BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF
PECO ENERGY COMPANY
FOR APPROVAL OF ITS
DEFAULT SERVICE PROGRAM

Docket No. P-2012-2283641

REVISED DEFAULT SERVICE PLAN
COMPLIANCE FILING
&
EXHIBITS

Volume I of II

December 11, 2012

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I. INTRODUCTION AND OVERVIEW

1. On October 12, 2012, the Pennsylvania Public Utility Commission (the "Commission") issued an Opinion and Order (the "October 12 Order") approving the Default Service Program of PECO Energy Company ("PECO" or the "Company") for the period from June 1, 2013 to May 31, 2015 ("DSP II"), with several revisions. The October 12 Order directed PECO to file a revised plan (a "Revised Plan") reflecting the changes directed by the Commission within sixty days (December 11, 2012) and to also submit proposals, in collaboration with electric generation suppliers ("EGSs") and other interested parties, addressing several Retail Market Enhancement Program ("RME Program") issues. Specifically, the October 12 Order directed the Company to submit: (1) a proposal regarding EGS selection, customer assignment, and the role of an independent monitor for PECO's Opt-In Competitive Offer Program ("Opt-In Program"), as revised by the Commission; (2) a proposal with other interested parties within thirty days regarding application and form requirements for EGSs who participate in PECO's Opt-In Competitive Offer and Standard Offer Programs (the "EGS

Applications and Form Agreements"); and (3) a proposal for payment of RME Program costs. *See* October 12 Order, pp. 155-157.[1]

2. On October 31, 2012, the Company filed a Petition for Clarification and Reconsideration ("Clarification Petition") requesting that the Commission, among other things: (1) clarify that portions of the October 12 Order relating to a scheduled default service procurement were final so that the procurement could proceed; (2) allow proposals regarding the EGS Applications and Form Agreements to be filed along with the Revised Plan due December 11, 2012; (3) clarify that the costs of the Company's RME Programs are to be recovered from EGSs and not customers; and (4) clarify the timing for the Commission's review of the offerings that EGSs participating in the Opt-In Program will make to Opt-In customers for generation service during the last eight months of the twelve-month Opt-In Program product.

3. On November 21, 2012, the Commission issued an Opinion and Order (the "November 21 Order") in response to the Clarification Petition: (1) permitting PECO's default service procurement to proceed; (2) allowing proposals regarding the EGS Applications and Form Agreements to be filed along with the Revised Plan; (3) clarifying that parties should consider the possibility that customers as well as EGSs may be responsible for some RME Program costs; and (4) clarifying that EGSs must file the terms and conditions for their eight-month Opt-In Program product at least forty-five days before the offers for that eight-month product are made to customers. *See* November 21 Order, pp. 15, 32-33.

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[1] The October 12 Order also directed the Company to work with the Office of Competitive Market Oversight to develop a plan that will allow customers enrolled in PECO's Customer Assistance Program ("CAP") to purchase their generation supply from EGSs, and an initial meeting has already taken place. The Company intends to propose a plan addressing CAP shopping issues in the spring of 2013 with full and current recovery of the associated costs.

4. On November 27, 2012 and December 3, 2012, PECO convened collaboratives with interested parties to discuss the issues assigned by the October 12 Order and held additional collaborative discussions on December 6, 2012. In the course of these collaboratives, PECO and the participating parties reached consensus on a number of issues relating to the Opt-In Program, including mechanisms for EGS participation and allocation of eligible customers to EGSs and the elimination of the need for an independent monitor for the Opt-In Program. PECO also prepared new EGS Applications and Form Agreements to address a variety of supplier concerns. However, despite extensive discussions, no consensus was reached with respect to the final form of EGS Applications and Form Agreements nor whether any costs of the RME Programs should be allocated to customers instead of requiring EGSs to pay all such costs.

5. The Revised Plan reflects all of the revisions set forth and made final by the October 12 and November 21 Orders, specifically: (1) continuing the procurement methodology for the large commercial and industrial class that was approved in the Company's first default service plan ("DSP I"); (2) applying a 50% load cap to the Company's default service procurements; (3) postponing the procurement for the residential and small commercial classes originally scheduled in November 2012 to December 2012; (4) specifying Alternative Energy Portfolio Standards Act ("AEPS") Surcharge rates for the transition period of April 1, 2013 to June 1, 2013 at which time all AEPS compliance costs will be collected under the Generation Supply Adjustment ("GSA") Rider; (5) continuing the DSP I quarterly reconciliation methodology for default service rates for residential and small and medium commercial customers; (6) clarifying that information technology ("IT") costs will be recovered over the two-year DSP II term, without a return on capital; and (7) continuing the DSP I practice of

"passing through" all Auction Revenue Rights ("ARR") costs and benefits to default service customers.

6. The revisions developed by the collaborative participants are incorporated in PECO's revised Request for Proposals ("RFP") and Program Rules for both the Opt-In Program and Standard Offer Program. Because the parties were not able to reach consensus on all provisions of the EGS Applications and Form Agreements or cost recovery for the RME Programs, the Company has included its own proposals for consideration by the Commission, which are consistent with its original DSP II submission. All other provisions of the Company's Default Service Program were approved without modification and, therefore, remain unchanged and will be implemented as proposed by PECO.

7. The Revised Plan includes the following documents:

- Exhibit A: Revised Procurement Schedule;
- Exhibit B: Revised Default Service Program Supply Master Agreement;
- Exhibit C: Revised Default Service Program Request for Proposals;
- Exhibit D: Revised EGS Opt-In Program Request for Proposals and Program Rules;
- Exhibit E: Revised EGS Standard Offer Program Request for Proposals and Program Rules;
- Exhibit F: Revised Electric Tariff Page Nos. 31-35A; and
- Exhibit G: Revised Electric Generation Supplier Coordination Tariff Page No. 92.

The above documents and the changes therein are discussed in the remainder of this Revised Plan. PECO has also included a "clean" and "redline" copy of these documents in this filing, with the "redline" version showing changes from the document submitted in PECO's original DSP II filing or in exhibits to supplemental testimony (as applicable).

8. As reflected in the revised EGS Opt-In Program Request for Proposals and Program Rules ("Opt-In Rules"), PECO must commence the Opt-In Program by February 6, 2013 in order to ensure that customer enrollments with EGSs participating in the program begin by June 1, 2013. Therefore, PECO respectfully requests that the Commission issue a decision regarding this Revised Default Service Plan by January 24, 2013, in order that PECO may have sufficient time to implement the Opt-In Program.

II. PROCUREMENT AND IMPLEMENTATION PLAN

A. Large Commercial And Industrial Class Procurement

9. In the October 12 Order, the Commission granted the Exception of the Retail Energy Supply Association ("RESA") and directed PECO to continue the spot-priced full requirements procurement methodology approved in DSP I for the large commercial and industrial class. *See* October 12 Order, pp. 26-27. The Company has prepared revisions to its: (1) procurement schedule; (2) Default Service Program Supplier Master Agreement; and (3) Default Service Program Request for Proposals ("RFP"),[2] consistent with the October 12 Order, which are attached as Exhibits A, B and C, respectively, to this compliance filing.

B. Load Cap

10. In the October 12 Order, the Commission adopted the proposals of the Office of Consumer Advocate ("OCA") and RESA to lower the load cap on the total amount of default

[2] PECO notes that while Exhibit C includes all of the appendices to the RFP, only four of such appendices are revised by this compliance filing – Appendices 3, 4, 7 and 10.

service supply that could be won by a single supplier from 67% to 50%. *See* October 12 Order p. 41. The revised RFP (Exhibit C) reflects the change to a 50% load cap in Sections 1.2.8 and 1.2.9.

III. RATE DESIGN

A. Elimination Of AEPS Surcharge

11. In the October 12 Order, the Commission supported PECO's proposal to discontinue use of a separate AEPS Surcharge and to recover all AEPS costs through its GSA Rider. The OCA filed a limited exception on this issue, requesting that PECO provide sufficient detail in its GSA reconciliation filings so that one could assess the appropriateness of the individual costs. The Commission found that the Company's response to the OCA Exception provided "adequate assurance that sufficient detail will be provided by PECO regarding future filings of its GSA Rider." October 12 Order, p. 71. The Company has determined the AEPS Surcharge for each procurement class effective during the transition period from April 1, 2013 until June 1, 2013 at which time all AEPS compliance costs will be recovered under the GSA. In addition, PECO clarified that, under its transition plan, it will file its over/under collection reconciliation statement for the thirteen months ended February 28, 2013 on March 31, 2013. PECO's revised Electric Tariff Page No. 35A, attached as Exhibit F, reflects this change.

B. Reconciliation Of Default Service Costs And Revenues

12. In the October 12 Order, the Commission adopted the position of RESA and Dominion Retail, Inc. and Interstate Gas Supply, Inc. (collectively "Dominion") that PECO continue its DSP I quarterly reconciliation methodology for default service rates for residential, small commercial and medium commercial customers. October 12 Order, p. 56. The

maintenance of quarterly reconciliation for residential, small commercial and medium commercial customers after June 1, 2013 is reflected in the revised Electric Tariff pages attached as Exhibit F.

C. Costs Included In The Generation Supply Adjustment Charge

13. In the October 12 Order, the Commission found that PECO may recover certain IT costs at issue as an expense over a two-year period concomitant with the term of PECO's DSP II and denied PECO's alternative proposal to capitalize those IT costs. *See* October 12 Order, pp. 63-64. The removal of PECO's capitalization proposal is reflected in Exhibit F.

D. Ratemaking Treatment Of ARR

14. In the October 12 Order, the Commission granted the Exceptions of the OCA and RESA and directed the Company to continue its DSP I practice of "passing through" all ARR costs and benefits to default service customers. October 12 Order, p. 68. In accordance with the October 12 Order, PECO has added language to flow through the costs and benefits of ARRs to default service customers in the cost factor of the GSA for residential, small and medium commercial customers and the ancillary service cost factor for large commercial and industrial customers. *See* Exhibit F.

IV. RETAIL MARKET ENHANCEMENTS

A. EGS Opt-In Competitive Offer Program

15. In the October 12 Order, the Commission granted, in part, the Exception of RESA and directed the Company to include small commercial customers (annual peak load less than

25kW) in the Opt-In Program. October 12 Order, pp. 85-86. The Commission also directed that the composition of the Opt-In Program product offer be as follows:

> A twelve-month product, comprised of a fixed price for four months equal to a discount of at least 5% off the PTC at the time of enrollment, and an EGS-provided fixed-price product for the remaining eight months;
>
> The payment of a $50 bonus to customers; however, because the Opt-In Program duration and product have been modified, customers must remain in the Opt-In Program for at least the initial four-month period to receive the bonus; and
>
> In order to allow the Commission to effectively evaluate the terms of the Opt-In Program, participating EGSs shall provide the terms and conditions of the eight-month fixed-price offering for the Commission to review.

October 12 Order, pp. 90-91. These revisions are reflected in PECO's revised Opt-In Rules, which are attached as Exhibit D.

16. The Commission also identified several Opt-In Program items for the Company to discuss with interested parties, including: (1) the role of the independent monitor and the selection of winning EGSs and associated customer assignment; (2) the terms and conditions of the Opt-In Rules; and (3) cost recovery.

17. Regarding the first item, the Commission concluded that, in light of the revisions in the product to be offered, the role of the independent monitor and the selection of winning EGSs and associated customer assignment would require modification. October 12 Order, p. 91. After discussion and review of the Company's Opt-In Rules, the collaborative participants agreed to eliminate the independent monitor since EGSs would no longer be competing for eligible customers through price offerings and all qualified EGSs could participate. The collaborative participants also agreed that eligible customer accounts would be assigned to all

qualified EGSs on a random basis. The collaborative participants further agreed that a participating EGS could establish a maximum number of residential customers and/or maximum number of small commercial customers that it would like to be assigned. These revisions are reflected in the revised Opt-In Rules (Exhibit D).

18. Regarding the second item, the Commission stated that the terms and conditions of the Opt-In Rules should be reviewed to ensure that they do not impose unreasonable or unnecessary requirements on EGSs. October 12 Order, pp. 106-107. The collaborative participants carefully reviewed the Opt-In Rules and agreed to a variety of changes. These revisions are reflected in the revised Opt-In Rules (Exhibit D). However, the participants did not reach consensus on all revisions to the Opt-In Rules and the associated EGS Applications and Form Agreements, and PECO has maintained provisions from its original filing that are consistent with other competitive procurements undertaken by PECO and approved by the Commission.

19. Regarding the final item, the Commission directed the parties to develop a proposal for cost recovery for the RME Programs (including the Opt-In Program) and to consider the possibility that customers as well as EGSs may be responsible for some RMI Program costs. October 12 Order, pp. 148-149; November 21 Order, p. 15. The collaborative participants were unable to reach a consensus on this issue and PECO believes its original DSP II proposal in which all Opt-In Program costs will be the responsibility of participating EGSs (the "Opt-In Suppliers") remains preferable in light of the fact that these program costs are tantamount to amount to EGS marketing expenses.

20. Currently, PECO anticipates that the total "per customer" cost of randomly allocating a default service customer to an Opt-In Supplier and printing and mailing that supplier's offer to the customer will be approximately one dollar (US$1.00). Based on collaborative discussions however, PECO has agreed to provide a "not to exceed" per customer cost to EGSs that have applied to participate in the Opt-In Program prior to the assignment of customers. EGSs who do not wish to participate can notify PECO within five days of receiving the "not to exceed" cost and withdraw without paying any per customer charges.

21. In addition, PECO has proposed a provision for inclusion in its Supplier Tariff to permit PECO to reduce the amount due to an EGS under PECO's Purchase of Receivables ("POR") program by any amount the EGS owes to PECO for its participation in the Opt-In Program as an Opt-In Supplier. *See* Exhibit G. Together, these changes should reduce if not entirely eliminate the risk that any Opt-In Program costs will be recovered from non-participating EGSs through the POR discount PECO proposed in its original DSP II filing to recover the costs of RME Programs (including the Standard Offer).

22. The following is a summary of PECO's proposed cost recovery mechanism for the Opt-In Program:

- Each Opt-In Supplier shall be responsible for the product of : (1) the Not-to-Exceed Cost per allocated customer or actual cost per allocated customer (whichever is smaller); and (2) the number of eligible customers allocated to that Opt-In Supplier.
- PECO shall invoice each Opt-In Supplier within thirty days of the Opt-In Supplier receipt of its allocated customer list, with the amount due payable within thirty days of the date of the invoice.
- If an Opt-In Supplier fails to make the required payment, PECO may reduce the amount due to that Opt-In Supplier from that Opt-In Supplier's next Purchase of

Receivable payment by the Opt-In Program amount due (but not from amounts that are subject to a bona fide POR payment dispute).

- Any remaining costs of the Opt-In Program that are not collected from Opt-In Suppliers shall be recovered through PECO's POR discount.

B. EGS Standard Offer Program

23. Consistent with its treatment of the Opt-In Program, the Commission identified the following items for the Company to discuss with interested parties, with the goal of submitting a joint proposal: (1) the terms and conditions of the EGS Standard Offer Program Request for Proposals and Program Rules ("Standard Offer Rules"); and (2) cost recovery. *See* October 12 Order, pp. 124, 148-149.

24. Regarding the first item, the collaborative participants agreed to make changes to the Standard Offer Rules that mirror the consensus changes to the Opt-In Rules in order to remove unnecessary provisions and clarify issues raised by EGSs during the collaborative. These revisions are reflected in the revised Standard Offer Rules (Exhibit E). As with the Opt-In Program however, consensus was not reached on the final EGS Applications and Form Agreements and PECO has maintained provisions from its original filing consistent with the revised Opt-In Agreement.

25. Regarding cost recovery, the collaborative participants were unable to reach a consensus on the allocation of any Standard Offer program costs to customers. Therefore, PECO maintains its original proposal to recover the initial and on-going costs of the Standard Offer Program through its proposed POR discount of 0.3% since the Standard Offer Program will be available to all EGSs. As with the Opt-In Program, PECO will also have the right to reduce the

amount due to an EGS under PECO's POR program by any amount the EGS owes to PECO for its participation in the Standard Offer Program.

V. AFFILIATED INTEREST AGREEMENTS

26. In the October 12 Order, the Commission denied PECO's request for approval of the Form Agreements for the Opt-In Program and Standard Offer Program as affiliated interest agreements under 66 Pa.C.S. § 2102 in light of the Commission's directive to address those agreements through the collaborative process. *See* October 12 Order, pp. 151-152. In light of the changes made to the Form Agreements for the Opt-In Program and Standard Offer Program included in this Revised Plan, the Company requests that the Commission approve these revised agreements as affiliated interest agreements under 66 Pa.C.S. § 2102. In addition, because the Default Service Program Supply Master Agreement has been revised to incorporate provisions from PECO's DSP I to procure spot-priced full requirements supply for large commercial and industrial class customers in accordance with the October 12 Order, PECO asks that the Commission also approve the revised Supply Master Agreement as an affiliated interest agreement.

VI. PROPOSED SCHEDULE FOR REVIEW OF THE REVISED PLAN

27. As a result of the collaborative, the Company understands that several parties may wish to submit comments to this Revised Plan. In order to facilitate the Commission's consideration of the Company's Revised Plan and comments of other parties (as well as any reply by the Company or additional parties to such comments) and also avoid delay in implementing the Opt-In Program, the Company proposes the following schedule:

December 27, 2012	Comments to PECO's Revised Plan
January 7, 2013	Replies to Comments

VII. CONCLUSION

WHEREFORE, PECO respectfully requests that the Commission issue an order by January 24, 2013, accepting this Revised Default Service Plan, including all exhibits, in compliance with Orders entered on October 12, 2012 and November 21, 2012.

Respectfully submitted,

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