BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PECO ENERGY COMPANY FOR APPROVAL OF ITS DEFAULT SERVICE PROGRAM FOR THE PERIOD FROM JUNE 1, 2021 THROUGH MAY 31, 2025	:	**DOCKET NO. P-2020-**

PETITION OF PECO ENERGY COMPANY

Pursuant to 66 Pa.C.S. § 2807(e) of the Pennsylvania Public Utility Code ("Code"), the Default Service Regulations[1] of the Pennsylvania Public Utility Commission (the "Commission") and the Commission's Policy Statement on Default Service,[2] PECO Energy Company ("PECO" or the "Company") hereby petitions the Commission for approval of its fifth Default Service Program ("DSP V"), 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, 2021 through May 31, 2025, following the expiration of its current default service program ("DSP IV").[3] PECO requests that the Commission: (1) approve DSP V, including its procurement plan, implementation plan, contingency plan, and associated procurement documents and agreements for default service supply for all PECO customers who 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 the Company's proposal to

[1] 52 Pa. Code §§ 54.181-54.190; *see also Rulemaking Re Elec. 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 Serv. and Retail Elec. Mkts.*, Docket No. L-2009-2095604 (Order entered Oct. 4, 2011) ("*Second Default Service Rulemaking Order*") (collectively, the "Default Service Regulations").

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

[3] *See Petition of PECO Energy Co. for Approval of Its Default Serv. Program for the Period from June 1, 2017 through May 31, 2021*, Docket No. P-2016-2534980 (Order entered Dec. 8, 2016) ("*DSP IV Order*").

solicit new ten-year contracts for Solar Alternative Energy Credits ("Solar AECs") to satisfy the requirements of Pennsylvania's Electricity Generation Customer Choice and Competition Act (the "Competition Act"),[4] as amended by Act 129 of 2008 ("Act 129"), and Alternative Energy Portfolio Standards Act, 73 P.S. § 1643.1 *et seq*. ("AEPS" or "AEPS Act"); (3) approve NERA Economic Consulting, Inc. ("NERA") to continue as the independent third-party evaluator for PECO's default supply procurements; (4) approve PECO's proposed default service rate design, including PECO's proposed time-of-use ("TOU") rate options, and affirm PECO's right to recover all of its default service costs in accordance with 66 Pa.C.S. § 2807(e)(3.9); (5) grant a waiver of the rate design provisions of 52 Pa. Code § 54.187, to the extent necessary; (6) find that DSP V includes prudent steps necessary to negotiate favorable generation supply contracts; (7) find that DSP V includes prudent steps necessary to obtain least-cost generation supply on a long-term, short-term and spot market basis; (8) find that neither PECO nor its affiliates have withheld from the market any generation supply in a manner that violates federal law; (9) approve continuation of PECO's existing EGS Standard Offer Program, including the associated cost recovery mechanism approved in PECO's prior default service proceedings; (10) approve PECO's proposed plan to facilitate shopping by low income customers enrolled in the Company's Customer Assistance Program ("CAP") (the "CAP Shopping Plan" or "Plan"); and (11) approve PECO's proposed revised uniform Supply Master Agreement ("SMA") and both forms of the proposed Solar AEC Purchase and Sale Agreement as affiliated interest agreements under 66 Pa.C.S. § 2102.

This is PECO's fifth proposed program for default service under the Competition Act. Under DSP IV, PECO continued to meet its default service obligations while fostering

[4] 66 Pa.C.S. §§ 2801-2812.

competition in retail electric markets by implementing hourly-priced default service for PECO's former "medium" commercial customers (100 kW to 500 kW peak demand), modifying cost recovery mechanisms, and continuing certain retail market enhancements. In DSP V, PECO is proposing to continue the existing and successful products and programs approved by the Commission in DSP IV.

In accordance with the Competition Act, the Commission's Default Service Regulations, and the Default Service Policy Statement, DSP V 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 V as requested herein and grant all other approvals necessary so that PECO can implement DSP V on a timely basis 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 retail electric customers within its service territory in accordance with its obligations under Section 2807(e) of the 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. PECO's current Commission-approved default service program expires on May 31, 2021.

3. Under Sections 2807(e) (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. The AEPS Act requires default service providers like PECO to obtain specified percentages of electricity sold to retail customers from alternative energy sources as measured by alternative energy credits ("AECs") and defined by the AEPS Act. The AEPS Act also includes a "set-aside" that requires some of those AECs to be derived from solar photovoltaic ("PV") facilities. Under Act 40 of 2017 ("Act 40"), PECO must meet its future solar AEPS requirements using Solar AECs generated from solar energy facilities in the Commonwealth of Pennsylvania. During DSP V, PECO's solar AEPS requirement will be 0.5% of its total default service load.[5]

5. 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 AEPS compliance; (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] 73 P.S. § 1648.3(b)(2)(xv).

6. 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."[6]

- "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."[7]

7. In its *Investigation of Pennsylvania's Retail Electricity Market* at Docket I-2011-2237952, the Commission directed PECO and other default service providers to undertake a

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

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

variety of retail market enhancements and issued its proposed end state model for default service.[8]

8. On February 26, 2019, the Commission entered an Order at Docket No. M-2019-3007101 to initiate an investigation of potential opportunities to better reflect wholesale cost causation in default service rates and incentivize customer behavior to lower peak demand. In that proceeding, the Commission subsequently requested that EDCs address several topics in upcoming default service program ("DSP") filings.[9] As described in PECO Exhibit JJM-2, those topics include wholesale capacity and transmission cost allocation methodologies, TOU rates in the context of electric vehicle expansion, intervals of adjustment of default service rates, CAP customer shopping for generation service, and Standard Offer Program ("SOP") scripting.

9. PECO is proposing three principal changes to its default service program and the products previously approved by the Commission in DSP IV. First, PECO is proposing to procure new Solar AEC contracts to replace PECO's existing ten-year Solar AEC contracts previously approved by the Commission that will have expired by the end of DSP IV. Second, PECO is introducing new TOU default service rate options for eligible customers in PECO's Residential and Small Commercial procurement classes (the "TOU Rates") to comply with PECO's obligation under Act 129 to offer TOU and real-time rates to all default service customers with smart meters.[10] Finally, PECO is proposing to permit CAP customers to shop for

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8 *See generally Investigation of Pennsylvania's Retail Elec. Mkt.: Intermediate Work Plan*, Docket No. I-2011-2237952 (Final Order entered Mar. 2, 2012); *Investigation of Pennsylvania's Retail Elec. Mkt.: End State of Default Serv.*, Docket No. I-2011-2237952 (Order entered Feb. 15, 2013) ("*End State Order*").

9 *Investigation into Default Serv. and PJM Interconnection, LLC Settlement Reforms*, Docket No. M-2019-3007101 (Secretarial Letter issued Jan. 23, 2020) ("January 2020 Secretarial Letter").

10 66 Pa.C.S. §§ 2807(f)(5). The hourly-priced default service rate for the Consolidated Large Commercial and Industrial ("C&I") Class already meets Act 129 requirements.

generation service in accordance with the Commission's proposed Policy Statement on Electric Customer Assistance Program Participant Shopping.[11]

10. This Petition summarizes PECO's proposed DSP V and, in so doing, identifies and describes the DSP V procurement plan, implementation plan, contingency plan and 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 – Direct Testimony of John J. McCawley

Mr. McCawley is PECO's Director of Energy Acquisition. He provides an overview of PECO's DSP V, including PECO's proposed litigation schedule for these proceedings and customer notice, and describes PECO's proposed default service procurement, implementation, and contingency plans for DSP V.

PECO Statement No. 2 – Direct Testimony of Joseph A. Bisti

Mr. Bisti is a Principal Regulatory and Rates Specialist for PECO. Mr. Bisti describes PECO's existing Generation Supply Adjustment ("GSA") and Transmission Service Charge ("TSC"), new TOU default service rate options, DSP V and CAP Shopping Plan cost recovery, and proposed changes to PECO's Electric Service Tariff.

PECO Statement No. 2 – Direct Testimony of Carol Reilly

Ms. Reilly is PECO's Manager of Energy Acquisition Operations. She describes the design of PECO's CAP Shopping Plan, including Plan costs and proposed changes to PECO's Electric Generation Supplier Coordination Tariff ("Supplier Tariff"), and discusses continuation of PECO's Standard Offer Program.

[11] *Elec. Distribution Company Default Service Plans – Customer Assistance Program Shopping*, Docket No. M-2018-300658 (Proposed Policy Statement Order entered Feb. 28, 2019) ("*Proposed Policy Statement Order*"). In the January 2020 Secretarial Letter (p. 9), the PUC acknowledged that its proposed CAP shopping policy statement was "unlikely to be final and effective in time for some upcoming DSP proceedings." The Commission therefore directed all EDCs to consider the Commission's prior guidance in the *Proposed Policy Statement Order* and recent decisions in previous default service proceedings in developing CAP proposals for upcoming DSP filings. *Id.*, pp. 9-10.

PECO Statement No. 4 – Direct 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 the Company's prior default service programs, which includes a quantitative analysis of the prices obtained in PECO's previous default service supply solicitations.

11. In order to have sufficient time to undertake the competitive procurement process to obtain default generation supplies for service on and after June 1, 2021 as described in this Petition, PECO requests approval of DSP V by December 2020. Accordingly, PECO respectfully requests that the Commission act upon this Petition on or before its scheduled December 3, 2020 public meeting date.

II. PECO'S DEFAULT SERVICE PROCUREMENT AND IMPLEMENTATION PLANS

A. Procurement Classes, Program Term And Supply Portfolio

12. Under DSP IV, PECO conducts competitive procurements of wholesale power and associated services for three different default service customer classes: (i) Residential customers, (ii) Small Commercial customers with up to and including 100 kW of annual peak demand and lighting customers; and (iii) Consolidated Large C&I customers whose annual peak demand is greater than 100 kW. For DSP V, PECO is proposing to maintain the same procurement groups, and thereby continue to reflect the nature of the load requirements of each customer class and other factors, including the evolution of competitive markets and rate stability.[12]

[12] 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 implement a lower customer segmentation threshold for the Consolidated Large C&I class and appropriately separate smaller commercial customers from larger C&I customers who receive hourly-priced default service. In accordance with 52 Pa. Code § 54.185(g), PECO again

13. PECO's DSP V encompasses default service procurement for the above classes for the period beginning June 1, 2021 through May 31, 2025. A four-year term for default service programs is permitted under the Commission's Default Service Policy Statement, which states that default service programs should be for two-year periods unless the Commission directs otherwise.[13] In the *DSP IV Order* (p. 35), the Commission noted that a four-year term would minimize future litigation expenses and reduce administrative costs.

14. In light of its favorable experience to date, PECO proposes to maintain the procurement strategy established in prior default service programs, which utilizes full requirements, load-following products, as well as short time periods between the solicitation and delivery of supply products.

15. A full requirements, load-following contract requires a supplier to provide energy, capacity, ancillary services, and all other services or products necessary to serve a specified percentage of default service load continuously over the term of the contract. 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.

16. For the Residential Class, under DSP V, PECO proposes to continue to procure a mix of one-year (approximately 38%) and two-year (approximately 61%) fixed-price full requirements, load-following products. The remaining Residential Class load will be supplied directly by PJM's spot energy, capacity and ancillary service markets (approximately 1%).[14] As

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requests a waiver of the applicable provisions of the Default Service Regulations to continue combining default service procurement for PECO's former "medium" commercial customers (101 kW to 500 kW peak demand) and "large" C&I customers (over 500 kW).

[13] 52 Pa. Code § 69.1804.

[14] As explained by Mr. McCawley, PECO also receives an allocation of five megawatts of low-cost hydropower from the New York Power Authority ("NYPA") for residential customers in PECO's service territory under a

in DSP IV, each of the Residential Class products will be procured approximately two months prior to the beginning of the applicable delivery period.

17. PECO proposes to continue to serve the Small Commercial class with equal shares of one-year and two-year fixed-price full requirements products procured approximately two months prior to delivery of the energy. As Mr. Fisher explains in PECO Statement No. 3, this procurement strategy for the Small Commercial class provides price stability benefits for all small non-residential customers who may not have the knowledge or resources to elect a competitive EGS offering that provides the price stability they seek.

18. With respect to the Consolidated Large C&I class, PECO proposes to continue to procure all default service supply through hourly-priced full requirements products on an annual basis.

19. DSP V includes some Residential and Small Commercial class supply products with delivery periods that extend beyond May 31, 2021 (the end of the DSP V period). The extension of contracts beyond the term of a default service program is permitted by the Commission's regulations and is consistent with the procurement design approved by the Commission in DSP II, DSP III and DSP IV. *See* 52 Pa. Code § 54.186(b)(4) ("Procurement plans may include solicitations and contracts whose durations extend beyond the program period."). The laddering of contract delivery periods (extending beyond May 31, 2021) will better ensure that customers are not fully exposed to the potential wholesale price volatility associated with replacing a large portion of default service supply in a short period.

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multi-state agreement administered in Pennsylvania by Allegheny Electric Cooperative, Inc. This amount corresponds to 0.2% of PECO's Residential default service load. Under DSP V, PECO will continue to use the NYPA allocation to offset the amount of Residential default service supply provided by wholesale suppliers.

20. During PECO's first two default service programs, load serving entities ("LSEs"), including EGSs, were responsible for transmission costs charged by PJM Interconnection, L.L.C. ("PJM"), including Generation Deactivation/Reliability Must Run ("RMR") charges, Expansion Cost Recovery charges and Transmission Enhancement (a/k/a Regional Transmission Expansion Plan or "RTEP") charges. In approving PECO's third default service program, the Commission concluded that certain PJM transmission-related charges should be recovered from customers on a non-bypassable basis.[15] Consistent with that finding, on June 1, 2015, PECO implemented a Non-Bypassable Transmission Charge ("NBT") to recover the following PJM charges from all distribution customers in PECO's service territory: Generation Deactivation/RMR charges (PJM bill line 1930) set after December 4, 2014; RTEP charges (PJM bill lines 1108 and 1115); and Expansion Cost Recovery charges (PJM bill line 1730). During DSP V, PECO will also continue to be responsible for and will recover Network Integration Transmission Service and Non-Firm Point-to-Point Transmission costs through its unbundled, bypassable TSC.

21. As Mr. Fisher explains, the overall mix of products for each procurement class shown in the table below satisfies the Public Utility Code's "prudent mix" requirement.

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15 *See Petition of PECO Energy Co. for Approval of Its Default Serv. Program for the Period from June 1, 2015 through May 31, 2017,* Docket No. P-2014-2409362 (Order entered Dec. 4, 2014), p. 46.

Residential	Small Commercial	Consolidated Large Commercial and Industrial
• Approximately 99% of the load is supplied by a mix of products in the following proportions: o Approximately 38% 1-year fixed-price full requirements ("FPFR") products with delivery periods that overlap on a semi-annual basis o Approximately 61% 2-year FPFR products with delivery periods that overlap on a semi-annual basis • The other approximately 1% of the load will be supplied by spot purchases • All products are procured approximately two months before delivery of the product begins	• 50% 1-year FPFR products • 50% 2-year FPFR products • Delivery periods overlap on a semi-annual basis • All products are procured approximately two months before delivery of the product begins	• 100% spot-priced full requirements products, with 1-year delivery periods • All products are procured approximately two months before delivery of the product begins

22. 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 envisioned by the Commission in the *End State Order*, PECO is proposing to continue to use the uniform SMA developed through the Office of Competitive Market Oversight ("OCMO") SMA stakeholder process, which has functioned well during DSP IV, with one modification described by Mr. McCawley. Specifically, PECO is proposing to require each wholesale supplier to submit the information required in PECO's annual report to the PUC on default service[16] to the Company for the energy supplied under the SMA.

B. Competitive Bid Solicitation Process And Independent Evaluator

23. As described by Mr. McCawley, PECO intends to solicit bids for default service supply beginning in February 2021. PECO's proposed solicitations extend over the DSP V term

[16] 52 Pa. Code § 54.39; *see also id.* at § 54.6 (requiring default service providers to file the annual licensing report required by Section 54.39 of the Commission's EGS licensing regulations that provides information on default supply generation sources).

and are intended to avoid problems associated with procuring significant amounts of supply at a single point in time when prices may be highest.

24. Consistent with DSP IV, 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 retain NERA in this independent evaluator role for DSP V. In his testimony, Mr. McCawley describes the RFP rules for DSP V developed by NERA, which are the same as those now used by PECO in its DSP IV procurements.[17] Mr. McCawley also discusses PECO's proposal to maintain the DSP IV "load cap" so that no supplier will be permitted to provide more than 50% of the default supply for any one of PECO's procurement classes at any point in time during DSP V.

25. As Mr. McCawley 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. As with PECO's prior default service programs and 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 that the Commission approve the revised uniform SMA as an affiliated interest agreement under 66 Pa.C.S. § 2102.

[17] The RFP Rules proposed by PECO include non-material modifications suggested by the Independent Evaluator over the course of the DSP IV procurement cycle to facilitate competition and improve bidder participation in accordance with Section I.1.12 of the RFP Rules.

C. Consistency With Regional Transmission Organization Requirements

26. In accordance with the Default Service Regulations, PECO's DSP V 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 § 54.185(e)(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, 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 an LSE under PJM's rules.

D. AEPS Compliance

27. 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 (including solar PV) and Tier II AECs to PECO corresponding to PECO's AEPS obligations associated with the amount of default service load served by that supplier. In addition, PECO will continue to allocate AECs obtained through its AEC procurements to suppliers in accordance with the peak load of each customer class and the percentage of load served by each supplier.

28. In DSP IV, all procurement classes are allocated Solar Tier I AECs from PECO's long-term ten-year Solar AEC purchase agreements. In total, PECO has been purchasing 8,000 Solar Tier I AECs annually from various agreements that will expire on May 31, 2020 or May

31, 2021. In light of PECO's prior successful Solar AEC procurement in 2009 and potential future supply shortfalls related to Act 40's in-state requirements, PECO is proposing two annual solicitations in the first two years of the DSP V term for delivery of a total of 16,000 Solar AECs (i.e., 8,000 Solar AECs in each solicitation in 2021 and 2022). This amount of Solar AECs is expected to meet approximately 25% of PECO's increased solar AEPS requirements under DSP V. PECO is also proposing to procure up to half of each year's Solar AEC amount from solar generating facilities located within its service territory consistent with a variety of stakeholder goals, including the City of Philadelphia.

29. As explained by Mr. McCawley, the first stage of the RFP will consist of a competitive procurement where the winning bidders will be determined by lowest Solar AEC prices offered. The second stage will be a Standard Offer to Purchase ("SOTP") Solar AECs at a competitive price determined by the first stage RFP, with the requirement that the Solar AECs from stage two bidders come from solar generation resources located in the PECO service area. All bidders must be owners of solar PV systems, or own the rights to Solar AECs generated by such systems, and such systems must be physically located within Pennsylvania. Both existing solar PV systems that have achieved commercial operation and solar PV projects under development are eligible to participate. These include grid-connected and net-metered solar PV systems. All systems must be qualified as Tier I solar PV alternative energy systems and all deliveries of Solar AECs to PECO must be made through the Generation Attribute Tracking System operated by PJM Environmental Information Services, Inc. Entities who can aggregate Solar AECs from multiple parties ("Aggregators") will be permitted to participate in both the RFP and SOTP.

30. For both the RFP and SOTP stage, PECO will use a two-part, competitive bid process in which bidders are first qualified and then permitted to submit a bid with an offer to deliver a specific amount of Solar AECs annually, subject to a minimum bid amount (200 AECs per year). Consistent with the competitive procurement process PECO is currently using for Solar Tier I AECs, an independent, third-party RFP monitor ("RFP Monitor") will participate throughout the entire procurement process. The Commission will have ten days for review and approval of the final results for each stage one RFP. If an RFP bid is accepted and approved, the winning bidder will be required to enter into the Solar AEC Purchase and Sale Agreement with PECO.[18]

31. Upon completion of the first solar RFP each year, PECO will publish the average winning bid received in the RFP. This average winning bid price will be the price for the SOTP procurement stage. For the SOTP procurement, the RFP Monitor will accept bidder applications on a first-come, first-served basis and qualify each bidder. Once the RFP Monitor has a sufficient list of companies, or after 90 days (whichever comes first), the RFP Monitor will submit the list of bidders with their qualifications to the Commission for a 10-day review period. PECO will execute a purchase agreement with each qualified and approved bidder up to the numerical limit of Solar AECs for that procurement.

III. CONTINGENCY PLANS

32. In accordance with the Default Service Regulations (52 Pa. Code § 54.185(e)(5)), PECO is proposing to use the same contingency plan approved by the Commission in DSP IV to address the possibility that PECO does not obtain sufficient supply through its procurement

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[18] The Solar RFP includes two forms of the Solar Alternative Energy Credit Purchase and Sale Agreement that PECO will execute with each successful bidder (a Project Version and an Aggregator Version).

processes or experiences a supplier default under the SMA. In the event PECO fails to obtain approved bids for all offered tranches in a solicitation, the unfilled tranches will be included in PECO's next scheduled default supplier solicitation for that product. If necessary, PECO will supply any unserved portion of its default service load from the PJM-administered markets for energy, capacity and ancillary services. If the supplier 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 proposing alternative procurement options and a request for approval on an expedited basis.

33. In the event that PECO's proposed 2021 procurement for Solar AECs is unsuccessful or there is insufficient participant interest, the amount of solar AECs not under contract will be added to the amount procured in the 2022 procurement process. If PECO is unable to obtain its full 16,000 Solar AECs after completing the 2021 and the 2022 procurements, any shortfall will be met by wholesale suppliers who are obligated to transfer enough Solar AECs to meet AEPS requirements for the percentage of default service load that they supply under the SMA.

IV. RATE DESIGN AND COST RECOVERY

A. Generation Supply Adjustment

34. The default service rate for each of PECO's procurement classes consists of a generation (GSA) and transmission (TSC) component. The GSA currently recovers generation supply costs, AEPS compliance costs, and ancillary service costs. The GSA also includes administrative cost and working capital factors. The TSC recovers certain PJM charges for transmission service PECO acquires on behalf of default service customers. The GSA and TSC

form the basis of the PTC that customers may use to evaluate competitive generation service offerings.

35. Under DSP IV, PECO adjusts its default service rates each quarter, with semi-annual reconciliation of the over/undercollection component of the GSA (the "E-Factor"). In accordance with the January 2020 Secretarial Letter, PECO assessed the benefits presented by both a three-month and six-month default supply price projection period in the context of the Company's PTC history. Based on this assessment, PECO believes its current approach appropriately balances the responsiveness of the PTC to current market conditions and fluctuations caused by billing cycle lag.

36. In DSP V, PECO proposes to maintain the same rate design approved by the Commission in DSP IV with the addition of new, optional TOU Rates for the Residential and Small Commercial Classes described in Section IV.B. below.

37. PECO also requests that the Commission expressly affirm PECO's right to full and current recovery of all costs to implement DSP V in accordance with 66 Pa.C.S. § 2807(e)(3.9).

B. Time-Of-Use Rate Options

38. In 2014, PECO offered a TOU generation rate through a PUC-approved one-year pilot program known as the "PECO Smart Time Pricing Pilot" ("Pilot") described by Mr. Bisti.[19]

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[19] *Petition of PECO Energy Co. for Approval of its Initial Dynamic Pricing and Customer Acceptance Plan,* Docket No. M-2009-2123944, (Order entered Apr. 15, 2011) ("Dynamic Pricing Order"); *Petition of PECO Energy Co. for Expedited Approval of its Dynamic Pricing Plan Vendor Selection and Dynamic Pricing Plan Supplement*, Docket No. P-2012-2297304 (Opinion and Order entered Sept. 26, 2012) (approving modifications to the commodity supply, dynamic rate structure, size and term of the pilot approved in the Dynamic Pricing Order to enable an EGS to provide TOU supply in lieu of PECO).

For DSP V, PECO is proposing new TOU Rates for the Residential and Small Commercial Classes consistent with Commission guidance on TOU rate design.[20]

39. As described by Mr. Bisti, the Company's TOU Rates reflect a balance of the following objectives: (1) simplicity and the value proposition for customer enrollment; (2) cost-causation principles to connect the TOU pricing structure to wholesale markets and PECO's standard, non-time varying GSA; and (3) incentives for customer EV adoption. The key features of PECO's proposed TOU Rates are discussed below and in more detail in Mr. Bisti's direct testimony.

1. TOU Product Structure and Rate Design

40. The TOU Rates will differentiate prices across three periods (peak, off-peak and super off-peak) that are constant throughout the year based on price multipliers designed to motivate shifting of usage from the higher-cost peak period to lower-cost off-peak periods. Under the Company's proposed rate design, eligible default service customer will pay a discounted rate for off-peak usage and a higher rate for peak usage relative to PECO's standard fixed-price GSA.

[20] Since the conclusion of the Pilot, the scope of an EDC's obligation to offer TOU rates to default service customers was the subject of litigation before the Commission and Commonwealth Court. *See Petition of PPL Elec. Utils. Corp. for Approval of a New Pilot Time-of-Use Program*, Docket No. P-2013-2389572 (Order entered Sept. 11, 2014) (holding that Act 129 did not require PPL Electric Utilities Corp. ("PPL") to offer TOU rates directly to customer-generators); *Dauphin Cty. Indus. Dev. Auth. v. Pa. P.U.C.*, 123 A.3d 1124, 1136 (Pa. Cmwlth. 2015) ("*DCIDA*") (holding that Act 129 does not authorize default service providers to delegate the obligation to offer TOU rates to customers with smart meters to EGSs); *Petition of PPL Elec. Utils. Corp. for Approval of a New Pilot Time-of-Use Program*, Docket Nos. P-2013-2389572 and M-2016-2578051 (Secretarial Letter issued Apr. 6, 2017) ("April 2017 Secretarial Letter") (proposing a TOU design for PPL in accordance with the *DCIDA* decision and noting that the proposed TOU design "may provide future guidance to all EDCs" for incorporation into their own TOU proposals in their individual default service proceedings).

41. PECO's proposed time-differentiated pricing usage periods shown in Table 1 below reasonably encompass the Company's expected system peak usage times and take into account the need for simplicity to encourage customer enrollment.

Table 1

TOU Pricing Period	Year-Round Days/Hours Included
Peak	2 p.m. – 6 p.m. Monday Through Friday, excluding PJM holidays
Super Off-Peak	Midnight (12 a.m.) – 6 a.m. Every day
Off-Peak	All other hours

PECO defined the peak period as 2 p.m. to 6 p.m. on non-holiday weekdays based on PJM's PECO zonal load data and energy prices over a five-year historic period (2014-2018). Consistent with the January 2020 Secretarial Letter, PECO's proposed TOU Rates include a super off-peak pricing period from 12 a.m. to 6 a.m. every day to encourage EV charging during overnight low-priced energy hours based on PECO's system load patterns. These TOU pricing periods will be identical for the Residential and Small Commercial Classes.

42. PECO is proposing to set the TOU price multipliers for each procurement class shown in Table 2 below. These multipliers will remain constant during the DSP V term. As explained by Mr. Bisti, these multipliers reflect the ratios calculated from average PJM PECO zone spot market prices as well as the cost of capacity during peak and off-peak hours. PECO is proposing to allocate the cost of capacity to peak and off-peak hours only to send cost-based

price signals and create larger price differentials that are more likely to motivate customers to adjust the time of day they use electricity.

Table 2

TOU Pricing Period	GSA-1 TOU Pricing Multipliers*	GSA-2 TOU Pricing Multipliers*
Peak	6.5	5.1
Super Off-Peak	1	1
Off-Peak	1.5	1.7

*Ratio to super off-peak TOU price

43. PECO will source both the standard and TOU default service for residential and small commercial customers from the same supply portfolio for each procurement class. As Mr. McCawley and Mr. Fisher explain, any effects of TOU default service on supplier prices should be small given the expected small level of participation relative to the overall default service customer base and the lack of revenue risk to suppliers (who will be paid the same price for a megawatt-hour of default service supply for customers on standard default service and those on TOU default service). PECO will use the standard GSA as the reference price for PECO's TOU rate calculations.

44. PECO will calculate the super off-peak price to provide a discount from the standard GSA price in a way that offsets the higher peak and off-peak period prices and ensures revenue neutrality. The revenue neutral super off-peak price for each procurement class will be derived from the portion of total system kWh usage attributable to each TOU pricing period. PECO determined these percentages based on PJM energy market settlements over the most

recent historical five-year period (2014-2018). The peak and off-peak TOU prices are a factor of multiplying the super off-peak price by the multiplier for the applicable procurement class and TOU pricing period.

45. The TOU Rates will be calculated on a quarterly basis, synchronized with the GSA adjustment periods for the Residential and Small Commercial Classes, using PECO's proposed pricing methodology. TOU customer kWh sales and costs will be included in the semi-annual reconciliation of the over/undercollection component of the GSA for the entire procurement class (i.e., Residential or Small Commercial). PECO's proposed reconciliation process using a single E-Factor for each procurement class will help mitigate potential large swings in GSA over/undercollections that could arise if customers switch between PECO's standard default service rate and TOU default service rate.

2. Customer Eligibility

46. Consistent with the April 2017 Secretarial Letter, PECO's TOU Rates will be available to residential and small commercial default service customers with smart meters configured to measure energy consumption in watt-hours. However, PECO is proposing to exclude CAP customers from the residential TOU Rate at this time to avoid potential adverse impacts on CAP benefits.

47. Eligible default service customers may enroll in PECO's TOU Rates online or through the Company's care center. Participating customers will remain on the TOU Rate until they affirmatively elect to return to PECO's standard default service rate, switch to an EGS or otherwise become ineligible.

48. Customers who select the TOU Rate may leave at any time without incurring related penalties or fees. However, if those customers subsequently leave the TOU Rate for any reason, they may not re-enroll for twelve billing months after switching off the TOU Rate.

3. Net Metering Customers

49. In accordance with the April 2017 Secretarial Letter, customer-generators, with the exception of virtual net metering customers, will be eligible for the TOU Rates.

50. As explained by Mr. Bisti, PECO will separately track net excess generation created by TOU net metering customers within the TOU peak, off-peak and super off-peak periods. During any month when a TOU net metering customer consumes more power than it generates, the excess generation in the applicable TOU rate period will be used to reduce or offset the customer's bill at the full retail rate, including the current TOU prices for generation, consistent with the Commission's guidance in the April 2017 Secretarial Letter. At the end of the PJM planning period on May 31 of each year, PECO will compensate TOU net metering customers for accumulated excess generation based on the applicable TOU rate and TSC in effect at the time the excess electricity was generated.

4. Implementation Plan and Cost Recovery

51. Mr. Bisti's testimony discusses PECO's communications plan to inform customers about the new TOU Rates and update enrolled TOU customers about the opportunity for bill savings. This plan includes a webpage dedicated to the TOU Rates, a variety of other customer education materials, and monthly e-mail communications to enrolled TOU customers.

52. PECO estimates that it will require at least twelve months to implement the final TOU rate design approved by the PUC in this proceeding. PECO proposes to recover the costs

to implement the new TOU rates totaling approximately $3.8 million from customers through the administrative cost factor of the GSA as described by Mr. Bisti.

V. RETAIL MARKET ENHANCEMENTS

53. During DSP II, DSP III and DSP IV, PECO implemented a variety of programs to support EGSs and expand retail choice. These programs include PECO's EGS purchase of receivables program, the Company's Standard Offer Program, enhanced customer account number access for EGSs, and accelerated (three-day) switching.

A. Standard Offer Program

54. As described by Ms. Reilly, since June 1, 2017, the Standard Offer Program has resulted in over 26,000 residential customer and 500 small commercial customer referrals to EGSs that have voluntarily chosen to offer customers a twelve-month contract priced at 7% below PECO's default service rate at the time of the offer. Consistent with the January 2020 Secretarial Letter (p. 10), PECO reviewed its current SOP customer scripts produced from the PUC-approved settlement of the DSP IV proceeding and concluded that the scripts reasonably present the SOP to customers and incorporate appropriate customer protections.

55. PECO proposes to continue offering its existing Standard Offer Program from June 1, 2021 through May 31, 2025. Consistent with PECO's current tariff, the Company further proposes to continue to recover Standard Offer Program costs through an EGS participant fee of $30 per enrolled customer, with any remaining costs recovered in the following manner: (1) fifty percent from EGSs through a Purchase of Receivables discount; and (2) fifty percent from residential and small commercial default service customers via the GSA.

B. CAP Shopping Plan

56. In accordance with the universal service obligations set forth in the Public Utility Code, PECO's CAP assists low income customers in PECO's service territory through discounted energy bills. PECO's CAP is a special rate rider for customers with an annual household gross income level at or below 150% of the poverty level established under Federal law. Approximately 111,000 residential customers in PECO's service territory – almost 7% of all PECO residential electric customers – participate in the CAP. CAP customers receive a fixed bill credit each year for the utility service they receive based on their ability to pay regardless of the actual amount of their utility bill. The annual cost of the fixed credits provided to CAP customers not recovered in base rates (referred to as the "CAP shortfall") is recovered from all residential customers through PECO's Universal Service Fund Charge ("USFC").

57. PECO's CAP customers are not currently eligible to purchase electric generation supply from an EGS. In accordance with the Commission's direction in its *Proposed Policy Statement Order*,[21] PECO's Plan will facilitate shopping by CAP customers during DSP V.

58. An EGS serving residential customers in PECO's service territory will have the opportunity to enroll CAP customers and provide them with electric generation service, subject to the Plan requirements summarized below and discussed in detail in Ms. Reilly's direct testimony.

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21 The CAP shopping requirements outlined in the *Proposed Policy Statement Order* (pp. 5, 9-10) include: (1) a CAP shopping product rate at or below the EDC's PTC for the duration of the contract; (2) a prohibition in EGS-CAP customer contracts against fees unrelated to the provision of electric generation service, including early termination and cancellation fees; and (3) the following options for CAP customers upon expiration of the current contract period: enter into another contract with their existing EGS with the same CAP protections, switch to another supplier offering a contract with the same CAP protections, or return to default service.

59. First, consistent with the *Proposed Policy Statement Order*, a participating EGS (a "CAP Supplier") must charge CAP customers a rate for generation service that is at or below the PECO PTC for residential customers. This will ensure that the affordability of service will be preserved and avoids higher costs for the residential customers that fund the program. EGSs serving CAP customers also may not enter into contracts that impose early cancellation and termination fees or other fees unrelated to generation service. This prohibition ensures that the overall rate charged to a CAP customer does not exceed PECO's PTC.

60. Second, EGSs must electronically submit a notice of intent to participate or discontinue participation as a CAP Supplier (a "CAP Notice"), at least ten days before the start of the calendar month. EGSs that execute a CAP Notice must agree to comply with all Plan requirements, including pricing limitations for CAP customers.

61. Third, CAP Suppliers must use PECO's "bill-ready" EDC consolidated billing for all shopping CAP customers. The use of EDC consolidated billing will allow the Company to ensure that each customer's CAP benefits are properly applied to customer charges and track information regarding CAP customers to meet its on-going obligations to the Commission with respect to universal service programs, including reporting on cost effectiveness and affordability.

62. Fourth, CAP Suppliers must publish their CAP rates on PAPowerSwitch.com and in a customer mailing (upon a customer's request via EGS call centers) to promote rate transparency and help simplify the shopping process for CAP customers.

63. Finally, CAP Suppliers must comply with the Plan's contract expiration and change notice procedures described by Ms. Reilly. In accordance with the *Proposed Policy Statement Order*, CAP customers will have the following options at the end of the contract term:

renew the contract with their existing EGS at a new Plan-compliant CAP rate, switch to another supplier offering a Plan-compliant CAP rate or return to default service.

64. As part of the Plan, the Company will implement a variety of customer education initiatives focused on the CAP rate protections that must be included in CAP customer-EGS contracts, the impact of shopping on CAP benefits, and tools to help CAP customers understand and manage their energy bills. As described by Ms. Reilly, these initiatives will utilize a broad range of communication methods, including PECO's call center, mailings, customer outreach efforts, web support, community workshops and advocate-sponsored events for low income customers.

65. PECO's existing electronic data interchange protocol includes data elements that identify PECO's CAP customers that will allow EGSs to tailor products and service options for those customers in accordance with the Plan. Under the Plan, PECO will continue its current communication practices related to quarterly changes to the residential PTC and will provide information regarding Plan rules and procedures through PECO's supplier bulletins and EGS coordination web portal.

66. After Plan implementation, PECO will continue its Commission-approved method of calculating the CAP credit amount using a twelve-month look-back period. During the initial year that the CAP customer shops, the CAP credit will be calculated using PECO's PTC in effect for the twelve-month period being examined. Thereafter, the fixed bill credit for shopping CAP customers will be calculated based on EGS charges.

67. The Company will require one year to implement the proposed Plan. PECO estimates that the Plan implementation costs will approximate $1.2 million. The costs fall into two categories. The first category (i.e., approximately $500,000) is related to the customer

education initiatives described above. PECO is proposing to recover the costs associated with the customer education initiatives from residential customers in the current Customer Education Charge ("CEC") approved by the Commission in Docket No. P-2011-2279773. The second category (i.e., approximately $0.7 million) is related to training and IT changes to the Company's billing and customer information system to facilitate CAP shopping and to appropriately calculate the CAP fixed credit amount. Those costs will be recovered in a subsequent base rate case.

68. Considering the projected expense and outreach to CAP customers, PECO proposes to begin the one-year implementation period after approval of the Plan and following receipt of CAP Notices from at least five EGSs. While CAP Notices are not binding, the receipt of at least five CAP Notices will ensure that there is verifiable EGS interest in serving CAP customers in PECO's service territory.

VI. PROCEDURAL ISSUES AND COMMISSION APPROVAL

69. 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:

March 13, 2020	Petition Filing
April 23, 2020	Prehearing Conference
June 4, 2020	Other Parties' Direct Testimony Due
June 25, 2020	Rebuttal Testimony Due
July 9, 2020	Surrebuttal Testimony Due

July 15-16, 2020	Oral Rejoinder and Hearings
August 6, 2020	Initial Briefs
August 25, 2020	Reply Briefs
October 6, 2020	Recommended Decision
December 3, 2020	Commission Order

VII. NOTICE

70. 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 April 1, 2020. This stand-alone bill insert will notify customers of this filing, where they may obtain copies of the filing, and how they may participate in this proceeding by filing comments or complaints with the Commission. In addition, PECO will publish notices containing similar information in all of the major newspapers serving its service territory. Finally, all notices will refer to PECO's website, (peco.com/rates), where a copy of the entire filing will be maintained.

71. 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, the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania, PJM, the Philadelphia Area Industrial Energy Users Group, the Retail Energy Supply Association, and all EGSs registered in PECO's service territory.

72. PECO respectfully requests that 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 DSP V, 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 proposal to procure up to 16,000 Tier I Solar AECs per year in 2021 and 2022 as set forth herein and the related procurement documents;

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

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

(5) Finding that DSP V 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) Finding that PECO's proposed TOU rate options for the Residential and Small Commercial Classes satisfy PECO's obligations under 66 Pa.C.S. § 2807(f)(5);

(8) Granting a waiver of the rate design provisions of 52 Pa. Code § 54.187 to permit PECO to continue: (a) to procure generation for three procurement classes, (b) quarterly filing of hourly-priced default service rates, and (c) semi-annual reconciliation of the over/under collection component of the GSA for all default service customers;

(9) Approving PECO's proposed tariff changes related to the introduction of the TOU Rates for residential and small commercial default service customers, and affirming PECO's right to recover all of its default service costs in accordance with 66 Pa.C.S. § 2807(e)(3.9);

(10) Approving continuation of PECO's Standard Offer Program and the associated cost recovery mechanism;

(11) Approving PECO's CAP Shopping Plan as set forth herein and proposed Supplier Tariff changes to implement the Plan; and

(12) Approving PECO's proposed revised uniform Supply Master Agreement and both forms of the proposed Solar AEC Purchase and Sale Agreement under 66 Pa.C.S. § 2102.

Respectfully submitted,

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Dated: March 13, 2020

Counsel For PECO Energy Company

VERIFICATION

I, John J. McCawley, hereby declare that I am the Director of Energy Acquisition for PECO Energy Company; that, as such, I am authorized to make this verification on its behalf; that the facts set forth in the foregoing Petition are true and correct to the best of my knowledge, information and belief; and that I make this verification subject to the penalties of 18 Pa.C.S. § 4904 pertaining to false statements to authorities.

Date: March 10, 2020

John J McCawley

John J. McCawley