

**PECO ENERGY COMPANY
STATEMENT NO. 1**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

DOCKET NO. P-2014-_____

DIRECT TESTIMONY

WITNESS: BRIAN D. CROWE

SUBJECTS: DEFAULT SERVICE PROGRAM OVERVIEW,
PROPOSED SCHEDULE OF PROCEEDINGS
AND CUSTOMER NOTICE

DATED: MARCH 10, 2014

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1 Strategist in the Company's Corporate Planning and Development Department,
2 and Director, Customer Choice Implementation.

3 I joined PECO's Regulatory and External Affairs Department in October 2000.
4 Since that time I have held the positions of Director of Regulatory and
5 Governmental Affairs, Director of Rates and Regulatory Affairs, and Director of
6 Retail Rates. In March of 2009, I was promoted to my current position of Vice
7 President, Energy Acquisition.

8 **5. Q. What is your educational background?**

9 A. I earned my Bachelor of Science degree in Electrical Engineering in 1986 and my
10 Masters of Business Administration in Finance in 1992, both from Drexel
11 University.

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

13 A. The purpose of my testimony is to provide an overview of PECO's third default
14 service plan ("DSP III") for procurement of electric generation to meet the needs
15 of default service customers in PECO's service territory for the period beginning
16 June 1, 2015 through May 31, 2017.

17 My testimony is divided into three parts. First, I describe PECO's basic default
18 service obligations under Pennsylvania's Electricity Generation Customer Choice
19 and Competition Act ("Competition Act"). I then explain how PECO has
20 satisfied those obligations under its second default service plan ("DSP II").

1 Second, I provide an overview of DSP III through an introduction of the other
2 witnesses who will provide testimony. These witnesses will testify regarding: (1)
3 the details of PECO's DSP III procurement and implementation plans, including
4 the competitive process by which PECO will procure default supply; (2) use of a
5 new supply master agreement; (3) a recommended modification of the
6 reconciliation process relating to the recovery of default service cost over/under
7 collections and continuation of PECO's existing default service rate design, with
8 limited tariff changes related to the recovery of costs incurred to implement retail
9 market enhancement programs; and (4) PECO's proposal to continue the EGS
10 Standard Offer Program ("Standard Offer Program") and to implement seamless
11 moves and "instant connect" programs, as well as provide access to customer
12 account numbers to EGSs.

13 Third, I describe PECO's proposed schedule for these proceedings and the notice
14 provided to customers of this filing.

15 **II. OVERVIEW OF PECO'S DEFAULT SERVICE OBLIGATIONS AND**
16 **PRINCIPAL FEATURES OF THIRD DEFAULT SERVICE PLAN**

17 **7. Q. Please describe PECO's default service obligations.**

18 A. PECO is obligated to provide electric generation service to all customers within
19 its service territory who do not select an EGS or who return to default service
20 after being served by an EGS which becomes unable or unwilling to serve. By
21 law, PECO is required to file a plan with the Pennsylvania Public Utility
22 Commission (the "Commission") which sets forth how PECO will meet its
23 default service obligations, including a strategy for procuring generation supply, a

1 schedule for implementation, and a rate design to recover PECO's reasonable
2 costs.

3 **8. Q. How does PECO currently meet its default service obligations?**

4 A. PECO filed an initial default service plan ("DSP I") in 2008, which was approved
5 by the Commission in 2009 and took effect on January 1, 2011. On January 13,
6 2012, PECO filed DSP II, which the Commission approved on October 12, 2012,
7 subject to resolution of various retail market enhancement issues which were
8 addressed by PECO in subsequent filings and approved by the Commission.

9 Under DSP II, as in DSP I, PECO conducts competitive procurements of
10 wholesale power and associated services for four different default service
11 customer classes: residential, small commercial (less than 100 kW annual peak
12 demand and lighting customers), medium commercial (100kW – 499 kW annual
13 peak demand), and large industrial and commercial customers (>500 kW annual
14 peak demand). In accordance with the Competition Act, PECO procures a
15 "prudent mix" of contracts tailored for each customer class designed to obtain
16 electric supply at the "least cost over time".

17 The principal procurement features of DSP II include the use of fixed price full
18 requirements supply contracts for residential and small and medium commercial
19 customers and spot-priced full requirements contracts for large commercial and
20 industrial customers. DSP II also includes varied contract lengths for each
21 customer class, which were reduced from supply contract lengths in DSP I.

22 Procurement under DSP II occurs at different times of the year to avoid procuring

1 all generation supply at the same time and to reduce the potential for significant
2 default service price volatility. Each procurement is scheduled to occur between
3 approximately two and four months prior to the date of delivery of supply
4 obtained in the procurement. In DSP III, PECO is proposing to continue each of
5 these procurement features of DSP II.

6 **9. Q. Does PECO have other obligations under DSP II?**

7 A. Yes. Consistent with its procurement obligations and its approved plan, PECO
8 maintains contingency plans in the event of a wholesale supplier default and uses
9 standardized documents and procedures approved by the Commission when
10 conducting its default supply procurements. In addition, in accordance with the
11 Commission's direction in its Retail Markets Investigation Order, PECO has
12 undertaken a wide range of initiatives to support retail competition.¹

13 **10. Q. Has PECO met its obligations?**

14 A. Yes. PECO has met all of its obligations to date under DSP II, including its
15 fundamental obligation, as default service provider, to provide adequate and
16 reliable default service to default service customers at least cost over time. In
17 addition, PECO:

- 18 • Implemented a "Standard Offer" program in which default service residential
19 customers contacting PECO's customer service center are encouraged to
20 select among a group of EGSs who have voluntarily chosen to offer customers

¹ See *Investigation of Pennsylvania's Retail Elec. Mkt.: Intermediate Work Plan Order*, Docket No. I-2011-2237952 (Final Order entered March 2, 2012); *Petition of PECO Energy Co. for Approval of Its Default Serv. Program*, Docket No. P-2012-2283641 (Order entered October 12, 2012).

1 a 12-month contract priced at least 7% below PECO’s default service rate at
2 the time of the offer. Over 15,000 customers have switched to EGSs under
3 the program, and the rate of customer switching from default service is now
4 over 400 customers per week.

- 5 • Phased out its “PECO Wind” product and encouraged PECO Wind customers
6 to switch to EGSs offering alternative energy supply.

- 7 • Advanced a variety of other programs to facilitate shopping which will be
8 fully implemented during DSP III, including “seamless moves” and “instant
9 connect.”

- 10 • Designed a new feature as part of the Company’s Supplier Customer Choice
11 Energy Systems Solution (“SUCCESS”) website portal to allow EGSs to
12 request customer account numbers when such information is not available
13 from the customer or PECO’s Eligible Customer List (“ECL”).

14 As a result of these and other initiatives, during DSP II, retail competition has
15 continued to expand significantly: over 30% of PECO’s residential customers
16 now receive service from an EGS, and over 60% of customer electric needs in
17 PECO’s service territory are being met by EGSs.

18 III. OVERVIEW OF DSP III

19 11. Q. What principles did PECO use in designing DSP III?

20 A. In designing DSP III, PECO adhered to the same central principles used in DSP
21 II:

- 1 (1) Competitive forces will produce the least cost to customers over time and,
2 therefore, the development of retail and wholesale energy markets should
3 continue to be encouraged.
- 4 (2) Obtaining a "prudent mix" of default generation supply contracts at least
5 cost over time should take into account factors such as the benefits of price
6 stability and reflect the different needs of various customer types through
7 tailored procurement strategies.
- 8 (3) Default service rate design should be understandable and reflect the
9 competitive procurement of generation supply service.
- 10 (4) Default service plans should reflect "lessons learned" under earlier default
11 service plans to improve competitive default service procurements and
12 further competitive markets while maintaining compliance with Public
13 Utility Code requirements.

14 As part of implementing the fourth principle, PECO also considered the
15 Commission's *End State Order*² and sought to incorporate Commission directives
16 to the extent those directives did not involve potential legislative changes
17 identified by the Commission.

18 **12. Q. What is PECO's default service procurement plan for DSP III?**

19 A. **Mr. John J. McCawley**, PECO's Director of Energy Acquisition, provides
20 detailed testimony regarding PECO's proposed default service procurement plan

² 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*").

1 in PECO Statement No. 2. As Mr. McCawley explains, PECO proposes to
2 maintain its existing customer classes from DSP II, which PECO believes
3 properly reflect the nature of the load of those customers and a balancing of other
4 factors, including rate stability. PECO's proposed procurement strategy for each
5 customer class is as follows:

6 **Residential Class:** PECO will continue to procure a mix of one-year and two-
7 year fixed price full requirements, load-following products. The supply portfolio
8 will include a mix of products that transition to a procurement design in which
9 approximately 96% of the supply will comprise one-year and two-year fixed price
10 full requirements products, with six-month spacing between the commencement
11 of contract delivery periods. Forty percent of this portion of the supply portfolio
12 will be in the form of one-year products and 60% will comprise two-year
13 products. The remaining approximately 4% of the default service supply portfolio
14 for the Residential class will consist of a mix of "long-term" products and spot
15 purchases. As Mr. McCawley explains, PECO will not be procuring new block
16 energy products in DSP III. The sole remaining 50 MW block product expiring
17 on December 31, 2015 will be replaced with a four-year, five-month full
18 requirements product split into two tranches. The remaining default service
19 residential customer load (approximately 1%) will be supplied by spot market
20 purchases. The addition of five months to the four-year product term will
21 facilitate termination of that product at the end of a PJM planning year.

22 **Small Commercial Class:** As in DSP II, PECO will supply all Small
23 Commercial Class load with full requirements fixed price one-year products with

1 overlap on a semi-annual basis. PECO will also continue to procure those
2 products approximately two to four months prior to delivery.

3 **Medium Commercial Class:** As in DSP II, all Medium Commercial Class load
4 will be supplied through half-year fixed price full requirements products without
5 overlap. Like the Small Commercial Class, all products will be procured
6 approximately two to four months prior to delivery.

7 **Large Commercial/Industrial Class:** PECO will maintain the current spot-
8 priced full requirements products utilized for this class in DSP II and solicited
9 annually through competitive procurements.

10 Consistent with the Commission's Policy Statement³ and in order to facilitate the
11 "prudent mix" of procurement contracts above, PECO has proposed a plan term
12 of two years spanning from June 1, 2015 to May 31, 2017, with some contracts
13 extending beyond May 31, 2017 to help ensure that customers are not exposed to
14 rate volatility associated with replacing a large portion of default service supply in
15 a short period of time.

16 **13. Q. Has PECO developed an implementation plan as part of its default service**
17 **program?**

18 A. Yes. In accordance with the Commission's regulations, PECO's default service
19 program includes a detailed implementation plan consistent with this procurement
20 strategy. In his testimony, Mr. McCawley explains this plan, including PECO's

³ 52 Pa. Code § 69.1804.

1 schedule of solicitations in furtherance of its procurement strategy.

2 **14. Q. How did PECO determine that its default service procurement plan is a**
3 **sound approach to meeting “least cost over time” requirements?**

4 A. PECO engaged The NorthBridge Group to conduct an analysis of the results of its
5 DSP II procurements and to evaluate PECO’s proposed DSP III procurements. In
6 PECO Statement No. 3, **Mr. Scott Fisher** of The Northbridge Group presents this
7 analysis and evaluation. Mr. Fisher reviews the “lessons learned” under DSP II
8 with respect to procurement issues and discusses how DSP III will provide a
9 “prudent mix” of contracts for all customer classes, consistent with “least cost
10 over time” requirements, while continuing to support retail competition.

11 **15. Q. Mr. Crowe, why did PECO not adopt a three-month product for residential**
12 **and small commercial customers and a spot-priced product for medium**
13 **commercial customers, as the Commission described in the End State Order?**

14 A. As the Commission explained in its *End State Order*, adoption of such products
15 may raise legal questions about compliance with existing provisions of the Public
16 Utility Code and, consequently, legislative amendments to the Public Utility Code
17 may be necessary. In the absence of such legislation, PECO believes that the
18 structure for DSP III should build on the same successful procurement structures
19 previously approved by the Commission in DSP II.

20 **16. Q. Does PECO’s DSP III provide for a competitive bid process?**

21 A. Yes. In Statement No. 4, **Dr. Chantale LaCasse** of NERA, explains that PECO
22 will continue to use a competitive “Request for Proposals” process in its

1 procurements in light of the positive experience under DSP II. Dr. LaCasse also
2 describes certain proposed changes to conform to the uniform supply master
3 agreement (“SMA”) that PECO is recommending for use during DSP III.

4 **17. Q. What revisions to its supply master agreement or other documentation for**
5 **use with wholesale suppliers in these procurements is PECO proposing?**

6 A. As explained by Mr. McCawley, PECO is proposing to use a new SMA which
7 was created through the uniform procurement process envisioned by the
8 Commission in its End State Order. As part of the EDC-specific sections of the
9 uniform SMA, PECO is proposing to revise the allocation of responsibility for
10 PJM meter error correction charges and generation deactivation charges during
11 DSP III. As Mr. McCawley also explains, PECO is recommending changes from
12 DSP II to allocate meter error correction charges, consistent with the PJM tariff,
13 to all load serving entities (EGSs and wholesale default service suppliers of full
14 requirements products) instead of requiring default service suppliers to cover all
15 such costs for the PECO Zone. PECO is not making any changes to its
16 contingency requirements in the event of supplier default.

17 PECO is also proposing to assume responsibility for collecting generation
18 deactivation charges associated with its default service load from default service
19 customers under PECO’s bypassable default service transmission rate instead of
20 as part of the price for default service supply paid to wholesale suppliers. This
21 change will result in the collection of generation deactivation charges in the same
22 manner as other default service-related transmission charges.

1 **18. Q. Does PECO propose that its generation affiliates again be permitted to**
2 **participate in its competitive procurements?**

3 A. Yes. As explained by Dr. LaCasse, PECO’s competitive bid process will
4 continue to comply with the Commission’s codes of conduct and includes
5 protocols to ensure that its generation affiliates do not receive an advantage in the
6 bidding process or any other aspect of PECO’s default service implementation
7 plan.

8 **19. Q. Is PECO taking any additional steps to enhance retail competition?**

9 A. Yes. As I explained above, PECO will be completing the implementation of
10 accelerated switching, seamless moves, and “instant connect” programs during
11 DSP III. In addition, as discussed by Mr. McCawley in his testimony, PECO
12 proposes to continue the Standard Offer Program for the period June 1, 2015 to
13 May 31, 2017. Finally, the Company will implement the new SUCCESS website
14 feature for the DSP III term to facilitate EGS marketing at public locations and
15 community events where customers do not have their account information in their
16 possession.

17 **20. Q. Is PECO proposing any revisions to its existing default service rate design as**
18 **part of DSP III?**

19 A. Yes. PECO’s rate design under DSP III will remain the same as under DSP II,
20 with one exception to improve the recovery of default service costs. In PECO
21 Statement No. 5, **Mr. Alan B. Cohn** explains the current operation of the
22 Generation Supply Adjustment and describes PECO’s proposal to reconcile

1 over/under collections of default service charges on a semi-annual basis instead of
2 a quarterly basis. Mr. Cohn also explains PECO's proposed tariff changes related
3 to the recovery of costs incurred by PECO to implement any additional retail
4 market enhancements directed by the Commission during DSP III, as well as
5 costs associated with the retail opt-in program suspended during DSP II.

6 **IV. PROCEDURAL SCHEDULE AND NOTICE**

7 **21. Q. Mr. Crowe, please describe the procedural schedule PECO is proposing for**
8 **this proceeding.**

9 A. In accordance with the nine-month period for approval of a default service plan
10 under the Public Utility Code, PECO proposes the following schedule for this
11 proceeding:

March 10, 2014	Petition Filing
April 22, 2014	Prehearing Conference
June 3, 2014	Other Parties' Direct Testimony Due
June 24, 2014	Rebuttal Testimony Due
July 8, 2014	Surrebuttal Testimony Due
July 15-18, 2014	Oral Rejoinder Testimony and Hearings
August 5, 2014	Initial Briefs
August 19, 2014	Reply Briefs
September 30, 2014	Recommended Decision
October 20, 2014	Exceptions

November 3, 2014

Reply Exceptions

December 4, 2014

Commission Order

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22. Q. How will PECO provide notice to its customers of this filing?

A. PECO is providing extensive public notice of this filing to its customers. First, PECO will include a stand-alone bill insert in all customer bills over a thirty-day period beginning on April 1, 2014. This stand-alone bill insert will notify customers of this filing, where they may obtain copies, and how they may participate in this proceeding by filing comments or complaints with the Commission. Second, PECO is publishing notices containing similar information in all of the major newspapers serving PECO's service territory. All notices will refer to PECO's website, (www.peco.com/know), where a copy of the entire filing will be maintained. PECO is also serving copies of this filing on the Pennsylvania Office of Consumer Advocate, the Pennsylvania Office of Small Business Advocate, the Commission's Bureau of Investigation and Enforcement, the Philadelphia Area Industrial Energy Users Group, PJM, and all EGSs registered in PECO's service territory, and requesting the Commission to publish notice of this filing in the *Pennsylvania Bulletin*.

V. CONCLUSION

23. Q. Does this conclude your direct testimony?

A. Yes.