PECO ENERGY COMPANY
STATEMENT NO. 5

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: ALAN B. COHN

SUBJECTS: DEFAULT SERVICE RATE DESIGN
AND TARIFF CHANGES

DATED: MARCH 10, 2014

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DIRECT TESTIMONY
OF
ALAN B. COHN

I. INTRODUCTION AND PURPOSE

1. Q. Please state your full name and business address.

A. My name is Alan B. Cohn. My business address is PECO Energy Company, 2301 Market Street, Philadelphia, Pennsylvania 19103.

2. Q. By whom are you employed and in what capacity?

A. I am employed by PECO Energy Company ("PECO" or the "Company") as Manager of Regulatory Strategy.

3. Q. Please describe your educational background.

A. I received a Bachelor of Science Degree in Commerce and Engineering from Drexel University in 1980. In 1985, I received a Masters Degree in Business Administration from Drexel. In addition, I have completed the American Gas Association ("AGA") Gas Rate Fundamentals Course at the University of Wisconsin and the AGA Advanced Gas Rate Course at the University of Maryland.

4. Q. Please describe your work experience with PECO.

A. Upon graduation from college in 1980, I was hired by PECO as a Rate Analyst in the Cost and Load Analysis Section of the Rate Division. In 1987, I was appointed Supervisor of the Economic Analysis Section in PECO's Rates and Regulatory Affairs Division. Since that time, I have held various management positions in PECO's Rates and Regulatory Affairs Department and Strategic Planning Department with responsibility for managing base rate case filings, cost of service studies and financial and economic analyses.

5. Q. Have you previously testified before this Commission or other regulatory bodies?

A. Yes. I have testified in regulatory proceedings before the Pennsylvania Public Utility Commission ("Commission"), the Federal Energy Regulatory Commission and the Maryland Public Service Commission. A listing of the cases in which I have submitted testimony is attached hereto as Exhibit ABC-1.

6. Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to describe the rate design to take effect with the commencement of PECO's third default service plan ("DSP III") on June 1, 2015. Generally, PECO is adopting the same rate design employed in its second default service plan ("DSP II"), which the Commission has previously approved as consistent with the Public Utility Code and the Commission's Default Service Regulations. The only two changes PECO is proposing are: (1) to reconcile the over/undercollection component of the Generation Supply Adjustment ("GSA") for residential, small commercial and medium commercial customers on a semi-annual basis instead of on a quarterly basis; and (2) limited tariff revisions related to the recovery of costs incurred by PECO 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.

7. Q. Have you prepared any exhibits to accompany your testimony?

A. Yes. PECO Exhibits ABC-1 to ABC-8 were prepared at my direction and under my supervision and are described in detail in my testimony.

II. DEFAULT SERVICE RATE DESIGN

8. Q. Mr. Cohn, please provide an overview of PECO's current default service rate design.

A. Under DSP II, PECO conducts competitive procurements of default service supply for four different customer classes:

(i) Residential Class (Rate Schedules R and RH);

(ii) Small Commercial Class with less than 100 kW of annual peak demand (Rate Schedules GS, PD, and HT) and lighting customers (Rate Schedules AL, POL, SLE, SLS, and TLCL);

(iii) Medium Commercial Class whose annual peak demand is equal to or greater than 100 kW but less than 500 kW (Rate Schedules GS, PD, and HT); and

(iv) Large Commercial and Industrial Class with annual peak demands greater than 500 kW (Rate Schedules GS, PD, HT, and EP).

The Commission's Regulations (52 Pa. Code §§ 54.187(i) and (j)) provide that default service rates shall be adjusted on a quarterly basis, or more frequently, for customers with load requirements up to 500 kW.

9. Q. Please describe how the Company's default service rates are adjusted for customers with load requirements less than 500 kW.

A. Under the current Generation Supply Adjustment ("GSA") approved by the Commission in DSP II, PECO projects the cost of generation supply for each customer class with peak loads up to 500 kW (i.e., residential, small commercial and medium commercial customers) on a quarterly basis. Those GSA projection periods are synchronized with PJM's planning year (June 1-May 31), corresponding to the quarters of June-August, September-November, December-February, and March-May. The projected cost of supply is a function of projected default service sales and projected procurement costs under PECO's generation supply contracts. This projection forms the basis of the "Price to Compare" (the "PTC") which customers use to evaluate competitive generation service offerings by electric generation suppliers ("EGSs").

The projected GSA for each quarter is filed 45 days before the start of that quarter. In accordance with its tariff, PECO compares its actual default service supply costs to the billed revenue it receives from customers under the GSA for default service. The projected GSA includes a factor for reconciliation of any over or under collection of actual revenues against actual costs for each procurement class from the period preceding the quarter in which the GSA is filed. For example, the over or under collection for the first quarter is calculated 45 days after the end of that quarter and is included in the GSA effective in the third quarter. Interest on any over or under collection accrues from the month of such over or under collection to the mid-point of the refund or recoupment period in accordance with the Commission's regulations (52 Pa. Code § 54.187(g)).

10. Q. Please describe how the Company's default service rates are structured for customers with load requirements greater than or equal to 500 kW.

A. Under DSP II, large commercial and industrial customers (with peak load over 500 kW) are supplied entirely by hourly priced products for generation which includes, in addition to the hourly price of energy, a demand charge based upon the reliability pricing model ("RPM") implemented by PJM Interconnection, L.L.C. ("PJM"), PECO's regional transmission organization. The individual customer's RPM charges are based upon the customer's peak load contribution and RPM prices. Customers are also charged for Alternative Energy Portfolio Standards Act ("AEPS Act") compliance and the cost of ancillary services required by PJM as part of the default service supplier's price for supply.

Under the current GSA, any over or under collection for large commercial and industrial customers is reconciled on a monthly basis and is refunded or recovered in the same manner over and under collections are handled for residential, small commercial and medium commercial customers. Likewise, interest on any over or under collection is accrued in the same manner and at the same rate as for residential, small commercial and medium commercial customers.

11. Q. What categories of costs are currently recovered under default service rates?

A. The GSA charge currently recovers generation supply costs, the cost of compliance with the AEPS Act, certain transmission costs and ancillary service costs. In addition to the foregoing costs, the generation component of the PTC for each procurement class includes an administrative cost factor and a working capital factor. Administrative costs, including a portion of costs incurred by PECO to implement Commission-approved programs designed to enhance the competitive retail market, are allocated to the procurement classes based on default service supply sales unless a direct assignment is required. Working capital is a fixed price per kWh that was established as 0.04¢ per kWh in the settlement of PECO's last electric distribution rate case at Docket No. R-2010-2161575. As such, unlike administrative costs, working capital is not included in the reconciliation.

12. Q. Has PECO implemented any strategy to mitigate swings in over/under collections of the costs charged to large commercial and industrial customers?

A. Yes. Billing lag may cause a large over collection for large industrial customers in one month immediately followed by a large under collection the next month. In such cases, the Company combines over and under collections for these two months for reconciliation purposes to avoid unnecessary wide swings in the PTC from month-to-month.

13. Q. Is PECO proposing to maintain its existing default service rate design in DSP III?

A. Yes, with one adjustment to the operation of the GSA. PECO will continue to adjust its default service rates each quarter. However, PECO proposes to reconcile the over/undercollection component of the GSA, in the case of residential, small commercial, and medium commercial customers, on a semi-annual basis rather than a quarterly basis. In order to implement semi-annual reconciliation, PECO proposes a transition reconciliation period that would include over/under collections experienced in December 2014 and would be recovered over the three month period of June 2015 to August 2015. The over or under collections experienced from January 1, 2015 to June 30, 2015 (the first six-month reconciliation period) would be recovered during the September of 2015 to February of 2016 period. In addition, PECO proposes to clarify definition of estimated sales for the period the default service rate is in effect ("S-Factor") and experienced over/undercollections ("E-Factor") to reflect the proposed change from a three-month to six-month reconciliation period. These proposed tariff changes are shown in the clean and redlined version of PECO's electric service tariff attached to my testimony as Exhibits ABC-2 and ABC-3, respectively.

14. Q. Does the revenue and expense timing difference due to billing cycle lag have a significant impact on GSA over/under collections?

A. Yes. Billing cycle lag is experienced because billing cycles are not perfectly aligned with the actual incurrence of generation supply costs. Because customers are billed at different times throughout the month, the revenue for the month reflects sales from the subject month and the prior month that may have experienced higher or lower usage. Billing cycle lag produces significant fluctuations in the PTC that are not directly related to the cost of default service supply.

15. Q. How will semi-annual reconciliation benefit customers and EGSs?

A. As shown on Exhibit ABC-4, by using a semi-annual, rather than quarterly, schedule for the reconciliation of "overcollection or undercollection" amounts, fluctuations in default service prices will be smoothed out and will result in clearer pricing signals. For example, as illustrated in Exhibit ABC-4, applying a constant default service price of $0.08/kWh to PECO's sales data for 2012 and 2013, and employing quarterly reconciliation can result in PTC swings from quarter-to-quarter as high as 10%. By comparison, under the same assumptions, semi-annual reconciliation produces, on average, less variation in the PTC (i.e., approximately 1%).

In addition, a GSA that more closely tracks the cost of default service supply will provide customers with improved information for their shopping decisions.

16. Q. Didn't the Commission reject a prior proposal for annual reconciliation in its consideration of PECO's DSP II and CAP Shopping Plan?

A. Yes. However, PECO believes that semi-annual reconciliation appropriately balances the Company's goal of mitigating volatility in default service rates due to billing lag with the Commission's concern that extending the reconciliation period to a full year may hinder the responsiveness of the PTC to current market conditions.

17. Q. Is a waiver of the Commission's regulations required for the semi-annual reconciliation of the over or under collection component of the GSA?

A. As I explained previously, the Commission's Regulations (52 Pa. Code §§ 54.187(i) and (j)) require adjustment of default service rates on a quarterly basis, or more frequently, for customers with load requirements up to 500 kW. However, the Commission has recognized that more extended periods for over/under reconciliation may help keep default rates more market-reflective.[1] PECO therefore requests a waiver, to the extent necessary, to implement a semi-annual over or under reconciliation as I have described.

18. Q. Is PECO proposing any additional changes to its electric service tariff under DSP III?

A. Yes. PECO proposes to clarify the GSA's definition of administrative cost to specifically reference any costs incurred due to retail market enhancements directed by the Commission during DSP III in its Retail Market Investigation[2] or any other applicable proceeding, to the extent the costs are not recovered directly from EGSs or other surcharges approved by the Commission.

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[1] *See Investigation of Pennsylvania's Retail Elec. Mkt.: Recommendations Regarding Upcoming Default Serv. Plans*, Docket No. I-2011-2237952, at pp. 54-55 (Order entered December 16, 2011) ("*Default Service Recommendations Order*").

[2] *See Investigation of Pennsylvania's Retail Elec. Mkt.: End-State of Default Serv.*, Docket No. I-2011-2237952 (Order entered February 15, 2013).

19. Q. How does PECO propose to recover the costs to implement retail market enhancements during DSP III?

A. 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 not to exceed $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 ("POR") discount; and (2) fifty percent from residential and small commercial default service customers via the GSA.

With respect to costs incurred by PECO 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, the Company is proposing to recover such costs from EGSs and default service residential customers in a manner consistent with the recovery mechanism approved by the Commission for the costs associated with the Standard Offer Program. Specifically, the Company is proposing to recover 50% of the costs of these programs from EGSs through the current 0.2% discount on all purchased EGS receivables under PECO's POR program until the costs are recovered. The remaining half of these retail market enhancement program costs will be recovered from residential and small commercial default service customers through the GSA. *See* Exhibits ABC-2 and ABC-3.

20. Q. Is PECO proposing changes to its Electric Generation Supplier Tariff ("Supplier Tariff") related to the recovery of costs designed to enhance the retail market?

A. Yes. PECO proposes to revise Page 92 of its Supplier Tariff to specifically reference the costs incurred by PECO to implement additional retail market enhancements directed by the Commission, as well as deferred costs from DSP II related to the Company's retail opt-in program suspended by the Commission. This change is shown in the clean and redlined version of the Supplier Tariff attached to my testimony as Exhibits ABC-5 and ABC-6, respectively.

21. Q. Is PECO entitled to full and current recovery of all costs associated with DSP III?

A. Yes, as set forth in Section 2807(e)(3.9) of the Public Utility Code. Nonetheless, in light of the Commission's Retail Markets Investigation and its consideration of possible changes to the current default service model,[3] PECO is formally requesting that the Commission expressly affirm PECO's right to full and current recovery of all costs of DSP III.

22. Q. Is the Company seeking to continue to recover the cost of its default service proceedings through the GSA?

A. Yes. Consistent with the Commission's Policy Statement at 69 Pa. Code § 69.1808(a)(4) and the current GSA, the cost of this proceeding, including

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[3] *See generally Investigation of Pennsylvania's Retail Elec. Mkt.: End State of Default Serv.*, Docket No. I-2011-2237952 (Final Order entered February 15, 2013).

consultant fees, attorney fees, and costs related to information technology changes, will be recovered through the GSA over the DSP III term. The estimated cost, including the cost to implement retail market enhancements during DSP III, is delineated on Exhibit ABC-7.

23. Q. Has the Company submitted responses to the questions regarding changes to its tariff required by the Commission's Regulations?

A. Yes. Exhibit ABC-8 provides the Company's responses to the questions in 52 Pa. Code § 53.52(a).

III. CONCLUSION

24. Q. Does this conclude your direct testimony?

A. Yes.