

February 29, 2016

VIA E-FILING

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

**Re: Handling of Auction Revenue Rights for PECO Default Supply
Docket No. P-2014-2409362**

Dear Secretary Chiavetta:

The purpose of this letter is to provide formal notification to the Commission of PECO Energy Company's ("PECO's") plans for handling Auction Revenue Rights ("ARRs") for the 2016-2017 PJM planning year.

Background

In accordance with PECO's Default Service Program III ("DSP III") (Docket No. P-2014-2409362) approved by the Commission, PECO is procuring a mix of one-year and two-year fixed-price full requirements ("FPFR") contracts for its Residential Class default service customers and has transitioned to a procurement design in which approximately 96% of the supply is in the form of one-year and two-year FPFR products. The remaining approximately 4% of the Residential Class supply previously obtained through a five-year block product (and associated spot-market purchases) expired on December 31, 2015, and was replaced with 17-month FPFR products (approximately 3.2% of residential default service load) and spot purchases (approximately 1%) directly from the energy markets operated by PJM.

A default service supply procurement for contracts beginning June 1, 2016 will be held in March 2016, after the start of the PJM ARR Auction. Due to the timing of this procurement, PECO will participate in the ARR Auction on behalf of PECO's Default Service Suppliers. The ownership and economic outcome of ARR requests on behalf of the Default Service Suppliers will transfer to the appropriate supplier once contracts for June 1, 2016 commence, in accordance with PJM rules. In order to develop its ARR requests, PECO will employ a consultant for ARR analysis and selection. The costs of the consultant and any associated financial outcome from PECO's ARR selection (whether positive or negative) will be passed through PECO's Generation Supply Adjustment ("GSA") charge to default service customers in each class

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consistent with the ARR's assigned to suppliers, provided that the portion of consultant costs allocated to Residential customers shall not exceed \$25,000 per year.

PECO's ARR Approach

PECO is the load serving entity for approximately 1% of the Residential Class beginning January 1, 2016. Accordingly, PECO has the option to receive ARR's in the annual PJM Financial Transmission Rights ("FTR") auction process and receive an allocation of revenues (or charges) from the annual FTR auction. An allocation of revenues would represent positive economic value. An allocation of charges would represent negative economic value.

PECO has considered its options to participate in the upcoming 2016-2017 ARR/FTR market and intends to implement a conservative ARR strategy that is likely to yield net positive economic benefits for Residential default service customers and PECO's wholesale default service suppliers. PECO, and its consultant, analyzed historic FTR auction outcomes and historic congestion patterns between the PECO Zone and generation units that have historically served load in the PECO Zone. PECO and its consultant have also used a wholesale market dispatch model to forecast ARR values for the 2016-2017 PJM planning year.

Similar to its participation in last year's FTR auction, PECO's intent is to participate only in Stage 1 of the ARR process and to obtain the value of the ARR's that it is successful in receiving from its nominations. PECO plans to flow the value of the ARR's to Residential default service customers through the GSA and PJM will transfer the appropriate ARR's to wholesale default service suppliers based on the outcome of the default service supply procurement in March 2016.

Please do not hesitate to contact me should you have any questions.

Very truly yours,



W. Craig Williams
Assistant General Counsel

cc: Certificate of Service

**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 the **Handling of Auction Revenue Rights for PECO Default Supply – Letter of February 29, 2016** on the following persons in the matter specified in accordance with the requirements of 52 Pa. Code § 1.54:

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Dated: February 29, 2016