BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PECO ENERGY COMPANY	:	
FOR APPROVAL OF ITS DEFAULT	:	**DOCKET NO. P-2012-**
SERVICE PROGRAM	:	

PETITION OF PECO ENERGY COMPANY

Pursuant to 66 Pa. C. S. § 2807(e) of the Public Utility Code, the Default Service Regulations[1] of the Pennsylvania Public Utility Commission (the "Commission") and the Commission's Policy Statement[2] on Default Service, PECO Energy Company ("PECO" or the "Company") hereby petitions the Commission for approval of its second Default Service Program (the "Program", or "DSP II") as set forth herein. PECO files this Petition in accordance with its responsibilities as the default service provider for its certificated service territory for the period from June 1, 2013 to May 31, 2015, following the expiration of its current default service program ("DSP I").[3] PECO requests that the Commission: (1) approve the Program, including its procurement plan, implementation plan, contingency plan, and associated procurement documents and agreements for default service supply ("the Plan") for all PECO customers who

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[1] 52 Pa. Code §§ 54.181-54.189; *see also Rulemaking Re Electric Distribution Companies' Obligation to Serve Retail Customers at the Conclusion of the Transition Period Pursuant to 66 Pa. C.S. § 2807(e)(2)*, Docket No. L-00040169 (Order entered May 10, 2007) ("*First Default Service Rulemaking Order*"); *Implementation of Act 129 of October 15, 2008; Default Service and Retail Electric Markets*, Docket No. L-2009-2095604 (Order entered October 4, 2011) ("*Second Default Service Rulemaking Order*") (collectively, the "Default Service Regulations").

[2] 52 Pa. Code §§ 69.1801-1817; *see also Default Service and Retail Electric Markets*, Docket No. M-2009-2140580 (Order entered September 23, 2011) ("Default Service Policy Statement").

[3] *See Petition of PECO Energy for Approval of Its Default Service Program and Rate Mitigation Plan*, Docket No. P-2008-2062739 (Order entered June 2, 2009) ("*DSP I Order*").

do not take generation service from an alternative electric generation supplier ("EGS") or who contract for energy with an EGS which is not delivered; (2) approve PECO's proposed tariff changes to its existing default service rate design, including annual reconciliation of over/under collections and incorporation of PECO's currently separate Alternative Energy Portfolio Standard Rider into its Generation Supply Adjustment ("GSA") charge, and affirm PECO's right to recover all of its default service costs in accordance with 66 Pa. C.S. § 2807(3.9); (3) approve NERA Economic Consulting, Inc. ("NERA"), to continue as the independent third-party evaluator for PECO's default supply procurements; (4) grant a waiver of the rate design provisions of 52 Pa. Code § 54.187, to the extent necessary, to support the continuation of PECO's current default service customer classes and annual reconciliation of over/under collections; (5) find that the Program includes prudent steps necessary to negotiate favorable generation supply contracts; (6) find that the Program includes prudent steps necessary to obtain least-cost generation supply on a long-term, short-term and spot market basis; (7) find that neither PECO nor its affiliates have withheld from the market any generation supply in a manner that violates federal law; (8) approve PECO's proposed retail market enhancements, including its Opt-In EGS Offer Program and Customer Referral Program and the associated cost recovery mechanisms, and grant any additional waivers required for implementation of those programs to the extent necessary; and (9) approve PECO's proposed revised default service supply master agreement ("SMA") and agreements with EGSs to implement the Opt-In EGS Offer Program and Customer Referral Program as affiliated interest agreements under 66 Pa. C.S. § 2102.

This is PECO's second proposed program for default service under Pennsylvania's Electricity Generation Customer Choice and Competition Act, 66 Pa. C.S. §§ 2801-2812 (the "Competition Act"). Under DSP I, PECO's default service customers migrated successfully from fixed generation rates to variable default service rates and an environment with many competitive retail generation supply offerings. As a result, more than half (56%) of the generation supply used by PECO's distribution customers is now provided by EGSs. In DSP II, PECO seeks to continue to meet its default service obligations while building on the success of DSP I in fostering retail market growth by including more market-reflective products, modified cost recovery mechanisms, and new retail market enhancements.

In accordance with the Competition Act, the Commission's Default Service Regulations, and the Default Service Policy Statement, DSP II is designed to enable PECO to obtain a "prudent mix" of procurement contracts and thereby ensure that default service customers have access to an adequate and reliable supply of generation at least cost over time. PECO therefore requests that the Commission approve DSP II as requested herein and grant all other approvals necessary so that PECO can begin implementation of DSP II for the benefit of its customers.

I. INTRODUCTION

1. PECO is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania with its principal office in Philadelphia, Pennsylvania. PECO provides electric delivery service to approximately 1.6 million customers.

2. As a Pennsylvania electric distribution company ("EDC"), PECO serves as default service provider to electric customers within its service territory in accordance with its obligations under Section 2807(e) of the Public Utility Code (66 Pa. C.S. § 2807(e)). As a default service provider, PECO provides electric generation service to those customers who do not select an EGS or who return to default service after being served by an EGS that becomes unable or unwilling to serve them. Since January 1, 2011, PECO has obtained generation supply to meet these obligations in accordance with DSP I, as approved by the Commission. Prior to

that date, PECO furnished "provider of last resort" service at fixed rates established by the Commission.

3. Under Sections 2807 (3.1) - (3.2) and (3.4) of the Competition Act, PECO is required to obtain, through competitive procurement processes, a "prudent mix" of default service supply contracts designed to ensure "adequate and reliable service" at the "least cost to customers over time." 66 Pa. C.S. § 2807(e)(3.7).

4. Section 54.185 of the Commission's Default Service Regulations provides that a default service provider should file a default service program with the Commission no later than twelve months before its current default service program will expire. Pursuant to the Default Service Regulations, such a default service program must include, *inter alia*: (1) a default service procurement plan, which sets forth PECO's strategy for procuring generation supply and complying with Pennsylvania's Alternative Energy Portfolio Standards Act, 73 Pa. C.S. § 1643.1 *et seq*. ("AEPS" or "AEPS Act"); (2) an implementation plan identifying the schedule and other details of PECO's proposed competitive procurements for default supply, with forms of supplier documents and agreements and an associated contingency plan; and (3) a rate design plan to recover all reasonable costs of default service, which includes rates, rules and conditions of service and revisions to its tariff. 52 Pa. Code § 54.185.

5. In promulgating the Default Service Regulations and Policy Statement, the Commission provided the following guidance for default service providers in designing a default service program:

- "In implementing default service standards, Act 129 requires that the Commission be concerned about rate stability as well as other considerations such as ensuring a "prudent mix" of supply and ensuring safe and reliable service. See 66 Pa. C.S.

§§ 2807(e)(3.2), (3.4) and (7). In our view, a default service plan that meets the "least cost over time" standard in Act 129 should not have, as its singular focus, achieving the absolute lowest cost over the default service plan time frame but, rather, a cost for power that is both adequate and reliable and also economical relative to other options."[4]

- "The 'least cost' standard must give the [default service provider] sufficient latitude to select contracts that constitute a 'prudent mix' which includes a sufficient variety of products that adequately take into consideration price volatility, changes in generation supply, customer usage characteristics and the need to assure safe and reliable service."[5]

6. As part of the Commission's current Investigation of Pennsylvania's retail electric market (the "Retail Market Investigation"), the Commission has also provided several recommendations to EDCs developing new default service plans for the period commencing June 1, 2013, including a two-year term for such plans, limitation of short-term contracts that extend beyond May 31, 2015, and additional retail market enhancements.[6] PECO has incorporated the Commission's recommendations into its design of its DSP II.

7. This Petition summarizes PECO's proposed DSP II and, in so doing, identifies and describes the DSP II procurement plan, implementation plan, contingency plan and

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[4] *Second Default Service Rulemaking,* pp. 11-12.

[5] *Second Default Service Rulemaking,* p. 38; *see also id.* at 56 (expressing preference for use of full requirements contracts in provision of default service).

[6] *See Investigation of Pennsylvania's Retail Electricity Market: Recommended Directives on Upcoming Default Service Plans*, Docket No. I-2011-2237952 (Order entered December 16, 2011) ("*Default Service Recommendations Order*").

mechanisms to recover all reasonable costs on a full and current basis. This Petition also incorporates the following statements, which are attached hereto:

PECO Statement No. 1 – Testimony of Brian D. Crowe

Mr. Crowe is Vice President, Energy Acquisition, for PECO. His testimony provides an overview of PECO's Program, including PECO's proposed litigation schedule for these proceedings and customer notice.

PECO Statement No. 2 – Testimony of John J. McCawley

Mr. McCawley is Director of Energy Acquisition for PECO. He describes PECO's proposed default service procurement, implementation, and contingency plans for DSP II, and additional proposed initiatives to enhance retail competition.

PECO Statement No. 3 – Testimony of Scott G. Fisher

Mr. Fisher is a Principal of the NorthBridge Group, an economic consulting firm. Mr. Fisher provides an expert evaluation of PECO's proposed procurement plan as well as a review of "lessons learned" under DSP I, which includes a quantitative analysis of the prices obtained in PECO's DSP I default service supply solicitations.

PECO Statement No. 4 – Testimony of Dr. Chantale LaCasse

Dr. LaCasse is a Senior Vice President of NERA. Dr. LaCasse testifies regarding the procedures for PECO's procurements and proposed changes in DSP II, as well as the role and responsibilities of NERA as proposed independent evaluator.

PECO Statement No. 5 – Testimony of Alan B. Cohn

Mr. Cohn is Manager, Revenue Analysis, Retail Rates, for PECO. Mr. Cohn describes PECO's existing Generation Supply Adjustment ("GSA") and proposed improvements in default service cost recovery.

8. In order to have sufficient time to undertake the competitive procurement process to obtain default generation supplies for service on and after June 1, 2013 as described in this Petition, PECO seeks to have an approved second default service program in place by mid-October 2012. Accordingly, PECO respectfully requests that the Commission act upon this Petition on or before its scheduled October 11, 2012 public meeting date.

II. PECO'S DEFAULT SERVICE PROCUREMENT AND IMPLEMENTATION PLANS

A. Procurement Classes, Program Term and Supply Portfolio

9. Under DSP I, PECO conducts competitive procurements of wholesale power and associated services for four different default service customer classes: (i) Residential customers, (ii) Small Commercial customers with less than 100 kW of peak demand and lighting customers; (iii) Medium Commercial customers whose peak demand is equal to or greater than 100 kW but less than or equal to 500 kW; and (iv) Large Commercial and Industrial customers with peak demands greater than 500 kW.

10. As explained in the testimony of Mr. Crowe and Mr. McCawley, PECO is proposing to maintain the same division of default service customers in DSP II as in DSP I for purposes of default supply procurement. This division continues to reflect the nature of the load requirements of each customer class and the consideration of other factors, including rate stability and the amount of shopping in PECO's service territory during DSP I.[7]

11. In light of its experience under DSP I, as Mr. McCawley also explains, PECO proposes to make several changes to its default service supply portfolios, including the utilization of shorter time periods between the solicitation and delivery of supply products as well as the expanded use of fixed-price full requirements, load-following contracts.

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[7] The Commission's Default Service Regulations and Policy Statement provide that customers should be divided into three classes based upon peak load contributions of 0-25 kW, 25-500 kW, and 500 kW and above. *See* 52 Pa. Code §§ 54.187 & 69.1806. As Mr. McCawley explains in his testimony, the Commission has previously granted PECO a waiver from these regulations to support the 100 kW "breakpoint" among PECO's commercial customers. The resulting Medium Commercial class is also consistent with the Commission's recommendations for default service plans commencing on June 1, 2013. *See Default Service Recommendations* Order, p. 61 (recommending that EDCs create separate procurement groups for Medium Commercial customers). In accordance with 52 Pa. Code § 54.185(f), PECO again requests a waiver of the applicable provisions of the Default Service Regulations.

12. A full requirements, load-following contract requires a supplier to provide energy, capacity, ancillary services, and any other services or products necessary to serve a specified percentage of default service load twenty-four hours a day, three hundred and sixty-five days a year. Because the contract is "load-following", the amount of energy and other services and products a supplier must provide will vary depending upon PECO's actual default service load.

13. Under DSP I, seventy-five percent of the Residential class load is served by overlapping full requirements products, with two-year contracts comprising about forty-five percent and one-year contracts comprising about thirty percent of the mix. The remaining twenty-five percent of the Residential class load is served by PECO (the "PECO Share"), with a targeted eighty percent of the PECO Share acquired through forward purchases of energy blocks and the remaining portion purchased (and balanced) in the wholesale energy spot markets administered by PJM Interconnection, LLC ("PJM").

14. In DSP II, PECO is proposing to transition the Residential class supply portfolio from its current contract mix to a blend of laddered one-year and two-year full requirements products, with six-month spacing between the commencement of contract delivery periods. Because of the structure of its existing mix of full requirements and block contracts, PECO will transition to this new blend of contracts during DSP II using products with term lengths that vary from six months to eighteen months. After the first procurement to be held in Fall 2012, each of the supply contracts for the Residential class will be procured approximately two to four months prior to the beginning of the applicable contract delivery period. Under DSP I, by contrast, procurements have occurred four to eight months before the beginning of the applicable contract delivery period.

15. In order to reduce price exposure risk to the Residential class, particularly in light of the increasing retail electric shopping in PECO's service territory, PECO does not propose further procurement of block energy products for the Residential class. Instead, PECO will create additional tranches of load for the full requirements products as its current block energy contract terms expire. The full requirements contracts that replace the block energy products will have delivery terms that end on May 31, 2015, the end of the DSP II plan period.

16. The Small Commercial class is currently served with a mix of non-overlapping one- and two-year full requirements contracts, with one-year full requirements contracts comprising about seventy percent of the mix and two-year laddered full requirements contracts comprising about twenty percent of the mix. The remaining ten percent of the mix is comprised of full requirements contracts with energy priced at PJM's day-ahead market prices. For this customer class, PECO proposes to eliminate the two-year and spot-priced full requirements products and replace these contracts with one-year full requirements products, each laddered with six-month spacing between commencement of delivery periods. Each of the contracts for the Small Commercial class will be procured approximately two to four months prior to delivery of the energy, with an initial transitional procurement of six month full requirements contracts to facilitate laddering. As Mr. Fisher explains in Statement No. 3, removal of the separate spot price component in the Small Commercial default service portfolio is appropriate given the replacement of two-year products (in DSP I) with one-year products (in DSP II), and with shorter times between procurement and delivery.

17. For the Medium Commercial class, PECO proposes to replace the current mix of eighty-five percent one-year fixed-price full requirements products and fifteen percent spot-price products entirely with six-month fixed-price full requirements products without overlap. Each of

the contracts for the Medium Commercial class will be procured approximately two to four months prior to delivery of the energy.

18. With respect to the Large Commercial and Industrial class, PECO proposes to eliminate spot-priced full requirements contracts entirely and procure all default service supply for this class directly from the PJM energy markets.

19. PECO's Plan encompasses default service procurement for the above classes for the period beginning June 1, 2013 through May 31, 2015. This term is consistent with the Commission's Policy Statement, which recommends that default service programs following an initial program should run for a two-year period, as well as the Commission's recommendations in the Retail Market Investigation. *See* 52 Pa. Code § 69.1804 ("Subsequent [default service] programs should be for two years, unless otherwise directed by the Commission."); *Default Service Recommendations Order*, pp. 11-12 (recommending two-year default service plan term).

20. The contracts on which suppliers will bid will have different terms, ranging from 5 to 24 months. In light of the Commission's recommendation in the Retail Market Investigation that EDCs limit or eliminate short-term energy contracts that extend beyond a default service plan period to avoid hindering possible future changes to Pennsylvania's default service model,[8] PECO has designed its implementation plan to limit the quantity of contracts with terms extending beyond May 31, 2015.

21. This limited "over-hang" of contracts beyond May 31, 2015 will help ensure that customers are not exposed to rate volatility associated with replacing a large portion of default service supply in a short period of time. *See* 52 Pa. Code § 54.186(b)(4) ("Procurement plans

[8] *See Default Service Recommendations Order*, pp. 20-21.

may include solicitations and contracts whose duration extends beyond the program period."); *see also Default Service Recommendations Order*, p. 20 (concluding that "hard stop" of supply contracts at end of default service plan followed by procurement of significant supply under "singular market condition" may be legitimate concern). Other than an existing five-year block energy contract procured under DSP I (which expires on December 31, 2015), none of the contracts with delivery periods extending beyond May 31, 2015, will be procured before early 2014. In the event that legal developments result in PECO no longer serving as the default service provider for its service territory after May 31, 2015, there should be ample time to adjust PECO's solicitations that extend beyond May 31, 2015. PECO's SMA also includes provisions under which PECO's obligations may be assigned. This procurement design does not presume any particular outcome to the Commission's current Retail Market Investigation, but reflects a prudent balance between ensuring price stability benefits for customers and the Commission's recommendation to limit extended contracts to avoid hindering possible future changes relating to Pennsylvania's default service model.

22. The following table summarizes the proposed procurement plan for each customer class:

Residential	Small Commercial	Medium Commercial	Large Commercial and Industrial
• A portion of the portfolio will continue to consist of block energy products procured during DSP I, and associated spot purchases; as these contracts expire they will be replaced with fixed-price full requirements products of varying durations that terminate at the end of the DSP II period (May 31, 2015) • Of the remaining portion, transitional products reaching mix of 40% 1-year laddered fixed-price full requirements and 60% 2-year laddered fixed-price full requirements • Delivery periods overlap on a semi-annual basis • After the first (Fall 2012) procurement, each product is procured 2-4 months prior to the start of delivery of that product	• 100% one-year fixed-price full requirements (following a transitional procurement in Fall 2012 of six-month full requirements contracts to facilitate laddering) • Delivery periods overlap on a semi-annual basis • All products (after the transitional procurement) are procured 2-4 months prior to delivery	• 100% six-month fixed-price full requirements • No overlapping delivery periods • All products are procured 2-4 months prior to delivery	• 100% spot market purchases

23. Each seller of full requirements default service supply will deliver a percentage of PECO's default service load pursuant to the terms of the SMA. As Mr. McCawley explains, PECO's SMA has functioned well during DSP I and PECO is proposing to use the same basic agreement with some improvements and clarifications relating to supplier payment provisions, new or modified PJM requirements, the average cost and transfer of alternative energy credits ("AECs") to PECO for AEPS compliance, and simplification of the calculation of the projection of the cost of supply that a supplier is obligated to deliver under the SMA. The proposed SMA also includes additional acknowledgments by suppliers of the possibility of changes in default

service load in light of the Commission's Retail Markets Investigation and its consideration of whether entities other than EDCs should be default service providers in the future.

B. Competitive Bid Solicitation Process and Independent Evaluator

24. As described in the testimony of Mr. McCawley, PECO intends to solicit bids for default service supply beginning in Fall 2012, before the end of DSP I, so that PECO will not have to procure all of its default supply immediately before contracts from DSP I begin to expire on June 1, 2013. Assuming approval of its Plan, PECO will conduct two solicitations prior to June 1, 2013, in Fall 2012 and Winter 2013. PECO's proposed solicitations over an extended period of time prior to the delivery of supply are consistent with Commission guidance and are intended to avoid problems associated with procuring significant amounts of supply at a point in time when prices may be highest.

25. Consistent with DSP I, all bids for default service supply will be obtained through a fair, non-discriminatory, and competitive request for proposals ("RFP") process conducted by an independent third-party evaluator, and PECO proposes to maintain NERA in this evaluator role for DSP II. In her testimony, Dr. LaCasse of NERA, describes several proposed changes to the RFP rules for DSP II, which focus on streamlining the solicitation process, and PECO's proposed solicitation schedule. Dr. LaCasse also discusses PECO's proposal to maintain a "load cap" so that no supplier will be permitted to provide more than 67% of the default supply for any one of PECO's procurement classes, with certain improvements intended to simplify administration of the cap for NERA and bidders.

26. As Dr. LaCasse explains, PECO's proposed competitive procurement process complies with the Commission's codes of conduct and includes protocols to ensure that PECO's wholesale generation affiliates do not receive an advantage in the bidding process or any other

aspect of PECO's default service implementation plan. In order to permit the participation of wholesale generation affiliates of PECO in its default supply competitive procurements (as allowed by Section 54.186(b)(6) of the Default Service Regulations, 52 Pa. Code § 54.186(b)(6)), PECO also respectfully requests the Commission approve the revised SMA as an affiliated interest agreement under 66 Pa. C.S. § 2102, as it did in DSP I.

C. Consistency With Regional Transmission Organization Requirements

27. In accordance with the Default Service Regulations, PECO's Program is also "consistent with the legal and technical requirements pertaining to the generation, sale and transmission of electricity of the [regional transmission organization] in whose control area the DSP is providing service." 52 Pa. Code § 54.186(d)(4). As explained by Mr. McCawley, PECO's SMA will continue to impose requirements on both PECO and its suppliers to maintain specific qualifications under applicable PJM agreements and rules, as well as all other regulatory authorizations (including those of the Federal Energy Regulatory Commission) necessary to perform all contractual obligations. Furthermore, as described by Dr. LaCasse, suppliers seeking to bid to provide default service generation must be able to establish that they can fulfill all technical and regulatory requirements of the SMA, including demonstrating that there is no impediment to becoming a "load serving entity" under PJM's rules.

D. AEPS Compliance

28. As Mr. McCawley describes in his testimony, PECO will continue to satisfy its AEPS obligations with respect to sales to default service customers by requiring each full requirements default service supplier to transfer Tier I and Tier II AECs to PECO corresponding to PECO's AEPS obligations associated with the amount of default service load served by that supplier.

29. In addition, PECO will continue to allocate AECs obtained through its prior AEPS procurements towards suppliers' AEPS obligations under the SMA in accordance with the percentage of load served by each supplier. PECO will retain a percentage of its AECs to meet the AEPS requirements associated with any default service industrial customers and any load associated with the remaining portion of the PECO Share of residential customer load. PECO will also buy and sell AECs as required to meet AEPS requirements and manage its inventory of AECs obtained in prior procurements as previously authorized by the Commission.[9]

III. CONTINGENCY PLANS

30. In accordance with the Default Service Regulations (52 Pa. Code § 54.185(e)(5)), PECO has developed contingency plans in DSP II to address the possibility that PECO does not obtain sufficient supply through its procurement processes or experiences a supplier default under the SMA. In light of PECO's schedule of procurements and the reduced period between the procurement of supply and the delivery of supply, PECO will assume the responsibility of a Load Serving Entity ("LSE") for any tranches that are unfilled in a default supply procurement. For those tranches, PECO will procure default service supply from PJM-administered markets for energy, capacity, and ancillary services and obtain sufficient AECs at market prices to satisfy any near-term obligations under the AEPS Act. For products with supply periods of six months or more, the unfilled tranches will be included in PECO's next scheduled procurement with a shortened supply period so that the product delivery will end on the same end date as in the original procurement. For example, unfilled tranches of one-year products will be redesigned in the next procurement with a reduced supply delivery term of six months.

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[9] *See Petition of PECO Energy Company for Approval to Procure Tier II Alternative Energy Credits and Additional Tier I and Solar Alternative Energy Credits*, Docket No. P-2010-2210975 (Order entered February 14, 2011).

31. In the event of a supplier default and the immediate need to obtain default service supply that PECO otherwise would have received, PECO will initially rely on filling that supplier's portion of PECO's default service load through PJM-administered markets. If the default occurs within a reasonable time before a scheduled procurement, the load served by the defaulting supplier will be incorporated into that next procurement. Otherwise, PECO will file a plan with the Commission with alternative procurement options and a request for approval of that plan on an expedited basis.

IV. RATE DESIGN AND COST RECOVERY

32. In DSP I, the Commission approved a comprehensive rate design for recovery of PECO's default service costs through the GSA. In DSP II, PECO intends to continue its existing rate design, with several changes to improve price signals to customers and to simplify the default service rate adjustment and reconciliation process.

33. Consistent with the Commission's Default Service Regulations (52 Pa. Code §§ 54.187(h) and (i)), PECO currently adjusts and reconciles its default service rates on a quarterly basis for customers with load requirements up to 500 kW (i.e., residential, small commercial, and medium commercial customers) and on a monthly basis for large commercial and industrial customers. Under DSP II, PECO will continue to adjust the cost of generation supply in the same manner, but is proposing an annual reconciliation of the over or under collection component of the GSA for residential, small commercial and medium commercial customers to replace the existing quarterly mechanism.

34. Currently, PECO compares its actual default service supply costs to the revenue that is billed to customers under the GSA for default service and reconciles the differences in these amounts quarterly, which means that any over or under difference arising in one quarter

will be refunded or recovered beginning three months after the end of the quarter which gave rise to the difference. This timing, in combination with billing cycle lag (the time between when default service supply costs are incurred and revenue to pay those costs is billed) and seasonal variations, results in swings in the over/under collection component of the GSA that are unrelated to the current costs of default service supply. An annual over or under collection reconciliation would significantly reduce these swings so that the GSA more accurately reflects current supply costs and provides better information for customer shopping decisions.

35. For large commercial and industrial customers, PECO's monthly projected GSA can also be affected by billing lag and result in significant fluctuations that do not directly reflect supply costs. For these customers, PECO is proposing tariff changes to allow mitigation strategies such as combining over/under reconciliation amounts in months with large over or under collections to avoid unnecessarily large monthly changes in the price-to-compare ("PTC").

36. PECO is also proposing to collect all of its AEPS-related costs in the GSA. Currently, the Company recovers the cost of compliance with its obligations under the AEPS Act through both the GSA (in the costs paid to each full requirements supplier for AECs transferred to PECO) and an AEPS Surcharge approved by the Commission for PECO's separate procurements of Tier I solar and non-solar AECs.[10] Going forward, the Company proposes to include all of its AEPS compliance costs in the GSA and, thus, also proposes to eliminate the AEPS Surcharge from its tariff.

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[10] *See Petition of PECO Energy Company for Approval to Procure Solar Alternative Energy Credits*, Docket No. P-2009-2094494 (Order entered August 28, 2009); *Petition of PECO Energy Company for Approval of (1) A Process to Procure Alternative Energy Credits During the AEPS Banking Period and (2) A Section 1307 Surcharge and Tariff to Recover AEPS Credits*, Docket No. P-00072260 (Order entered December 26, 2007)

37. In addition to the foregoing and consistent with prior Commission approvals, PECO is eliminating several expiring rate provisions from its tariff, including declining blocks and the Wind Energy Service Rider. Mr. Cohn describes these changes in his testimony, as well as changes to the tariff relating to PJM auction revenue rights and cost recovery of PECO's proposed retail market enhancements.

38. Consistent with the Default Service Recommendations Order, PECO is soliciting EGS participation to provide the commodity service associated with PECO's time-of-use ("TOU") pilot, which the Commission has previously approved as part of PECO's smart meter program.[11] If interested, an EGS may also bid on the entire implementation requirement.

39. In light of the Commission's Retail Markets Investigation and its consideration of possible changes to the current default service model, PECO also requests that the Commission expressly affirm PECO's right to full and current recovery of all costs of DSP II in accordance with 66 Pa. C.S. § 2807(e)(3.9).

V. RETAIL MARKET ENHANCEMENTS

40. Under DSP I, PECO has implemented a variety of programs to support EGSs and expand retail choice. These programs include a favorable purchase of receivables program, a program for releasing customer account information with customer approval, "bill ready" billing, and a dedicated hotline for retail suppliers to ask questions or resolve issues. As described by Mr. Crowe and by Mr. McCawley, PECO intends to pursue significant new retail market enhancements in its DSP II to further support retail competition, including an Opt-In EGS Offer Program and a Customer Referral Program.

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[11] *See Petition of PECO Energy Company for Approval of its Initial Dynamic Pricing and Customer Acceptance Plan*, Docket No. M-2009-2123944 (Order entered April 15, 2011).

A. Opt-In EGS Offer Program

41. In accordance with the *Default Service Recommendations Order*, PECO is proposing to implement an "opt-in" program in which EGSs will bid to provide competitive retail electric service to fifty percent (50%) of PECO's non-shopping default service residential customers, who will be randomly selected by PECO.[12] The program will be implemented through a one-time RFP for twelve-month fixed-priced retail service offers from EGSs for service beginning after June 1, 2013. EGSs may submit multiple bids consisting of an offer price and the number of customers to be served at that price, with a minimum of 25,000 customers. Each offer price must be at least five percent (5%) less than PECO's projected PTC for June 1, 2013.

42. The program would be implemented by PECO and an independent RFP monitor. A pre-bidding conference would occur in January 2013, with the RFP to be conducted no later than April 2013. The bids submitted in response to the RFP will be opened by the RFP monitor and tabulated in ascending order, with the price associated with the bid that results in the cumulative number of potential opt-in customers equaling or exceeding the eligible number of customers establishing a common clearing price for offers. Each EGS that offered the clearing price (or a lower price) will be assigned a portion of the eligible customers corresponding to its winning bid.

43. The results of the RFP will be submitted to the Commission for approval. If the Commission approves the results, each winning EGS will be obligated to send an offer letter to

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[12] The actual number of eligible customers corresponding to this percentage would be determined at the time of the implementation of the Opt-In Program. As of December 31, 2011, the number of eligible customers would be 544,068 (50% of 1,088,035).

each of its assigned customers. The offer letter, which will be developed jointly by PECO, the Commission, EGSs, and the Office of Consumer Advocate, will explain the standard terms and conditions of service and include the corporate marks of both PECO and the winning EGS.

44. The enrollment period will last for thirty days. If a customer elects to accept the offer, the customer will be required to contact the winning bidder making the offer via its website and phone number in accordance with the offer letter.

45. An EGS will be required to enroll a customer who accepts its offer and will be responsible for submitting a customer switching request via the appropriate EDI transaction in accordance with PECO's Electric Generation Supplier Tariff.

46. Participating customers can select another EGS or return to default service without penalty after enrollment. At the end of the twelve-month period, an enrolled customer will not return to default service automatically. The EGS may establish new prices but must inform each customer of the customer's right to choose a different EGS or to return to default service in accordance with the notice requirements of 52 Pa. Code § 54.5(g)(1).

47. In order to participate in the Opt-In EGS Offer Program, an EGS must execute an agreement in which it agrees to offer standard terms and conditions and comply with the RFP provisions. The cost of the RFP process, including the cost of the independent monitor and consultant performing the random selection of eligible accounts, and all costs associated with the development of the offer letters will be recovered by PECO from the winning EGSs, in proportion to the number of customers awarded to each EGS. In the event that the RFP process does not result in any winning EGSs, the costs of the Opt-In EGS Offer Program will be recovered by PECO through a discount on purchased EGS receivables until such costs are fully recovered.

B. Customer Referral Programs

48. PECO is proposing to implement two customer referral programs, as proposed in the Commission's Intermediate Work Plan, which recommends that each EDC establish a Standard Offer Customer Referral Program as well as a New/Moving Customer Referral Plan.[13]

49. The Standard Offer Customer Referral Program is designed to highlight EGS offers to PECO's residential customers. As described by Mr. McCawley in Statement No. 2, PECO believes that customers would be best served if the Standard Offer Customer Referral Program were administered through a statewide program with a statewide call center. In the event that a statewide program is not implemented, however, PECO proposes to implement a Standard Offer Customer Referral Program in the form of a Supplier of the Month Program.

50. Each month, participating EGSs will submit to an independent evaluator a binding, fixed-price bid (in cents per kilowatt-hour) to provide electric generation service to residential customers for a twelve-month period beginning approximately six weeks after the bid date. EGSs will be required to submit their offers by overnight delivery to PECO by 5:00 pm Eastern Prevailing Time (EPT) on the first business day of the calendar month each month in order to be eligible to be selected for the next month.

51. The EGS with the lowest offer will be presented on PECO's website, which will be updated monthly. The offer of a winning supplier must be held open and available to customers for the entire month. In the event that the winning bid price is not lower than the PECO PTC in effect at the time of the solicitation (or the PTC that will take effect the following month), there will be no standard offer selected for that month. In addition, in the event that the

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[13] *See Investigation of Pennsylvania's Retail Electricity Market: Intermediate Work Plan*, Docket No. I-2011-2237952 (Tentative Order entered December 15, 2011), pp. 9-21.

RFP results in more than one winning bidder, PECO will offer the winners an opportunity to make a better offer to determine the winner. If there are any tie bidders after the best and final offers are submitted, a single winner will be randomly selected from the tie bidders by the independent evaluator.

52. Customers will participate in the program on an opt-in basis and may switch to a different offer with the winning supplier, to a different supplier or return to default service at any time. Customers with accounts in residential rate classes R and RH may participate in the Supplier of the Month program regardless of whether they are switching from default service or from another EGS. CAP customers will not be eligible for the program.

53. Residential customers may enroll with the EGS's offer through the PECO website or by telephone using an interactive voice response ("IVR") system maintained and operated by PECO or a dedicated call center referral group provided by PECO. Enrollments received via PECO's website, the IVR system, or the call center referral group will be forwarded to the EGS daily, which must then submit a switching request via the appropriate EDI transaction to PECO for each customer in accordance with PECO's current Electric Supplier Coordination Tariff. An EGS will be required to enroll all such customers as a condition of participating in the Standard Offer Customer Referral Program.

54. As with the Opt-In EGS Offer Program, participating EGSs will be required to agree to standard terms and conditions in order to participate in the Customer Referral Program, and customers will be permitted to switch to other EGSs or back to default service without penalty. In addition, before the end of the 12-month offer term, the winning EGSs will be required to clearly communicate the change in their rates that will occur following the initial twelve month period, and inform the customer that it may cancel the agreement without penalty.

At the end of the contract term, the EGS will send customers all required notices consistent with the Commission's renewal notice guidelines.

55. In addition to the Standard Offer Customer Referral Program, PECO proposes to implement a New/Moving Customer Referral Program for residential customers. This program will include revised and enhanced call center scripts promoting shopping and PAPowerSwitch.com. In addition, PECO will create an updated version of its "New/Mover Kit" for residential customers that will provide an enhanced description of shopping and will include the listing of current supplier offers and contact information to be provided by the Commission. PECO anticipates that this program ultimately will be coordinated with the Supplier of the Month Program for efficiency and to avoid creating customer confusion.

56. The initial and on-going costs of the Customer Referral Programs, including the costs of the independent evaluator for the Standard Offer Customer Referral Program, will be recovered by PECO through a discount on purchased EGS receivables.

C. Additional Retail Market Enhancements

57. In addition to the Opt-In EGS Offer Program, the Customer Referral Programs, and continued promotion of shopping through the inclusion of EGS contact information in PECO newsletters sent with residential and commercial customer bills, PECO is proposing two additional initiatives:

- ***Referral of PECO Wind Customers.*** As the PECO Wind program is eliminated, PECO will refer current PECO Wind customers to interested EGSs who can offer these customers a "green energy" product.

- ***Seamless Moves***. PECO will also initiate a collaborative with interested EGSs to develop technical requirements and cost estimates for system changes required to permit residential and commercial customers to change their address of service and maintain EGS service. Because these system changes will require additional expenditures, PECO will implement this change only if fifty percent of the EGSs participating in the collaborative agree to support implementation. Implementation costs will be recovered through a temporary discount on EGS receivables purchased from all EGSs.

VI. PROCEDURAL ISSUES AND COMMISSION APPROVAL

58. In accordance with the nine-month period for approval of a default service plan under Section 2807(e)(3.6) of the Public Utility Code, PECO proposes the following schedule for this proceeding:

January 13, 2012	Petition Filing
February 8, 2012	Prehearing Conference
March 15, 2012	Other Parties Direct Testimony Due
April 12, 2012	Rebuttal Testimony Due
May 3, 2012	Surrebuttal Testimony Due
May 15-17, 2012	Hearings
June 14, 2012	Main Briefs
July 3, 2012	Reply Briefs
August 7, 2012	Recommended Decision
August 28, 2012	Exceptions
September 11, 2012	Reply Exceptions
October 11, 2012	Commission Order

VII. NOTICE

59. In accordance with Section 54.188 of the Commission's Default Service Regulations, PECO is providing public notice of this filing to its customers in several ways. First, PECO will include a stand-alone insert in all customer bills over a thirty-day period beginning on February 3, 2012. 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. In addition, PECO is publishing notices containing similar information in all of the major newspapers serving its service territory, and is

also issuing a press release to all major media (newspapers, television and radio stations) in its service territory. Finally, all notices will refer to PECO's website, (www.peco.com/know), where a copy of the entire filing will be maintained.

60. In addition to the above notices, 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, PJM, and all EGSs registered in PECO's service territory.

61. PECO respectfully requests the Commission publish notice of this filing in the *Pennsylvania Bulletin*, with a reasonable deadline for intervention in this proceeding in light of the above notice PECO is providing and PECO's proposed schedule. Should the Commission conclude that further notice of this filing is appropriate, PECO will provide such additional notice as directed by the Commission.

VIII. CONCLUSION

Based upon the foregoing, including the attached testimony and exhibits, PECO respectfully requests that the Commission grant this Petition and enter an order, pursuant to the requirements of 66 Pa. C.S. § 2807(e)(3.7):

(1) Approving PECO's proposed Program, including its default service procurement plan, implementation plan, contingency plan and related bidder rules, SMA, credit documents, and other associated agreements, for all PECO customers who do not take generation service from an alternative electric generation supplier or who contract for energy with an alternative electric generation supplier which is not delivered;

(2) Approving PECO's proposed tariff changes, including annual reconciliation of over/under collections for residential, small and medium commercial customers and incorporation of PECO's AEPS compliance costs associated with the provision of default service in the GSA, and affirming PECO's right to recover all of its default service costs in accordance with 66 Pa. C.S. § 2807(3.9);

(3) Approving NERA Economic Consulting, Inc. to continue as the third-party evaluator for PECO's default supply procurements;

(4) Finding that the Program includes prudent steps necessary to negotiate favorable generation supply contracts;

(5) Finding that the Program includes prudent steps necessary to obtain least-cost generation supply on a long-term, short-term and spot market basis;

(6) Finding that neither PECO nor its affiliates have withheld from the market any generation supply in a manner that violates federal law;

(7) Granting a waiver of the rate design provisions of 52 Pa. Code § 54.187 to permit PECO to procure generation for four procurement classes and annual reconciliation of default service rates for residential, small commercial and medium commercial customers as set forth herein;

(8) Approving PECO's proposed retail market enhancements, including its Opt-In EGS Offer Program and Customer Referral Program and the associated cost recovery mechanisms, and granting any additional waivers required for implementation of those programs to the extent necessary; and

(9) Approving PECO's proposed revised supply master agreement and agreements with EGSs to implement the Opt-In EGS Offer Program and Customer Referral Program as affiliated interest agreements under 66 Pa. C.S. § 2102.

Respectfully submitted,

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For PECO Energy Company

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