



NERA
Economic Consulting

PECO Energy Company Bidder Information Session



Final Solicitation Under PECO's Second Default Service Procurement Plan (DSP II)

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Philadelphia, PA

How Markets WorkSM

Disclaimer



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 June 27, 2014)
 - Default Service Supply Master Agreement (approved January 25, 2013 and posted June 27, 2014)

Please see the RFP Web site for complete documentation

<http://www.pecoprocurement.com/>

Role of NERA as the Independent Evaluator



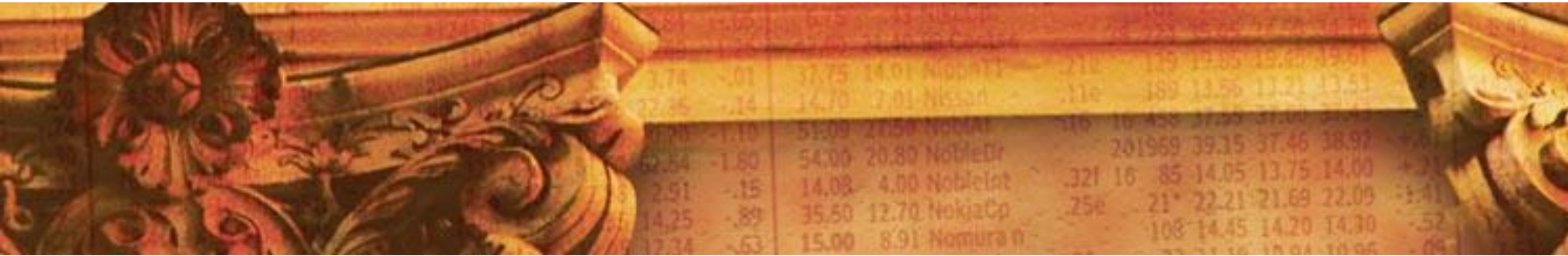
- To ensure a transparent process for the RFP, PECO Energy Company has hired **NERA to be the third-party Independent Evaluator for the solicitations**

- 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

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 and overlapping one-year and two-year products	Twice a year
SC	Fixed	Laddered and overlapping 12-month products	Twice a year
MC	Fixed	6 months	Twice a year
LC&I	<i>Spot</i>	12 months	<i>Once a year</i>

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%	3,669.00	2,389.36	38.13
SC	24	4.17%	1,348.00	544.74	22.70
MC	12	8.33%	1,008.00	160.12	13.34
LC&I	8	12.50%	2,358.00	72.85	9.11

(*) 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.

Regulatory Developments



- PECO and other electric distribution companies have now filed petitions for their next Default Service Plan for the period June 1, 2015 through May 31, 2017
- SB 1121, sponsored by Senator Mensch, was withdrawn in March 2014. More information is available here:
 - <http://www.senatormensch.com/2014/03/06/addressing-electric-rate-spikes-competition-an-op-ed-by-senator-mensch/>
- DSP III, if approved as filed, will feature the same competitive enhancements as DSP II
 - The EGS Opt-in program was not implemented under DSP II and was not proposed for DSP III
 - Proposed competitive enhancements are described in PECO's filing available on its web site (Docket P-2014-2409362) here:
 - <https://www.peco.com/CustomerService/RatesandPricing/RateInformation/Pages/Filings.aspx>

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** for three Classes:
 - RES-12-Dec14, RES-18-Dec14, RES-24-Dec14, RES-5-Jan15
 - SC-12-Dec14
 - MC-6-Dec14

- Each Class has a **load cap**, which is a maximum number of tranches that a bidder may bid and win

Residential Product Re-bid (Res-18-Dec14)



- Seven (7) tranches of the RES-24-Jun14 product available in the previous solicitation were not filled
- **Following the contingency plan** approved by the Commission, the unfilled tranches are available for re-bid in this solicitation with a supply period that starts six (6) months later (December 1, 2014)
- These seven (7) tranches are now the **RES-18-Dec14 product in this solicitation**

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-Dec14	12	Won SC tranches in the January 2014 Solicitation	12 less SC tranches won in the January 2014 Solicitation	
MC-6-Dec14	12	Load Caps always apply		6

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

Load Caps in this Solicitation – Residential Products



Product	Tranches Available	Load Caps Apply to RFP Bidders Who:	Load Caps RES Class	
RES-12-Dec14	10	Won more than 17 RES-24-Jun13, RES-18-Dec13, RES-17-Jan14, and RES-12-Jun14 tranches in previous solicitations	27 less RES-24-Jun13, RES-18-Dec13, RES-17-Jan14, and RES-12-Jun14 tranches in previous solicitations	30 less RES-24-Jun13, RES-18-Dec13, RES-17-Jan14, and RES-12-Jun14 tranches in previous solicitations
RES-18-Dec14	7	Won more than 20 RES-24-Jun13, RES-18-Dec13, RES-17-Jan14, and RES-12-Jun14 tranches in previous solicitations		
Res-24-Dec14	7	Won more than 20 RES-24-Jun13, RES-18-Dec13, RES-17-Jan14, and RES-12-Jun14 tranches in previous solicitations		
RES-5-Jan15	5	Won more than 25 RES-24-Jun13, RES-18-Dec13, RES-17-Jan14, and RES-12-Jun14 tranches in previous solicitations		

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

Schedule – August & September

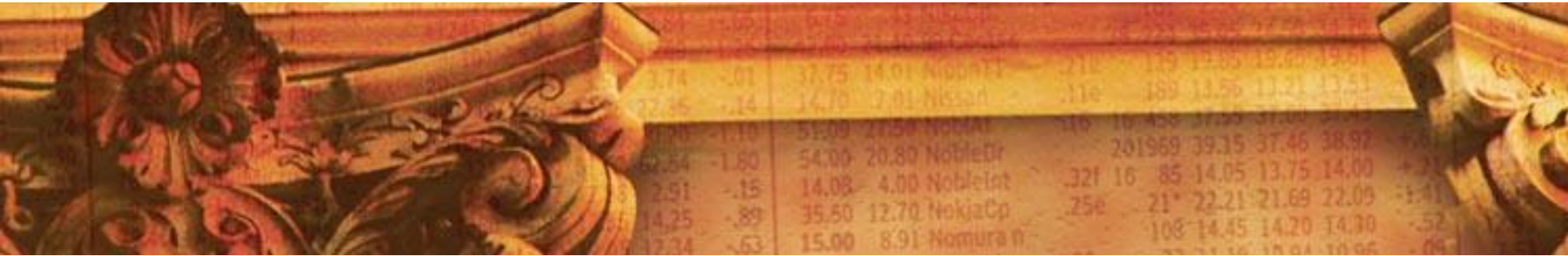


MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
August				
4	5	6	7	8
		Bidder Information Session		Part 1 Window Opens
11	12	13	14	15
18	19	20	21	22
Part 1 Date (Part 1 Window Closes)		Part 1 Notification Date	Part 2 Window Opens	
25	26	27	28	29
	Bid Submission Training		Part 2 Date (Part 2 Window Closes)	
September				
1	2	3	4	5
Labor Day	Part 2 Notification Date	Bids 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
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-Dec14	12/1/14 - 5/31/15	3,285	96	0
	6/1/15 – 11/30/15	0	143	0
RES-18-Dec14	12/1/14 - 5/31/15	3,285	96	0
	6/1/15 – 5/31/16	0	275	0
RES-24-Dec14	12/1/14 - 5/31/15	3,285	96	0
	6/1/15 – 5/31/16	0	275	0
	6/1/16 - 11/30/16	0	154	0
RES-5-Jan15	1/1/15 – 5/31/15	2,641	79	0
SCI-12-Dec14	12/1/14 - 5/31/15	1,658	44	0
	6/1/15 – 11/30/15	0	69	0
MC-6-Dec14	12/1/14 - 5/31/15	1,378	37	0

Potential Generation Deactivation Charges



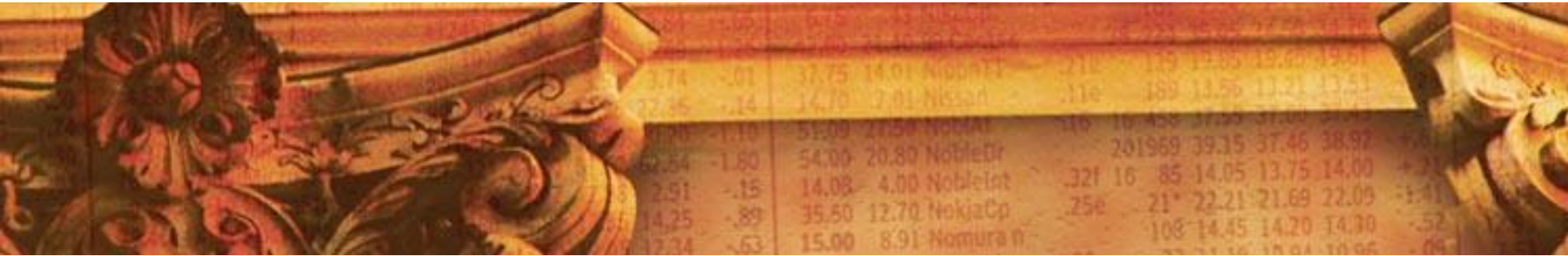
- On October 31st, 2012, PJM announced generation retirements (Schuylkill) that could result in **Generation Deactivation Charges** to Load Serving Entities in the PECO Zone
- As shown in Exhibit D of the Default Service SMA, "Sample PJM Invoice", Generation Deactivation charges **are the responsibility 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 July 29, 2014

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

- RFP Bidders also had the opportunity to submit non-material or mutually beneficial modifications to the standard form by July 29, 2014
- 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** and **Nominees** (optional)
- Elect mode of communication
- Provide **Financial Information:** Quarterly financial statements and credit ratings
- Information to prepare the Default Service SMA and Guaranty

Part 1 Proposal Due on August 18, 2014

Returning RFP Bidders Use the Short Part 1 Form



- RFP Bidders that were qualified in a previous solicitation under DSP II will receive an email confirming their status as **Previously Qualified RFP Bidder**
- 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 the Supplier Information page of the RFP Web site - **Check list before proposing modifications**

<http://pecoprocurement.com/index.cfm?s=supplierInformation&p=documents>

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
 - Complete notice or a deficiency notice when there is missing information or information that requires clarification

- **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 fail 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 **Wednesday, August 20, 2014** (the Part 1 Notification Date)
- IE also communicates credit assessment, including unsecured credit for RFP Bidder (or RFP Guarantor) 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

Summary of Qualification Process: Part 2 Proposal



- Part 2 Form
- Pre-Bid Letter of Credit
- Signed Default Service SMA documents
- Certifications

Part 2 Proposal is Due on August 28, 2014
RFP Bidders can submit the Part 2 Form during the Part 1 Window for early processing.

Part 2 Proposal: Credit Requirements



- All RFP Bidders must submit a Pre-Bid Letter of Credit
 - \$250,000 per tranche bid
- Maximum amount of Pre-Bid Letter of Credit:
 - \$11.75M
 - Depending on load caps, not all bidders will be able to bid on all tranches
- Must use standard form, or standard form incorporating **only approved modifications** posted to the RFP Web site

Part 2 Proposal: 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 that rely 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 is \$600,000 per tranche bid for **RFP Bidders that are not Default Suppliers**
- **RFP Bidders that are Default Suppliers** must add amount of current Guaranty

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 6 PM on day of receipt with a complete or 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 fail to remedy deficiency by deadline
- **Step 4: Part 2 Notification**
 - An RFP Bidder is notified whether it has qualified to submit Bids by **Tuesday, September 2, 2014** (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.

Bid Submission Process

What is a Bid?



- A Bid is a price in **\$/MWh**
 - For one tranche of a product
 - Is automatically **rounded** to the nearest cent
 - Must be supported by sufficient security
- A Bid is binding until six (6) business days after the Bid Date
- 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

Use running totals to keep track of load cap constraints

Check Load Caps

Bids (All Bids are in \$/MWh)

Residential RES-12-Dec14 December 2014 - November 2015	Residential RES-18-Dec14 December 2014 - May 2016	Residential RES-24-Dec14 December 2014 - November 2016	Residential RES-5-Jan15 January 2015 - May 2015	Small Commercial SC-12-Dec14 December 2014 - November 2015	Medium Commercial MC-6-Dec14 December 2014 - May 2015
Bid (\$/MWh)	Bid (\$/MWh)	Bid (\$/MWh)	Bid (\$/MWh)	Bid (\$/MWh)	Bid (\$/MWh)
1	1	1	1	1	1
2	2	2	2	2	2
3	3	3	3	3	3
4	4	4	4	4	4
5	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 December 2014 - November 2015	Residential December 2014 - May 2016	Residential December 2014 - November 2016	Residential January 2015 - May 2015	Small Commercial December 2014 - November 2015	Medium Commercial December 2014 - May 2015
0	0	0	0	0	0

Bidder-Specific Load Caps

10	7	7	5	12	6
27					

Load Cap Status

OK	OK	OK	OK	OK	OK
OK					

Bid Submission Process



- Part 1 Notification includes customized, excel Bid Form and instructions for bid submission
- **Bids to be submitted between 10 AM and 12 PM noon on Wednesday, September 3, 2014 (Bid Date)**
 - Bids submitted online through a secure file transfer system (primary backup by fax, secondary backup encrypted email)
 - IE calls and confirms receipt within 15 minutes
 - **If there are errors, RFP Bidder has only until 12 PM 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 whether or not they are provisional winners

RFP Bidders may participate in a training session on August 26, 2014

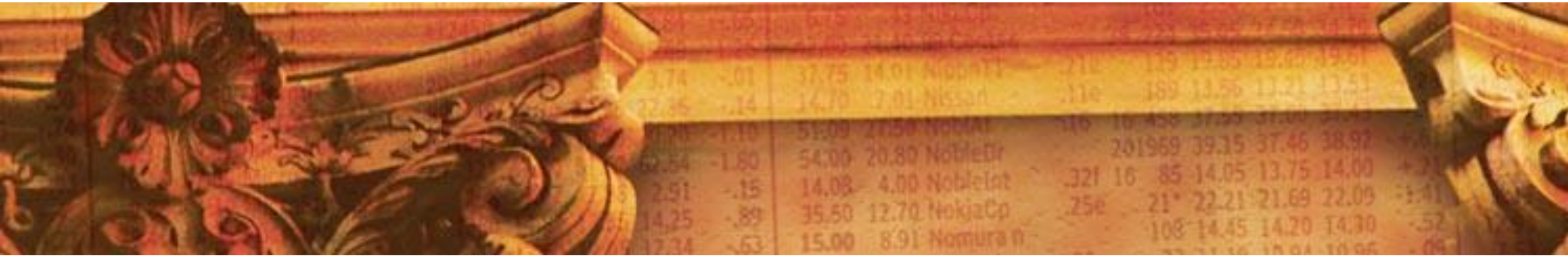
PUC Approval and Transaction Confirmation Schedule



- **Friday, September 5, 2014:**
 - PUC Issues a Decision
 - IE provides information to PECO for transaction confirmations
- **Monday, September 8, 2014:**
 - PECO signs and overnights transaction confirmations and Default Service SMA
 - IE releases Pre-Bid Letters of Credit for losing RFP Bidders
- **No later than Tuesday, September 9, 2014:**
 - Supplier faxes transaction confirmations to PECO **by 2 PM**, overnights transaction confirmations to PECO, posts additional security if needed
- **Thursday, September 11, 2014:**
 - 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
- Register to receive email announcements and submit 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

A screenshot of the PECO Procurement For Default Supply website. The page features a header with a lightbulb image, a city skyline, and the PECO logo. Below the header is a navigation menu with links for Home, Background, Supplier Information, Data Room, Calendar, Contact Us (highlighted), 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 fields for Name *, Company *, Email Address *, and Question/Comment *. A "Submit" button is located at the bottom of the form. To the right of the form is a "Contact Us" link.

Address for Submissions



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

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

NERA

Economic Consulting

Questions?



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