BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PECO ENERGY COMPANY
FOR APPROVAL OF ITS
DEFAULT SERVICE PROGRAM
FOR THE PERIOD FROM
JUNE 1, 2017 THROUGH MAY 31, 2019

DOCKET NO. P-2016-_____________

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DIRECT TESTIMONY

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WITNESS: ALAN B. COHN

SUBJECTS: DEFAULT SERVICE RATE DESIGN
AND TARIFF CHANGES

DATED: MARCH 17, 2016
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DIRECT TESTIMONY
OF
ALAN B. COHN

I. INTRODUCTION AND PURPOSE

1. Q. Please state your full name and business address.
   A. My name is Alan B. Cohn. My business address is PECO Energy Company,
      2301 Market Street, Philadelphia, Pennsylvania 19103.

2. Q. By whom are you employed and in what capacity?
   A. I am employed by PECO Energy Company ("PECO" or the "Company") as
      Manager of Regulatory Strategy.

3. Q. Please describe your educational background.
   A. I received a Bachelor of Science Degree in Commerce and Engineering from
      Drexel University in 1980. In 1985, I received a Master of Business
      Administration from Drexel. In addition, I have completed the American Gas
      Association ("AGA") Gas Rate Fundamentals Course at the University of
      Wisconsin and the AGA Advanced Gas Rate Course at the University of
      Maryland.

4. Q. Please describe your work experience with PECO.
   A. Upon graduation from college in 1980, I was hired by PECO as a Rate Analyst in
      the Cost and Load Analysis Section of the Rate Division. In 1987, I was
      appointed Supervisor of the Economic Analysis Section in PECO’s Rates and
      Regulatory Affairs Division. Since that time, I have held various management
      positions in PECO’s Rates and Regulatory Affairs Department and Strategic
Planning Department with responsibility for managing base rate case filings, cost of service studies and financial and economic analyses.

5. Q. **Have you previously testified before this Commission or other regulatory bodies?**
   
   A. Yes. I have testified in regulatory proceedings before the Pennsylvania Public Utility Commission ("Commission"), the Federal Energy Regulatory Commission and the Maryland Public Service Commission. A listing of the cases in which I have submitted testimony is attached hereto as Exhibit ABC-1.

6. Q. **What is the purpose of your direct testimony?**
   
   A. The purpose of my direct testimony is to describe the rate design to take effect with the commencement of PECO’s fourth default service program ("DSP IV") on June 1, 2017. With limited exception, PECO is adopting the same rate design employed in its third default service program ("DSP III"), which the Commission previously approved as consistent with the Public Utility Code and the Commission’s default service regulations. The only two changes PECO is proposing in this filing are: (1) consolidation of the Medium Commercial and Large Commercial and Industrial procurement classes under the Generation Supply Adjustment ("GSA") into one procurement class (the “Consolidated Large Commercial and Industrial Class”) and (2) the filing of hourly-priced default service rates on a quarterly, instead of a monthly, schedule, with semi-annual reconciliation of the over/undercollection component of those rates.
Have you prepared any exhibits to accompany your testimony?

Yes. PECO Exhibits ABC-1 to ABC-6 were prepared at my direction and under my supervision and are described in detail in my testimony.

II. DEFAULT SERVICE RATE DESIGN

Mr. Cohn, please provide an overview of PECO’s current default service rate design.

Under DSP III, PECO conducts competitive procurements of default service supply for four different customer classes:

(i) Residential Class (Rate Schedules R and RH);
(ii) Small Commercial Class with up to 100 kW of annual peak demand (Rate Schedules GS, PD, and HT) and lighting customers (Rate Schedules AL, POL, SLE, SLS, and TLCL);
(iii) Medium Commercial Class whose annual peak demand is greater than 100 kW and less than or equal to 500 kW (Rate Schedules GS, PD, and HT);
(iv) Large Commercial and Industrial Class with annual peak demands greater than 500 kW (Rate Schedules GS, PD, HT, and EP).

The Commission’s Regulations (52 Pa. Code § 54.187(h)) provide that default service rates may not be adjusted more frequently than on a quarterly basis for customers with load requirements up to 25 kW. Those regulations (52 Pa. Code § 54.187(i)) also provide that default service rates shall be adjusted on a quarterly basis, or more frequently, for customers with load requirements between 25 kW and 500 kW.
9. Q. Please describe how the Company’s default service rates are adjusted for customers with load requirements up to 500 kW.

A. Under the current GSA approved by the Commission in DSP III, PECO projects the cost of generation supply for each customer class with peak loads up to 500 kW (i.e., residential, small commercial and medium commercial customers) on a quarterly basis. Those GSA projection periods are synchronized with PJM’s Planning year (June 1-May 31), corresponding to the quarters of June-August, September-November, December-February, and March-May. The projected cost of supply is a function of projected default service sales and projected procurement costs under PECO’s generation supply contracts. This projection forms the basis of the “Price to Compare” (the “PTC”) which customers use to evaluate competitive generation service offerings by electric generation suppliers (“EGSs”).

The GSA for each quarter is filed 45 days before the start of that quarter. In accordance with its tariff, PECO compares its actual default service supply costs to the billed revenue it receives from customers under the GSA for default service. The GSA includes a charge or credit, known as the “E-Factor,” for semi-annual reconciliation of any over/undercollection of actual revenues against actual costs for each procurement class. For example, the over/undercollection for the six-month period January 1 through June 30 is calculated by July 15 and is included in the E-Factor during the six-month period beginning September 1. Interest on any overcollection and undercollection accrues from the month of such
over/undercollection to the mid-point of the refund period in accordance with the
Commission’s default service regulations at 52 Pa. Code § 54.190.1

10. Q. Please describe how the Company’s default service rates are structured for
commercial and industrial customers receiving hourly-priced default service.

A. Under DSP III, large commercial and industrial customers (with peak load over
500 kW) and, beginning on June 1, 2016, medium commercial customers (with
peak loads greater than 100 kW and up to 500 kW) are supplied entirely by hourly
priced products for generation which include, in addition to the day-ahead hourly
price of energy, a demand charge based upon the reliability pricing model
(“RPM”) implemented by PJM Interconnection, L.L.C. (“PJM”), PECO’s
regional transmission organization. The individual customer’s RPM charges are
based upon the customer’s peak load contribution and RPM prices. Additionally,
the costs of acquiring ancillary services from the PJM market, Alternative Energy
Portfolio Standards (“AEPS”) compliance costs, an allocated portion of PECO’s
banked alternative energy credits (“AECs”), administrative costs and working
capital are charged each month to the Large Commercial and Industrial Class and,
commencing June 1, 2016, to the Medium Commercial Class. The Company also
provides a monthly estimate of the foregoing components of hourly-priced default

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1 On June 11, 2015, the Commission approved new regulations which establish a symmetrical rate of interest applicable to both overcollections and undercollections resulting from the reconciliation of default service costs. Under those regulations (52 Pa. Code § 54.190(c)), the applicable rate of interest for over/undercollections is the prime rate for commercial borrowing, not to exceed the legal rate of interest, in effect on the last day of the month the over/undercollection occurred, as reported in the Wall Street Journal. See generally Automatic Adjustment Clauses Related to Elec. Default Serv., Docket No. L-2014-2421001 (Final Rulemaking Order entered June 11, 2015). These regulations are now effective and PECO accordingly revised the definition of interest under the GSA in accordance with the Commission’s regulations through a compliance filing during DSP III.
service rates, exclusive of energy and capacity costs, known as the “Hourly Pricing Adder” at least 45 days prior to the start of the month.

Under the current GSA, any over/undercollection for customers receiving hourly-priced default service is reconciled on a monthly basis and is refunded or recovered through the E-Factor in the same manner over/undercollections are handled for the Residential and Small Commercial Classes. Likewise, interest on any over/undercollection is accrued in the same manner, with different timing, and at the same rate as for the Residential and Small Commercial Classes as described above.

11. Q. What categories of costs are currently recovered under default service rates?

A. The GSA charge currently recovers generation supply costs, the cost of compliance with the AEPS Act, certain transmission costs and ancillary service costs. In addition to the foregoing costs, the generation component of the PTC for each procurement class includes an administrative cost factor and a working capital factor. Administrative costs, including a portion of costs incurred by PECO to implement Commission-approved programs designed to enhance the competitive retail market, are allocated to the procurement classes based on default service supply sales unless a direct assignment is required. The working capital component is a fixed price per kWh that was established at 0.034¢ per kWh in the settlement of PECO’s last electric distribution rate case at Docket No. R-2015-2468981. As such, unlike administrative costs, working capital is not included in the reconciliation process.
12. Q. Has PECO implemented any strategy to mitigate fluctuations in the PTC caused by over/under collections?

A. Yes. Over/undercollections are driven by two factors: the difference between actual and projected supply costs; and billing cycle lag. Customer billing cycles (mostly non-calendar months) are not perfectly aligned with the actual incurrence of generation supply costs (mostly calendar months). Because customers are billed at different times throughout the month, the revenue from the month reflects sales from the subject month and the prior month that may have experienced higher or lower usage. This revenue and expense timing difference due to billing cycle lag produces significant fluctuations in the PTC that are not directly related to the underlying cost of default service supply. To mitigate the volatility in default service rates for the Residential, Small Commercial and Medium Commercial classes (until June 1, 2016), PECO uses a semi-annual, rather than quarterly, schedule for the reconciliation of over/undercollection amounts.

13. Q. Is PECO proposing to maintain its existing default service rate design in DSP IV?

A. Yes, but with two adjustments to the operation of the GSA for customers receiving hourly-priced default service. First, PECO is proposing to revise its GSA procurement classes to reflect the transition of medium commercial customers to hourly-priced default service on June 1, 2016 in accordance with the Commission’s Order in PECO’s DSP III proceeding. On June 1, 2016, PECO will implement hourly-priced default service for medium commercial customers.
Accordingly, under DSP IV, the Company proposes to structure default service rates for the Medium Commercial Class in the same manner as default service rates for the Large Commercial and Industrial Class. As explained by Mr. McCawley, commencing in March 2016, PECO will solicit hourly-priced default service contracts for full requirements products for the Medium Commercial Class, annually, in the same manner as for the Large Commercial and Industrial Class. Wholesale suppliers participating in those annual procurements will be required to offer the same price (in $/MWh) for Medium Commercial and Large Commercial and Industrial product tranches. To streamline operation of the GSA, PECO proposes to combine the Medium Commercial and Large Commercial and Industrial Classes from DSP III into the Consolidated Large Commercial and Industrial Class for DSP IV purposes.

Second, as discussed in detail below, PECO is proposing a quarterly default service rate filing schedule for the Consolidated Large Commercial and Industrial Class, with semi-annual reconciliation of the over/undercollection component of the GSA, to align with the filing schedule for the other procurement classes.

14. **Q. Is PECO proposing any changes to its Electric Service Tariff related to the consolidation of the Medium Commercial and the Large Commercial and Industrial procurement classes?**

**A. Yes.** To consolidate all customers receiving hourly-priced default service, PECO proposes to revise the customer segmentation threshold for the Large Commercial and Industrial procurement class (i.e., “Procurement Class 4”) from greater than 500 kW to greater than 100 kW, eliminate the Medium Commercial procurement
class (i.e., “Procurement Class 3”) and identify the Consolidated Large Commercial and Industrial procurement class as “Procurement Class 3/4” under the GSA. These changes are shown in the clean and redlined versions of PECO’s electric service tariff attached to my testimony as Exhibits ABC-2 and ABC-3, respectively.

15. Q. Mr. Cohn, please describe PECO’s proposed change to the filing schedule for Consolidated Large Commercial and Industrial Class default service rates.

A. Currently, the Large Commercial and Industrial GSA Hourly Pricing Adder for each month is filed 45 days prior to the start of the month. Commencing June 1, 2016, the Medium Commercial GSA will also be filed monthly. To align this filing schedule with PECO’s other procurement classes and reduce administrative burden on both the Company and Commission Staff, PECO proposes to file the Consolidated Large Commercial and Industrial Class Hourly Pricing Adder on a quarterly, instead of monthly, basis effective June 1, 2017. Notwithstanding the Company’s proposed modification to the effective date of the Consolidated Large Commercial and Industrial Class GSA, the price or “C-Factor” component of those default service rates will continue to be based on the PJM hourly price for energy. Similarly, the capacity or “R-Factor” component of Consolidated Large Commercial and Industrial default service rates will continue to be based on actual RPM charges. Additionally, the AEPS compliance, ancillary services and administrative cost components of the GSA will continue to change annually, regardless of the effective date of Consolidated Large Commercial and Industrial
Class default service rates. Finally, the working capital component of the GSA will remain constant between the Company’s base rate proceedings.

The Commission’s Regulations (52 Pa. Code § 54.187(j)) provide that default service rates shall be adjusted on a monthly basis, or more frequently, for customers with load requirements greater than 500 kW. To the extent necessary, PECO requests a waiver to file the Consolidated Large Commercial and Industrial Class default service rates 45 days before each quarter (June 1, September 1, December 1 and March 1) in the same manner and at the same time as the Residential and Small Commercial Class default service rates.

16. Q. Is PECO proposing any change in the treatment of over/undercollections for Consolidated Large Commercial and Industrial Class customers?

A. Yes. Billing lag is the primary driver of fluctuations in the Consolidated Large Commercial and Industrial Class PTC. Billing lag can cause a large overcollection for commercial and industrial customers receiving hourly-priced default service in one month immediately followed by a large undercollection the next month. In such cases, the Company currently combines over/undercollections for these two months for reconciliation purposes. In DSP IV, to further mitigate the impact of billing lag on the GSA for the Consolidated Large Commercial and Industrial Class, PECO proposes to reconcile the E-Factor of the GSA for those customers on a semi-annual, instead of a monthly, basis in the same manner as over/undercollections are handled for the Residential and Small Commercial Classes.
17. Q. How will semi-annual reconciliation benefit customers receiving hourly-priced default service and EGSs?

A. As shown on Exhibit ABC-4, by using a semi-annual, rather than monthly, schedule for the reconciliation of the Consolidated Large Commercial and Industrial Class E-Factor, fluctuations in default service prices will be smoothed out to mitigate unnecessary wide swings in the PTC from month-to-month that is strictly due to timing not cost. For example, as illustrated in Exhibit ABC-4, applying a constant default service price of $55 per MWh to a monthly sales profile representative of the Consolidated Large Commercial and Industrial Class (in MWh) and employing monthly reconciliation results in month-to-month PTC fluctuations of as much as 30%. By comparison, under the same assumptions, semi-annual reconciliation produces, on average, less variation in the PTC (i.e., ranging from -2.5% to 4.2%) driven by billing lag.

Semi-annual reconciliation results in a GSA that more closely tracks the cost of default service supply, which will provide clearer pricing signals for both Consolidated Large Commercial and Industrial Class customers and EGSs.

18. Q. How does PECO propose to implement its proposed changes to the GSA procurement classes and semi-annual reconciliation of over/undercollections of hourly-priced default service rates?

A. PECO proposes two transition reconciliation periods. First, Medium Commercial Class and Large Commercial and Industrial Class over/undercollections experienced through February 2017 would be refunded or recovered through the GSA for the Consolidated Large Commercial and Industrial Class over the three-
month period of June 2017 through August 2017. Second, the net
over/undercollection balance including the four-month period March 1, 2017
through June 30, 2017, would be refunded or recovered during the September of
2017 through February of 2018 period. The net over/under collection balance up
to and including the period July 1, 2017 through December 31, 2017 (the first six-
month reconciliation period for the Consolidated Large Commercial and
Industrial Class) would be refunded or recovered during the March of 2018
through August of 2018 period.

19. Q. Is a waiver of the Commission’s regulations required for the semi-annual
reconciliation of the over/undercollection component of the GSA?

A. As I explained previously, the Commission’s Regulations (52 Pa. Code §§
54.187(h)-(j)) require adjustment of default service rates on a quarterly basis, or
more frequently, for customers with load requirements up to 500 kW and on a
monthly basis, or more frequently, for customers with load requirements above
500 kW. However, the Commission has recognized that more extended periods
for over/undercollection reconciliation may help keep default rates more market-
reflective. In addition, the Commission granted a waiver from these regulations
in DSP III to implement a semi-annual E-Factor reconciliation for Residential,
Small Commercial and Medium Commercial Classes. PECO again requests a
waiver, to the extent necessary, to maintain semi-annual reconciliation for

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Recommendations Order”).
Residential and Small Commercial Classes and to implement such a reconciliation schedule for the Consolidated Large Commercial and Industrial Class.

20. Q. How does PECO propose to recover Standard Offer Program costs during DSP IV?

A. Consistent with PECO’s existing tariff and the DSP III Order, the Company proposes to continue to recover Standard Offer Program costs through an EGS participant fee not to exceed $30 per enrolled customer, with any remaining costs recovered in the following manner: (1) fifty percent from EGSs through a 0.2% Purchase of Receivables discount; and (2) fifty percent from residential and small commercial default service customers via the GSA.

21. Q. Is PECO entitled to full and current recovery of all costs associated with DSP IV?

A. Yes. In accordance with Section 2807(e)(3.9) of the Public Utility Code, PECO is formally requesting that the Commission expressly affirm PECO’s right to full and current recovery of all costs of DSP IV.

22. Q. Is the Company seeking to continue to recover the cost of its default service proceedings through the GSA?

A. Yes. Consistent with the Commission’s Policy Statement at 69 Pa. Code § 69.1808(a)(4) and the current GSA, the cost of this proceeding, including consultant fees, attorney fees, and costs related to information technology changes, will be recovered through the GSA over the DSP IV term. The estimated administrative cost, including the costs to implement consolidation of
the Medium Commercial and Large Commercial and Industrial classes during DSP IV, is delineated on Exhibit ABC-5.

23. Q. Has the Company submitted responses to the questions regarding changes to its tariff required by the Commission’s Regulations?

   A. Yes. Exhibit ABC-6 provides the Company’s responses to the questions in 52 Pa. Code § 53.52(a).

III. CONCLUSION

24. Q. Does this conclude your direct testimony?

   A. Yes.