



NERA
Economic Consulting

PECO Energy Company Bidder Information Session



PECO's Third Solicitation under its Second Default Service Procurement Plan (DSP II)

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Philadelphia, PA

How Markets WorkSM

Any statements herein describing or referring to documents and agreements are summaries only, and are **qualified in their entirety by reference to such governing documents**

- These governing documents are:
 - Commission decisions related to PECO's Second Default Service Program ("DSP II") in Docket No. P-2012-2283641, including the Decision and Order dated October 12, 2012, clarification issued November 21, 2012 and Secretarial Letter dated January 25, 2013
 - RFP Rules (posted July 5, 2013)
 - Default Service Supply Master Agreement (approved January 25, 2013 and posted July 5, 2013)

Please see the RFP Web site for complete documentation
<http://www.pecoprocurement.com/>

Role of NERA as the Independent Evaluator

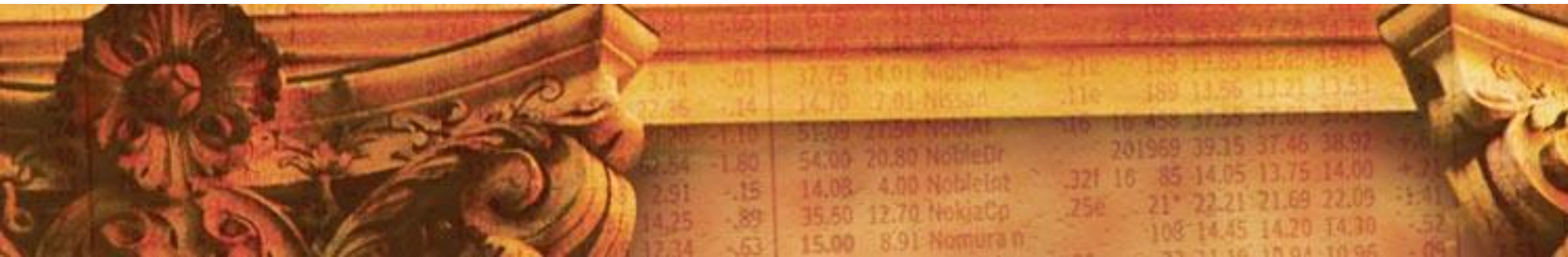


- To ensure a transparent process for the RFP, PECO Energy Company has hired **NERA to be the third-party Independent Evaluator for the solicitations**
- NERA's Role is:
 - To be the main point of contact with RFP Bidders
 - To ensure the RFP Rules, as approved by the PUC, are followed
 - To ensure Bidder Qualifications are evaluated equitably and fairly
 - To evaluate Bids on a price-only basis
 - To present the results to the PUC

Agenda



- Overview of DSP II and this Solicitation
- Contract and Rates
- RFP Process Details
- RFP Web Site
- Questions



Overview of DSP II and Overview of this Solicitation

PECO's DSP II Features a Single Full Requirements RFP



- Default Service customers are those who:
 - do not elect to take service from an EGS or
 - return to PECO after receiving service from an EGS
- PECO will procure Default Service Supply through a single Full Requirements RFP with a total of five (5) solicitations
- Supply procured generally for the period **June 1, 2013 to May 31, 2015** but some contracts extend to November 2016

This is the third solicitation under DSP II

Four Customer Classes



Class	Description	Criteria
RES	Residential	All Residential Customers
SC	Small Commercial	Less than 100 kW of annual peak demand
MC	Medium Commercial	Between 100 kW and 500 kW of annual peak demand
LC&I	Large Commercial and Industrial	500 kW or greater of annual peak demand

Full Requirements Service



- **Full requirements service** includes energy, capacity, ancillary services, certain transmission services, and Alternative Energy Portfolio Standard ("AEPS") requirements
- For RES, SC, and MC Classes, full requirements service is on a **fixed-price** basis
 - Supplier is paid on the basis of its own average winning bid price
 - Price is an all-in price
- For LC&I Class, full requirements is on a **spot-price** basis
 - *Energy* is priced to PJM's Day-Ahead spot market (PECO zone) and *capacity* obligations are priced to RPM
 - Payment for all other elements of service based on the Supplier's average winning bid price for each MWh of load served

Product Mix Different By Class



Class	Basis	Contract Lengths	Procurement Frequency
RES	Fixed	Laddered one-year and two-year products	Twice a year
SC	Fixed	Laddered 12-month products	Twice a year
MC	Fixed	6 months	Twice a year
LC&I	<i>Spot</i>	12 months	Once a year (January solicitation)

DSP II Tranches



- Default Load for each Class is divided into a number of **tranches**, each representing a fixed percentage of the Default Load for the Class

Class	Total Tranches	Size (%)	Total PLC (MW)	Default PLC (MW)	MW-Measure
RES	60 (*)	1.60%	3,585	2,378	37.95
SC	24	4.17%	1,388	568	23.68
MC	12	8.33%	1,035	168	13.97
LC&I	18	5.56%	2,320	95	5.28

(*) Total number of RES tranches at the outset of DSP II was 48. As the residential block products expire, the number of tranches available for the RES class will increase, reaching 60 by the end of DSP II period.

Products In This Solicitation



- A product has three **labels**:
 - The Class
 - The length of the supply period
 - The start of the supply period
- In this solicitation, there are **products** from three Classes:
 - RES-12-Dec13, RES-18-Dec13, RES-17-Jan14
 - SC-12-Dec13
 - MC-6-Dec13
- Each Class has a **load cap**, which is a maximum number of tranches that a bidder may bid and win

Load Caps in this Solicitation – Residential Products



Product	Tranches Available	Load Caps Apply to RFP Bidders Who:	Load Caps RES Class	
RES-12-Dec13	10	Won more than 7 tranches (combined) of RES-12-Jun13 , RES-18-Jun13 , and RES-24-Jun13 in prior solicitations	17 tranches less any RES-12-Jun13, RES-18-Jun13, and RES-24-Jun13 tranches won in previous solicitations	20 tranches less any RES-12-Jun13, RES-18-Jun13, and RES-24-Jun13 tranches won in previous solicitations
RES-18-Dec13	7	Won more than 10 tranches (combined) of RES-12-Jun13 , RES-18-Jun13 , and RES-24-Jun13 in prior solicitations		
RES-17-Jan14	7	Won more than 13 tranches (combined) of RES-12-Jun13 , RES-18-Jun13 , and RES-24-Jun13 in previous solicitations		

- An RFP Bidder cannot supply more than **50%** of a Class' Default Load at any point in time

Load Caps in this Solicitation – SC and MC Products



Products	Tranches Available	Load Caps Apply to RFP Bidders Who:	SC Load Caps by RFP Bidder	MC Load Cap by RFP Bidder
SC-12-Dec13	12	Won SC tranches in the January 2013 Solicitation	12 less SC tranches won in the January 2013 Solicitation	
MC-6-Dec13	12	Load Caps always apply		6

- An RFP Bidder cannot supply more than **50%** of the Class Default Load at any point in time

Schedule

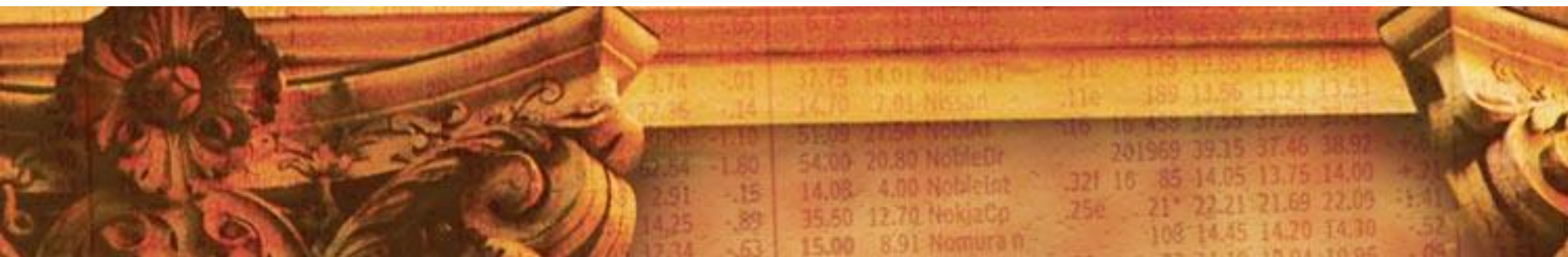


MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
26 August	27	28	29	30
Guaranty Process Begins		Bidder Information Session		
2 September	3	4	5	6
				Part 1 Window Opens
9	10	11	12	13
		Part 1 Date (Part 1 Window Closes)		Part 1 Notification Date
16	17	18	19	20
Part 2 Proposal Window Opens	Bid submission training		Part 2 Date (Part 2 Window Closes)	
23	24	25	26	27
Part 2 Notification Date	Bid are Due	IE provides report to the PUC	PUC Decision (close of business)	

PUC Approval Process



- RFP results are **contingent on final PUC approval**
- Independent Evaluator submits confidential report on winning bids to PUC on the day after Bid Date
- The PUC will issue a decision within **one business day** of receipt of confidential report
- Information regarding solicitation released within 15 days of the close of the solicitation
- PECO and OCA receive redacted version of reports once Default Service SMAs are executed



Contract and Rates

Default Service SMA Requirements and Eligible Default Suppliers



- The Nov 2012 Solicitation used the Default Service SMA initially filed that contemplated only fixed-price products
- The Jan 2013 Solicitation used the **Default Service SMA approved by the Commission on January 25, 2013** that adds provisions to account for spot-price products
- RFP Rules define “*Eligible Default Suppliers*” as those that won in a solicitation in January 2013 or later, when the January 25, 2013 Commission-approved Default Service SMA was used
- RFP Bidders that won only in the Nov 2012 Solicitation or that have not won in DSP II must **submit a signed new Default Service SMA** with the Part 2 Proposal

Credit Requirements



- For fixed-price products, credit exposure to PECO is based on **Mark-to-Market exposure calculations**
 - Net of Accounts Receivable / Accounts Payable to Supplier
- Performance assurance requirements will depend upon a credit evaluation using criteria specified in the Default Service SMA
- Form of Guaranty and Form of Performance Assurance Letter of Credit ("Post-Bid Letter of Credit") provided as exhibits to Default Service SMA

AEPS Requirements



- Default Suppliers are responsible for providing **Alternate Energy Credits (“AECs”)** during the term of the Default Service SMA
- Each AEC is issued for each MWh of generation from a qualified alternative energy system
- Each Default Supplier specifies the average cost for Non-Solar Tier I, Solar Tier I and Tier II AECs as part of the Transaction Confirmation process

		Percent of Total Retail Electric Sales		
Reporting Year	Time Period	Tier I	Solar Tier I	Tier II
8	6/1/13 – 5/31/14	4.50%	0.0840%	6.20%
9	6/1/14 – 5/31/15	5.00%	0.1440%	6.20%
10	6/1/15 – 5/31/16	5.50%	0.2500%	8.20%
11	6/1/16 – 5/31/17	6.00%	0.2933%	8.20%

PECO's Allocation of Separately Procured Alternate Energy Credits (AECs)



- Under the Default Service SMA, a Default Supplier's AEPS obligation will be reduced by the number of AECs allocated to the Default Supplier in the Transaction Confirmation
 - **Prior to the opening of the Part 1 Window** in each solicitation, PECO announces the allocation of AECs to each tranche (see next slide)
 - Any PECO AECs allocated to Default Supplier's AEPS Obligation remain the property of PECO and are not transferred to the Supplier

PECO's Allocation of Separately Procured AECs for this Solicitation



- Alternative Energy Credits will be allocated to each tranche as follows:

Product	Time Period	Tier I (non-solar) AECs per Tranche	Tier I (solar) AECs per Tranche	Tier II AECs per Tranche
RES-12-Dec13	12/1/13 - 5/31/14	2,624	50	0
	6/1/14 - 11/30/14	2,869	85	0
RES-18-Dec13	12/1/13 - 5/31/14	2,624	50	0
	6/1/14 - 5/31/15	5,485	163	0
RES-17-Jan14	1/1/14 - 5/31/14	2,122	40	0
	6/1/14 - 5/31/15	5,485	163	0
SCI-12-Dec13	12/1/13 - 5/31/14	1,011	19	0
	6/1/14 - 11/30/14	935	28	0
MC-6-Dec13	12/1/13 - 5/31/14	848	16	0

Potential Generation Deactivation Charges



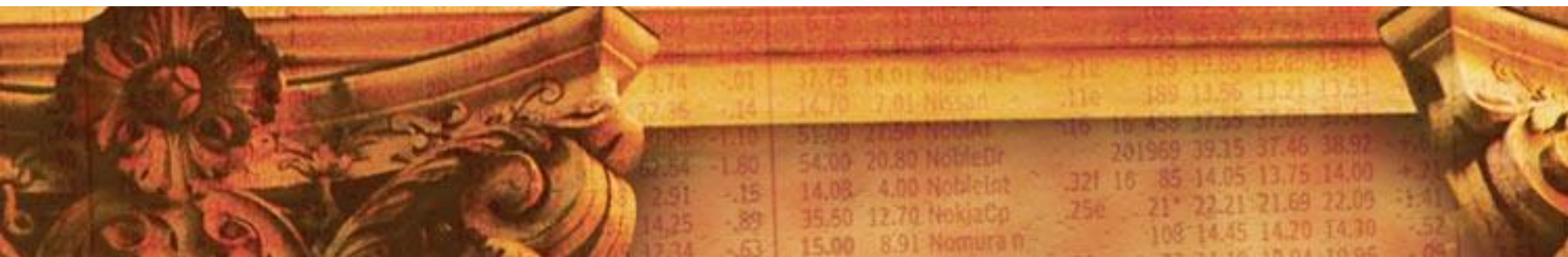
- On October 31st, 2012, PJM announced generation retirements (Schuylkill) that could result in **Generation Deactivation Charges** to Load Serving Entities in the PECO Zone
- As shown in Exhibit D of the Default Service SMA, "Sample PJM Invoice", Generation Deactivation charges **are the responsibility of the Default Supplier**
- Questions related to PJM's analysis and their next steps should be directed to PJM

<http://www.pjm.com/~media/planning/gen-retire/pending-deactivation-requests.ashx>

Rate Translation: Determination of Retail Rates



- The Default Service **rates for a Class** are determined on the basis of prices determined through the RFP
- For the **RES Class**, rates will also incorporate:
 - block energy purchases from DSP I plus any expected purchases and sales through PJM spot energy market, as PECO balances the blocks of energy and load on an hourly basis
- Rates also incorporate a quarterly true-up and administrative costs (See PECO's GSA Tariff)
- A Default Service rate calculation model is posted to the PECO Web site:
 - <https://www.peco.com/CustomerService/CustomerChoice/Pages/PriceToCompare.aspx>



RFP Process Details

Overview of RFP Process



- Guaranty Process (optional)
- Part 1 Proposal
- Bid Submission Training
- Part 2 Proposal
- Submission of Bids

■ **Option 1: Alternate Form**

- RFP Bidders with corporate policies that preclude them from using the standard guaranty may submit an alternate guaranty form
- PECO reviewed any alternate guaranty forms received before or on August 26, 2013
- The alternate form must offer similar protection to standard guaranty

■ **Option 2: Modifications to the Standard Form**

- RFP Bidders may also submit non-material or mutually beneficial modifications to the standard form
- PECO reviewed any proposed modifications received by August 26, 2013 and will post a document containing all acceptable modifications to the RFP Web site
- Approved modifications may be elected in the Part 1 Form

Part 1 Proposal Requirements



- Provide **Contact Information:**
 - **Representative** is point of contact and receives all correspondence
 - **Officer** of the RFP Bidder is authorized to sign the Default Service SMA and must make all **representations** in the Part 1 and Part 2 Forms including agreeing to RFP Rules and Default Service SMA
 - **Designee** (optional)
- Provide **Financial Information:** Quarterly financial statements and credit ratings
- Information to prepare the Default Service SMA and Guaranty

Part 1 Proposal Due on September 11, 2013

Mode of Communication



- **Election of mode of communication**
 - RFP Bidder may receive notifications by email or by fax
 - Documents may be sent by either secure file transfer or overnight delivery service
- **Representative** will receive the confidential information required to submit Bids
 - RFP Bidder may designate up to 3 nominees to receive notifications in addition to the representative

Returning RFP Bidders Use the Short Part 1 Form



- RFP Bidders that were qualified in a previous solicitation will receive an email confirming their status as **Previously Qualified RFP Bidder**
 - Entities that were RFP Bidders in DSP I but not in DSP II are **not** considered previously qualified RFP Bidders
- Previously qualified RFP Bidders may use the **Short Part 1 Form** instead of the Standard Part 1 Form
 - It allows RFP Bidders to update contact information and simply confirm that financials have not changed
 - The entity on whose financial standing the RFP Bidder relies must be the same as in the previous solicitation
- All other entities must use the **Standard Part 1 Form**

Modifications to Letters of Credit (Pre-Bid and Post-Bid)



- RFP Bidders can propose modifications to the Standard Letters of Credit (LOCs)
 - Responses to proposed Pre-Bid LOC modifications within 2 business days
 - Responses to proposed Post-Bid LOC modifications within 7 business days
 - All approved modifications are posted to Web site - **Check list before proposing modifications**

Information to Prepare Default Service SMA and Guaranty



- The IE uses information from the Part 1 Form to populate all relevant fields in the **Default Service SMA and Guaranty**
 - specify elections to be made in the Default Service SMA and provide contact information to prepare the form of notice (Exhibit H to the Default Service SMA)
 - specify the governing laws under which the RFP Guarantor is organized
 - provide contact information for the RFP Guarantor, including the name and title of the signatory of the guaranty
 - make elections to incorporate any or all of the approved modifications to the Form of Guaranty

Part 1 Proposal: Submission & Processing



- **Step 1: RFP Bidders submit Part 1 Proposal**
 - **two** original forms with signatures and **one** electronic copy by email (to pecoprocurement@nera.com) or on a CD
 - One copy of supporting documents (by email or on a CD)
- **Step 2: IE evaluates proposal for completeness and compliance with rules**
 - IE will send notification to RFP Bidder by email or fax before 6 PM on day of receipt if Part 1 Proposal is received by noon
 - IE will send a deficiency notice when there is missing information
- **Step 3: RFP Bidder Cures Any Deficiencies**
 - Must cure by noon on the Part 1 Date, or 6 PM on the business day after the Deficiency Notice is sent – whichever comes later
 - Part 1 Proposal may be rejected if failing to remedy by deadline

Part 1 Notification



■ Step 4: Part 1 Notification

- An RFP Bidder is notified whether it has qualified to submit a Part 2 Proposal by **Friday, September 13, 2013** (the Part 1 Notification Date)
- IE also communicates credit assessment with the Part 1 Notification, including unsecured credit for RFP Bidder (or RFP Guarantor) under the terms of the Default Service SMA based on financials submitted with the Part 1 Proposal

Contents of Part 1 Notification



- **Part 1 Materials** provided with Part 1 Notification include:
 - Customized Bid Form and instructions for bid submission
 - Customized Default Service SMA (if applicable)
 - Customized Guaranty (if applicable)
 - Confidential Login information to test secure file transfer system during training and to submit Bids on the Bid Date
- All Part 1 materials included with the Part 1 Notification are essential to continued participation of the RFP Bidder in the RFP process

Suppliers Can Submit their Part 2 Proposal Documents Early



- RFP Bidders can submit the Part 2 Form during the Part 1 Window for **early processing** so that the Officer of the RFP Bidder can make all representations at once
- Part 2 materials submitted during the Part 1 Window will be processed as soon as practicable

Summary of Qualification Process: Part 2 Proposal



- Pre-Bid Letter of Credit
- Signed Default Service SMA documents
- Certifications

Part 2 Proposal is Due on September 19, 2013

Part 2 Proposal: Credit Requirements



- All RFP Bidders must submit a Pre-Bid Letter of Credit
 - \$250,000 per tranche bid of the fixed-price products
- Maximum amount of Pre-Bid Letter of Credit (if bid on all products): **\$9.5M**
- Must use standard form, or standard form incorporating **only approved modifications** posted to the RFP Web site

Part 2 Proposal: Contract



■ Default Service SMA

- RFP Bidders that are not Eligible Default Suppliers must submit two (2) signed originals of Default Service SMA that was provided with Part 1 notification, with all exhibits
- The Officer of the RFP Bidder designated in Part 1 Form (or Designee) must sign

Part 2 Proposal: Guaranty



- RFP Bidders relying on an RFP Guarantor must submit two (2) originals of the guaranty
 - With the exception of Eligible Default Suppliers that posted a guaranty in an amount equal to its RFP Guarantor's Unsecured Credit Limit
- Guaranty amount for **RFP Bidders that are not Default Suppliers** (under DSP I or DSP II) is \$600,000 per tranche bid
- Guaranty amount for **RFP Bidders that are Default Suppliers** (under DSP I or DSP II) must meet or exceed the lesser of:
 - the Unsecured Credit Limit corresponding to the RFP Guarantor's lowest credit and RFP Guarantor TNW Amount;
 - the sum of any current guaranty held by PECO and \$600,000 per tranche bid on the fixed-price products

Part 2 Proposal: Submission & Processing



- **Step 1: IE receives Part 2 Proposal**
 - RFP Bidders must submit two original forms with original signatures and one electronic copy (by email to pecoprocurement@nera.com or on a CD)
- **Step 2: IE evaluates proposal for completeness and compliance**
 - IE sends notification to RFP Bidder by email or fax before 6pm on day of receipt with a deficiency notice if information is missing
- **Step 3: RFP Bidder Cures Deficiencies**
 - RFP Bidder must cure deficiency by noon on the Part 2 Date, or 6 PM on the business day after Deficiency Notice is sent – whichever comes later
 - RFP Bidder will have two business days to cure a deficiency related to the Pre-Bid Letter of Credit and other certain documents as provided in Article V. of the RFP Rules
 - Part 2 Proposal may be rejected if failing to remedy deficiency by deadline
- **Step 4: Part 2 Notification**
 - An RFP Bidder is notified whether it has qualified to submit Bids by **Monday, September 23, 2013** (the Part 2 Notification Date)

Both Part 1 and Part 2 Forms: Justification of Omissions



■ Justification of Omissions

- If any of the information cannot be provided, explain here to avoid a Deficiency Notice

8. Justification of Omissions

If you are unable to provide all documents or information required with this Part 1 Form, please justify fully any omissions in the space provided below.

A large, empty rectangular box with a thin black border, intended for providing a justification for omissions. In the top-left corner of this box, there is a small, solid gray square.

Bid Submission Process

Bid Submission Process



- Bids entered in an **Excel Bid Form**
- Bid Form submitted online through a **secure file transfer** system (primary backup by fax, secondary backup encrypted email)
- Independent Evaluator confirms receipt
- Independent Evaluator advises RFP Bidders whether or not they are **provisional winners** on the Bid Date

RFP Bidders may participate in a training session on September 17, 2013

Bid Submission Process



- **Part 1 Notification** includes customized Bid Form and instructions for bid submission
- **Bids to be submitted between 10 AM and 12 PM noon on Tuesday, September 24, 2013 (Bid Date)**
 - IE calls and confirms receipt within 15 minutes
 - **If there are errors, RFP Bidder has only until noon to correct them. RFP Bidders are encouraged to submit early for this reason!**
 - By 6 PM on the Bid Date, IE determines provisional winning bids, and informs RFP Bidders

What is a Bid?



- A Bid is a price in **\$/MWh**
 - For one tranche of a product
- The Bid
 - Is automatically **rounded** to the nearest cent
 - Is binding until six (6) business days after the Bid Date
 - Must be supported by sufficient security
- Bids will be evaluated by the IE on a **price-only** basis
 - Bids for each product will be ranked from lowest to highest price until all bids are ranked

Bid Form



**Enter
Prices**

**Running
Totals**

**Check
Load Caps**

*Use running
totals to keep
track of load
cap constraints*

Bids (All Bids are in \$/MWh)									
Residential		Residential		Residential		Small Commercial		Medium Commercial	
RES-12-Dec13		RES-18-Dec13		RES-17-Jan14		SC-12-Dec13		MC-6-Dec13	
December 2013 - November 2014		December 2013 - May 2015		January 2014 - May 2015		December 2013 - November 2014		December 2013 - May 2014	
Bid (\$/MWh)		Bid (\$/MWh)		Bid (\$/MWh)		Bid (\$/MWh)		Bid (\$/MWh)	
1		1		1		1		1	
2		2		2		2		2	
3		3		3		3		3	
4		4		4		4		4	
5		5		5		5		5	
6		6		6		6		6	
7		7		7		7			
8						8			
9						9			
10						10			
						11			
						12			

Number of Tranches Bid				
Residential	Residential	Residential	Small Commercial	Medium Commercial
December 2013 - November 2014	December 2013 - May 2015	January 2014 - May 2015	December 2013 - November 2014	December 2013 - May 2014
0	0	0	0	0

Bidder-Specific Load Caps		
0	0	0
0		

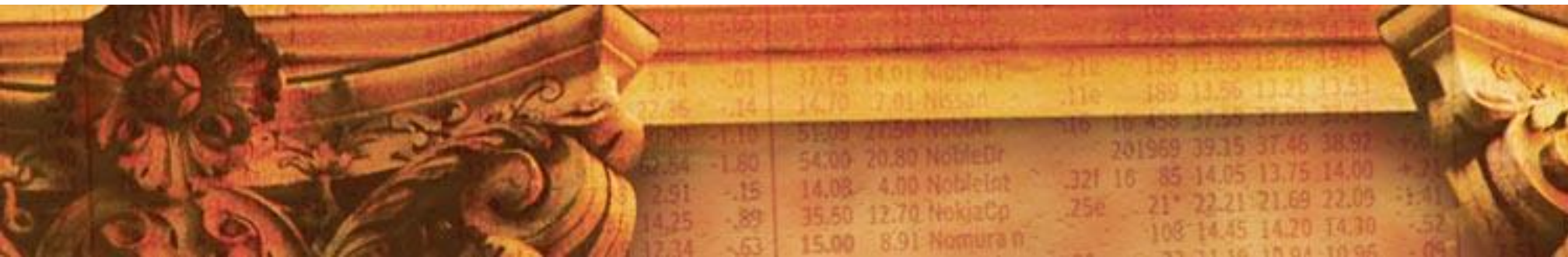
Load Cap Status		
OK	OK	OK
OK		

PUC Approval and Transaction Confirmation Schedule



- **Thursday, September 26, 2013:**
 - PUC Issues a Decision
 - IE provides information to PECO for transaction confirmations
- **Friday, September 27, 2013:**
 - PECO signs and overnights transaction confirmations and Default Service SMA
 - IE releases Pre-Bid Letters of Credit for losing RFP Bidders
- **No later than Monday, September 30, 2013:**
 - Supplier faxes transaction confirmations to PECO **by 2 pm**, overnights transaction confirmations to PECO, posts additional security if needed
- **Wednesday, October 2, 2013:**
 - IE releases winning RFP Bidders' Pre-Bid Letters of Credit

- Information is released 15 days after the solicitation
- Key information about prices:
 - Weighted average winning bid price by product
 - Number of tranches of each product procured



The RFP Web Site

Central Source for RFP Information



www.pecoprocurement.com

- Supplier and Regulatory documents
- Historical Data (2006-Present)
- Answers to submitted questions
- Announcements and schedule
- Registration, RSVP, and submission of questions
- Archive of postings from past solicitations

Ask a Question



- Contact Us / Ask a Question
 - RFP Bidder questions answered within 2 business days
 - New FAQs posted to RFP Web site every **Wednesday** (without identifying information)
 - Supplier Information / FAQs

The screenshot shows the PECO Procurement For Default Supply website. The header features a green lightbulb icon, a city skyline, and the PECO logo. A blue banner reads "PECO Procurement For Default Supply". The left sidebar contains a navigation menu with links: Home, Background, Supplier Information, Data Room, Calendar, Contact Us (highlighted with a green box), Register, Ask a Question (circled in red), Info Session RSVP, Independent Evaluator, and Contact Info. The main content area is titled "Ask a Question" and contains a form with the following fields: Name *, Company *, Email Address *, and Question/Comment *. A "Submit" button is at the bottom. A "Contact Us" link is visible on the right side of the page.

Address for Submissions



- Required original submissions must be sent to us at the following address:

**NERA - Independent Evaluator
PECO Default Service Program RFPs
1835 Market Street, Suite 1205
Philadelphia, PA 19103
Phone: (215) 568-0200
Fax: (215) 568-9358**

NERA

Economic Consulting

Questions?



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