearing Conference, a schedule was established for submitting written testimony, holding evidentiary hearings and filing briefs. *See* Second Prehearing Order (April 14, 2014). Written direct, rebuttal and surrebuttal testimony were submitted by various parties on the dates established for each submission. Attached hereto as Appendix A is a list of written statements and accompanying exhibits (if any) submitted by witnesses appearing on behalf of PECO.

The parties to this case also engaged in extensive discovery. PECO responded to 87 interrogatories, and other parties collectively responded to 28 interrogatories, with many containing multiple subparts.

An evidentiary hearing was held in Philadelphia, Pennsylvania on July 17, 2014. At the hearing, various witnesses were cross-examined and the testimony and exhibits of all parties

were admitted into evidence. The ALJ subsequently approved an outline for the briefing of issues in this proceeding, and this Initial Brief describes PECO's DSP III Default Service Procurement and Implementation Plan and addresses the issues raised by other parties in accordance with the approved outline.

## **II. DEFAULT SERVICE PROCUREMENT AND IMPLEMENTATION PLANS**

### **A. Summary Of PECO's Position**

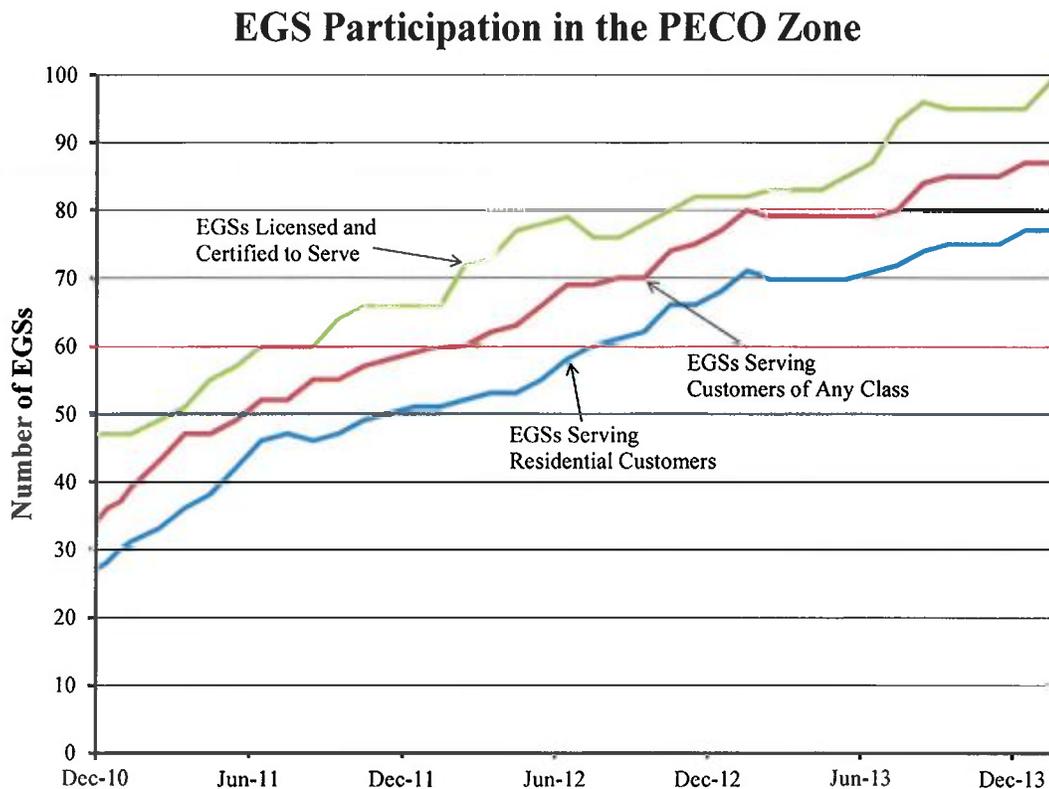
PECO's DSP III seeks to build on the success of PECO's first two default service programs ("DSP I" and "DSP II"). PECO has met all of its obligations to date under DSP I and DSP II, including its fundamental statutory obligation, as default service provider, to provide competitively procured, reliable default service to default service customers at least cost over time. PECO St. No. 1, p. 5; 66 Pa.C.S. § 2807(e)(3.4). PECO's solicitations for default service supply in both DSP I and DSP II have generally attracted robust, competitive participation by wholesale suppliers, and the resulting prices for fixed-price, full requirements ("FPFR") contracts<sup>2</sup> – and their protection of default service customers from such unanticipated market events as the January 2014 "Polar Vortex" – have been reasonable. PECO St. No. 3, pp. 11-21; PECO St. No. 3-R, p. 16.

Since the commencement of DSP I, retail choice has expanded significantly in PECO's service territory: more than 60% of the electric generation requirements of PECO's 1.6 million distribution customers is now served by EGSs, with the percentage of customers that are being

---

<sup>2</sup> An FPFR contract requires a wholesale supplier to satisfy a specified percentage (or "tranche") of all of default service customers' supply requirements in every hour of the contract delivery period, regardless of the default service customers' instantaneous changes in energy consumption, or how frequently customers migrate to or from default service, and regardless of how the supplier's cost to satisfy its contractual supply obligations may change. FPFR products procured by PECO include energy, capacity, and ancillary services, as well as alternative energy credits ("AECs") needed to satisfy the requirements of Pennsylvania's Alternative Energy Portfolio Standards ("AEPS") Act. PECO St. No. 3, p. 10.

served by an EGS ranging from approximately 36% of the Residential Class to 60% of the Small Commercial Class, 84% of the Medium Commercial Class, and 96% of the Large Commercial and Industrial Class. PECO St. No. 3, p. 9. Over 100 EGSs are licensed by the Commission to compete to serve electric customers in PECO’s service territory – double the number of licensed EGSs at the beginning of DSP I – and more than 87 of those EGSs currently serve customers receiving distribution service from PECO. PECO St. Nos. 3, pp. 8-9 & 3-R, pp. 11-12. As shown in the following chart, the number of EGSs entering the market to pursue opportunities in PECO’s service territory continued to grow during DSP II:<sup>3</sup>



In designing DSP III, PECO has adhered to the same central principles used in DSP II:

- (1) Competitive forces will produce the least cost to customers over time and,

<sup>3</sup> PECO St. No. 3, p. 8.

therefore, the development of retail and wholesale energy markets should continue to be encouraged.

- (2) Obtaining a “prudent mix” of default generation supply contracts at least cost over time should take into account factors such as the benefits of price stability and reflect the different needs of various customer types through tailored procurement strategies.
- (3) Default service rate design should be understandable and reflect the competitive procurement of generation supply service.
- (4) Default service plans should reflect “lessons learned” under earlier default service plans to improve competitive default service procurements and further competitive markets while maintaining compliance with Public Utility Code requirements.

In implementing the fourth principle, PECO considered the Commission’s *End State Order*,<sup>4</sup> as well as its obligations under the Commission’s existing default service regulations<sup>5</sup> and policy statement,<sup>6</sup> and sought to incorporate Commission directives to the extent those directives did not involve potential legislative changes identified by the Commission which have not yet been enacted into law. PECO St. No. 1, pp. 6-7.

As in DSP I and DSP II, PECO proposes to procure default service supply for four default service classes: the Residential Class, the Small Commercial Class, the Medium Commercial Class, and the Large Commercial and Industrial Class. Each DSP class is comprised of established rate schedules under PECO’s tariff, and reflects differences between the classes with respect to customer usage and shopping patterns. PECO’s organization of customers into these four procurement classes reduces the potential that continuing increases in

---

<sup>4</sup> See *Investigation of Pennsylvania’s Retail Elec. Mkt.: End State of Default Serv.*, Docket No. I-2011-2237952 (Final Order entered February 15, 2013) (“*End State Order*”).

<sup>5</sup> See generally 52 Pa. Code §§ 54.181-54.189; see also *Implementation of Act 129 of October 15, 2008: Default Serv. and Retail Elec. Mkts.*, Docket No. L-2009-2095604 (Order entered October 4, 2011) (“*Act 129 Final Rulemaking Order*”).

<sup>6</sup> See generally 52 Pa. Code §§ 69.1801-1817; see also *Default Serv. and Retail Elec. Mkts.*, Docket No. M-2009-2140580 (Order entered September 23, 2011) (“*Default Service Policy Statement*”).

shopping in one customer group will lead to a higher default service price for another customer group. PECO St. No. 2, p. 6.<sup>7</sup>

For the Residential Class, PECO proposes to continue the procurement design established in DSP II, with approximately 96% of the total portfolio comprised of a mix of one-year and two-year FPFPR products (40% one-year full requirements products and 60% two-year full requirements products) and delivery periods that overlap on a semi-annual basis. During the DSP III period, the remaining approximately 4% of Residential Class supply currently obtained through a five-year block product (and associated spot-market purchases) expiring on December 31, 2015, will be replaced by a 53-month FPFPR product (3%) and spot purchases (1%), and all block contracts from DSP I and DSP II will be eliminated. PECO St. No. 2, pp. 10-11; PECO St. No. 2-R, p. 3.

The Small Commercial Class load will continue to be supplied by one-year full requirements products, each laddered with six-month spacing between procurements. For the Medium Commercial Class, PECO proposes to maintain its current portfolio of six-month fixed-price full requirements products without overlap.<sup>8</sup> Finally, with respect to the Large Commercial

---

<sup>7</sup> In DSP I, the Commission granted PECO a waiver from its regulations (52 Pa. Code § 54.187) providing that default service providers should design procurement classes based upon peak loads of 0-25 kW, 25-500 kW, and 500 kW and greater in order for PECO to utilize the Small Commercial and Medium Commercial customer procurement groups. See *Petition of PECO Energy Co. for Approval of Its Default Serv. Plan and Rate Mitigation Plan*, Docket No. P-2008-2062739 (Order entered June 2, 2009), pp. 6 & 9 (“PECO DSP I Order”). The Commission subsequently approved the same procurement classes in DSP II. See generally *October 2012 Order*. PECO is again requesting a waiver of the requirements of 52 Pa. Code § 54.187 in order to maintain its current procurement classes. PECO St. No. 2, p. 6.

<sup>8</sup> As discussed *infra*, the *End State Order* (pp. 31-32) provides that default service customers who have interval meters and peak demands above 100 kW should receive spot-priced default service products. While most of PECO’s Medium Commercial customers will soon have “smart” meters with interval data capabilities physically installed as part of PECO’s advanced meter infrastructure (“AMI”) deployment, PECO is requesting a waiver of this provision of the *End State Order* during DSP III pending the completion of AMI deployment for the entire Medium Commercial Class, including testing, implementation of back-office and other information technology (“IT”) systems, and integration with PECO’s billing system. PECO St. No. 2, pp. 7-8.

and Industrial Class, PECO proposes to continue to solicit spot-priced FPFR contracts for full requirements products for all default service supply. Each of the contracts for the Small Commercial and Medium Commercial Classes will be procured approximately two to four months prior to delivery of energy under the contract, with spot-priced contracts for the Large Commercial and Industrial Class procured annually in January. PECO St. No. 2, p. 12.

As in DSP II, and consistent with Commission regulations (52 Pa. Code § 69.1804), DSP III has a proposed term of two years, beginning June 1, 2015 and ending May 31, 2017. PECO St. No. 2, pp. 4-5. Notably, PECO's DSP III procurement plan limits the amount of laddered supply extending past May 31, 2017 and defers the solicitation of any contracts that would extend past that date until September 2015, leaving ample time to adjust (or eliminate) those solicitations to take into account any intervening changes in law that result in PECO no longer serving as the default service provider after May 31, 2017. This contingency approach is consistent with the Commission's decision in DSP II and avoids a "hard stop" on May 31, 2017 and the need to replace a large portion of default service supply in a short period of time when adverse short-term market conditions may exist. *See October 2012 Order*, p. 31; PECO St. No. 3, p. 30; PECO St. No. 3-R, p. 16.

PECO's DSP III is thus designed to obtain a "prudent mix" of contracts to provide adequate and reliable default service supply, at least cost over time, for all default service customers, as required by the Public Utility Code. *See* 66 Pa.C.S. 2807(e)(3.7). The type of FPFR contracts that PECO seeks to procure have already been approved by the Commission for default service supply and are well-tested in the marketplace. PECO St. No. 3, p. 26. Moreover, the procurement process is designed to ensure the least cost to customers by requiring qualified bidders in the supply product solicitations to compete and be selected based on the lowest price.

*Id.* PECO's proposed default service portfolios will continue to support the competitive retail market while providing customers with significant protection against changing market conditions and an appropriate degree of rate stability consistent with the objectives of Act 129 of 2008 and the Public Utility Code. *See* PECO St. No. 3, pp. 21-28; PECO St. No. 3-R, pp. 10 & 12-13.<sup>9</sup>

Most parties supported (or did not oppose) PECO's proposed procurement and implementation plans in this proceeding. In the following sections of this Initial Brief, PECO addresses the issues raised by the OCA and RESA regarding PECO's procurement and implementation plans and explains why the alternatives offered by these parties should be rejected.

## **B. Residential Class Procurement**

### **1. Term Length of Supply Contracts**

#### **a. Replacement of Expiring Block Supply**

The OCA is generally supportive of PECO's proposed procurement plan for Residential customers. OCA St. No. 1, p. 7. However, the OCA believes that PECO should replace the five-year block contract expiring on December 31, 2015, with spot-market purchases from PJM instead of PECO's proposed 53-month FPFR contract (and approximately 1% spot market purchases) because the OCA believes that suppliers will include an "excessive" risk premium in any 53-month product. *Id.* RESA agrees with the OCA that a 53-month contract will reflect a "significant" risk premium, and also opposes the 53-month product because its term will extend

---

<sup>9</sup> *See* Preamble, Act 129 of 2008; *see also* *Default Service Rulemaking Order*, p. 41 ("Price stability benefits are very important to some customer groups, so an interpretation of "least cost" that mandates subjecting all default service customers to significant price volatility through general reliance on short term pricing is inconsistent with Act 129's objectives"); *End State Order*, p. 45 (noting concern that "general pronouncement" directing a 90-day product for residential and small business customers may raise legal questions about compliance with the Public Utility Code).

beyond May 31, 2017 (an issue which PECO addresses in Section II.F, *infra*). See RESA St. No. 1-R, p. 15.

Under Section 2807(e)(3.2) of the Public Utility Code, the electric power procured pursuant to a default service plan “shall include a prudent mix” of spot-market purchases, short-term contracts, and long-term contracts. 66 Pa. C.S. § 2807(e)(3.2). While PECO recognizes that the Commission and the Commonwealth Court of Pennsylvania have clarified that the required “prudent mix” of default service supply can consist only of spot-market purchases in certain circumstances,<sup>10</sup> the conditions under which long-term contracts may be excluded in their entirety have not been established by the Commission or the courts. While PECO continues to believe that its proposed 53-month contract is an appropriate component of a “prudent mix” for purposes of rate stability, PECO is amenable to replacing the two tranches of 53-month product with two tranches of two-year FPFRR products, if so directed by the Commission. The OCA’s proposal to replace the 53-month product with spot-market purchases, which would provide no price stability benefits, should not be adopted. PECO St. No. 2, p. 6.

**b. RESA’s Alternative Portfolio for the Residential Class**

In response to PECO’s proposed DSP III portfolio for the Residential class, RESA proposes an alternative portfolio in which PECO’s one- and two-year FPFRR contract mix would be transitioned during DSP III to an FPFRR contract mix with much shorter contract terms. Specifically, RESA proposes that PECO transition to a default service portfolio consisting of three-month contracts (40%), six-month contracts (22%), 9-month contracts (17%), twelve-

---

<sup>10</sup> *Petition of Pike County Light & Power Co. for Approval of its Default Service Implementation Plan*, P-2011-2252042 (Opinion and Order entered May 24, 2012), *aff’d*, *Popowsky v. Pennsylvania Pub. Util. Comm’n*, 71 A.3d 1112 (Pa. Commw. Ct. 2013) (“*Pike County*”).

month contracts (20%), and 24-month contracts (less than 2%).<sup>11</sup> RESA St. No 1, pp. 3-4. RESA witness Hudson asserts that RESA's portfolio is preferable because it would be more "market responsive" and better support "sustainable" retail competition while also satisfying Act 129's "least cost" requirements and the Commission's directives in the *End State Order*. *See id.*, pp. 11-15. However, PECO demonstrated that RESA's proposed portfolio would **double** rate instability for Residential customers. In addition, PECO thoroughly rebutted each of RESA's contentions. Consequently, the Commission should reject RESA's proposed portfolio in its entirety.

As a threshold matter, RESA contends that PECO's objections to RESA's proposal amount to a "collateral attack" on the Commission's *End State Order*. RESA St. No. 1-SR, p. 3. This claim is demonstrably false. Contrary to RESA's assertions, PECO's decision not to include three-month contracts and other shorter-term products in its proposed portfolio for Residential customers – in the absence of legislative amendments to the Public Utility Code's "prudent mix" requirements – is entirely consistent with the Commission's own determination in the *End State Order* that that it would "prefer to pursue legislative amendments that clearly provide the authority to approve default service plans containing products that more closely resemble current market conditions at the time of delivery." *End State Order*, p. 45. Moreover, in its recent order approving the default service portfolio for residential customers in the territories of the FirstEnergy electric distribution companies (the "FirstEnergy EDCs"), the Commission specifically noted that the elimination of three-month contracts proposed by the FirstEnergy EDCs from the final portfolio agreed to by the parties in settlement was "beneficial"

---

<sup>11</sup> These quoted percentages exclude the small portion of the portfolio that replaces the 53-month block product and associated spot purchases.

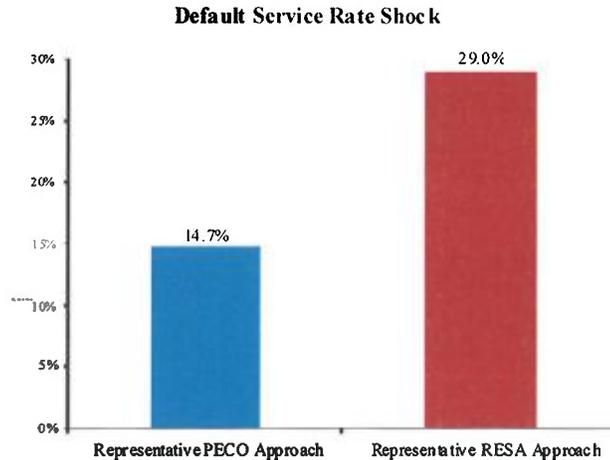
to customers and one of “many beneficial aspects” of the settlement that were in the public interest.<sup>12</sup>

In this proceeding, PECO presented extensive, un rebutted evidence that the portfolio proposed by RESA would subject residential customers to significant price risk. More specifically, PECO witness Scott Fisher undertook an analysis of how a portfolio consistent with PECO’s proposal and a portfolio consistent with RESA’s recommended approach would perform across 5,000 potential market scenarios in which energy prices, customer load, and other supply costs were varied in a way that reflects complex real-world market dynamics, consistent with the volatilities, correlations, and mean reversion of market price and load changes observed historically. In particular, he looked at the maximum change in default service rates over a period of time (“rate shock”). For the top decile of scenarios (i.e., those scenarios in which the rate shock was greatest for each approach), the rate shock for customers under RESA’s approach was double that under PECO’s portfolio, as shown in the following chart.<sup>13</sup>

---

<sup>12</sup> Opinion and Order, *Joint Petition of Metropolitan Edison Co., Pennsylvania Electric Co., Pennsylvania Power Co. and West Penn Power Co. for Approval of their Default Serv. Programs*, Docket Nos. P-2013-2391368, P-2013-2391372, P-2013-2391375, and P-2013-2391378 (Order entered July 24, 2014) (“*FirstEnergy DSP III Order*”), pp. 22-23.

<sup>13</sup> See PECO St. No. 3-R, p. 10. Notably, Mr. Fisher used a more conservative approach in modeling RESA’s proposed portfolio, which has the effect of reducing the rate shock customers would experience in the different scenarios. *Id.*, p. 9. In addition, Mr. Fisher’s notes that the possibility exists of market events which previously have not been experienced, as evidenced by the “Polar Vortex” in January 2014, which could cause additional rate volatility that is not captured in the analysis. PECO St. No. 3-R, p. 11.



RESA did not dispute Mr. Fisher’s analysis or conclusions. Instead, RESA witness Hudson simply asserted that concern about decreased rate stability for default service customers is misplaced because default service providers should not be charged with creating a stable product. RESA St. No. 1-SR, p. 7. Mr. Hudson’s opinion, however, is inconsistent with Commission guidance in the *Act 129 Final Rulemaking Order* that was subsequently affirmed by the Commonwealth Court in *Pike County*. In rejecting the OCA’s contention that the Commission failed to consider price stability, the court observed:

The Consumer Advocate also argues that the PUC’s interpretation is clearly erroneous because this interpretation, that a prudent mix of sources for default service may consist solely of spot-market purchases, fails to give proper weight to the importance of price stability. As the Consumer Advocate points out, the Preamble to Act 129 indicates that price stability was one of the goals to be achieved by that act, and that price instability was one of the harms the act was intended to ameliorate:

(1) The health, safety and prosperity of all citizens of this Commonwealth are inherently dependent upon the availability of adequate, reliable, affordable, efficient and environmentally sustainable electric service at the least cost, taking into account *any benefits of price stability* . . . .

(2) It is in the public interest . . . to implement energy procurement requirements designed to ensure that

electricity obtained *reduces the possibility of electric price instability . . . .*

Act 129, Preamble (emphasis added).

Contrary to the arguments of the Consumer Advocate, however, the record and the PUC's Opinion reflect that the PUC did take price stability into consideration when making its decision. The PUC acknowledged the importance of price stability stating:

In our *Act 129 Final Rulemaking Order* [interpreting, *inter alia*, the Preamble to Act 129], we found that a default service plan that meets the least cost over time standard should not have, as its singular focus, the achievement of the absolute lowest cost over the default service plan time frame but rather a cost for power that is relatively stable and also economical relative to other options.

(PUC Opinion at 29.)

*Pike County*, 71 A.3d at 1117-18. Contrary to Mr. Hudson's assertion, consideration of whether a default service plan is "relatively stable" is thus an entirely appropriate concern of the Commission, and Mr. Fisher's analysis clearly demonstrates that RESA's proposed portfolio poses substantially more risk of volatile pricing and greater rate increases for Residential customers.<sup>14</sup>

RESA's contention that PECO's proposed use of one- and two-year FPFR contracts must be rejected because it is insufficiently "market responsive" and will not support "sustainable" retail competition due to the possibility of a "boom/bust" market for EGSs is similarly flawed. As described above, new EGSs continued to enter PECO's service territory to compete for

---

<sup>14</sup> RESA's proposed portfolio would also substantially increase the cost of default service supply procurement for Residential customers on default service. PECO is proposing a total of four solicitations for DSP III for the entire default supply portfolio. RESA is proposing more than twice as many solicitations, with a total of nine procurement dates between September 2014 and February 2017. PECO estimates that its administrative costs (primarily the fixed costs of the Independent Evaluator for each procurement) would at least double under RESA's alternative procurement schedule, increasing from \$640,000 to more than \$1.4 million. Tr. 36.

customers during DSP I and DSP II, when some default service supply contracts were procured over a year and a half before delivery of the product. Additional market data indicate that EGSs will enter markets and serve customers when they are able to make attractive service offerings, regardless of the possibility of a “bust” period in the future. PECO St. No. 3, pp. 36-38 (discussing market data in Pennsylvania, including new EGS entry and growth of residential switching to 44% in Duquesne Light’s service area when the default service rate was fixed for a twenty-nine-month period).

In opposing PECO’s proposed portfolio, RESA emphasizes the Commission’s rejection of two-year contracts in the FirstEnergy EDCs’ prior DSP II proceeding. RESA St. No. 1, p. 3.<sup>15</sup> However, RESA fails to mention that the Commission – in that same proceeding – adopted RESA’s own proposal, which relied upon a mix of one- and two-year full requirements contracts and clearly reflected RESA’s belief that such contracts would not endanger retail competition. *See FirstEnergy DSP II Order*, pp. 25-26 (explaining that “we believe that the mixture of twelve and twenty-four-month contracts proposed by RESA for residential customers and utilization of six-month and twelve-month contracts for small commercial and industrial contracts proposed by the OSBA emphasize the least cost over time and rate stability, while also acknowledging a viable competitive environment between default service and the prices offered by the EGSs”). For all of these reasons, the Commission should reject RESA’s alternative portfolio proposal and approve PECO’s recommended product mix for the Residential Class.

---

<sup>15</sup> Opinion and Order, *Joint Petition of Metropolitan Edison Co., Pennsylvania Electric Co., Pennsylvania Power Co., and West Penn Power Co. for Approval of Their Default Serv. Programs*, Docket Nos. P-2011-2273650, P-2011-2273668, P-2011-2273669, P-2011-2273670 (Order entered August 16, 2012) (“*FirstEnergy DSP II Order*”).

## 2. Procurement Schedule

During DSP III, PECO proposes to procure FPFR contracts for the Residential Class in four separate procurements – February 2015, November 2015, February 2016 and November 2016 – in each instance, approximately two to four months prior to delivery of the energy. PECO St. No. 2, p. 11; PECO Exh. JJM-1. OCA witness Hahn recommends shifting the timing of PECO’s competitive residential supply procurements from February to March, based on his view that procurements should not be held in January or February because those periods purportedly are the time of highest winter market prices. OCA St. Nos. 1, pp. 9-10 & 1-S, pp. 4-5. PECO disagrees with the OCA’s alternative procurement schedule proposal for several reasons.

First, as Mr. McCawley testified, moving the February procurement dates to March could frustrate the ability of suppliers to effectively hedge potential congestion costs through participation in PJM’s Auction Revenue Rights (“ARR”) and Financial Transmission Rights (“FTR”) processes. PECO St. No. 2-R, p. 7; Tr. 37-38. Mr. Hahn claims that a March procurement date will not preclude suppliers from hedging congestion risk in their default supply bids because ARRs will be assigned to winning suppliers after the ARR allocation process concludes in early March. OCA St. Nos. 1, pp. 11-12 & 1-S, p. 3. While it is true that ARRs will be reassigned to suppliers actually serving default service customer load, a March procurement will result in suppliers losing the opportunity to select transmission paths based on their own criteria in the ARR process and the ability to pass on associated benefits to customers through a lower price for default service supply. Tr. 37-38. While PECO could make ARR-related selections on behalf of suppliers based on its own criteria, it would be clearly preferable for winning suppliers to select their own transmission paths, because suppliers have the most

knowledge of their energy sourcing decisions and could therefore tailor their ARR selections (and decisions regarding FTRs) to maximize congestion hedging benefits. *See id.*

Furthermore, Mr. Hahn's analysis of market prices in PJM's PECO Zone does not support his contention that procurements should be held in March instead of February. Indeed, Mr. Hahn concedes that he did not conduct any analysis of the price for one- and two-year FPFR contracts procured by any Pennsylvania EDCs in January or February in comparison to the price of such contracts in other periods of the year. PECO Hearing Exh. No. 3. Rather, Mr. Hahn only analyzed hourly spot prices and, as Figure 2-S shows, those market prices have not always been substantially higher in February when compared to March over the ten-year period studied by Mr. Hahn. *See* OCA St. No. 1-S, p. 5. Stated simply, the OCA has provided no basis for the Commission to conclude that the risk of high spot-market prices outweighs the benefit of enabling winning FPFR suppliers to select their own transmission paths in the PJM ARR/FTR process. PECO St. No. 2-R, pp. 7-8.

### C. Small Commercial Class Procurement

As described above, PECO has proposed to continue its DSP II procurement plan for Small Commercial customers using laddered one-year full requirements products, with six-month spacing between procurements scheduled approximately two to four months prior to delivery. PECO St. No. 2, pp. 12; PECO St. No. 3, p. 28 (noting that PECO's plan is prudent because it "includes tailored supply portfolios for different customer classes" to take into account price stability and propensity for shopping, and to further develop the competitive retail market).

The only party to oppose PECO's proposal is RESA, whose witness, Mr. Hudson, has proposed beginning DSP III with a portfolio comprised of 75% twelve-month contracts and 25% three-month contracts, and then escalating to 75% three-month contracts over the course of DSP

III. RESA St. No. 1, p. 16. Because RESA's proposed portfolio will unnecessarily expose Small Commercial customers to substantial price volatility, as demonstrated by Mr. Fisher, the Commission should approve PECO's proposed portfolio for the Small Commercial Class. PECO St. No. 2, p. 5-6; PECO St. No. 3-R, p. 6.

**D. Medium Commercial Class Procurement**

PECO has proposed to continue to procure default service supply for Medium Commercial customers through six-month FPFR contracts procured approximately two to four months prior to delivery, without overlap. PECO St. No. 2, p. 12. As noted above, PECO is also requesting a waiver, to the extent necessary, of the Commission's direction in the *End State Order* (pp. 31-32) that customers with peak demands above 100 kW with interval meters should receive spot-priced products. If necessary, PECO requests the waiver during its deployment of PECO's advanced meter infrastructure ("AMI") for the entire Medium Commercial Class, including testing, implementation of back-office and other information technology systems, and integration with PECO's billing system. PECO St. No. 2, p. 7.

RESA has opposed PECO's proposed procurement for these customers, recommending instead the use of three-month default service supply contracts for Medium Commercial customers without interval meters and migration of Medium Commercial customers with interval meters to hourly-priced default service pricing as part of the Large Commercial and Industrial customer class. In support of this recommendation, RESA witness Hudson contended that hourly pricing will benefit these customers and will further achieve "broader public policy goals" of encouraging energy conservation and demand response. RESA St. No. 1, pp. 18-21. As part of its alternative proposal, RESA also advocates that the Large Commercial and Industrial Class procurements be conducted annually instead of quarterly to avoid potential risk premiums

charged by wholesale suppliers as Medium Commercial customers are migrated from the Medium Commercial supply group to the Large Commercial and Industrial supply group. RESA St. No. 1, p. 20.

The Commission should reject RESA's alternative proposal for several reasons. First, as noted above, the vast majority (84%) of Medium Commercial customers are already served by EGSs. PECO St. No. 3, p. 9. RESA provides no evidence to suggest that EGSs are having any difficulty making competitive offers to this customer group, and there is no reason to add volatility to the rates of those Medium Commercial customers who choose not to shop or to increase the rates of those customers to recover the costs of the additional quarterly default service procurements advocated by RESA. PECO St. No. 2-R, p. 10. Second, while RESA believes that customers with interval meters should be immediately transferred to hourly pricing, RESA offered no evidence contesting PECO's explanation that the AMI systems and billing infrastructure simply will not be complete by the beginning of DSP III to accomplish hourly default service pricing for these customers.<sup>16</sup>

---

<sup>16</sup> RESA also contends that the Commission should require migration of Medium Commercial customers to hourly pricing on June 1, 2015 without permitting PECO to recover any associated costs because RESA believes the costs for any IT changes and other expenses should have been included in PECO's Smart Meter Cost Recovery Surcharge ("SMCRS"). RESA St. No. 1-SR, p. 12. Alternatively, RESA asserts that the Commission should defer its review of the recovery of the costs of any necessary changes to implement RESA's proposal to PECO's next base rate proceeding. *Id.* Should the Commission order PECO to implement RESA's proposal despite the reasons set forth above, the Commission should clearly provide that PECO is entitled to full and current cost recovery through PECO's Generation Supply Adjustment ("GSA") from Medium Commercial customers who RESA believes will benefit from its proposal. The costs for migration of default service customers to hourly pricing were not included in PECO's SMCRS. See *Petition of PECO Energy Co. for Approval of Its Smart Meter Technology Procurement and Installation Plan*, Docket No. M-2009-2123944 (Order entered May 6, 2010), pp. 16, 19-21 (approving recovery of direct meter costs and AMI infrastructure costs through the SMCRS); *Petition of PECO Energy Co. for Approval of Its Smart Meter Universal Deployment Plan*, Docket No. M-2009-2123944 (Order entered Aug. 15, 2013) (approving recovery of AMI meter deployment, IT enablement and business integration costs through the SMCRS). Nor is there any basis for RESA's claims that PECO should have anticipated the Commission's direction in the separate *End State Order* when preparing its smart meter deployment plan or that costs incurred to implement those Commission directives regarding default service products should be deferred for recovery at an unknown future date.

While PECO witness John McCawley testified at hearings that PECO is confident that the necessary AMI and billing infrastructure should be available by June 1, 2016 (Tr. 67), PECO believes that its proposal to transition Medium Commercial customers to hourly pricing by the commencement of DSP IV will avoid any unforeseen complexities with the integration of PECO's AMI deployment. The Commission should therefore approve PECO's proposed procurement plan for Medium Commercial customers and grant a waiver of the *End State Order's* requirement to transition Medium Commercial customers with interval meters to hourly pricing, to the extent necessary.

**E. Large Commercial And Industrial Class Procurement**

PECO is proposing to continue its procurement of hourly-priced default service supply for the Large Commercial and Industrial Class, which is differentiated from other classes in accordance with these customers' high propensity for shopping and different bidder interest in products based on hourly prices. PECO St. No. 2, p. 6. These contracts will be procured annually in January. *Id.*, p. 12.

RESA initially objected to this proposal on the grounds that the Commission should require PECO to conduct quarterly procurements to facilitate RESA's proposed migration of Medium Commercial customers with interval meters to hourly pricing during DSP III and avoid potential risk premiums PECO believes wholesale suppliers would include in their bids due to the migration advocated by RESA. RESA St. No. 1, p. 22; PECO St. No. 2, p. 7-8.

Subsequently, RESA suggested – without the benefit of any supporting data – that such premiums would be very low and annual procurements could be conducted without risk. RESA St. No. 1-SR, p. 13. RESA also asserted that PECO's additional concern regarding an increased risk of failed procurements arising from low bidder interest in quarterly solicitations was “purely

hypothetical”. *See id.* & PECO St. No. 2-R, p. 10. At the hearing, RESA conceded that the risk of a failed procurement was not hypothetical at all. Tr. 138; PECO Cross-Examination Exh. No. 3.

At the heart of RESA’s original objection to PECO’s procurement plan for Large Commercial and Industrial customers is its separate proposal for migration of Medium Commercial customers with interval meters, which PECO has already explained should be rejected by the Commission. While RESA no longer appears to object to annual procurements of hourly-priced supply for Large Commercial and Industrial customers regardless of the adoption or rejection of its separate proposal for the migration of Medium Commercial customers with interval meters, it has offered no evidence to refute PECO’s testimony regarding higher risk premiums associated with such migration or the possibility of failed procurements (and higher, unnecessary costs for customers) arising from more frequent procurements of hourly-priced supply. PECO St. No. 2-R, p. 10; Tr. 36. The risk of these adverse effects for Large Commercial and Industrial customers provides an additional basis for rejecting RESA’s proposal to migrate Medium Commercial customers with interval meters to the Large Commercial and Industrial Customer Class during DSP III.

**F. Extension Of Supply Contracts Beyond May 31, 2017**

In PECO’s DSP II proceeding, the Commission approved PECO’s procurement of supply contracts extending past May 31, 2015 for Residential and Small Commercial default service customers, in part, because “PECO’s use of laddered contracts of various durations creates a viable contingency plan that can be redesigned if changes in PECO’s default service responsibility do arise.” *October 2012 Order*, p. 31; *see also Default Service Policy Statement*, § 69.1805(1) (stating that default supply contracts “should be laddered to minimize risk” for Residential and Small

Commercial customers). For DSP III, PECO has proposed the same structure with a portion of supply contracts extending past May 31, 2017 to better ensure that customers are not exposed to rate volatility associated with replacing a large portion of default service supply in a short period of time. PECO St. No. 2, p. 13; PECO St. No. 3, p. 29. None of the supply contracts with terms extending beyond May 31, 2017 will be procured until September 2015, leaving ample time for adjustments to PECO's procurement plan if a different default service model is adopted. PECO St. No. 2-R, p. 8.

The only party to object to PECO's implementation of the Commission's contract laddering policy is RESA, which generally opposes any supply contract with a term extending past May 31, 2017 on the ground that such contracts could be a "hindrance" to the establishment of a new default service structure after DSP III. RESA St. No. 1-R, pp. 10-11. As in DSP II, the Commission should dismiss RESA's objection and approve PECO's proposal, which continues to provide the Commission with flexibility should a new default service structure be created, while also protecting Residential and Small Commercial customers from unnecessary volatility and other risks arising from a procurement of a large amount of default service supply during adverse market conditions. PECO St. No. 3-R, pp. 15-16.

### **G. Contingency Plans**

Under DSP II, in accordance with Section 54.185(d) of the Commission's default service regulations, 52 Pa. Code § 54.185(d), PECO employs a contingency plan in case it fails to obtain sufficient approved bids for all tranches of supply offered in a procurement or a supplier enters into a supply agreement and subsequently defaults on its obligations. In the event PECO fails to obtain sufficient approved bids for all offered tranches for a product in a solicitation, the tranches will be included in PECO's next default supply solicitation for that product. If necessary, PECO will supply any unserved portion of its default service load from the PJM-administered markets

for energy, capacity and ancillary services and procure sufficient AECs at market prices to satisfy any near-term obligations under the AEPS Act. PECO St. No. 2, p. 14.

In the event of a supplier default and the immediate need to obtain supply for default service, PECO will initially rely on filling that supplier's portion of PECO's default service load through the PJM-administered markets for energy, capacity, and ancillary services. If the default occurs within a reasonable time before a scheduled procurement, the load served by the defaulting supplier will be incorporated into that next procurement. Otherwise, PECO will file a plan with the Commission for an alternative procurement. *Id.*

In DSP III, PECO will continue to procure default service supply from PJM-administered markets for energy, capacity, and ancillary services and obtain sufficient AECs at market prices to satisfy any near-term obligations under the AEPS Act where necessary to supply unfilled tranches or after a supplier defaults. OCA witness Hahn expressed concern regarding this approach, asserting that any contingency plan should minimize the amount of time that Residential customers are supplied by spot market purchases. OCA St. No. 1, pp. 17-18. To address such concern, Mr. Hahn recommends the following two modifications to PECO's contingency plans: (1) in the event that the Company fails to obtain Commission approval of a sufficient number of supplier bids for all offered tranches for a residential product in a solicitation or a supplier defaults, PECO should immediately issue an additional request for proposals ("RFP"); and (2) if the lack of adequate supplier interest appears likely to exist for an extended period of time, PECO should procure a combination of block and spot products to satisfy any unserved portion of residential default service load. *Id.*, p. 17. The OCA's recommendations should not be adopted for two reasons.

First, Mr. Hahn's proposal to immediately issue a new RFP, a recommendation that was supported by RESA (RESA St. No. 1-R, p. 3), is not feasible given the short lead times (i.e., 2-3 months) between PECO's scheduled residential procurements and the time in which the requested supply must be delivered. As Mr. McCawley explained, the OCA's proposed contingency plan would require PECO and the Independent Evaluator to investigate the failed procurement, develop and obtain Commission approval of any changes to DSP III, publicize the contingency RFP, qualify bidders and conduct a second bid process in a very short time period. PECO St. Nos. 2-R, p. 11 & 2-SR, p. 2. Moreover, immediately rebidding unfilled tranches, regardless of the circumstances leading to a previously unsuccessful RFP, will increase the likelihood of a second failed procurement.<sup>17</sup> PECO St. No. 2-SR, p. 2.

Second, because the OCA's proposed alternative procurement structure does not rely solely on spot market purchases, the proposed RFP could discourage suppliers from participating in PECO's scheduled procurements. If bidders believe that a less than fully-subscribed competitive solicitation would lead to a contingency procurement, when fewer suppliers may be bidding and prices could be less competitive, the incentive to participate and present best offers in the scheduled solicitation process would be diminished. *See* PECO St. No. 2-R, pp. 11-12. Furthermore, Mr. Hahn has not demonstrated that his concern regarding the risk of a significant amount of "un-hedged" residential default service load after an unsuccessful procurement (OCA St. No. 2-S, p. 5) outweighs the potential for less competitive procurement results.

For the foregoing reasons, the Commission should approve PECO's proposed contingency plans, consistent with DSP I and DSP II. *See October 2012 Order*, pp. 41-42.

---

<sup>17</sup> Although PECO opposes any mandate for contingency RFPs, the Company agrees with the OCA and RESA that it is appropriate to investigate the potential causes of a failed procurement and will continue to consult with the Independent Evaluator regarding its procurement results. PECO St. No. 2-SR, p. 2.

## H. Uniform Supply Master Agreement

In accordance with the Commission's default service regulations at 52 Pa. Code § 54.185(e)(6), PECO submitted a form of supply master agreement ("SMA") that the Company will execute with wholesale suppliers that are successful bidders in PECO's default service supply procurements. For DSP III, PECO is proposing to use a new form of SMA, which is the most recent version of the uniform SMA ("Uniform SMA") developed as part of the uniform procurement process envisioned by the Commission in its *End State Order* (p. 26). PECO St. No. 1, p. 11. Like the form SMA used by PECO for default supply procurements in DSP I and DSP II, the Uniform SMA includes detailed provisions that address billing and payments, credit requirements, procedures for energy scheduling, default and termination, calculation of damages, and other obligations between PECO and a wholesale supplier. As explained by Mr. McCawley, the allocation of contractual responsibilities, including supplier credit requirements, is generally consistent with the SMA previously approved for PECO's use by the Commission in DSP I and DSP II. *See* PECO St. No. 2, p. 15; PECO Exh. JJM-2.<sup>18</sup>

The only party to propose a change to the Uniform SMA (other than RESA and its proposal that the Commission direct PECO to assume various PJM charges on behalf of all customers and recover those costs through a non-bypassable surcharge, which is discussed in Section III.C, *infra*) is NEPM, which opposes the A/A2 minimum unsecured debt rating requirement for financial institutions that issue letters of credit ("LOCs") to wholesale suppliers under Section 6.7(b) of the Uniform SMA. This credit term represents an increase of one level from the A-/A3 minimum unsecured debt rating for LOCs under PECO's DSP II SMA. Mr.

---

<sup>18</sup> PECO's proposed revisions to the allocation of responsibility between PECO and wholesale suppliers with respect to certain PJM charges is discussed in Section III.C, *infra*.

Cheslock, on behalf of NEPM, asserted generally – without any data or analysis – that this increased rating for issuers of LOCs “may” increase the cost of obtaining LOCs and lead to fewer wholesale suppliers participating in default supply procurements. *See* NEPM St. No. 1, pp. 2-3 & NEPM St. No. 1-SR, pp. 3-4. In response to an interrogatory, however, Mr. Cheslock admitted that he conducted no formal analysis or study to support his assertion that the use of an A/A2 minimum credit rating requirement in the Uniform SMA may increase the costs of obtaining LOCs. *See* PECO Hearing Exhibit No. 9.

Notably, the A/A2 credit rating requirement for issuers of LOCs in the agreements used in the New Jersey basic generation service (“BGS”) auctions has not prevented NEPM and other suppliers from submitting successful bids to provide default service supply in New Jersey. In fact, a recent BGS auction in February 2014 resulted in eight winning suppliers for FPFR products, notwithstanding the A/A2 minimum credit rating for issuers of LOCs. PECO St. No. 2-R, p. 14; *see also I/M/O The Provision of Basic Generation Serv. For The Period Beginning June 1, 2014*, N.J.B.P.U. Docket No. ER13050378 (Order entered February 12, 2014). Indeed, NEPM was one of the winning suppliers, indicating that the proposed credit requirement will not foreclose NEPM’s participation in PECO’s default supply procurements or its potential success. *See id.*

While PECO acknowledges that some financial institutions would be excluded from the broad universe of potential issuers of LOCs, Mr. Cheslock has not explained how the Uniform SMA’s slightly elevated credit ratings will actually limit the availability of financing through LOCs for wholesale suppliers or diminish participation in PECO’s procurements in any material way. Significantly, the Commission recently approved the Uniform SMA, with the same credit

requirements proposed by PECO, for use by the FirstEnergy EDCs in their default supply auctions. *See FirstEnergy DSP III Order*, pp. 9, 55.

In summary, while NEPM has suggested that the A/A2 minimum unsecured debt rating for issuers of LOCs proposed as part of the Uniform SMA may increase costs for wholesale suppliers or default service customers, it submitted no evidence to support that claim. The Commission should therefore approve the Uniform SMA as proposed by PECO without modification.

### **I. Other Procurement And Implementation Plan Requirements**

In accordance with the requirements of the Public Utility Code and the Commission's default service regulations, DSP III includes a number of other components, proposed factual findings, and requests for approval described in PECO's Petition and the testimony of Company witnesses to which no party has objected. These uncontested issues are briefly summarized below.

**AEPS Compliance.** The AEPS Act requires default service providers like PECO to obtain an increasing percentage of electricity sold to retail customers from alternative energy sources, as measured by AECs. *See* 73 Pa.C.S. § 1648.1 *et seq.*; 66 Pa.C.S. § 2807(e)(3.6). As in DSP II, under the Uniform SMA, PECO will continue to require each full requirements default service supplier to transfer Tier I solar, Tier I non-solar, and Tier II AECs to PECO corresponding to PECO's AEPS obligations associated with the amount of default service load served by that supplier. PECO St. No. 2, p. 18.

In addition, PECO will continue to allocate AECs obtained through its prior Commission-approved Tier I solar, Tier I non-solar, and Tier II procurements towards suppliers'

AEPS obligations in accordance with each customer class and the percentage of load served by each supplier.<sup>19</sup> PECO will retain a percentage of its AECs to meet the AEPS requirements associated with any residential default service customer load not supplied by full requirements contracts. PECO will also buy and sell AECs as required to meet AEPS requirements and manage its inventory of AECs obtained in prior procurements as previously authorized by the Commission. *See id.* at pp. 18-19.

**Independent Evaluator.** The Commission's regulations provide that a default service provider's procurements shall be subject to monitoring by an independent third party evaluator selected by the provider and subject to approval by the Commission. *See* 52 Pa. Code § 54.186(c)(3). NERA, which has significant experience in the administration of procurements of energy and related products, has served as the independent evaluator in DSP I and DSP II. PECO has selected NERA to continue in this role for DSP III upon Commission approval. PECO St. Nos. 2, p. 4; PECO St. No. 4, pp. 2-5, 7.

**Competitive Procurement Documents.** The Commission's regulations also require that a default service plan include copies of agreements to be used in the procurement of electric generation supply for default service customers, including SMAs and RFPs. 52 Pa. Code § 54.185(e)(6). For DSP III, PECO has proposed to use the Uniform SMA for the reasons described in Section II.H, *supra*. The RFP documents to be used in default service supply

---

<sup>19</sup> *See* *Petition of PECO Energy Co. for Approval to Procure Tier II Alternative Energy Credits and Additional Tier I and Solar Alternative Energy Credits*, Docket No. P-2010-2210975 (Order entered February 14, 2011); *Petition of PECO Energy Co. for Approval to Procure Solar Alternative Energy Credits*, Docket No. P-2009-2094494 (Order entered August 28, 2009); *Petition of PECO Energy Co. for Approval of (1) A Process to Procure Alternative Energy Credits during the AEPS Banking Period and (2) A Section 1307 Surcharge and Tariff to Recover AEPS Costs*, Docket No. P-00072260 (Order entered December 26, 2007); *Petition of PECO Energy Co. for Approval to Procure Tier II Alternative Energy Credits Through Independent Brokers*, Docket No. P-2014-2408725 (Order entered April 23, 2014).

solicitations and administered by the Independent Evaluator are based on DSP II RFP documents, with minor improvements to conduct solicitations more efficiently or to conform to the Uniform SMA. *See* PECO St. No. 4, pp. 8-13 & PECO Exhs. CL-2 & CL-3. For example, only winning bidders will be required to execute the Uniform SMA and related documents and bidders will be allowed to submit portions of their bid proposals via a secure customized website. These improvements are designed to reduce the administrative costs of each solicitation as well as the burden of participation for bidders. *See id.*, pp. 12-13.

**PJM Requirements.** In order to comply with the Commission's requirement that a default service plan be consistent with legal and technical requirements of the regional transmission organization in which the default service provider is located, *see* 52 Pa. Code § 54.185(e)(4), PECO's Uniform SMA requires a supplier to undertake all scheduling and other actions necessary to deliver full requirements service to PECO in accordance with both the terms of the SMA and PJM's rules and agreements. Each supplier must be a member in good standing with PJM and maintain such status during the term of the SMA, as well as all other regulatory approvals, including approvals required by the Federal Energy Regulatory Commission ("FERC") necessary to perform its obligations. *See* PECO St. No. 2, p. 15; PECO Exh. JJM-2.

**Affiliate Relations.** Under the Commission's Default Service Regulations, affiliates of default service providers are permitted to participate in competitive procurement for default service supply, *see* 52 Pa. Code § 54.186(b)(6), provided that appropriate protocols are in place to ensure that such affiliates do not receive an advantage in the competitive procurement and the competitive process complies with the Commission's codes of conduct. The Commission has previously approved PECO's SMA as an affiliated interest agreement so that PECO's affiliates may participate in default service supply procurements, and PECO is maintaining the same

protocols and other protections in DSP III to be administered by the Independent Evaluator. *See* PECO St. No. 4, p. 16 & PECO Exh. CL-3. In the event that an affiliate of PECO is a winning bidder in a default supply procurement, it will need to execute the Uniform SMA in the same manner and time period as other bidders. PECO therefore requests advance approval of the Uniform SMA (PECO Exh. JJM-2) by the Commission as an affiliated interest agreement.

**Absence of Withholding of Generation.** In considering the approval of a default service plan, the Public Utility Code requires the Commission to find that neither the default service provider nor any affiliated interest has withheld from the market any generation supply in a manner that violates federal law. *See* 66 Pa.C.S. § 2807(e)(3.7)(iii). PECO does not own and has not withheld any generation supply in violation of federal law. PECO St. No. 2, p. 22. Under the FERC’s applicable codes of conduct, PECO does not discuss generation market related issues with those affiliates but can state that there has been no determination by a court or regulatory agency of competent jurisdiction that Exelon Generation Company, LLC or its subsidiaries have withheld from the wholesale energy market any generation supply in any manner that violates federal law. *Id.*

### **III. RATE DESIGN AND COST RECOVERY**

#### **A. Summary Of PECO’s Position**

Under its current default service rate design, PECO recovers default service costs from default service customers through a Generation Supply Adjustment (“GSA”) charge. For each customer class with peak loads up to 500 kW – i.e., the Residential, Small Commercial and Medium Commercial Classes – default service rates established pursuant to the GSA change quarterly. Such rates recover: (1) generation costs, certain transmission costs and ancillary service costs established through PECO’s competitive procurements; (2) supply management,

administrative costs (including costs incurred by PECO to implement Commission-approved retail market enhancement programs) and working capital, as provided in 52 Pa. Code § 69.1808; and (3) applicable taxes. PECO St. No. 5, pp. 4-6. The projected GSA for each quarter – filed by PECO 45 days before the start of each quarter – forms the basis of the Price-to-Compare (“PTC”), which customers can use to evaluate competitive generation service offerings by EGSs. *Id.*, p. 4. The projected GSAs for Residential, Small Commercial and Medium Commercial Classes also include a quarterly reconciliation component, or “E-Factor,” to recoup or refund, as applicable, under/overcollections of actual costs in comparison to billed revenue from prior periods. PECO St. No. 5, pp. 4-5.

PECO’s default service rates for the Large Commercial and Industrial Class are also charged through the GSA. For those customers, default service rates are based upon the price paid to winning suppliers in PECO’s hourly-priced service procurements, which includes the PJM day-ahead hourly locational marginal price (“LMP”) for the PJM PECO Zone, plus associated costs, such as capacity, ancillary services, PJM administrative expenses and costs to comply with AEPS requirements that are incurred to provide hourly-priced service. PECO St. No. 5, p. 5. PECO files a monthly projection of the AEPS and ancillary service costs at least 45 days prior to the start of each month for customers and suppliers to use. *Id.* The default service rates for the Large Commercial and Industrial Class also include a monthly E-Factor to refund or recoup GSA over/under collections from prior periods. *Id.* To mitigate wide swings in the PTC from month-to-month, PECO combines any two months with large over/undercollections for the Large Commercial and Industrial Class. PECO St. No. 5, p. 6.

PECO is proposing to maintain this rate design in DSP III, with one adjustment to the reconciliation process to improve price signals to customers. This adjustment, which is reflected

in the proposed GSA and Reconciliation tariff pages set forth in PECO Exhibits ABC-2 and ABC-3, provides that any over/under collections of default service charges for the Residential, Small Commercial and Medium Commercial Classes will be reconciled on a semi-annual basis instead of a quarterly basis, for reasons discussed in Section III.B, *infra*. PECO is also proposing limited tariff changes related to the recovery of costs incurred to implement any additional retail market enhancements directed by the Commission during DSP III, as well as costs associated with the retail opt-in program suspended during DSP II. PECO St. No. 5 pp. 9 & 11; *see also* PECO Exhs. ABC-2, ABC-3, ABC-5 & ABC-6. No party opposes these proposed tariff changes.

The current design of the GSA rates for the Residential, Small Commercial and Medium Commercial Classes is consistent with the Commission's default service regulations and the Public Utility Code and will remain so with PECO's proposed change to the E-Factor reconciliation process. *See* 66 Pa.C.S. § 2807(e)(7) (providing that default service rates for residential and small business customers may not change more frequently than on a quarterly basis); 52 Pa. Code § 54.187(i) and (j) (providing that default service rates for customers with peak loads up to 500 kW should not change more frequently than on a quarterly basis). PECO's proposed rate design complies with these requirements because rates will continue to change quarterly for the Residential, Small Commercial and Medium Commercial Classes. PECO St. No. 5, p. 4.

With respect to the Large Commercial and Industrial Class, the Commission's regulations at 52 Pa. Code § 54.187(k) require that default service rates for those customers be adjusted on at least a monthly basis. PECO's proposed hourly-priced default service product for the Large

Commercial and Industrial Class complies with this requirement because rates will continue to change monthly. PECO St. No. 5, p. 5.

As part of the EDC-specific sections of the Uniform SMA, PECO is proposing to revise the allocation of responsibility for meter error correction charges and generation deactivation charges imposed by PJM during DSP III. Specifically, PECO proposes to allocate PJM meter error correction charges in the PECO PJM Zone during DSP III to all load serving entities (“LSEs”) – default service suppliers and EGSs – as permitted by the PJM tariff, instead of requiring default service suppliers to continue to cover such costs.<sup>20</sup> Generation deactivation charges are established under PJM’s Open Access Transmission Tariff (“OATT”) for payments to an owner of a generating facility which PJM has determined must be maintained in operation for reliability reasons pending completion of necessary transmission upgrades even though the owner has sought to deactivate the facility. PECO St. No. 2, p. 17. For DSP III, PECO is proposing to assume responsibility for generation deactivation charges (PJM line item 1930) associated with its default service load and to collect the associated costs directly from default service customers through its bypassable default service transmission rate. However, for the reasons discussed in Section III.C, *infra*, if the Commission directs PECO to assume responsibility for generation deactivation charges on behalf of EGS and default service customer load, PECO proposes to recover the associated costs via a non-bypassable transmission surcharge.

---

<sup>20</sup> Because allocation of meter error correction charges (PJM bill line item 1250) to all LSEs in PECO’s service territory requires agreement among all LSEs, PECO is proposing an amendment to its EGS Coordination Tariff, which requires EGSs to consent to the proposed allocation of those charges. *See* PECO St. No. 2, p. 17 & PECO Exhs. JJM-4 and JJM-5.

## **B. Reconciliation Of Default Service Costs And Revenues**

As described *supra*, for the Residential, Small and Medium Commercial Classes, billed revenues and actual costs are compared on a quarterly basis to calculate the E-Factor charge for the subsequent quarter to refund or recover, as appropriate, the net over/undercollection per customer class on a per-kWh basis. PECO St. No. 5, pp. 4-5. The reconciliation charge includes carrying charges, which are calculated at the interest rates specified in the Commission's regulations at 52 Pa. Code § 54.187(g). *Id.*

In DSP III, PECO is proposing to continue to adjust default service rates on a quarterly basis for Residential, Small Commercial and Medium Commercial customers to reflect changes in supply costs. However, PECO has recommended that prior period over/under collections be reconciled for those customers on a semi-annual basis rather than on a quarterly basis. PECO St. No. 5, pp. 6-7. As PECO witness Cohn testified, because PECO bills customers at different times throughout a month, the revenue billed and received for a month reflects sales from the subject month and the prior month that may have experienced higher or lower usage. This monthly "billing lag" can result in significant fluctuations in the quarterly PTC which are unrelated to the actual costs of default service supply. PECO St. No. 5, pp. 7-8. By using a semi-annual rather than quarterly schedule for the reconciliation of over/under collections, fluctuations in default service prices will be smoothed out and result in clearer price signals for both customers and EGSs. PECO St. No. 5, p. 10.<sup>21</sup>

---

<sup>21</sup> To the extent necessary, PECO has requested a waiver of the Commission's regulations at 52 Pa. Code §§ 54.187(i) and (j) to implement this semi-annual reconciliation of the over/under collection component of the GSA for the Residential, Small Commercial and Medium Commercial Classes. PECO St. No. 5, p. 9. Because default service costs for Large Commercial and Industrial customers are reconciled on a monthly basis, and therefore those customers do not experience the same type of billing lag, PECO is not proposing any change in reconciliation procedures for the Large Commercial and Industrial Class.

The Commission's regulations do not prescribe a time period for reconciliation adjustments. PECO, however, acknowledges that the Commission has rejected the Company's prior proposals for annual reconciliation, citing concerns regarding the impact of extending the E-Factor reconciliation period to a full year on the responsiveness of the PTC to current market conditions. *See Petition of PECO Energy Co. For Approval of Its Default Service Plan*, Docket No. P-2012-2283641 (Order entered January 24, 2014), p. 25; *October 2012 Order*, p. 56. As PECO witness Cohn explained, PECO believes that its semi-annual reconciliation proposal appropriately balances the Company's goal of mitigating volatility with the Commission's concern about maintaining the PTC as a price signal for customers and EGSs. PECO St. No. 5, p. 8 & 5-R, p. 3.

The OCA supports semi-annual reconciliation of the E-Factor, but recommends reducing the overall frequency of default service rate changes from quarterly adjustments to semi-annual adjustments on June 1 and December 1 of each year. OCA St. No. 1, pp. 13-14. OCA witness Hahn also recommends a twelve-month rolling average reconciliation performed twice a year on the same dates as overall rate adjustments. *Id.*, p. 15. RESA opposes PECO's and the OCA's proposals to extend the E-Factor reconciliation period beyond three-months on the ground that quarterly reconciliation purportedly already results in "market price signal distortion." RESA St. No. 1-R, p. 4.<sup>22</sup> The Commission should reject each of these proposals and approve PECO's proposed semi-annual reconciliation for several reasons.

First, RESA's assertion that semi-annual reconciliation will result in default service rates

---

<sup>22</sup> RESA's suggestion that PECO's proposal for semi-annual reconciliation creates a false impression that default service rates are not variable (RESA St. No. 1-R, p. 5) is entirely without merit. Mr. Hudson does not explain why default service customers will believe PECO's default service rates are not variable when the PTC will continue to change quarterly, or are better off experiencing quarterly swings unrelated to default service costs instead of smaller semi-annual adjustments. PECO St. No. 5-SR, p. 3.

that diverge even further from underlying wholesale energy costs than quarterly reconciliation is not supported by any analysis or formal study. Despite RESA's contention to the contrary, semi-annual reconciliation is likely to result in clearer price signals to customers and EGSs during DSP III in light of PECO's proposal to procure the vast majority of default generation supply through full requirements contracts, which will further reduce the likelihood of price fluctuations attributable to reconciliation. PECO St. No. 5-SR, pp. 2-3. Indeed, as Mr. Cohn demonstrated, semi-annual reconciliation will result in less volatile rates: the semi-annual reconciliation of over/under collections using PECO's 2012 and 2013 sales data produced, on average, variation in the PTC of only approximately 1%. PECO St. No. 5, p. 8 & PECO Exh. ABC-4. On the other hand, employing a quarterly reconciliation schedule for the same data produces quarterly fluctuations in the PTC ranging from a surcharge of 10.04% to a credit of 7.75%. *Id.* Therefore, these significant quarterly price swings, which will continue to occur if PECO's proposal is not adopted, have the potential to provide inaccurate information to customers who are making shopping decisions.

Second, Mr. Hahn provides no basis for adjusting default service rates less frequently than on a quarterly basis. Mr. Hahn's suggestion that the semi-annual adjustment of default service rates is appropriate in light of the semi-annual procurement dates proposed for DSP III (OCA St. No. 2-S, p. 7) is inconsistent with the Commission's conclusion in PPL Electric Utilities' ("PPL's") prior default service proceeding that the frequency of default service rate changes need not necessarily match the frequency of an EDC's default supply procurements. *See Petition of PPL Elec. Utils. For Approval of a Default Serv. Program and Procurement Plan*, Docket No. P-2012-2302074 (Order entered January 25, 2013) ("*PPL DSP II Order*"), p. 60 (directing PPL to continue utilizing quarterly residential PTC adjustments, despite adoption of

a semi-annual procurement schedule, and finding “no validity” in suggestion that rate adjustments need to be perfectly aligned with procurement dates). Moreover, as Mr. Cohn observed and as shown on PECO Exh. ABC-1R, after an initial period to transition from three-month reconciliation periods during DSP II, the OCA’s proposal does not produce less variation in the PTC than PECO’s proposal. PECO St. No. 5-R, pp. 4-5.

Finally, Mr. Hahn’s proposed twelve-month rolling average approach is flawed in several respects. First, Mr. Hahn utilizes overlapping reconciliation periods and therefore the GSA E-Factor charge does not align with the amount of the experienced over/undercollections. *See* OCA St. No. 1, p. 15 (Figure 9). As Mr. Cohn testified, for example, Mr. Hahn’s first reconciliation period for DSP III would refund or recoup the over/undercollections experienced from March 1, 2014 to February 28, 2015 over the six month period June 1, 2015 to November 30, 2015. His second reconciliation period includes over/undercollections experienced from September 1, 2014 to August 31, 2015 that would be refunded or recouped over the six-month period December 1, 2015 to May 31, 2016. However, the over/undercollection amount from September 1, 2014 to February 28, 2015 is already incorporated into the E-Factor charge for June 1, 2015 to November 30, 2015. Accordingly, a portion of the GSA over/under collection amount would be recouped to or collected from residential default service customers twice over the course of a year. PECO St. No. 5-R, pp. 3-4. Similarly, because Mr. Hahn’s first reconciliation period (October 1, 2014 to February 28, 2015) occurs during DSP II, over/undercollections experienced during this timeframe will have already been reflected in the quarterly GSA E-Factor charges under PECO’s current tariff. *See id.*, p. 4. Notably, the Commission previously rejected a similar proposal by the OCA for a twelve-month reconciliation period in PECO’s DSP II proceeding. *See October 2012 Order*, p. 56.

Accordingly, the Commission should approve PECO's proposed semi-annual reconciliation for the Residential, Small and Medium Commercial Classes and reject the proposal of RESA to continue to expose customers to significant quarterly swings in the PTC unrelated to default service costs. In addition, the Commission should reject the OCA's unsupported proposals to adjust default service rates less frequently and to refund or recoup any residential GSA over/undercollections over a twelve-month period.

### **C. Recovery Of Certain PJM Charges**

EGS customers currently remit generation and transmission costs to their EGSs, while default service customers are charged both generation and transmission costs under PECO's default service rates. Such transmission costs comprise various PJM charges, including generation deactivation charges, Network Integration Transmission Service charges ("NITS"), and costs associated with transmission upgrades that are paid by all LSEs in the PJM PECO Zone.

In this proceeding, RESA witness Hudson has proposed to abandon the current cost assignment and to transfer responsibility for the following PJM costs from LSEs to PECO: (1) generation deactivation charges; (2) NITS; (3) Regional Transmission Expansion Plan ("RTEP") charges; (4) Expansion Cost Recovery charges ("ECRC"); (5) unaccounted for energy ("UFE"); and (6) meter error correction charges. RESA St. No. 1, pp. 24-25 & 1-SR, p. 14; RESA Exh. RJH-10. Under Mr. Hudson's recommendation, PECO would collect the foregoing PJM charges via a non-bypassable tariff rider from both EGS and default service customers. *Id.* According to Mr. Hudson, these PJM cost items are unpredictable and not market based. RESA St. No. 1, p. 24. Mr. Hudson asserts that because, in his view, the future amounts of RTEP charges, ECRC charges, NITS, UFE, and meter error correction charges are unknown and because suppliers

cannot hedge the risk of these potentially significant costs, wholesale suppliers and EGSs may charge customers a premium that is much higher than the actual costs. *See id.*, pp. 25-26. He also asserts that it is inequitable for EGSs to have to pay these costs while PECO assumes these charges for wholesale suppliers providing default service and recovers the expense through the PTC. RESA St. No. 1, pp. 26-27 & 1-SR, pp. 15-16. Mr. Hudson submits that shifting these unknown costs from LSEs to PECO will reduce risk premiums embedded in EGS fixed prices. RESA St. No. 1, p. 28.

Consistent with DSP II, PECO initially proposed that LSEs, including EGSs, should continue to be responsible for all PJM charges assigned to LSEs. PECO St. No. 2, p. 18 n. 3 & 2-R, pp. 16-17. However, PECO also indicated that it was continuing to monitor the default service proceedings of the FirstEnergy EDCs in which the parties reached a joint settlement (“FirstEnergy Settlement”) of all issues except for the inclusion or exclusion of NITS in the FirstEnergy EDCs’ non-bypassable Default Service Support Riders (“DSSRs”) and that the Company would take into consideration any Commission direction to the FirstEnergy EDCs as it may apply to PECO’s proposal for DSP III. *See* PECO St. No. 2, p. 18 n. 3 & 2-R, p. 17. Under the FirstEnergy Settlement, which was approved without modification by the Commission on July 24, 2014, the FirstEnergy EDCs will assume responsibility for the following PJM charges, commencing June 1, 2015: (1) UFE costs; (2) generation deactivation charges attributable to PJM designations qualifying for such payments after issuance of the *FirstEnergy DSP III Order*; and (3) tie line, generation, and retail customer meter data errors discovered after financial settlement. *See FirstEnergy DSP III Order*, pp. 13-14, 22-23, 54. The Commission concluded that non-bypassable treatment of these charges, as well as of the RTEP charges and ECRCs previously approved for DSSR recovery in the *FirstEnergy DSP II Order*, was beneficial to

customers. *Id.*, p. 22. With respect to the recovery of NITS costs, the Commission denied the proposal of RESA and FES for the FirstEnergy EDCs to assume responsibility for NITS for all customer load and recover those costs through their non-bypassable DSSRs. *Id.*, pp. 31-32, 38, 41, 45, 52-53, 55.

In response to the recent *FirstEnergy DSP III Order*, PECO proposes a nonbypassable transmission service charge for all distribution customers, which includes RTEP charges, ECRCs and generation deactivation charges attributable to PJM designations qualifying for such payments after Commission approval of DSP III, but excludes NITS as directed by the Commission. *See* Tr. 39-40.<sup>23</sup> PECO also proposes to exclude PJM charges for both UFE and meter error correction charges from a non-bypassable transmission service charge. *Id.*

As Mr. McCawley testified, UFE costs and meter error correction charges are incurred as part of PJM's financial settlement process for the energy market and therefore are in no way related to the provision of transmission service. Tr. 48. In particular, UFE is the hour-by-hour difference (+ or -) between the metered PECO Zone load and the sum of the calculated wholesale energy responsibilities of all load-serving entities in the PECO Zone. Similarly, in PECO's PJM Zone, meter error correction costs are associated with adjustments to generation and tie-line

---

<sup>23</sup> As Mr. McCawley testified, in light of the FirstEnergy EDCs' proposal to collect certain PJM bill charges through a non-bypassable rider, PECO would to continue to monitor the FirstEnergy EDCs' proceedings and take into consideration any Commission direction to the FirstEnergy EDCs as it may apply to PECO's proposals for DSP III. PECO St. No. 2, p. 18 n.3. Thereafter, Administrative Law Judge Susan D. Colwell issued her decision recommending approval of the FirstEnergy Settlement. *See Secretarial Letter, Joint Petition of Metropolitan Edison Co., Pennsylvania Electric Co., Pennsylvania Power Co. and West Penn Power Co. for Approval of their Default Serv. Programs*, Docket Nos. P-2013-2391368 et al. (entered May 6, 2014) ("Recommended Decision") In light of the Recommended Decision, Mr. McCawley explained in his rebuttal testimony, that PECO would to continue to monitor the FirstEnergy EDCs' proceedings and take into consideration any Commission direction to the FirstEnergy EDCs as it may apply to PECO's proposals for DSP III. RESA St. No. 2, p. 17. RESA witness Hudson, however, contended that PECO's response to the developments in the FirstEnergy EDCs' proceedings was "insufficient." RESA St. No. 1-SR, pp. 14-15. Accordingly, PECO explained its proposed response in light of the FirstEnergy Settlement in oral rejoinder testimony. *See* Tr. 39-40.

metered energy values in the PJM financial settlement process. *Id.* In addition, Mr. McCawley testified that PJM has not yet developed an appropriate mechanism by which UFE – which is associated with every LSE in PECO’s Zone – can be isolated and allocated only to PECO as an EDC. *Id.* For both of these reasons, UFE and meter error correction costs should be excluded from any non-bypassable transition service charge established to recover PJM charges collected by PECO.

In the event the Commission rejects its recommended non-bypassable rider, RESA offers an alternative proposal under which default service suppliers would assume responsibility for NITS and generation deactivation charges under the Uniform SMA. In support of this proposal, Mr. Hudson asserts that such revision is the only way to ensure “parity between EGSs and default service.” RESA St. No. 2-SR, p. 19. RESA’s contention that the current allocation of those PJM charges creates an “uneven, apples to orange” comparison of EGS offers to the PTC is without merit. As Mr. McCawley testified, NITS costs for which EGSs are responsible in PECO’s service territory do not need to be hedged because those costs are extremely predictable year-to-year. Tr. 58-60. With respect to generation deactivation charges, if the Commission does not direct PECO to establish a non-bypassable surcharge to recover those costs, the Company’s proposal to remove those costs from the Uniform SMA and recover them via PECO’s bypassable default service transmission rate will simply make recovery of those costs consistent with PECO’s collection of other default service transmission-related charges, including NITS. PECO St. No. 2, p. 18. Therefore, RESA’s alternative proposal should be rejected.<sup>24</sup>

---

<sup>24</sup> The OSBA and RESA suggest that the allocation of NMB charges should be uniform across all Pennsylvania EDCs. OSBA St. No. 1-R, p. 7; RESA St. No. 1-SR, p. 17. However, there is no basis for this contention,

## IV. STANDARD OFFER PROGRAM

### A. Summary Of PECO's Position

During DSP II, PECO implemented a variety of programs to support EGSs and expand retail choice. These programs include PECO's Standard Offer Program, a new/moving customer referral program, use of an EGS selected through a competitive bid process to provide the commodity service associated with PECO's time-of-use pilot offering, referral of former PECO Wind customers to interested EGSs that could provide "green energy" product offerings, and a seamless moves collaborative. PECO St. No. 1, pp. 5-6. PECO also advanced a variety of other programs to facilitate shopping that will be fully implemented during DSP III, including seamless moves, "instant connect" and a new feature on the Company's Supplier Customer Choice Energy Systems Solution ("SUCCESS") website portal to allow EGSs to request customer account numbers electronically. *See* PECO St. No. 2, pp. 19-21.

In its Final Order in the Retail Market Investigation, the Commission observed that standard offer customer referral programs will "improve the overall operation of the competitive market in the near term." *End State Order*, pp. 12-13. To that end, for the two-year term of DSP III, PECO is proposing to continue offering the Standard Offer Program in which default service residential and small commercial customers contacting PECO's customer service center are encouraged to select among a group of EGSs who have voluntarily chosen to offer customers a

---

particularly given that prior Commission decisions have established the appropriate allocation of these costs on an EDC-specific basis. *See FirstEnergy DSP II Order*, pp. 77-78, 82-83, 161-162 (approving recovery of RTEP and ECRC via a non-bypassable tariff rider); *Petition of Duquesne Light Co. For Approval of a Default Serv. Program and Procurement Plan For the Period June 1, 2013 Through May 31, 2015*, Docket No. P-2012-2301664 (Order entered January 25, 2013), p. 222 (denying EDC's proposal to assume responsibility for collecting PJM transmission related charges, including RTEP, expansion costs, generation deactivation charges and Economic Load Response costs and recover through a non-bypassable surcharge); *PPL DSP II Order*, p. 85 (holding that non-market based PJM transmission charges should remain the responsibility of LSEs); *October 2012 Order*, p. 60 (concluding that record evidence did not show how changing the existing cost assignment of generation deactivation charges and other PJM charges from all LSEs to only PECO will lead to actual "risk premium add-ons").

twelve-month contract priced at least 7% below PECO's applicable PTC at the time of the offer. PECO St. No. 2, p. 19. Two parties – the OCA and RESA – seek operational and design changes to the Standard Offer Program. These proposed changes and other issues are discussed, in turn, below.

## **B. Operational Changes**

As a threshold matter, the OCA opposes continuation of the SOP pending a statewide evaluation of the 2013-2014 standard offer customer referral programs for all Pennsylvania EDCs and the adoption of reforms necessary to ensure that customers receive appropriate disclosures and benefits from those programs. OCA St. No. 2, pp. 4-5, 12-13. To aid in that evaluation, the OCA recommends that PECO perform a survey or conduct a customer focus group to obtain information about participating customers' understanding of the SOP. *Id.*, pp. 17-18. OCA witness Alexander, conceded, however, that PECO's Standard Offer Program has accomplished the Commission's objectives for standard offer customer referral programs to expose customers to the competitive market and stimulate shopping. OCA St. No. 2, p. 13. Moreover, Ms. Alexander has not demonstrated that the OCA's recommended survey or focus group is relevant to continuation of the Standard Offer Program in the near term as envisioned by the Commission in the *End State Order*. PECO St. No. 2-R, p. 20. Accordingly, while PECO supports a general Commission review of referral programs as a means to evaluate and identify potential improvements to the SOP, the completion of such review should not be a prerequisite to the continuation of the SOP for the term of PECO's DSP III. PECO St No. 2-R, p. 19; *see also FirstEnergy DSP III Order*, p. 22 (finding that continuation of the FirstEnergy EDCs' customer referral programs was in the public interest).

As noted previously, for DSP III, PECO proposes to continue to administer the SOP consistent with terms and conditions of the Standard Offer Program RFP and Program Rules (“SOP Rules”) approved by the Commission in the DSP II Orders. For its part, the Company performed an evaluation of the Standard Offer Program to explore potential improvements to the program. Tr. 78; *see also* RESA Cross-Examination Exh. 2 (PECO Response to RESA Set VI, No. 4). Based on the results of that evaluation and to endeavor to increase SOP enrollments, PECO has consulted with other Pennsylvania EDCs and stakeholders to share best practices on implementation of standard offer customer referral programs. As a result of those discussions, PECO is in the process of revising its call handling process to transfer all eligible calls (instead of solely customers who affirmatively elect to receive additional information about the SOP) to its third party servicer – Allconnect – to provide further information regarding the SOP after a customer’s initial contact with PECO’s call center. PECO St. No. 2-R, p. 20; *see also* Tr. 73, 76, 78.

Despite PECO’s current efforts to improve the presentation of the SOP during eligible customer contacts with its call center, the OCA and RESA recommend immediate operational and design changes that they believe may improve administration of the SOP, enhance the customer experience with the program and increase EGS participation. Specifically, OCA witness Alexander recommends that PECO revise its SOP scripts to clarify that the SOP rate may be higher or lower than the PTC in the future, as well as modify its Commission-approved SOP Rules to require EGSs who acquired SOP customers before the effective date of the Commission’s new regulations at 52 Pa. Code § 54.10 promulgated in *Final-Omitted Rulemaking Order* to conform the content of their end of term notices and contract offers to

those new regulations.<sup>25</sup> OCA St. No. 2, pp. 14-17. RESA witness Hudson, in turn, supports continuation of the Standard Offer Program for the DSP III term, but proposes the following operational changes: (1) publication of the discounted SOP price to SUCCESS at the time each quarterly PTC is published; (2) elimination of the SOP requirement that EGSs serve both residential and small commercial customers; (3) quarterly training of PECO customer service representatives about presenting the SOP; and (4) issuance of communications to customers about the SOP on a quarterly basis. RESA St. No. 1, pp. 28-31.

PECO does not believe these proposals should be adopted as part of this proceeding. Rather, as Mr. McCawley explained, the collaborative proposed by RESA and discussed in Section IV.D, *infra*, is the proper venue to consider operational and design changes to the SOP, including the appropriate allocation of additional administrative costs incurred as a result of those changes. Likewise, the collaborative process, as opposed to a customer survey or focus group, is the appropriate forum to determine the metrics and data that should be used to evaluate the SOP. PECO St. No. 2, p. 19.

The OCA's proposed revision to the SOP rules to require participating EGSs to conform their contract requirements and renewal practices to the Commission's new regulations at 52 Pa. Code § 54.10 is unnecessary.<sup>26</sup> As Mr. McCawley observed, the SOP Rules include clear and appropriate customer protections regarding end of term notices and reporting requirements for

---

<sup>25</sup> See Final-Omitted Rulemaking Order, *Rulemaking to Amend the Provisions of 52 Pa. Code, Section 54.5 Regulations Regarding Disclosure Statement for Residential and Small Business Customers and to Add Section 54.10 Regulations Regarding the Provision of Notices of Contract Expiration or Changes in Terms for Residential and Small Business Customers*, Docket No. L-2014-2409385 (entered April 3, 2014) (“*Final-Omitted Rulemaking Order*”).

<sup>26</sup> The Commission's new regulations at 52 Pa. Code § 54.10 (“*Notice Regulations*”) were published in the *Pennsylvania Bulletin* on June 14, 2014. See 44 Pa. B. 3522.

participating EGSs. PECO St. No. 2, pp. 19-20. These protections and reporting requirements provide the Commission with ample information to monitor the actions of those suppliers and enforce the Notice Regulations. In addition, there is no reason or supporting evidence for the Commission to conclude that shifting enforcement responsibilities from the Commission to PECO with respect to the Notice Regulations is either necessary or appropriate.

RESA's proposal to deviate from the Commission-approved SOP Rules to allow suppliers to participate on a customer class basis should be rejected. In the *February 2013 Order* (p. 19), the Commission directed PECO to expand eligibility for retail market enhancements, including the Standard Offer Program, to include small commercial customers with demand equal to or below 25 kW. Notably in considering PECO's subsequent Third Revised Default Service Plan Compliance Filing, the Commission approved PECO's SOP Rules without modification, including the program requirement for participating EGSs to accept all residential and small commercial customer enrollments. *See June 2013 Order*, p. 12. RESA has offered no evidence that maintaining the current requirement would meaningfully discourage EGS participation in the program. As Mr. McCawley testified, only one out of more than seventy EGSs licensed to provide generation service in PECO's service territory has expressed concern with this SOP requirement. *See Tr. 72*. Accordingly, RESA's proposed revision to the SOP Rules should be rejected.

For all of these reasons, the Commission should approve PECO's proposal to continue the Standard Offer Program from June 1, 2015 to May 31, 2017 consistent with the Commission's directives in the *End State Order* and adopt the SOP Rules approved for use in DSP II, without modification.

### C. Implementation Costs

Consistent with PECO's existing tariff and the DSP II Orders, the Company proposes to continue to recover Standard Offer Program costs through an EGS participant fee of \$30 per enrolled customer, with any remaining costs recovered in the following manner: (1) fifty percent from EGSs through a 0.2% Purchase of Receivables discount; and (2) fifty percent from residential and small commercial default service customers via the GSA. PECO St. No. 5, p. 10. No parties opposed PECO's proposal to continue to recover SOP costs in this manner. Nevertheless, RESA proposes a detailed Commission investigation of PECO's one-time costs for information technology ("IT") changes necessary to implement the Standard Offer Program in accordance with the DSP II Orders. Mr. Hudson asserts that certain of those implementation costs, namely SOP-related work performed by PECO employees and vendors as part of a general services agreement, may already be included in PECO's distribution rates, amounting to a "double recovery" of those costs. RESA St. No. 2-SR, pp. 21-22.

RESA's speculation is entirely without merit for several reasons. First, Mr. Hudson fails to recognize that PECO's Standard Offer Program is primarily a capital project because implementation of the program requires IT programming and other related changes to PECO's computer systems. As Mr. Cohn testified, PECO's current base rates reflect the Company's rate base (i.e., capital costs) as of December 31, 2010 (i.e., the end of the future test year in its last base rate proceeding). Tr. 114. However, nearly 90% of PECO's SOP implementation costs shown on RESA Exhibit RJH-9 are capital costs that were incurred during 2012 and 2013. *Id.* Moreover, RESA has not demonstrated that PECO's current base rates include any operating and maintenance expense associated with SOP-related services performed by either vendors or PECO employees. To the contrary, these costs, like capital costs, are reflected in base rates only

if they were incurred in connection with capital projects completed as of December 31, 2010. As Mr. Cohn explained, any post-2010 capital project expense items are recovered through the GSA and other surcharges. *See* Tr. 115.

Mr. Hudson also incorrectly assumes that the salaries of the PECO employees who performed SOP-related services are included in base rates because none of those employees were hired specifically to work on the SOP project. RESA St. No. 1, p. 21. As Mr. Cohn confirmed, those salaries were excluded from the Company's rates established in the 2010 base rate proceeding because those employees' work time was dedicated to post-2010 capital projects to implement retail choice. *See* Tr. 115, 117-118. Consequently, Mr. Hudson is simply wrong to assert that a double recovery of SOP implementation costs is occurring.

**D. Standard Offer Program Collaborative**

RESA proposes that PECO convene a stakeholder collaborative in January 2015 to review the success of the SOP and solicit feedback on ways to improve the program. RESA St. Nos. 1, p. 33 & 1-R, p. 7. RESA further suggests that any modifications to the SOP agreed to by all participants be filed with the Commission for approval. *Id.* As discussed in Section IV.B, *supra*, PECO believes the Commission should refer all operational and design changes proposed in this proceeding to the collaborative process proposed by RESA. PECO will certainly review stakeholder recommendations regarding potential improvements to the administration of the SOP, including changes that could lead to a reduction in ongoing operational costs. However, PECO does not agree with Mr. Hudson's contention that it is appropriate to "confirm" the reasonableness of the costs incurred by PECO to implement the SOP as directed by the Commission in the DSP II Orders, which have been fully recovered in accordance with the

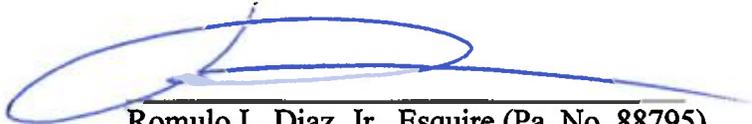
*February 2013 Order.* PECO St. No. 2-SR, p. 3.

In addition, RESA's concern regarding the use of Allconnect to administer customer enrollments in the SOP is misplaced. Mr. Hudson offers no explanation of why he believes that review of the Company's contract with Allconnect, a third party servicer used by other Pennsylvania EDCs to administer their referral programs, is necessary in the collaborative process. In addition, Mr. Hudson's assertion that Allconnect's purported "upselling" of additional unrelated home services be taken up in this proceeding in order to determine whether PECO is being compensated should be rejected. As Mr. McCawley explained, PECO already receives compensation associated with customers who are transferred to Allconnect (i.e., \$5 per customer), which is entirely used to reduce the cost of the SOP. These payments from Allconnect have resulted in an SOP program cost reduction of \$97,000 from August 19, 2013 through May 31, 2014. PECO St. No. 2-SR, p. 4.

## V. CONCLUSION

For the reasons set forth above, the Commission should approve PECO's Default Service Program for the period June 1, 2015 to May 31, 2017. In addition, the Commission should: (1) make the findings required by 66 Pa.C.S § 2807(e)(3.7); (2) grant the waivers and affiliated interest approvals requested in the Petition; and (3) grant such other approvals as may be needed to fully implement PECO's proposed Default Service Program.

Respectfully submitted,



Romulo L. Diaz, Jr., Esquire (Pa. No. 88795)  
Anthony E. Gay, Esquire (Pa. No. 74624)  
W. Craig Williams, Esquire (Pa. No. 306405)  
PECO Energy Company  
2301 Market Street  
Philadelphia, PA 19101-8699  
Phone: 215.841.4635  
Fax: 215.568.3389  
E-mail: [Craig.Williams@Exeloncorp.com](mailto:Craig.Williams@Exeloncorp.com)

Thomas P. Gadsden, Esquire (Pa. No. 28478)  
Kenneth M. Kulak, Esquire (Pa. No. 75509)  
Brooke E. McGlinn, Esquire (Pa. No. 204918)  
Morgan, Lewis & Bockius LLP  
1701 Market Street  
Philadelphia, PA 19103-2921  
Phone: 215.963.5234  
Fax: 215.963.5001  
E-mail [tgadsden@morganlewis.com](mailto:tgadsden@morganlewis.com)

*Counsel for PECO Energy Company*

Dated: August 5, 2014

# Appendix A

**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-2014-2409362**

**TESTIMONY AND EXHIBIT LIST**

**Statement No. 1, Direct Testimony of Brian D. Crowe**

**Statement No. 2, Direct Testimony of John J. McCawley**

- **Exhibit JJM-1      Procurement Schedule**
- **Exhibit JJM-2      Default Service Program Uniform Supply Master Agreement**
- **Exhibit JJM-3      PJM Meter Error Correction Amounts**
- **Exhibit JJM-4      PECO Electric Generation Supplier Coordination Tariff**
- **Exhibit JJM-5      PECO Electric Generation Supplier Coordination Tariff (Blackline)**

**Statement No. 2-R, Rebuttal Testimony of John J. McCawley**

**Statement No. 2-SR, Surrebuttal Testimony of John J. McCawley**

**Statement No. 3, Direct Testimony of Scott G. Fisher**

**Statement No. 3-R, Rebuttal Testimony of Scott G. Fisher**

**Statement No. 3, Direct Testimony of Chantale LaCasse**

- **Exhibit CL-1**            **Curriculum Vitae**
- **Exhibit CL-2**            **Default Service Program Request for Proposals**
- **Exhibit CL-3**            **Request for Proposals Protocol**

**Statement No. 5, Direct Testimony of Alan B. Cohn**

- **Exhibit ABC-1**            **Listing of Prior Case Testimony**
- **Exhibit ABC-2**            **Revised PECO Electric Service Tariff**
- **Exhibit ABC-3**            **Revised PECO Electric Service Tariff (Blackline)**
- **Exhibit ABC-4**            **Analysis of the Volatility of Quarterly vs. Semi-Annual Reconciliation**
- **Exhibit ABC-5**            **Revised Electric Generation Supplier Coordination Tariff**
- **Exhibit ABC-6**            **Revised Electric Generation Supplier Coordination Tariff (Blackline)**
- **Exhibit ABC-7**            **Default Service Program III Estimated Filing and Program Costs**
- **Exhibit ABC-8**            **Responses to Questions in 52 Pa. Code Section 53.52(a)**

**Statement No. 5-R, Rebuttal Testimony of Alan B. Cohn**

- **Exhibit ABC-1R**            **Revised Exhibit OCA-RSH-7**

**Statement No. 5-SR, Surrebuttal Testimony of Alan B. Cohn**

**PECO Hearing Exhibits 1 through 9**

**PECO Cross-Examination Exhibits 1 through 3**