



Residential Rate Design

June 8, 2009

This document is provided to prospective suppliers in advance of the first solicitation under the PECO Full Requirements RFP and the PECO Block Energy RFP. It is provided strictly for the convenience of prospective bidders and is not a substitute for the review of PECO's electric tariffs and PECO's filings with the Commission in Dockets No. P-2008-2062739 and No. P-2008-2062741.

What rate schedules are included in the Residential Class?

The Residential Class consists of the following rate schedules: Residence Service ("R"), Residential Heating Service ("RH"), and Off-Peak Service ("OP").

How is the Default Service Load of the Residential Class being served under PECO's Default Service Program?

The winners of the Full Requirements RFP serve 75% of the Residential Class Default Service Load. Suppliers of tranches for the Residential class provide full requirements electricity service including, without limitation, energy, capacity, transmission (excluding Network Integration Transmission Service), ancillary services, applicable losses, congestion management costs, and such other services or products that are required to serve the Residential Class Default Service Load (excluding distribution service). Contracts for forty-five percent (45%) of the Residential Class Default Service Load will have terms of two years, and contracts for the remaining thirty percent (30%) will have terms of one year.

PECO will serve 25% of the Residential Class Default Service Load, referred to as the "PECO Share". PECO will use Block Energy Supply as provided by the winners of the Block Energy RFP to meet 20% of the expected seasonal energy requirements of the Residential Class Default Service Load (20% of the expected requirements or 80% of the PECO Share). PECO will balance the blocks of energy and load of the PECO Share on an hourly basis through the hourly spot market for energy of PJM. PECO will purchase all other necessary products to serve the PECO Share, including without limitation ancillary services and capacity, in PJM-administered markets. For the PECO Share, PECO will make purchases necessary to meet its obligations under the AEPS Act.

How are rates for residential customers determined?

The rates are determined so that PECO can recover all procurement costs, including the supply contracts for full requirements service, the supply contracts for block energy, as well as all necessary products that PECO must purchase to serve the PECO share.

A portion (75%) of the rates of residential customers in a given month is determined by the load-weighted average bid prices for full-requirements supply. This portion of the rate will be constant for the period January 1, 2011 to May 31, 2012 and it will be set after the Fall 2010 solicitation. This portion of the rate will again be constant (but may be constant at a different level) from June 1, 2012 to May 31, 2013 and it will be set after the Winter 2012 solicitation.

The remaining portion (25%) of the rates of residential customers in a given month is determined by the cost of the PECO share. These costs include the average bid price of the block energy supply for the given month purchased through the Block Energy RFP. Block energy supply includes blocks that are seasonal and thus this portion of the rate will exhibit variation over the course of the year. This portion of the rate will be constant for the following periods (but may be different across periods: January and February 2011; March, April and May 2011; June, July, August 2011; September, October and November 2011; December 2011, January and February 2012; March, April and May 2012; June, July, August 2012; September, October and November 2012; December 2012, January and February 2013; March, April and May 2013. For balancing energy, PECO will use a visible forward price for the month. For other services to serve the PECO share, PECO will use the price from the Reliability Pricing Model (“RPM”) for capacity and expect to use \$3/MWh for ancillary services.

PECO will reconcile revenues with its costs on a quarterly basis. A reconciliation charge or credit will be determined on the basis of the difference between the revenues from rates and all procurement costs to PECO. These costs will include cost from purchases made for compliance with the AEPS Act.

Are residential customers free to switch to an EGS and to come back to Default service at any time?

Residential customers are free to switch to an EGS and to come back to Default Service at any time, subject to prior notice to PECO Energy Company. After a request by a Residential customer to switch to an EGS, the switch is effective as of the next scheduled meter reading date, provided that PECO has received the request with at least 16 days of prior notice.

PECO will phase out over three years the demand based declining energy blocks to comply with the Commission’s regulations. Does this phase out affect the rate design of the Residential Class?

No. The demand-based declining energy blocks only exist in Rate Schedules GS (General Service), PD (Primary Distribution) and HT (High Tension). However, PECO will also phase out the energy price differentials reflected in Rate Schedules RH (Residential Space Heating)

and OP (Residential Off Peak) over three years. All customers on Rate Schedule OP (which is generally used for water heating) are also on Rate Schedule R (or possibly RH). PECO has agreed to meet with the parties and potentially extend the period of the phase-out if the average total bill rate increase for calendar year 2011, as compared to the total bill under rates charged in December 2010, exceeds 25%. The average total bill rate increase for Rate Schedules R and RH would be determined for customers who also were on Rate Schedule OP.

How will the phase out be effected?

The rates under schedules RH and OP will be gradually increased over 3 years until all residential customers are charged the same rate in 2013. Exhibit ABC-5 filed in Docket No. P-2008-2062739 (PECO's Default Service Program) illustrates the phase-out of the current rate design.

Do residential customers have available a program by which they can defer a rate increase that would occur in January, 2011?

PECO Default Service Program establishes a Market Rate Transition Deferral Program ("Deferral Program"). Such a program would only become available to residential customers if the class increase in rates exceeds 25% on a total bill basis on January 1, 2011. Under the Deferral Program, customers will receive a credit on their bills in the first year (2011) in order to mitigate the initial financial impact of any rate increase. The second year of the plan will have rates at the full market price. Once the amount billed to a customer reflects the price of generation supply (i.e., a credit is no longer applied), a fixed monthly surcharge will be applied to the customer's bill to recover the deferred amount plus interest on the deferral at the statutory rate of 6% compounded monthly. The recovery period for deferred amounts will be two years.

Is the Deferral Program available only to residential customers on default service?

No, the Deferral Program is available to all residential customers, those taking default service from PECO and those taking service from an EGS.

When can customers enroll in the Deferral Program?

Enrollment starts when PECO will have all its contract in place for supply to the residential class, in the Fall of 2010. Enrollment will close in December 2010.

Do residential customers have available other programs that could change their rates during the supply period?

Yes, residential customers may participate in the Market Transition Phase-In Program ("Phase-In Program"). However, a residential customer cannot participate in both the Market Transition Phase-In Program and the Deferral Program.

How does the Phase-In Program affect a residential customer's rate?

The Phase-In Program allows customers to transition gradually to full market rates by pre-paying part of the increase. Customers who opt in to this program transition to higher market-based prices for generation supply service over a certain period of time. This period of time is three and a half years for residential customers on rate R and four and a half years for residential customers on rate RH and OP. Customers choosing this option make advance payments beginning July 1, 2009 to cover a portion of the increase expected to occur as of January 1, 2011. A customer will experience a gradual increase in the price of generation service each year starting in 2009. The pre-payments that customers make in 2009 and 2010, plus accrued interest on those pre-payments, will be applied to customers' bills as credits in the following years. The credits will decline each year and expire as of December 31, 2012 for rate R and as of December 31, 2013 for rates RH and OP.

Is the Phase-In Program available only to residential customers on Default Service?

No, the Phase-In Program is also available to customers taking service from an EGS.

Where can I obtain additional information?

Please consult the following documents

- PECO's electric service tariff:
<http://www.pecoprocurement.com/index.cfm?s=supplierInformation&p=rates>
- Market rate transition phase-in program filing in Docket No. P-2008-2062741:
http://www.exeloncorp.com/ourcompanies/peco/aboutpeco/customer_education/about_elect_ric_competition/history_electric_competition/PECO_Filing_2008.htm
- Description of Deferral plan in the testimony of Alan Cohn and in the settlement agreement to PECO's Default Service Program filed in Docket No. P-2008-2062739:
<http://www.pecoprocurement.com/index.cfm?s=background&p=regulatoryProcess>