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-____________

DIRECT TESTIMONY

WITNESS: JOHN J. MCCAWLEY, P.E.

SUBJECTS:  DEFAULT SERVICE PROCUREMENT,
UNIFORM SUPPLY MASTER
AGREEMENT, RETAIL MARKET
ENHANCEMENTS, AND GENERATION
SUPPLY ISSUES

DATED: MARCH 17, 2016
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DIRECT TESTIMONY
OF
JOHN J. MCCAWLEY

I. INTRODUCTION AND PURPOSE

1. Q. Please state your full name and business address.
   A. My name is John J. McCawley. My business address is PECO Energy Company, 2301 Market Street, Philadelphia, PA, 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 Director of Energy Acquisition.

3. Q. Mr. McCawley, what are your current duties and responsibilities as Director of Energy Acquisition?
   A. As Director of Energy Acquisition for PECO, I am responsible for the administration of wholesale power supply contracts and purchase agreements for PECO’s default service obligations. I also am responsible for the administration of PECO’s retail electric generation supplier and natural gas supplier coordination functions as they relate to electric and natural gas customer choice. I have been performing these functions since 1998. In addition, I am responsible for the administration of PECO’s procurement of alternative energy credits necessary for compliance with Pennsylvania’s Alternative Energy Portfolio Standards Act (the “AEPS Act”).
4. Q. Please summarize your educational background and prior professional experience.

A. I hold a BS degree in Electrical Engineering from Lehigh University; an MBA from Villanova University; and a MS Finance degree from Drexel University. I am also a Registered Professional Engineer in the Commonwealth of Pennsylvania.

I have been employed by PECO and/or Exelon Corporation since 1984. Over that period, I have held engineering and management positions in the areas of nuclear, fossil fuel, and hydroelectric generation, corporate strategy, planning and budgeting, in addition to my current responsibilities described above.

5. Q. Have you previously provided testimony before the Pennsylvania Public Utility Commission (the “Commission”)?

A. Yes. A listing of the cases in which I have submitted testimony is attached hereto as Exhibit JJM-1.

6. Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to describe PECO’s fourth default service program (“DSP IV” or “Program”), including PECO’s proposed procurement, implementation and contingency plans. In addition, I explain PECO’s proposed revisions to the uniform Supply Master Agreement (“SMA”) adopted for use with wholesale suppliers during DSP III and PECO’s plans for satisfying the requirements of the AEPS Act. Finally, I discuss continuation of PECO’s
Standard Offer Program during DSP IV. My testimony is divided into several parts:

(1) An overview of PECO’s procurement process;
(2) A description of the customer procurement classes under the Program and the portfolio of products that PECO intends to procure for each class pursuant to its implementation plan;
(3) A description of contingency plans in the event PECO does not obtain sufficient default service supply or experiences a supplier default;
(4) A description of proposed revisions to the uniform SMA;
(5) PECO’s plans for compliance with the AEPS Act;
(6) PECO’s proposal to continue the Company’s Standard Offer Program as a competitive retail market enhancement; and
(7) Generation supply issues and the requirement that PECO and its affiliates not withhold generation from the wholesale market.

7. **Q. Have you prepared any exhibits to accompany your testimony?**
   A. Yes. PECO Exhibits JJM-1 to JJM-4 were prepared at my direction and under my supervision and are described in detail in my testimony.

II. **OVERVIEW OF THE PROCUREMENT PROCESS**

8. **Q. Please provide an overview of PECO’s proposed procurement process.**
   A. PECO plans to conduct multiple competitive solicitations to acquire generation service to meet its default service obligations on and after June 1, 2017, when its
current default service program ("DSP III") expires. As in DSP III and in
PECO’s prior default service programs ("DSP I" and "DSP II"), PECO’s DSP IV
will employ a request for proposals ("RFP") process to solicit bids for a portfolio
of full requirements supply products with varying terms for its residential, small
commercial, as well as its commercial and industrial customers receiving hourly-
priced default service.

DSP IV will continue the contract terms and delivery periods for residential
default service customers initially implemented in DSP II. For DSP IV, PECO
proposes changes to its default service portfolio for small commercial customers.
Specifically, PECO will transition to a supply mix where 50% of the fixed-price
full requirements contracts have terms of one year and the remaining 50% have
terms of two years, each laddered with six-month spacing between start dates.
For the remaining commercial and industrial customers, PECO will procure all
supply, annually in March, through spot-priced full-requirements products.

In accordance with the Commission’s regulations, PECO is also seeking approval
for the RFPs to continue to be managed and monitored by an Independent
Evaluator, NERA Economic Consulting, Inc. ("NERA"), to assure that bidding is
conducted in a fair and efficient manner and to report the results to the
Commission.

9. **Q.** What is the proposed term of DSP IV?

   A. PECO’s DSP IV encompasses default service procurement for the period
beginning June 1, 2017 through May 31, 2019. This term is consistent with the
Commission’s Default Service Policy Statement, 52 Pa. Code § 69.1804, which recommends that default service programs following an initial program should be for a two-year period unless the Commission directs otherwise.

10. Q. **Is PECO seeking to begin procurement before June 1, 2017?**
    A. Yes. While some of the supply for residential and small commercial customer procurement classes required on June 1, 2017 will be provided by products procured under DSP III, PECO proposes to commence procurement activities for DSP IV in February 2017. A table showing the anticipated product solicitations for each procurement class is included and described in the RFP Rules attached to the testimony of Dr. Chantale LaCasse of NERA (PECO Statement No. 4).

11. Q. **Will PECO’s competitive procurement solicitations continue to be open to all wholesale suppliers, including affiliates of PECO?**
    A. Yes. All qualified suppliers who satisfy uniform bidder qualification requirements will have an opportunity to participate in PECO’s RFP. As explained by Dr. LaCasse, the competitive solicitation process is designed to ensure that PECO’s generation affiliates do not receive an advantage over other bidders. The competitive solicitation process complies with the code of conduct established under 52 Pa. Code § 54.122.

12. Q. **Will wholesale suppliers be subject to any limitation on the amount of supply they can serve?**
    A. Yes. As in DSP III, all suppliers will be subject to a 50% load cap for each procurement class. This means that on any given day in the DSP IV period, no
supplier can supply more than 50% of the required supply for any procurement class.

III. PROCUREMENT CLASSES

13. **Q. What procurement classes are being proposed by PECO for DSP IV?**

A. PECO proposes to divide its default service customers into three classes for purposes of default service procurement.

   (1) **Residential**: All customers on schedules R and RH.

   (2) **Small Commercial**: All customers with annual peak demand of up to 100 kW on schedule GS, PD and HT plus lighting customers on schedules AL, POL, SLE, SLS and TLCL.

   (3) **Consolidated Large Commercial and Industrial**: All customers with annual peak demand greater than 100 kW on schedules GS, HT, PD and EP.

The Residential and Small Commercial classes are the same as PECO’s three prior default service programs. This division continues to reflect the nature of the load of each customer class. The separation of the Residential and Small Commercial procurement classes reflects the different characteristics of those classes and eliminates the potential that usage patterns and/or shopping behaviors in one customer group will result in a higher supply price for the other customer group.
For DSP IV, PECO proposes to consolidate the current Medium Commercial and
Large Commercial and Industrial classes into a single procurement class (i.e., the
“Consolidated Large Commercial and Industrial” class).

14. Q. Why is PECO proposing to consolidate the Medium Commercial and Large
Commercial and Industrial classes?

A. Under DSP III and prior default service plans, the Large Commercial and
Industrial class was separated from other classes in accordance with those
customers’ high propensity for shopping and to implement hourly pricing and
spot market-based energy supply. In accordance with the Commission’s Order in
PECO’s DSP III proceeding\(^1\) and the End State Order,\(^2\) PECO will implement
hourly-priced default service for medium commercial customers (i.e., commercial
customers with peak loads greater than 100 kW and less than or equal to 500 kW)
on June 1, 2016. Thereafter, starting June 1, 2016, the supply pricing will be the
same for the Medium Commercial and Large Commercial and Industrial spot-
priced full requirements products. Accordingly, establishing the Consolidated
Large Commercial and Industrial class, which includes customers with annual
peak demands greater than 100 kW and up to 500 kW, reflects similarities in
shopping trends, streamlines the Company’s competitive solicitation process,
establishes common retail generation rates, and simplifies the reconciliation of
over/undercollection of default service costs.

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Do the Commission’s Regulations and Policy Statement support PECO’s proposed procurement classes for DSP IV?

The Commission’s Regulations and Policy Statement provide that default service procurement classes should be designed based upon peak loads of 0-25 kW, 25-500 kW, and 500 kW and greater. The Commission has previously granted PECO a waiver from these regulations in DSP I, DSP II and DSP III to support a 100 kW “breakpoint” among PECO’s commercial customers in light of customer characteristics. PECO believes that the 100 kW threshold for the Consolidated Large Commercial and Industrial class is appropriate because it separates smaller commercial customers from larger commercial and industrial customers who receive hourly-priced default service. PECO requests a waiver to implement this change.

Are there any exceptions with respect to customer size and procurement class?

Yes. Certain lighting customers have peak demands equal to or exceeding 100 kW but have been placed in the Small Commercial class. PECO believes that arrangement remains appropriate to avoid a separate procurement class that may not attract significant bidder interest.

IV. PORTFOLIO OF RFP PRODUCTS FOR DSP IV AND IMPLEMENTATION PLAN

What are the products that PECO will solicit for each procurement class?

Each procurement class will have a unique procurement strategy consistent with Public Utility Code requirements to obtain a prudent mix of contracts designed to
ensure least cost to customers over time, taking into account rate stability, and to continue to support retail competition. All products to be procured in DSP IV’s competitive solicitations will be full requirements products of term lengths ranging from one year to five years, with either a fixed price established through PECO’s competitive RFP process or an hourly price based on the PJM Interconnection, L.L.C. (“PJM”) day-ahead spot market, depending on the procurement class.

18. Q. Mr. McCawley, please describe the full requirements products that wholesale suppliers will be responsible for should they be chosen to serve a percentage of PECO’s default service load.

A. Suppliers will be obligated to supply full requirements load-following service, which includes energy, capacity, ancillary services, and any other services or products necessary to serve a specified percentage of PECO’s default service load continuously, throughout the term of DSP IV.

The amount of energy and other services and products a supplier must provide under the full requirements contracts PECO will enter into will vary depending upon PECO’s actual default service load.

The full requirements product obligates the supplier to satisfy a specified percentage, i.e., tranche size, of all of the default service customers’ supply requirements in every hour of the delivery period, regardless of the customers’ instantaneous changes in energy consumption and the frequency at which customers switch to or from default service. In addition, the full requirements
product obligates the supplier to provide to PECO all alternative energy credits
(“AECs”) necessary for compliance with the AEPS requirements associated with
the supplier’s specified percentage of the load. PECO will continue to allocate
AECs from its separate Commission-approved AEC procurements toward the
suppliers’ AEC obligations in the same manner approved in DSP III.

19. Q. Are wholesale suppliers responsible for all transmission and distribution
costs associated with their share of default service load?

A. No. PECO remains responsible for all distribution service to its default service
customers. Wholesale suppliers are responsible for those PJM bill line items
specified in the SMA. During PECO’s first two default service programs, load
serving entities (“LSEs”), including electric generation suppliers (“EGSs”), were
responsible for various PJM transmission costs, including Generation
Deactivation/Reliability Must Run (“RMR”) charges, Expansion Cost Recovery
charges and Transmission Enhancement (a/k/a Regional Transmission Expansion
Plan “RTEP”) charges. In its DSP III Order (p. 46), the Commission concluded
that recovery of certain PJM transmission-related charges on a non-bypassable
basis was beneficial to customers. Consistent with that finding, on June 1, 2015,
PECO implemented a Non-Bypassable Transmission Charge 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 line 1108); and Expansion Cost
Recovery charges (PJM bill line 1730). During DSP IV, PECO will continue to
be responsible for and recover Network Integration Transmission Service and
Non-Firm Point-to-Point Transmission costs through its unbundled, bypassable Transmission Service Charge.

20. **Q. What are the products that PECO is currently procuring for each customer class under DSP III?**

A. Under DSP III, most of the Residential class load (96%) is served by full requirements products whereby two-year contracts comprise about 60% of the mix and one-year contracts comprise about 40% of the mix, with delivery periods commencing on a semi-annual basis. During DSP III, the last block of PECO’s block and spot supply purchases initiated in DSP I (i.e., the long-term five-year 50 MW baseload energy block) expired on December 31, 2015. This supply product was replaced by two tranches (approximately 3%) of a 17-month fixed-price full requirements product and residual spot energy purchases directly from the energy markets operated by PJM (approximately 1%).

The Small Commercial class is served by one-year full requirements products with overlap on a semi-annual basis.

The Medium Commercial class was initially supplied by six-month full requirements products without overlap. Commencing June 1, 2016, those customers will be served entirely by one-year full requirements contracts with energy priced by the PJM day-ahead spot market in the same manner as the Large Commercial and Industrial class.
Q. Please describe PECO’s procurement strategy for the Residential class under DSP IV.

A. Under DSP IV, PECO will continue the procurement design established in its first three default service plans. Specifically, approximately 96% of the residential supply portfolio will be comprised of a blend of one-year full requirements products (approximately 40%) and two-year full requirements products (approximately 60%) with delivery periods that commence every six months. The remaining approximately 4% of the default service supply portfolio for the Residential class will consist of a long-term product and spot purchases discussed below.

Each of the products will be procured approximately two months prior to delivery of the energy. Products with delivery periods beginning on June 1 will be procured in the month of March prior to delivery. Because contracts are not executed in time to allow winning bidders to participate in the annual PJM Auction Revenue Rights (“ARR”) nomination process in early March, PECO will continue to nominate ARRs for the default service load. To facilitate selection and transfer of ARRs to wholesale default service suppliers, PECO will continue to employ a consultant for ARR analysis and selection. Contracts beginning on December 1 will be procured in a September RFP, approximately two months before the start of the contract delivery period.

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3 An ARR is the mechanism by which PJM allocates proceeds from the annual auction of Financial Transmission Rights (“FTRs”), which are rights to receive compensation associated with transmission congestion between points in the transmission system operated by PJM.
In PECO Statement No. 3, Mr. Fisher explains how the proposed residential supply portfolio represents a “prudent mix” of contracts in light of the results of DSP III and is designed to ensure least cost over time.

22. Q. Does the Residential class supply portfolio for DSP IV include any long-term purchases?

A. Yes. The long-term 50 MW block energy purchases provided for under DSP I, and delivered through DSP II, expired on December 31, 2015 in DSP III. This block energy contract was replaced with two tranches (approximately 3% of residential default service load) of a 17-month fixed-price full requirements product and spot purchases, which continue to May 31, 2017, the end of DSP III. Consistent with the “prudent mix” long-term contract requirement under Pennsylvania’s Electricity Generation Customer Choice and Competition Act (“Competition Act”), in DSP IV, PECO is proposing to procure two tranches (approximately 3% of residential default service load) of a five-year fixed-price full requirements product with delivery of energy starting June 1, 2017. The remaining approximately 1% of that load will be supplied through spot market purchases from PJM.

23. Q. Is PECO proposing any changes to its procurement strategy for the Small Commercial class?

A. Yes. PECO proposes to replace the current mix of 100% one-year fixed-price full requirements products with equal shares of one-year and two-year fixed-price full requirements products. The supply contracts will be laddered, with six-month spacing between the start of the delivery periods under those contracts. Each of
the products for the Small Commercial class will be procured approximately two months prior to delivery of energy. Like the Residential class procurement, contracts beginning on June 1 will be procured in March and contracts beginning on December 1 will be procured in September. Mr. Fisher explains how the use of one- and two-year fixed-price full requirements products 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.

24. **Q. What type of default service supply will be provided to Consolidated Large Commercial and Industrial class customers?**

**A.** To implement the DSP III Order, on June 1, 2016, all commercial customers with peak loads greater than 100 kW and equal to or less than 500 kW, which were formerly in the separate Medium Commercial procurement group will be transitioned to hourly-priced default service procured in the same manner as large commercial and industrial customers with peak loads greater than 500 kW. As I explained earlier in my testimony, PECO is proposing to modify the Large Commercial and Industrial class to include all commercial and industrial customers with peak loads greater than 100 kW and eliminate the Medium Commercial class. PECO proposes to continue to procure all default service supply for the resulting Consolidated Large Commercial and Industrial class through spot-priced full requirements products, which will be procured annually in March for delivery starting June 1 of each year.
25. Q. Will some of the full requirements contracts that PECO proposes to enter into continue past May 31, 2019?

A. Yes. The extension of contracts beyond the term of a default service plan is permitted by the Commission’s regulations (52 Pa. Code § 54.186(b)(3)) and is consistent with the procurement design approved by the Commission in DSP II and DSP III. The laddering of contract delivery periods (extending beyond May 31, 2019) will better ensure that customers are not exposed to rate volatility associated with replacing a large portion of default service supply in a short period of time.

26. Q. Has PECO prepared an implementation plan for DSP IV?

A. Yes. A schedule of PECO’s proposed procurements is attached to my testimony as Exhibit JJM-2. In PECO Statement No. 4, Dr. LaCasse describes PECO’s competitive bid procedures in detail, including bidder qualification requirements and associated documentation.

V. CONTINGENCY PLANS

27. Q. Mr. McCawley, please describe PECO’s proposed contingency plans in the event it either does not obtain sufficient supply through its procurement processes or experiences supplier default.

A. PECO employs a contingency plan for situations where it fails to obtain sufficient approved bids for all tranches of supply offered in a procurement or where a supplier enters into a supply agreement and subsequently defaults on its obligations. Consistent with its prior default service programs, in the event PECO
fails to obtain sufficient approved bids for all offered tranches for a product in a solicitation, the unfilled tranches will be included in PECO’s next default supply solicitation. The term length for that product will be shortened by six months so that the product delivery will end on the same date as originally anticipated. If necessary, PECO will supply any unserved portion of its default service load from the PJM-administered markets for energy, capacity and ancillary services and competitively procure sufficient AECs at market prices to satisfy any near-term obligations under the AEPS Act. Since the commencement of DSP III, the Commission has approved all bids for tranches of fixed-price full requirements products solicited for the Residential class and therefore PECO is not proposing to continue to file an alternative procurement plan within fourteen days of the rejection of bids for six or more Residential tranches.

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

28. Q. Mr. McCawley, please describe the Supply Master Agreement (“SMA”).

A. The SMA is a standardized generation supply contract that sets forth the rights and obligations of PECO and each supplier that successfully bids to serve a portion of PECO’s default service load. Under the SMA, a supplier is obligated to supply full requirements service for a specified percentage of default service load assigned to that supplier through PECO’s competitive procurement process, and PECO is obligated to pay for this supply. The SMA includes detailed provisions relating to billing, supplier credit requirements, default and termination, damages, indemnification, survival, and dispute resolution, in addition to customary provisions relating to representations and warranties by each party, confidentiality, and other obligations.

During DSP III, PECO utilized a new SMA developed through the uniform SMA stakeholder process envisioned by the Commission in the End State Order in order to realize efficiencies and reduce expenses.

29. Q. Is PECO proposing to make any changes to the uniform SMA?

A. Yes, a few changes. The uniform SMA functioned well during DSP III and has not resulted in litigation, defaults or other material contract disputes. However, PECO proposes the following changes to clarify operation of the SMA.

Payment Provisions. Sections relating to payments to suppliers have been revised to clarify PECO’s payment for spot-priced full requirements products. Specifically, such payments for the supplier’s percentage of PECO’s spot-priced
default service load reflect the following three components: (1) the applicable
hourly day-ahead PJM locational marginal price; (2) a pass-through of actual PJM
capacity costs for each supplier’s capacity obligation; and (3) other full
requirements supply costs such as ancillary services, AEPS compliance and other
costs.

**New York Power Authority Allocation.** PECO receives an allocation of five
megawatts of low-cost hydropower from the New York Power Authority for
residential customers in PECO’s service territory under a multi-state agreement
administered in Pennsylvania by Allegheny Electric Cooperative, Inc. This
amount corresponds to 0.2% of PECO’s Residential default service load of
approximately 2,400 MW. The SMA includes language clarifying that this
allocation will be used to offset the amount of Residential default service supply
provided by wholesale suppliers.

A copy of the SMA and a “blackline” version of the SMA showing proposed
changes is attached as Exhibit JJM-3 and JJM-4, respectively. These proposed
changes include non-material modifications suggested by the Independent
Evaluator over the course of the DSP III procurement cycle to facilitate
competition and improve bidder participation in accordance with Section I.1.9 of
the RFP Rules.
VII. AEPS COMPLIANCE

30. Q. Will PECO continue to satisfy its AEPS obligations with respect to sales to default service customers by requiring suppliers to transfer AECs to PECO?

A. Yes. The AEPS Act requires electric distribution companies like PECO to obtain an increasing percentage of electricity sold to retail customers from alternative energy sources, as measured by AECs. Under the SMA, PECO will continue to require each default service supplier to transfer Tier I and Tier II AECs to PECO corresponding to PECO’s AEPS obligations associated with the amount of default service load served by that supplier.

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. PECO will retain any portion of its AEC inventory to meet AEPS obligations not provided for by fixed-price full requirements suppliers, and procure any additional required AECs through PECO’s Tier I and Tier II “balancing” procurements previously authorized by the Commission.

VIII. COMPETITIVE ENHANCEMENTS

31. Q. Will PECO continue the EGS Standard Offer Program (“Standard Offer Program” or “SOP”) that was first implemented as part of DSP II?

A. Yes. PECO proposes to extend the program for the two-year term of DSP IV. An extension of the Standard Offer Program is consistent with the Commission’s conclusion in the DSP III Order (pp. 25-26) that continuation of the SOP was “beneficial to all customers.” During DSP III, PECO enhanced the operation of
the Standard Offer Program in several respects, including revisions to the SOP call center scripts to clarify the nature of the discounted price and its interplay with the Price-to-Compare and amendment of the program rules to allow EGSs to participate on a per class basis. As explained by Mr. Crowe (PECO Statement No. 1), since June 1, 2015, the Standard Offer Program has resulted in more than 55,000 residential customer and 3,000 small commercial customer referrals to an EGS that has voluntarily chosen to offer customers a twelve-month contract priced at 7% below PECO’s default service rate at the time of the offer.

IX. GENERATION SUPPLY ISSUES

32. Q. Please describe the determination that the Commission must make pursuant to Section 2807(e)(3.7)(iii) of the Competition Act.

A. Section 2807(e)(3.7)(iii) of the Competition Act requires the Commission to determine that neither the default service provider nor its affiliated interest has withheld from the market any generation supply in a manner that violates federal law.

33. Q. Has PECO withheld from the market any generation supply in violation of federal law?

A. No.

34. Q. Has any PECO affiliate withheld from the market any generation supply in violation of federal law?

A. No. The only PECO affiliate that owns generation supply is Exelon Generation Company, LLC (“Exelon Generation”). Under applicable codes of conduct of the
Federal Energy Regulatory Commission, PECO does not discuss generation market-related issues with Exelon Generation. However, PECO can affirmatively state that there has been no determination by a court or regulatory agency of competent jurisdiction that Exelon Generation has withheld from the wholesale energy market any generation supply in a manner that violates federal law.

X. CONCLUSION

35. Q. Does this conclude your direct testimony?

A. Yes.