

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

POLICIES TO MITIGATE :
POTENTIAL : **DOCKET NO. M-00061957**
ELECTRICITY PRICE INCREASES

**COMMENTS OF PECO ENERGY COMPANY
TO THE MAY 24, 2006 INVESTIGATION ORDER**

I. INTRODUCTION

On May 24, 2006, the Pennsylvania Public Utility Commission (the “Commission”) issued an Investigation Order inviting interested parties to comment upon (1) the likely course of energy prices upon the expiration of existing electric rate caps over the next several years and (2) the actions, if any, that can be taken now to mitigate the impact of future price increases (the “Investigation Order”).

PECO Energy Company (“PECO” or the “Company”) applauds the Commission’s decision to address, in a proactive way, these important issues and welcomes the opportunity to participate in this important dialogue. The following comments summarize PECO’s position on certain key issues raised in the Investigation Order. In addition, PECO has attached, for the Commission’s review and consideration, the prepared written testimony of Lisa Crutchfield and Michael M. Schnitzer, which elaborates upon and provides support for the conclusions set forth herein.¹

¹ Ms. Crutchfield is PECO’s Vice President of Regulatory and External Affairs; Mr. Schnitzer is a Director of the NorthBridge Group, Inc., an economic consulting firm that specializes in energy-related matters. Both have previously testified before the Commission.

II. SUMMARY OF POSITION

Energy markets can be extremely volatile, and today's prevailing electricity prices may bear little resemblance to the costs that PECO will incur, and need to recover from default service customers, when its generation rate caps expire at the end of 2010. Nonetheless, based on current projections, PECO anticipates that its rates, stated on a total bill basis, will increase by approximately 11% at that time. An 11% increase, while by no means insignificant, is manageable, particularly when it is recognized that customers, on average, will be paying nearly the same for electric service in 2010 on a nominal basis, and considerably less on an inflation-adjusted basis, than they did in the early 1990's.

This is not to say that PECO, or any other incumbent default service provider, should take a "wait and see" approach during the balance of its transition period. Recent history has underscored the risks attendant to such an approach. Rather, and as the Investigation Order wisely suggests, planning for the post-2010 era needs to begin now in earnest. And, more than that, certain affirmative steps can and should be taken over the next several years by the Commission and the Electric Distribution Companies (EDCs) to enable the opportunity to mitigate market price volatility.

The expiration of rate caps will, of course, affect each incumbent provider differently. Some may benefit from a comprehensive reevaluation of existing conservation, demand side response and/or low income customer assistance programs. Given the existence of its generation rate cap and the breadth of its current tariff offerings and commitments it has made in prior merger settlement agreements, PECO does not believe that major programmatic changes are required or, for that matter, would induce customers to change their consumption habits in any meaningful way in the near term. Rather, and as explained by Ms. Crutchfield, PECO would

prefer to focus on the supply side and, more specifically, a possible phase-in of the POLR procurement process, perhaps beginning as early as 2008.

In order for EDCs to implement an early procurement strategy, there needs to be in place a regulatory process in which buyers and sellers can enter into purchase power agreements with confidence. Parties need to know the rules that will govern their actions and feel sure that such rules will not be changed or ignored if the results of following them are less than optimal. Stated simply, any benefits to be derived from hedging against future price increases will be lost if rules are changed or outcomes can be second-guessed. For all of these reasons, PECO urges the Commission to finalize its default service regulations in a comprehensive fashion as soon as possible.

III. SPECIFIC ISSUES RAISED BY THE INVESTIGATION ORDER

A. Customer Education

PECO questions the value to customers of providing periodic rate projections over the next five years. As noted by Ms. Crutchfield, and as confirmed by Mr. Schnitzer, energy prices can and likely will fluctuate significantly during that period. Consequently, the information provided customers at any given point in time - - and certainly in the next two years or so - - could prove extremely misleading. Nonetheless, customers need to know that their rates are presently capped by prior regulatory agreement and that, beginning in 2011, they will be exposed to market forces. PECO's strong preference is for each EDC to propose a local education program as part of its default service implementation plan, as opposed to a generic statewide education program. Under this approach, each EDC could customize on the issues of timing, price impact, procurement methodology and customer base.

B. Conservation

PECO agrees that conservation can play an important role in this process. However, as described by Ms. Crutchfield, PECO already has in place an active program promoting conservation and does not believe that there is any need, at this time, to expand upon what it is already doing.

C. Reduction Of Peak Demand

PECO has been a leader in terms of encouraging customers to reduce their peak demands and, for many years, has offered its customers various service options to incent them to shift load to off-peak periods. A sampling of these programs is provided in Schedule 3 to Ms. Crutchfield's testimony. PECO further notes that many of the policies mentioned in the Investigation Order were evaluated by the Commission's Demand Response Working Group, which could be reconvened if the Commission were to conclude that additional review of possible mitigation measures was appropriate.

D. Alternatives For Avoiding Abrupt, Large Price Increases

It is possible to consider circumstances that might justify the lifting and/or outright elimination of rate caps prior to their scheduled expiration. Those circumstances, however, do not present themselves in PECO's case. To the contrary, and as noted above, current projections suggest a system average rate increase in 2011 of approximately 11%. Consequently, PECO foresees no need to "phase in" higher rates prior to 2011 and, in all likelihood, would oppose any attempt to do so. Rather, as discussed *infra*, PECO believes that a better way to avoid abrupt price increases is to implement responsible procurement strategies intended to mitigate exposure to such risks.

E. Low-Income Customer Assistance

As explained by Ms. Crutchfield, PECO provides some of the most extensive and far-reaching low-income customer assistance of any utility in the nation and believes that its existing programs are more than adequate.

F. Interplay Of Retail And Wholesale Energy Markets

As the Commission properly observes, retail electric markets are “inextricably linked” to wholesale markets and the rates charged POLR customers in the post-rate cap era will be “significantly influenced” by wholesale prices (Investigation Order, p. 8). It is also true, as mentioned previously and as the experience of the past several years has borne out, that wholesale energy markets can be extremely volatile. All of this strongly counsels in favor of a wholesale procurement strategy that mitigates the exposure of the POLR provider, in this case PECO, and ultimately it’s the POLR customers, to such volatility.

At PECO’s request, Mr. Schnitzer prepared a forecast of probable POLR supply costs in 2011. As he explains in his testimony (PECO Statement No. 2), the principal “drivers” of wholesale power costs during this period will be natural gas prices and PJM capacity prices - - both of which are beyond PECO’s and the Commonwealth’s control. Based on the results of the most recent Basic Generation Service (BGS) auction in New Jersey and current forward prices for natural gas and capacity, Mr. Schnitzer estimates that PECO’s average supply costs (exclusive of line losses and delivery charges) will approximate 8.4¢ per kWh in 2011. This, in turn, translates into a total delivered rate (exclusive of gross receipts tax) of 11.9¢ per kWh, an increase of 11% over 2010 capped rate levels. Mr. Schnitzer is quick to point out, however, that fluctuations in natural gas prices could change the picture considerably and, for that reason, he also presents a range of probable values, bounded by a 5% rate decrease at the low end and a

26% rate increase at the high end.

Because future wholesale prices are quite uncertain, PECO would like the flexibility to begin the procurement of post-2010 POLR supply as early as 2008 and, more specifically, to do so on a staggered, multi-year phase-in basis. Moreover, and as discussed in its comments in the Commission's Default Service Provider rulemaking at Docket No. L-00040169, PECO supports the use of a reverse descending-clock wholesale purchase power auction for the procurement of full requirements POLR supply. The ability to take such advance action is contingent on having the completed rules and regulatory processes well in advance of the end of the transition period. However, by accelerating the procurement process, staggering the purchase of needed supplies and thereby averaging prices from multiple acquisition dates based upon prevailing market prices at those times for 2011 and beyond, PECO believes it could mitigate some price volatility and thereby lessen the impact of future price increases.²

As noted by Mr. Schnitzer, the PJM is particularly well-suited to accommodate a full requirements auction for POLR load because there are no physical barriers to entry (i.e., a successful bidder need not own generation or have it under contract in order to participate). Consequently, the universe of potential competitors is virtually endless. Mr. Schnitzer cautions, however, that the process will not work unless a well structured set of rules for competitive procurement is firmly in place. If supply contracts can be subjected to "after the fact" review, fewer bidders will come forward and those that do invariably will factor the risk of regulatory uncertainty into the prices they are willing to offer. This would likely add volatility back to the pricing, which this initiative seeks to avoid.

² An illustration of how this procurement strategy might be implemented is provided in Schedule 1 to Ms. Crutchfield's testimony.

* * *

PECO appreciates the opportunity to provide comments in response to the Investigation Order and it looks forward to continuing to work with the Commission and other stakeholders on these critical issues.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**POLICIES TO MITIGATE POTENTIAL :
ELECTRICITY PRICE INCREASES : DOCKET NO. M-00061957**

DIRECT TESTIMONY

OF

LISA CRUTCHFIELD

**Commenting Upon Issues Raised By The
Commission In Its May 24, 2006
Investigation Order**

June 15, 2006

1 **Direct Testimony Of Lisa Crutchfield**

2 **I. INTRODUCTION AND QUALIFICATIONS**

3 **1. Q. Please state your name and business address.**

4 A. Lisa Crutchfield, 2301 Market Street, Philadelphia, Pennsylvania 19103.

5 **2. Q. By whom are you employed and in what capacity?**

6 A. I am Vice President of Regulatory and External Affairs for PECO Energy
7 Company (“PECO” or the “Company”).

8 **3. Q. What are your responsibilities as Vice President of Regulatory and External
9 Affairs?**

10 A. I am responsible for managing the Company’s rates and regulatory, governmental
11 affairs, economic development and energy acquisition functions.

12 **4. Q. Please briefly describe your educational background and industry
13 experience.**

14 A. I am a graduate of Yale University and Harvard Business School. I have been
15 involved in the utility industry for about 16 years. I was Vice-Chairman and
16 Commissioner of the Pennsylvania Public Utility Commission from 1993 to 1997,
17 which included the period during which significant retail electric competition
18 legislation was passed in Pennsylvania, and I was actively involved in the crafting
19 of that legislation. During my time on the Commission, I often served as an
20 expert witness before the United States Senate on industry restructuring issues

1 and before the Federal Energy Regulatory Commission on transmission access
2 issues. Subsequently, I served as an executive at Duke Energy Corporation,
3 where I managed the utility's energy policy and strategy division, which was
4 responsible for developing the corporation's strategy on issues related to
5 restructuring the electric and gas industries.

6 **5. Q. What is the purpose of your testimony?**

7 A. By Order entered May 24, 2006, the Commission launched an investigation at
8 Docket No. M-00061957 to explore the likely course of energy prices upon the
9 expiration of existing rate caps over the next several years and to determine what
10 actions, if any, can be taken now to mitigate the impact of future price increases
11 (the "Investigation Order"). My testimony addresses Issues 1-5, as set forth at
12 pages 4-8 of the Investigation Order. In addition, I note that Michael M.
13 Schnitzer, a Director of The NorthBridge Group, is also submitting testimony on
14 behalf of PECO (Statement No. 2). Mr. Schnitzer's testimony focuses primarily
15 on Issue 6 and provides an independent assessment of future wholesale energy
16 price trends.

17 **II. OVERVIEW**

18 **6. Q. In its Investigation Order (pp. 1-2), the Commission cites three recent**
19 **examples where the expiration of rate caps exposed customers to "sudden,**
20 **dramatic price increases" and the risk of "rate shock." Based on current**
21 **projections, is it likely that PECO will find itself in a similar position when its**
22 **rate caps expire at the end of 2010?**

1 A. No, it is not. As depicted in Figure 1 of Mr. Schnitzer’s testimony, we anticipate
2 that, on average, there will be a manageable impact on customers’ overall bills
3 when PECO’s rate caps expire. That is because increases in purchased power
4 costs are expected to be largely offset by the elimination of PECO’s Intangible
5 Transition Charge/Competitive Transition Charge, which expires at the end of
6 2010.

7 **7. Q. Given PECO’s current projections, is there any need, in your judgment, for**
8 **PECO to consider the termination of rate caps prior to their scheduled**
9 **expiration and/or an “early phase-in” of higher rates, as discussed at pages 6-**
10 **7 of the Investigation Order?**

11 A. No. PECO will continue to meet its commitments from its prior settlement
12 agreements. I should add that PECO, as a matter of principle, could not support,
13 and would no doubt oppose, any unilateral attempt to lift its rate caps prior to
14 January 1, 2011. As the Commission is aware, those caps are critical components
15 of omnibus settlement agreements reached in three important and hotly-contested
16 Commission cases - - PECO’s electric restructuring proceeding at Docket No. R-
17 00973953; the PECO/Unicom merger proceeding at Docket No. A-
18 00110550F0147; and the recently concluded Exelon/PSEG merger proceeding at
19 Docket No. A-110550F0160. We believe that the careful balancing of interests
20 reflected in the Commission’s Orders in those cases should not be revisited absent
21 extraordinary circumstances, which we do not presently foresee occurring.

1 **8. Q. Are there any measures that PECO believes can and should be taken**
2 **between now and January 1, 2011 to mitigate potential electric price**
3 **increases?**

4 A. Yes, there are. Most importantly, we believe that the Commission should
5 conclude its Default Service Provider rulemaking at Docket No. L-00040169 and
6 issue final regulations. Furthermore, we ask the Commission to endorse the
7 implementation, preferably on a statewide basis, of a reverse descending-clock
8 wholesale purchase power auction for the procurement of full requirements
9 default service retail supply. As we pointed out in our comments at Docket No.
10 L-00040169, the auction model offers the advantages of transparency, objectivity
11 and standardization. Moreover, its adoption could be expected to stimulate
12 aggressive competition and therefore provide the most competitive costs for
13 customers. We further noted as follows:

14 Another advantage of an auction is price stability.
15 The auction accommodates a “staggered”
16 procurement process where a series of overlapping
17 supply contract terms is employed such that only a
18 portion of the utility’s load obligation is bid out
19 each year for multi-year periods. This results in
20 rates that are subject to modest changes from year
21 to year as actual market prices fluctuate. It also
22 limits the risks associated with purchasing all power
23 supplies when the market prices may be high.

24 **9. Q. Why are these comments relevant to the issues raised by the Commission in**
25 **its Investigation Order?**

26 A. Recent experience, as shown by the examples cited by the Commission in its
27 Investigation Order, illustrates the risks of procuring all required energy supply at

1 one time. As the Commission observes in its Investigation Order (p. 2):
2 “[T]iming is important because wholesale energy prices are volatile [footnote
3 omitted].” Consequently, if the default service rulemaking is further delayed,
4 certain opportunities to mitigate potential volatility in energy costs through
5 mechanisms that require a longer lead-time may be lost.

6 **10. Q. Why?**

7 A. The draft default service provider rules anticipate that default service
8 implementation plans will be filed no later than fifteen months prior to the
9 expiration of the caps on a utility’s generation rates and that the Commission will
10 have at least six months to review those plans. In PECO’s case, this would
11 suggest a filing date during the second half of 2009 and Commission action
12 sometime in the first half of 2010. Presumably at that point, an auction would be
13 conducted to obtain generation supply for the post-2010 era. This timetable, if
14 adopted, would result in procurement of all of PECO’s POLR supply only several
15 months prior to the expiration of the rate caps - - precisely the scenario that
16 recently played out in Delaware and Maryland.

17 **11. Q. What do you recommend?**

18 A. PECO would like to explore a possible “phase-in” - - not of rates, but rather the
19 auction process itself. More specifically, PECO would like the flexibility to begin
20 the procurement of post-2010 supply as early as 2008. For example, in 2008
21 PECO might acquire, by auction, one-third of its 2011 energy needs; in 2009,
22 one-third of its projected requirements for 2011 and 2012; and in 2010, one-third

1 of its projected requirements for 2011, 2012 and 2013. Schedule 1 to my
2 testimony provides a graphic illustration of this phase-in of procurement. By
3 accelerating the procurement process, staggering the purchase of needed supplies
4 and thereby averaging prices from multiple acquisition dates, we believe we could
5 mitigate some price volatility and thereby lessen the impact of future price
6 increases.

7 **12. Q. What can the Commission do to facilitate the use of such a price risk**
8 **mitigation strategy?**

9 A. Two things. First, we urge the Commission to finalize its default service
10 regulations as quickly as possible and, in so doing, to explicitly authorize the use
11 of a “phased” auction process. Second, and equally important, the Commission
12 needs to provide regulatory certainty that the results of such auctions and
13 subsequent rates will not be second-guessed several months or several years later.
14 As long as the possibility exists that prices for supply agreed upon in 2008 and
15 2009 may not be honored when cost recovery is sought in 2011 and 2012,
16 suppliers will invariably factor that risk into the prices they offer in the earlier
17 years and any hedging benefits will be lost.

18 **III. SPECIFIC ISSUES IDENTIFIED IN THE INVESTIGATION ORDER**

19 **A. Customer Education**

20 **13. Q. In its Investigation Order (p. 4), the Commission suggests that potential “rate**
21 **shock” could be mitigated through a customer education program initiated**
22 **“well in advance of the expiration of the rate caps.” Do you agree?**

1 A. On a theoretical level, I agree that customers need to be reminded that the rates
2 they are paying have been capped by prior regulatory agreement and that those
3 caps will be removed in several years. I also believe there may be value to
4 sensitizing customers to the possibility that they may face higher electric prices
5 once the rate caps have expired. Beyond these generic messages, however, I
6 question the benefits of launching an extensive customer education program
7 today. In our judgment, it would be more valuable to communicate with
8 customers in conjunction with the approval of the actual post-transition POLR
9 model so that customers can make informed decisions.

10 **14. Q. Why?**

11 A. As the experience of the past several years has shown, energy prices can be
12 extremely volatile. Consequently, today's prevailing market prices may bear little
13 resemblance to prices six months from now, much less three or four years down
14 the road. PECO's current customer information and education practices
15 continually emphasize the value and benefits of conservation and reducing load
16 during peak demand periods (see Schedule 2). It is therefore unlikely that
17 communicating details on a potential price increase several years in the future will
18 cause customers to take additional action today.

19 **15. Q. Does that mean there is no role for customer education in mitigating post-**
20 **transition period rate shock?**

21 A. No, it does not. The issue is not whether customer education can be of value, but
22 rather how and when it can most effectively be deployed. As I mentioned

1 previously, today's customers need to know that their rates will not be capped
2 beyond 2010 and that, beginning in 2011, they will be exposed to market forces.
3 But, in our view, it would be premature to speculate on future customer impacts
4 now. Instead, we believe that the filing of a utility's default service
5 implementation plan would be a more opportune time to launch a focused effort
6 to educate customers on their future options and the likely costs of those options
7 vis-à-vis the capped rates then being charged.

8 **B. Conservation**

9 **16. Q. The Investigation Order also cites conservation as a "key strategy" for**
10 **helping customers mitigate the effect of higher electricity prices (p. 4). Please**
11 **comment.**

12 A. We agree. PECO already has in place an active program to provide customers
13 with information on ways to reduce usage and conserve energy. This information
14 is furnished through the use of seasonal bill inserts, press releases and postings on
15 PECO's website. The Company also spends about \$6.5 million per year on
16 energy efficiency and conservation for its low-income customers under the Low
17 Income Usage Reduction Program (LIURP). Activities supported through these
18 efforts include weatherization upgrades and the replacement of old, inefficient
19 appliances with high efficiency models. Examples of the materials furnished
20 customers regarding PECO's conservation initiatives are attached as Schedule 2.

21 **C. Reduction Of Peak Demand**

1 **17. Q. At pages 5-6 of the Investigation Order, the Commission discusses various**
2 **rate structure strategies that could be employed to encourage customers to**
3 **reduce their usage during peak demand periods. Does PECO currently**
4 **utilize any of the pricing strategies mentioned by the Commission?**

5 A. Yes, it does. In fact, PECO has been a leader over the years in terms of
6 developing rate designs and rate options intended to promote demand response.
7 Key examples of such rate designs include: (1) Rate R's (Residential) and Rate
8 RH's (Residential Heat) inverted rate block designs for summer usage in excess
9 of 500 kWh per month (1.8 billion kWh and 1.3 million customers affected); (2)
10 Rate GS's (General Service) rate design that contains a special blocking structure
11 in the summer months (800 million kWh and 150,000 customers affected); and
12 (3) Rate HT's (High Tension) rate design that ties minimum billing demands in
13 winter months to the maximum demand in summer months. Examples of rate
14 options that PECO offers customers include: (1) Rate RT-Residence Time-Of-
15 Use Service (116,000 kWh affected); (2) the Interruptible Rider-2 (IR-2)
16 primarily for voluntary load reduction available to commercial and industrial
17 (C&I) customers (150 Mw affected); and (3) the Night Service Riders – GS, PD
18 and HT available to C&I customers (over 8.7 billion kWh affected). The
19 applicable tariff sheets and some of the promotional material describing these
20 programs are attached as Schedule 3.

21 **D. Alternatives For Avoiding Abrupt, Large Price Increases**

22 **18. Q. Please respond to the suggestion that utilities may wish to consider a “phase-**
23 **in” of higher rates prior to the expiration of generation rate caps.**

1 A. As I previously explained, we do not believe that the lifting of PECO’s rate caps
2 at the end of 2010 will trigger an unmanageable rate increase. Consequently,
3 given what we know today, there is no need for PECO to consider an “early
4 phase-in” of rate increases along the lines discussed in the Investigation Order.
5 As I noted, however, we believe that an early phase-in of supply procurement for
6 2011 and beyond may be beneficial for customers.

7 **E. Low-Income Customer Assistance**

8 **19. Q. The Investigation Order notes that rising electric rates could impose a**
9 **particular burden on customers of modest means and invites respondents to**
10 **address the adequacy of existing universal service programs. Please**
11 **comment.**

12 A. PECO provides some of the most extensive and far-reaching low-income
13 customer assistance of any utility in the nation. As of June 2006, PECO had over
14 109,000 electric customers and more than 19,000 natural gas customers enrolled
15 in its CAP Rate program - - by far the most of any energy company in
16 Pennsylvania. In addition, PECO’s CAP Rates were recently stratified to include
17 a Special Needs component available to individuals with household income at or
18 below 50% of the federal poverty level. The cost of the CAP Rate program
19 approximates \$65 million annually.

20 **20. Q. What else does PECO do to assist low-income customers?**

21 A. Over the last five years, PECO has contributed nearly \$6 million to the operation
22 and administration of Matching Energy Assistance Funds (MEAFs), which help

1 low-income customers pay their utility bills. PECO also spends approximately
2 \$6.5 million per year on LIURP funding and staffs a full-time Customer
3 Assistance and Referral Evaluation Services (CARES) program. Finally, I would
4 note that the Settlement Agreement approved by the Commission at Docket No.
5 A-110550F0160 provides for substantial enhancements to PECO's universal
6 service programs upon the consummation of the Exelon/PSEG merger, including:
7 (1) the payment of \$500,000 per year from 2007 through 2010 to the MEAF; (2)
8 an increase in the monthly usage level eligible for discounts under CAP Rates B,
9 C, D and E from 500 kWh to 650 kWh; (3) a commitment by PECO to spend \$1.2
10 million on additional CAP enrollment outreach; (4) the stream-lining and
11 simplification of the CAP application and recertification process; (5) a
12 contribution of \$400,000 to community based organizations (CBOs) for CAP
13 outreach and referrals; and (6) the scheduling of at least four training sessions
14 annually to educate CBOs on the availability and operation of the CAP Rate
15 Program.

16 **21. Q. In view of the foregoing, do you believe PECO's universal service programs**
17 **are adequate?**

18 A. Yes, I do.

19 **22. Q. Do you have any concluding remarks?**

20 A. Yes. PECO applauds the Commission's efforts to address, in a proactive way,
21 these difficult issues. Although PECO does not anticipate dramatic rate increases
22 upon the expiration of its rate caps, we recognize that current price projections are

1 by no means certain and that we cannot afford to become complacent about the
2 future. We further believe that one of the best ways to mitigate potential rate
3 shock is to adopt reasonable hedging strategies. For that reason, we urge the
4 Commission to promptly finalize its default service regulations so that PECO and
5 other companies can develop, and implement on a timely basis, procurement
6 plans to address future volatility and allow customers to become educated about
7 their supply options and potential impacts.

8

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PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**POLICIES TO MITIGATE POTENTIAL :
ELECTRICITY PRICE INCREASES : DOCKET NO. M-00061957**

SCHEDULE 1 TO DIRECT TESTIMONY

OF

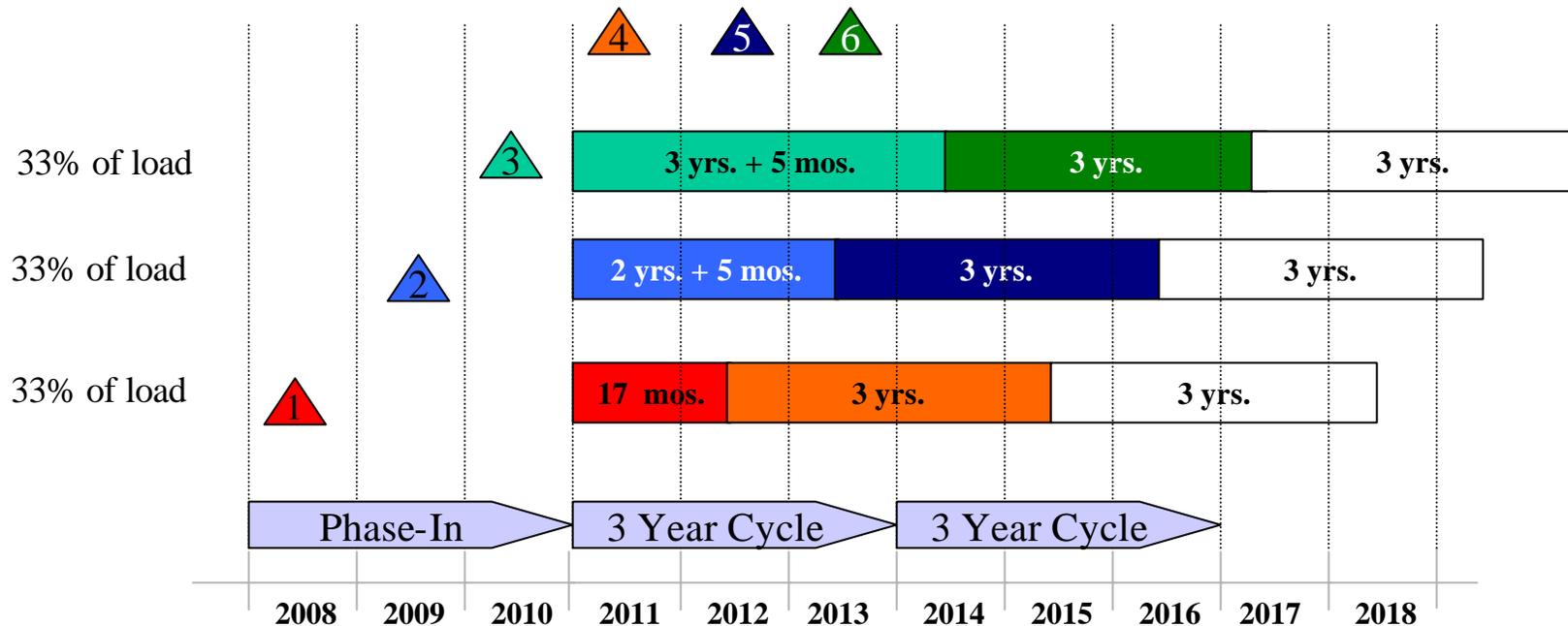
LISA CRUTCHFIELD

**Commenting Upon Issues Raised By The
Commission In Its May 24, 2006
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Auction Phase-In Example

- ▲ 1 - Auction for 1st transition contract held in 2008 for 33% of load for the period 1/1/2011 through 5/31/2012
- ▲ 2 - Auction for 2nd transition contract held in 2009 for 33% of load for the period 1/1/2011 through 5/31/2013
- ▲ 3 - Auction for 3rd transition contract held in 2010 for 33% of load for the period 1/1/2011 through 5/31/2014

Note: After completion of phase in, an auction would be held each year for 33% of load for a 3 year term.



Note: Transitional contracts needed to transition from calendar to PJM planning year (June 1 – May 31)

DIRECT TESTIMONY OF LISA CRUTCHFIELD

Commenting Upon Issues Raised By The Commission In Its May 24, 2006 Investigation Order

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SCHEDULE 2 TO DIRECT TESTIMONY

OF

LISA CRUTCHFIELD

**Commenting Upon Issues Raised By The
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June 15, 2006



Residential Low Income Usage Reduction Program—LIURP

This program provides education, conservation, and weatherization measures to assist our low-income residential customers in reducing their energy usage.

The LIURP program is offered to both electric and gas customers. The program is free of charge. It will help you lower the amount of natural gas and electricity used in your home by installing weatherization measures and providing you with conservation education.

You must be a PECO residential customer who...

- Use more than 100 ccf a month of gas heat, or more than 1400 kWh a month for electric heat.
- Average usage is more than 600 kWh a month of electric, or
- Your household income level is at or below the amounts listed in the Federal Poverty Guideline Chart listed below

An energy audit will be conducted at your home. After the audit you may receive some or all of the following items – *free of charge!*

- Caulking and weatherstripping
- Water heater tank and pipe wrap
- Air conditioner swap
- Refrigerator swap
- Conservation education
- Energy efficient lighting
- Thermostat replacement

Contact Information:

For more information, call PECO's toll free conservation hotline at 1-800-675-0222

Eligibility Guidelines: 200% of Federal Poverty Level

Size of Family	Gross Monthly Income	Gross Yearly Income
1	\$1,633.33	\$19,600
2	\$2,200.00	\$26,400
3	\$2,766.67	\$33,200
4	\$3,333.33	\$40,000
5	\$3,900.00	\$46,800
6	\$4,466.67	\$53,600
7	\$5,033.33	\$60,400
8	\$5,600.00	\$67,200
For each additional person add:	\$566.67	\$6,800

energy@HOME



Focusing our energy on you

Helping you manage summer energy costs

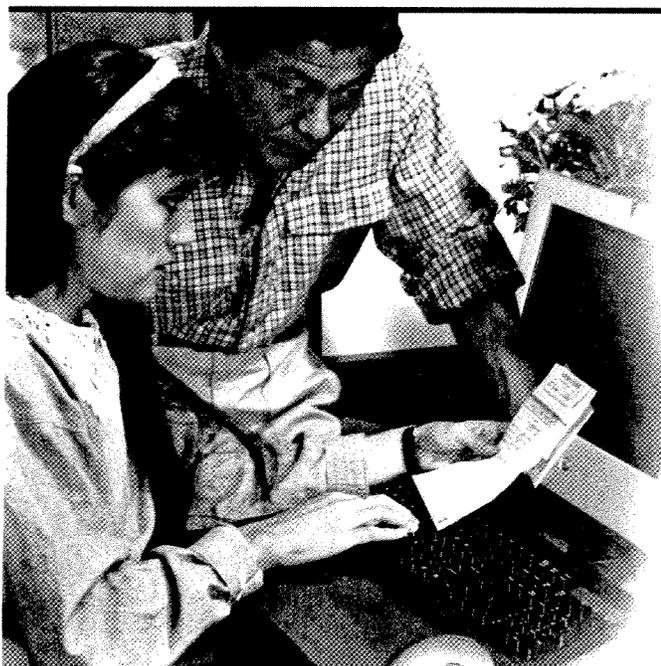
We've enjoyed wonderful spring weather. And very soon, we'll be looking to beat the summer heat. Keeping cool using air conditioners and electric fans will cause your energy bills to rise. Though individual energy bills and savings vary, you can save about 10 percent on your summer bills by doing the following:

- Turn off all unnecessary lights.
- Close blinds, shades and drapes to reduce the amount of sunlight entering your home through windows or glass doors.
- Keep windows open slightly when using room fans for ventilation. Ceiling fans help too.
- Avoid using appliances like dishwashers, clothes dryers or ovens during the hottest hours of the day. These appliances generate heat and add humidity. Do these jobs in the early morning or late evening when it's generally cooler.
- Keep your thermostat set at a constant comfortable level for maximum efficiency. Raise your thermostat setting (adjust to 76 or 78 degrees) during the hottest days to save more.
- Purchase energy-efficient air conditioners, refrigerators and other appliances that have earned the ENERGY STAR®.

To offset seasonal fluctuations, the company encourages you to take advantage of Budget Billing, which makes monthly bills predictable by dividing annual energy costs into stable monthly payments. Visit www.pecoservice.com or call 1-800-494-4000 to sign up.

During periods of excessive heat, also be sure to keep an eye on your pets for signs of heat stress, and check in on elderly neighbors.

All of us at PECO wish you a safe and happy summer.



Changing our billing system to better serve you

PECO is upgrading its billing system, so look for your bill to change later this year. This new customer account management system is well established and is in use at many of North America's large utility companies. The change will improve your ability to manage your account and enable PECO to better meet your needs. For example, you will have a choice of more self-service and online options.

We will be sharing more information about the upcoming changes to your bill and how PECO will better serve you in the months ahead.


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Fact Sheet

Media Contact

June 8, 2005 - HOT WEATHER GRIPS REGION PECO READY TO DELIVER

Contact: Cathy Engel 215-841-5555

PHILADELPHIA (June 8, 2005) – Yesterday’s hot temperatures pushed demand for electricity to 6,857 megawatts for PECO Energy customers. And, although today’s projection of more than 7,000 megawatts is nowhere near record setting levels, customers will be using more energy to stay cool. As temperatures climb for the fourth straight day, PECO Energy offers suggestions to stay safe and cool, and keep energy bills down.

Although the rate PECO charges customers remains the same, monthly energy bills can rise during the hot summer as customers use more electricity to cool their homes. Here are some PECO energy efficiency tips to help customers save money:

- Turn off all unnecessary lights.
- Close blinds, shades and drapes to reduce the amount of sunlight entering your home through windows or glass doors.
- Use room fans, ceiling fans and attic whole-house fans to circulate air.
- Avoid using appliances like dishwashers, clothes dryers or ovens during the hottest hours of the day. These appliances generate heat and add humidity. These jobs are best done during the early morning or late evening when it is generally cooler.
- Keep your thermostat set at a constant, comfort level (usually 76 – 78 degrees) for maximum efficiency.

And, if you haven’t done so already:

- Have your central air conditioning unit professionally inspected every two years. A well-maintained appliance will last longer, operate better, and save money.
- Inspect your insulation. Insulation is the single most important energy conservation measure. It will deteriorate over time and occasionally needs to be reinforced.
- Inspect the caulking or weather stripping around windows and doors. A drafty house lets cool air escape and is much more costly to keep cool – especially during the hottest days of the season.

PECO also reminds customers to be safe during times of excessive heat. Those without air conditioning are encouraged to visit a public library, shopping mall, movie theater or other site where conditions would be more comfortable. It also may be a good idea to check on elderly neighbors and relatives.

Depending on weather, energy costs can rise as much as 50 percent or sometimes even more during hot months. Though individual energy bills vary

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based on a number of factors including home and family size, insulation and location – following these tips can save consumers about 5 – 10 percent on their monthly energy bills.

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Based in Philadelphia, PECO Energy is an electric and natural gas utility subsidiary of Exelon Corporation (NYSE: EXC). PECO serves 1.5 million electric and 460,000 natural gas customers in southeastern Pennsylvania. In 2004, the company delivered 37.5 million megawatt hours (MWh) of electricity and 87.1 billion cubic feet of natural gas to residential, business and institutional customers. PECO's energy delivery services generated \$4.49 billion in revenue for Exelon. Founded in 1881, PECO is one of the Greater Philadelphia Region's most active corporate citizens, providing leadership, volunteer and financial support to numerous arts and culture, education, environmental, economic development and community programs and organizations.



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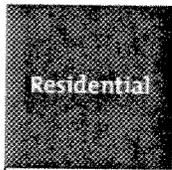
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Energy Tips/ Home Renovations

Saving energy saves you money, it's good for the environment and it's easy to do! Here are some ideas on energy-saving home renovations to help you get started.

- [Ceiling Insulation](#)
- [Weatherstripping Doors and Windows](#)
- [Caulking](#)
- [Water Heater Insulation Blankets](#)
- [Programmable Thermostats](#)
- [Room Air Conditioners](#)
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- [Exterior Lighting](#)
- [Photoelectric Switches](#)
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Ceiling Insulation

- Adding new insulation can bring dramatic savings, especially in homes built before 1970.
- Simply upgrading the insulation in your attic to R-30 or R-38 can save as much as 25% on cooling and heating costs.
- It's also a good idea to add insulation to your floors and walls, but this can be difficult and it is best to consult a professional.
- Fiberglass insulation is available in rolls that can be cut to size and laid in position.
- Insulation can also be blown into your ceiling by a contractor with special equipment.
- Check with your local hardware store for additional information on R values and specific instructions for safe installation.

Weatherstripping Doors and Windows

Ever move your hands around your doors and windows in the winter and feel a cold draft? It means you're losing heat - and wasting money. Stop those leaks!

- It's easy to install most weatherstripping around windows and around doors that lead outside or to unheated areas of your home.
- Weatherstripping comes in many sizes and shapes, so check with your local hardware store to find right material for your needs.

Caulking

Anywhere different building materials meet or wires enter your home, there are gaps which collectively contribute to a significant loss of heat or cooling.

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- Check for gaps inside and out when you paint or at least every 5 or 6 years.
- Caulking is easy and one of the most cost-effective energy efficiency improvements you can make.

Water Heater Insulation Blankets

Water heaters with insufficient insulation can lose heat, which means they have to work harder to keep the water hot.

To find out if your electric water heater might need some additional insulation, place your hand on the water heater above the middle of the tank. If it feels hot or warm, you're wasting energy.

An insulated blanket will probably pay for itself in lower energy costs within a year. **Caution** : Never put an insulation blanket on a gas water heater if it is equipped with an automatic vent damper or if it is prohibited by the manufacturer. See your water heater owner's manual or call the manufacturer for specific information.

Programmable Thermostats

Keeping your home at a constant temperature all the time is a real energy waster.

The evenings when you're sleeping and periods of each day when you're away from home represent energy saving opportunities.

Plus, our temperature requirements are different in the summer and winter.

A programmable thermostat automatically controls the amount of heating or cooling energy you use during different times of the day throughout the year. More when you're home and active; less when you're away or sleeping.

Room Air Conditioners

When was the last time you cleaned your air conditioner's filter?

- Dirty, clogged filters force the air conditioner to work harder and run longer.
- Check the filter at least once a month, especially during the summer.
- Many filters can be removed, washed, dried and reinstalled.
- If you have questions about your particular unit, consult your local hardware store, check your air conditioner owner's manual, or contact the manufacturer.

Compact Fluorescent Bulbs

It used to be that energy efficient fluorescent light bulbs were only available for long ceiling or wall fixtures. But now you can replace many regular incandescent bulbs around the house with simple screw-in fluorescent "compacts."

The compacts are more expensive to buy than ordinary incandescent bulbs, but they last up to 10 times longer and use 75% less electricity.

Think about the lights in your home that you have on most often and see if there's a suitable fluorescent alternative.

Exterior Lighting

Exterior lighting can greatly enhance the appearance and security of your home. When security is the primary consideration, installing a motion detector on certain fixtures can help you save energy. With this device, the light stays

off except when the detector senses motion, such as when you and your family come home at night.

Photoelectric Switches

With their photoelectric cells, these switches will turn your outdoor lights on at dusk and off at daybreak automatically, even when you're not at home. It's a great convenience and an energy saver. You never have to worry about accidentally leaving a light on all day.

Electronic Timers for Lamps and Appliances

Electric timers improve home security and can be a great energy saver, too. They can be programmed to turn lights and small appliances on and off at designated times. Most timers are easy to install and are available for window air conditioning units. Now there's no need to keep your window air conditioner running while you're away from home. Program the timer to start your air conditioner just before you plan to return, and your home will be cool and comfortable when you arrive.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**POLICIES TO MITIGATE POTENTIAL :
ELECTRICITY PRICE INCREASES : DOCKET NO. M-00061957**

SCHEDULE 3 TO DIRECT TESTIMONY

OF

LISA CRUTCHFIELD

**Commenting Upon Issues Raised By The
Commission In Its May 24, 2006
Investigation Order**

June 15, 2006

2006 PECO Energy Smart Returns Load Reduction Programs

(For more information, please call your PECO Account Manager or Program Manager Paul Patterson at 215-841-5386)

PECO Voluntary Load Reduction (VLR) Program

- A PECO Smart Returns program that offers financial rewards for customers who voluntarily reduce electricity usage during periods of high wholesale electricity process.
- PECO provides notification (via e-mail and internet addressable pager) of curtailment events start and end times. Each event can last up to six hours. Customer electricity reduction efforts are determined from a "baseline" that is developed from five previous typical business days. Financial rewards are based on a share of the PJM Locational Marginal Price.
- In 2005, PECO called four Voluntary Load Reduction (VLR) events.

PECO Active Load Management (ALM) Program

- A PECO Smart Returns program that offers financial rewards for customers who can reduce electricity usage during PJM mandatory events. Payments for this program are made monthly for twelve months and are tied to the customer reducing load to a Firm Service Level or performing a Guaranteed Load Drop. Customer receives payment regardless of any events being called.
- In 2005, PJM called one mandatory Active Load Management (ALM) event.

PJM Emergency Load Response Program

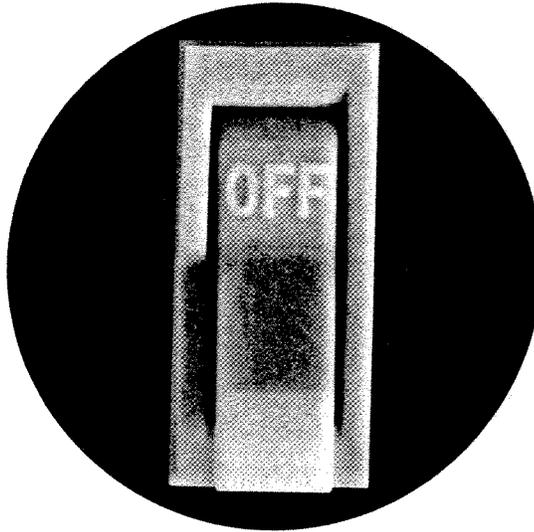
- PECO will act as the Curtailment Service Provider for customers who wish to participate in the PJM Emergency Load Response Program. As Curtailment Service Provider, PECO will provide notification and settlement services to customer.
- Participation in PJM Emergency Load Response Program events is voluntary and payments are based on a minimum of \$500/MWh or the PJM Locational Marginal Price, whichever is higher (PECO pays a percentage to the customer).
- In 2005, there were no PJM Emergency Load Response events.

PJM Economic Load Response Program

- PECO will act as the Curtailment Service Provider for customers who wish to participate in the PJM Economic Load Response Program.
- Customer sets up pricing parameters with PECO or can also be the initiator of curtailment events.
- Participation in PJM Economic Load Response Program events is voluntary and is strictly economic. Financial rewards are based on a share of the PJM Locational Marginal Price.

Program Highlights

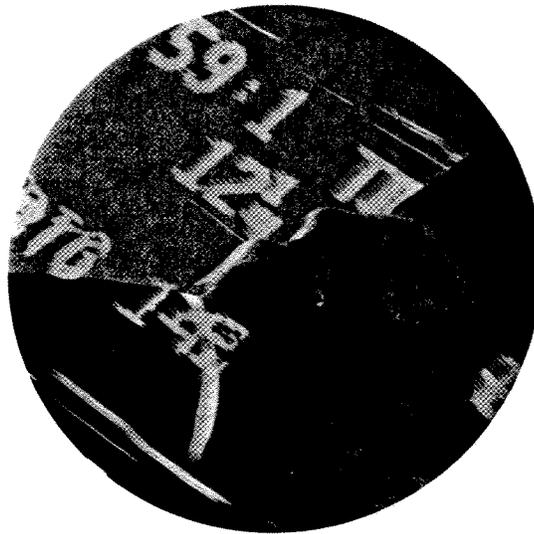
Voluntary Load Reduction - Market Price



Requirements	Participants must be non-residential customers taking service under Rate HT, GS or PD, including customers in EER, who fulfill the load requirement and can demonstrate load reduction. Participants also must possess interval data recording meters, commit for one year and agree to curtail at least 5 percent of their previous summer's maximum peak load or 250 kW, whichever is greater, each time a voluntary curtailment event is requested.
Advance Notice	Participants electing "day-of" notification will receive at least one hour's notice prior to each voluntary curtailment event. Participants electing "day-ahead" notification will receive notice by 3 p.m. on the day prior to each voluntary curtailment event.
Curtailment Duration	Up to six hours for each voluntary curtailment event. Participants will be notified of each event's start and end times.
Non-Performance Penalties	There are no penalties for non-performance.
Performance Measurement	The electricity reduction efforts of "day ahead" notification participants will be measured against a baseline of the average half-hourly load of five typical business days prior to voluntary curtailment notification. The electricity reduction efforts of "day of" notification participants will be measured against a baseline of the average half-hourly load of five typical business days prior to the voluntary curtailment event adjusted for the average of the three actual hours before event commencement.
Payment Amount	<p>Customers who participate in a voluntary curtailment event on a "day-ahead" notification basis will receive one-third (33 percent) of the PJM Locational Marginal Price (LMP) for the duration of the voluntary curtailment event.</p> <p>Customers who participate in a voluntary curtailment event on a "day of" notification basis will receive one-half (50 percent) of the PJM LMP for the duration of the voluntary curtailment event.</p> <p>Customers must affirmatively respond to a voluntary curtailment notification and actively participate in the event to be eligible for payment.</p>
Payment Date	Bill credit for summer months applied in November.
Contract Term	One year, beginning June 1st.

PECO Custom Business Services
powerful choices for today's business

Voluntary Load Reduction - Market Price



Reduce electricity usage and enjoy the potential for higher, market-based incentives.

Voluntary Load Reduction (VLR) - Market Price is a PECO Smart Returns program that offers your company financial rewards for voluntarily reducing its electricity usage during periods of high wholesale electricity prices.

As the name suggests, this program is strictly voluntary. If you choose not to participate, there are never any penalties.

With VLR - Market Price, participants must have the ability to voluntarily reduce electrical load at least five percent of their previous summer's maximum peak load or 250 kW, whichever is greater, each time a curtailment event is requested by PECO Energy. (If you're not sure your organization meets this load reduction

minimum, speak to your PECO Account Executive or PECO Account Manager).

The performance incentives for VLR - Market Price participants are based on the Pennsylvania/Jersey/Maryland (PJM) Locational Marginal Price of electricity.

PJM is North America's largest, most sophisticated, centrally-dispatched electric control area. It is responsible for the reliable transmission of bulk power for five Mid-Atlantic states and the District of Columbia and it manages the competitive wholesale trading market in which PECO and other utilities buy and sell electricity.

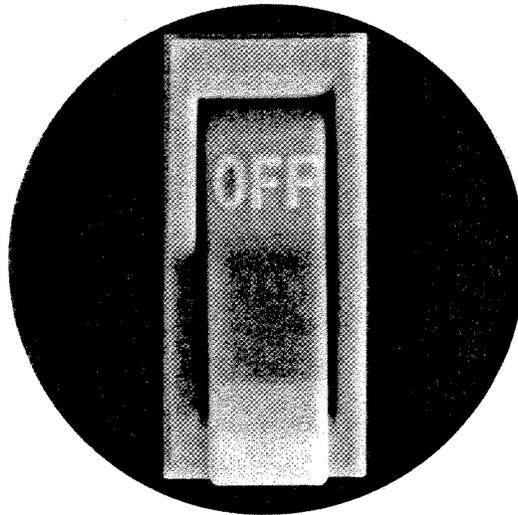
VLR - Market Price is ideal for customers whose load reduction performance is expected to vary significantly from event to event.

PECO Smart Returns

Part of PECO Custom Business Services

THIS VOLUNTARY LOAD REDUCTION (VLR) PROGRAM REPRESENTS AN ECONOMIC INITIATIVE DESIGNED TO BRING VALUE TO PECO ENERGY AND ITS VLR PARTICIPANTS.

Load Response Planning Guide



We call it load response. But you'll call it easy money.

Load response definitely pays. And participating is easier than you think. Let the PECO Account Management Team show you just how easy and profitable load response can be for your business.

Load response is a mutually beneficial energy solution that can pay your business significant incentives. It can be as simple as turning off perimeter lighting, turning off lights in unoccupied areas, or using standby generators. Or it can be as sophisticated as duty-cycling your business' air conditioning equipment and rescheduling non-critical

processes. The simple fact is, many businesses have found it possible to reduce five to 10 percent of their energy use for a few days each summer with virtually no impact on their customers, employees or productivity! Read on to learn how the energy experts at PECO Energy can help you design an effective load response action plan.

PECO Smart Returns

Part of PECO Custom Business Services

Understanding your energy consumption

Before you consider opportunities for your business' energy use, it makes sense to examine its overall energy consumption. HVAC, lighting, and miscellaneous equipment are three big energy users.

1. HVAC

During hot summer days, the electrical demand from cooling equipment may be responsible for up to half of your total demand. Since all energy consumption eventually turns into heat, reducing lighting and equipment loads can also reduce the cooling load.

Strategies for HVAC energy reduction:

Raise thermostat setpoints

Throughout the summer, offices are typically kept at 74 degrees. During a load response event, it may be possible for the space temperatures to be raised by 4° for short periods of time without compromising employee comfort or product quality. As a rule of thumb, each degree that the space temperature is increased during cooling will reduce power requirements by three percent. The base power requirement of packaged air conditioning systems is typically 1.4 kW/ton (including the supply fan). The supply fan power will also be reduced as long as the fan setting on the thermostat is set to "auto."

Close Blinds

The cooling load from solar radiation can be as much as 40 percent of the total cooling load. Direct sunlight shining in from southern and western exposures is the main cause of this solar radiation. Drawing the shades during the load response event will reduce these solar loads.

Minimize outdoor air

Minimizing your outside air intake can have a significant impact on your cooling load. Check to see if outside air dampers are at a minimum position. Please check your local code to guarantee that sufficient outside airflow into the building is maintained.

Exhaust fans

Stand alone exhaust fans (not part of a supply/return air system) may be turned off without significantly affecting supply air or outside air quantities. These exhaust fans can also be cycled throughout the load response period if turning them completely off is untenable. Consideration should be given to the air quality, and your local codes should be consulted to determine the minimum requirements for your particular space.

2. Lighting

The first step in reducing lighting is to turn off fixtures in unoccupied areas. However, lighting can also be selectively reduced in occupied areas. If your office has task lighting at the desk level, consider using it as the primary lighting source during a load response event rather than overhead lighting. Always be sure to maintain minimum lighting for safety.

Strategies for lighting reduction:

Turn off non-essential lighting

Load response events are generally called during times when there is the greatest amount of natural light available. Light fixtures near windows and skylights can be turned off. Other areas where lights can be turned off include unoccupied rooms and areas such as hallways and cafeterias.

The amount of reducible load that can be achieved from turning off lighting fixtures can be estimated by counting the fixtures of each type that can be reduced and multiplying by the per fixture wattage.

If the space is air conditioned, the cooling load will also decrease as a result of the reduction in heat from using fewer fixtures. The cooling reduction is approximately 25 percent of the lighting load reduction.

Conduct a late afternoon lighting sweep

Consider reducing additional lighting in the late afternoon (around 3:00 or 4:00 p.m.), since building occupancy may be reduced by this time.

3. Miscellaneous Equipment

Non-critical equipment such as fountain pumps, electric water heaters, and signage can be temporarily turned off during a load response event. Also, office equipment such as computers, printers, and copiers can be turned off when they're not being used. Typically this equipment amounts to approximately one watt per square foot of floor space. Offices with large computer loads may have a higher load density.

The amount of reducible load that can be achieved from turning off miscellaneous equipment can be estimated by multiplying the percentage reduction by the total load density. As with lighting, if the space is air conditioned, the cooling load will also decrease by approximately 25 percent of the equipment load reduction.

Planning for load response

Four simple steps can add up to significant incentives. The following four-step process will help you determine your business' approach to load response, and the potential incentives you can earn.

1. Determine your business' approach and load response threshold

One of the first steps for your business is to determine the approach you want to take toward load response. Most businesses can reduce five to 10 percent of their electricity consumption without much impact to their business operation. However, your PECO Account Management Team can help your business earn increased incentives if you are capable of reducing even more.

Below are some different ranges of load response activities to consider and the expected impact on operations.

Little/No Functional Impact, 5-10% Reduction

- Turn lights off in unoccupied areas, including store rooms, conference rooms, individual offices, and any outdoor lighting
- Raise temperature setpoints in unoccupied areas
- Close window blinds to reduce cooling load and direct sunlight

Minor Functional Impact, 10-15% Reduction

- Reduce lighting levels throughout
- Raise temperature setpoints in occupied areas between 2° and 4°
- Take select elevators out of service
- Turn off non-essential computers and equipment
- Close blinds to limit direct sunlight

Major Functional Impact, 20% or Greater Reduction

- Shut off motors

- Raise temperature setpoints in occupied areas between 4° and 6°
- Delay/reschedule operations
- Reschedule one or more production lines
- Shift specific process load
- Delay use of battery chargers
- Operate an on-site generator

2. Identify specific load response activities for your business

Review the activities listed in Step 1. In addition, your PECO Account Management Team will offer you the best load response program that maximizes the benefit to your facility.

3. Estimate your reduction

The next step is to estimate the amount of savings that your business will receive from your selected energy reduction activities. Work with your PECO Account Management Team to help you estimate your reduction, based upon your total square footage and kilowatt load.

4. Put together your plan

Putting together your plan will help you gain acceptance from all of your key internal partners and managers. To make this step a success, we recommend that you:

- put the plan in writing for easy reference
- notify tenants and employees to encourage their participation

Call your PECO Account Management Team today.

Now that you know how easy and profitable energy reduction activities can be, it's time to make the right call. Your PECO Account Management Team can show you how easy it is for your business to get in on the savings. They've helped businesses from large manufacturers to small retailers reduce their energy usage and profit from their participation in a load response program. And they're ready to help you.

To determine how your business can profit from load response activities, talk to your PECO Account Management Team or call 1-866-850-0357 and select option 3 to discuss your business with the load response program manager. Let us put load response to work for your business.

Smart Returns is a part of



PECO Custom Business Services

powerful choices for today's business



An Exelon Company

RATE R RESIDENCE SERVICE

AVAILABILITY.

Single-phase service in the entire territory of the Company to the dwelling and appurtenances of a single private family (or to a multiple dwelling unit building consisting of two to five dwelling units, whether occupied or not), for the domestic requirements of its members when such service is supplied through one meter. Service is also available for related farm purposes when such service is supplied through one meter in conjunction with the farmhouse domestic requirements.

Each dwelling unit connected after May 10, 1980 except those dwelling units under construction or under written contract for construction as of that date must be individually metered for their basic service supply. Centrally supplied master metered heating, cooling or water heating service may be provided if such supply will result in energy conservation.

The term "residence service" includes service to: (a) the separate dwelling unit in an apartment house or condominium, but not the halls, basement, or other portions of such building common to more than one such unit; (b) the premises occupied as the living quarters of five persons or less who unite to establish a common dwelling place for their own personal comfort and convenience on a cost-sharing basis; (c) the premises owned by a church, and primarily designated or set aside for, and actually occupied and used as, the dwelling place of a priest, rabbi, pastor, rector, nun or other functioning Church Divine, and the resident associates; (d) private dwellings in which a portion of the space is used for the conduct of business by a person residing therein; (e) farm purpose uses by an individual employing the natural processes of growth for the production of grain, stock, dairy, poultry, garden truck, or other agricultural products.

The term does NOT include service to: (a) Premises institutional in character including Clubs, Fraternities, Orphanages or Homes; (b) premises defined as a rooming house or boarding house in the Municipal Code for Cities of the First Class enacted by Act of General Assembly; (c) a premises containing a residence unit but primarily devoted to a professional or other office, studio, or other gainful pursuit; (d) farms operated principally to sell, prepare, or process products produced by others, or farms using air conditioning for climatic control in conjunction with growth processes (except those customers receiving such service as of August 2, 1969); (e) electric furnaces or welding apparatus other than a transformer type "limited input" arc welder with an input not to exceed 37-1/2 amperes at 240 volts.

CURRENT CHARACTERISTICS. Standard single-phase secondary service.

MONTHLY RATE TABLE.

FIXED DISTRIBUTION SERVICE CHARGE. \$5.18

METERING AND BILLING CREDITS A customer receiving Advanced Meter Services from a AMSP other than the Company will receive a credit on the Fixed Distribution Service Charge equal to the Total Metering Credit set forth for this Base Rate in Appendix B to the Joint Petition for Full Settlement. A customer receiving Consolidated EGS Billing will receive a credit on the Fixed Distribution Service Charge equal to the Billing and Collection Credit set forth for this Base Rate in Appendix B to the Joint Petition for Full Settlement.

VARIABLE DISTRIBUTION SERVICE CHARGE:

SUMMER MONTHS. (June through September)

4.68¢ per kWh for the first 500 kWh per dwelling unit (l)

5.44¢ per kWh for additional kWh. (l)

WINTER MONTHS. (October through May)

4.68¢ per kWh (l)

COMPETITIVE TRANSITION CHARGE:

SUMMER MONTHS. (June through September)

2.79¢ per kWh for the first 500 kWh per dwelling unit (l)

3.23¢ per kWh for additional kWh. (l)

WINTER MONTHS. (October through May)

2.79¢ per kWh (l)

ENERGY AND CAPACITY CHARGE:

Standard Pricing Option-The following Energy and Capacity Charges, which are not applicable to a customer who obtains Competitive Energy Supply, will apply to the customer who received Default PLR Service as of the effective date of this tariff, and continues to receive this service, or is a customer who returns to Default PLR Service and receives this service for a minimum period of twelve months or is a customer on the Company's Monthly Pricing Option and wants to return to the Standard Pricing Option and meets certain conditions described in the Monthly Pricing Option. The requirement for a minimum period of 12 months is not applicable unless the Monthly Pricing Option has been implemented by the Company. A customer returning from Competitive Default Service will not be subject to the minimum twelve month stay provision.

SUMMER MONTHS. (June through September)

6.02¢ per kWh for the first 500 kWh per dwelling unit

6.74¢ per kWh for additional kWh. (l)

WINTER MONTHS. (October through May)

6.02¢ per kWh

Monthly Pricing Option-Upon 60 days prior written notice to the PaPUC, the Company may implement this Monthly Pricing Option, which allows customers who return to Default PLR Service to elect their service on a monthly basis. The following Energy and Capacity Charges apply to the Monthly Pricing Option.

(l) Indicates Increase

SUMMER MONTHS. (June through September)

The Company will determine a market rate by May 1st for the subsequent summer months in the year in which the Monthly Pricing Option is implemented by the Company. (C)

WINTER MONTHS. (October through May)

Same as the Standard Pricing Option winter months charge. (C)

If the returning customer, within the first twelve months of the customer's return to the Company, is on the Monthly Pricing Option and requests to be removed from the Monthly Pricing Option and switched to the Standard Pricing Option, then the customer will be required to stay with the Company for the remainder of this initial twelve month period under the Standard Pricing Option. The customer will be switched to the Standard Pricing Option on the regularly scheduled meter reading date which falls five calendar days following the customer's request.

If the returning customer has stayed with the Company for at least twelve months and is on the Monthly Pricing Option, the customer can request to be switched to the Standard Pricing Option with no minimum stay provision on this option. The customer will be switched to the Standard Pricing Option on the regularly scheduled meter reading date which falls five calendar days following the customer's request.

The prices for Default PLR Service were determined in accordance with Section L, paragraph 38(e) of the Joint Petition for Full Settlement at Docket Nos. R-00973953 and P-00971265.

Within one business day of a request from a customer, or a customer's EGS, to return the customer to PLR Service, the Company will send a letter to the customer requesting the customer to choose between the Standard Pricing Option and the Monthly Pricing Option. If the Company does not receive a response from the Customer within ten calendar days from the date of the letter, the terms and conditions of the Standard Pricing Option will apply. The Customer's return to PLR Service will become effective as of the next scheduled meter reading date, provided that the Company received the request for the return at least 16 days prior.

TRANSMISSION SERVICE FOR CUSTOMERS RECEIVING DEFAULT PLR SERVICE: unless such a customer is able to obtain transmission service on its own, PECO Energy will provide transmission service, and will impose charges on such a customer for such transmission service.

MINIMUM CHARGE: The minimum charge per month will be the Fixed Distribution Service Charge.

STATE TAX ADJUSTMENT CLAUSE, NUCLEAR DECOMMISSIONING COST ADJUSTMENT, UNIVERSAL SERVICE FUND CHARGE APPLY TO THIS RATE.

PAYMENT TERMS. Standard.

(C) Denotes Change

RATE R-H RESIDENTIAL HEATING SERVICE

AVAILABILITY.

Single-phase service to the dwelling and appurtenances of a single private family (or to a multiple dwelling unit building consisting of two to five dwelling units, whether occupied or not), for domestic requirements when such service is provided through one meter and where the dwelling is heated by specified types of electric space heating systems. The systems eligible for this rate are (a) permanently connected electric resistance heaters where such heaters supply all of the heating requirements of the dwelling, (b) heat pump installations where the heat pump serves as the heating system for the dwelling and all of the supplementary heating required is supplied by electric resistance heaters, and (c) heat pump installations where the heat pump serves as the heating system for the dwelling and all of the supplementary heating required is supplied by non-electric energy sources and/or by electric energy sources served on Rate O-P Off-Peak Service. All space heating installations must meet Company requirements. This rate schedule is not available for commercial, institutional or industrial establishments.

Wood, solar, wind, water, and biomass systems may be used to supply a portion of the heating requirements in conjunction with service provided hereunder. Any customer system of this type that produces electric energy may not be operated concurrently with service provided by the Company except under written agreement setting forth the conditions of such operation as provided by and in accordance with the provisions of the Auxiliary Service Rider.

Each dwelling unit connected after May 10, 1980 except those dwelling units under construction or under written contract for construction as of that date, must be individually metered.

CURRENT CHARACTERISTICS. Standard single-phase secondary service.

MONTHLY RATE TABLE

FIXED DISTRIBUTION SERVICE CHARGE: \$5.18

METERING AND BILLING CREDITS: A customer receiving Advanced Meter Services from a AMSP other than the Company will receive a credit on the Fixed Distribution Service Charge equal to the Total Metering Credit set forth for this Base Rate in Appendix B to the Joint Petition for Full Settlement. A customer receiving Consolidated EGS Billing will receive a credit on the Fixed Distribution Service Charge equal to the Billing and Collection Credit set forth for this Base Rate in Appendix B to the Joint Petition for Full Settlement.

VARIABLE DISTRIBUTION SERVICE CHARGE:

SUMMER MONTHS. (June through September)

4.46¢ per kWh for the first 500 kWh per dwelling unit (I)

5.18¢ per kWh for additional kWh. (I)

WINTER MONTHS. (October through May)

4.46¢ per kWh for the first 600 kWh per dwelling unit (I)

1.88¢ per kWh for additional kWh. (I)

COMPETITIVE TRANSITION CHARGE:

SUMMER MONTHS. (June through September)

2.75¢ per kWh for the first 500 kWh per dwelling unit (I)

3.19¢ per kWh for additional kWh. (I)

WINTER MONTHS. (October through May)

2.75¢ per kWh for the first 600 kWh per dwelling unit (I)

1.19¢ per kWh for additional kWh. (I)

ENERGY AND CAPACITY CHARGE:

Standard Pricing Option-The following Energy and Capacity Charges, which are not applicable to a customer who obtains Competitive Energy Supply, will apply to the customer who received Default PLR Service as of the effective date of this tariff, and continues to receive this service, or is a customer who returns to Default PLR Service and receives this service for a minimum period of twelve months or is a customer on the Company's Monthly Pricing Option and wants to return to the Standard Pricing Option and meets certain conditions described in the Monthly Pricing Option. The requirement for a minimum period of 12 months is not applicable unless the monthly pricing option has been implemented by the Company. A customer returning from Competitive Default Service will not be subject to the minimum twelve month stay provision.

SUMMER MONTHS. (June through September)

6.26¢ per kWh for the first 500 kWh per dwelling unit (I)

7.00¢ per kWh for additional kWh (I)

WINTER MONTHS. (October through May)

6.26¢ per kWh for the first 600 kWh per dwelling unit (I)

3.56¢ per kWh for additional kWh (I)

Monthly Pricing Option- Upon 60 days prior written notice to the PaPUC, the Company may implement this Monthly Pricing Option, which allows Customers who return to Default PLR Service to elect their service on a monthly basis. The following Energy and Capacity Charges apply to the Monthly Pricing Option.

SUMMER MONTHS. (June through September)

The Company will determine a market rate by May 1st for the subsequent summer months in the year in which the Monthly Pricing Option is implemented by the Company.

WINTER MONTHS. (October through May)

Same as the Standard Pricing Option winter months charge.

(I) Indicates Increase

RATE R-H RESIDENTIAL HEATING SERVICE (continued)

If the returning customer, within the first twelve months of the customer's return to the Company, is on the Monthly Pricing Option and requests to be removed from the Monthly Pricing Option and switched to the Standard Pricing Option, then the customer will be required to stay with the Company for the remainder of this initial twelve month period under the Standard Pricing Option. The customer will be switched to the Standard Pricing Option on the regularly scheduled meter reading date which falls five calendar days following the customer's request.

If the returning customer has stayed with the Company for at least twelve months and is on the Monthly Pricing Option, the customer can request to be switched to the Standard Pricing Option with no minimum stay provision on this option. The customer will be switched to the Standard Pricing Option on the regularly scheduled meter reading date which falls five calendar days following the customer's request.

The prices for Default PLR Service were determined in accordance with Section L, paragraph 38(e) of the Joint Petition for Full Settlement at Docket Nos. R-00973953 and P-00971265.

Within one business day of a request from a customer, or a customer's EGS, to return the customer to PLR Service, the Company will send a letter to the customer requesting the customer to choose between the Standard Pricing Option and the Monthly Pricing Option. If the Company does not receive a response from the Customer within ten calendar days from the date of the letter, the terms and conditions of the Standard Pricing Option will apply. The Customer's return to PLR Service will become effective as of the next scheduled meter reading date, provided that the Company received the request for the return at least 16 days prior.

TRANSMISSION SERVICE FOR CUSTOMERS RECEIVING DEFAULT PLR SERVICE: Unless such a customer is able to obtain transmission service on its own, PECO Energy will provide transmission service, and will impose charges on such a customer for such transmission service.

MINIMUM CHARGE. The minimum charge per month will be the Fixed Distribution Service Charge.

STATE TAX ADJUSTMENT CLAUSE, NUCLEAR DECOMMISSIONING COST ADJUSTMENT, UNIVERSAL SERVICE FUND CHARGE APPLY TO THIS RATE.

COMBINED RESIDENTIAL AND COMMERCIAL SERVICE. Where a portion of the service provided is used for commercial purposes, the appropriate general service rate is applicable to all service; or, at the option of the customer, the wiring may be so arranged that the residential service may be separately metered and this rate is then applicable to the residential service only.

PAYMENT TERMS. Standard.

PECO Energy Company

RATE-GS GENERAL SERVICE

AVAILABILITY.

Service through a single metering installation for offices, professional, commercial or industrial establishments, governmental agencies, and other applications outside the scope of the Residence Service rate schedules.

CURRENT CHARACTERISTICS.

Standard single-phase or polyphase secondary service.

MONTHLY RATE TABLE.

FIXED DISTRIBUTION SERVICE CHARGE:

\$ 6.74 for single-phase service without demand measurement, or
\$ 8.81 for single-phase service with demand measurement, or
\$23.82 for polyphase service.

METERING AND BILLING CREDITS A customer receiving Advanced Meter Services from a AMSP other than the Company will receive a credit on the Fixed Distribution Service Charge equal to the Total Metering Credit set forth for this Base Rate in Appendix B to the Joint Petition for Full Settlement. A customer receiving Consolidated EGS Billing will receive a credit on the Fixed Distribution Service Charge equal to the Billing and Collection Credit set forth for this Base Rate in Appendix B to the Joint Petition for Full Settlement.

VARIABLE DISTRIBUTION SERVICE CHARGE:

3.65¢ per kWh for the first 80 hours' use of billing demand (l)
* 1.72¢ per kWh for the next 80 hours' use of the billing demand (l)
1.09¢ per kWh for additional use; except (l)
0.48¢ per kWh over both 400 hours' use of billing demand and 2,000 kWh (l)

COMPETITIVE TRANSITION CHARGE:

7.28¢ per kWh for the first 80 hours' use of billing demand (l)
* 3.47¢ per kWh for the next 80 hours' use of billing demand (l)
2.23¢ per kWh for additional use; except (l)
1.03¢ per kWh over both 400 hours' use of billing demand and 2,000 kWh (l)

ENERGY AND CAPACITY CHARGE: The following Energy and Capacity Charges will apply to the customer if the customer receives Default PLR Service. These charges are not applicable to the customer if it obtains Competitive Energy Supply.

11.53¢ per kWh for the first 80 hours' use of billing demand (l)
* 6.26¢ per kWh for the next 80 hours' use of billing demand (l)
4.53¢ per kWh for additional use; except (l)
2.89¢ per kWh over both 400 hours' use of billing demand and 2,000 kWh. (l)

* During October through May this block is eliminated.

TRANSMISSION SERVICE FOR CUSTOMERS RECEIVING DEFAULT PLR SERVICE: Unless such a customer is able to obtain transmission service on its own, PECO Energy will provide transmission service, and will impose charges on such a customer for such transmission service.

STATE TAX ADJUSTMENT CLAUSE, NUCLEAR DECOMMISSIONING COST ADJUSTMENT APPLY TO THIS RATE.

DETERMINATION OF DEMAND.

The billing demand will be measured where consumption exceeds 1,100 kilowatt-hours per month for three consecutive months; or where load tests indicate a demand of five or more kilowatts; or where the heating modification is applied; or where the customer requests demand measurement. Measured demands will be determined to the nearest 0.1 of a kilowatt but will not be less than 1.2 kilowatts, and will be adjusted for power factor in accordance with the Rules and Regulations.

For those customers with demand measurement, during October through May the billing demand will not be less than 40% of the highest billing demand in the preceding months of June through September (applied on an unbundled basis), nor less than the minimum value stated in the contract for service. If a measured demand customer has less than 1,100 monthly kilowatt-hours of use, the monthly billing demand will be the measured demand or the metered monthly kilowatt-hours divided by 175 hours, whichever is less, but not less than 40% of the highest billing demand in the preceding months of June through September, nor less than 1.2 kilowatts. There will be a one-time waiver of the application of the previous sentences as they relate to minimums associated with PLR Energy and Capacity charges the first time a customer at a service location elects to receive Competitive Energy Supply. This one-time waiver is specific to a particular service location unless a new entity has assumed operation of the service location from a customer which has ceased operations at that location as a result of dissolution provided the new entity was not created through merger, partnership, joint venture, acquisition and/or any other type of combined business structure with the former customer.

For those customers without demand measurement, the monthly billing demand will be computed by dividing the metered monthly kilowatt-hours by 175 hours. The computed demand will be determined to the nearest 0.1 of a kilowatt, but will not be less than 1.2 kilowatts.

(l) Indicates Increase

RATE-GS GENERAL SERVICE (continued)

MINIMUM CHARGE

The monthly minimum charge for customers without demand measurement will be the Fixed Distribution Service Charge. The monthly minimum charge for customers with demand measurement will be the Fixed Distribution Service Charge, plus a charge of **\$5.93 per KW of billing demand, as follows: Variable Distribution-\$0.93 per kW; Competitive Transition Charge-\$1.83 per kW; Energy and Capacity-\$3.17 per kW (Energy and Capacity Charge applicable only if Customer receives Default PLR Service).** (I)

HEATING MODIFICATION.

Wood, solar, wind, water, and biomass systems may be used to supply a portion of the heating requirements in conjunction with service provided hereunder. Any customer system of this type that produces electric energy may not be operated concurrently with service provided by the Company except under written agreement setting forth the conditions of such operation as provided by and in accordance with the provisions of the Auxiliary Service Rider.

METERING.

A. Single Meter.

Applicable where the area served through the single meter is heated solely by permanently connected electric space heating installations (1) acceptable to the Company; (2) sensitive to outdoor temperature; and (3) not less than 5 kilowatts. Qualifying electric heating systems are (1) electric resistance coils, (2) electric resistance baseboards, (3) electric boilers and (4) heat pumps with electric back-up

During October through May the monthly maximum measured demand shall be reduced by one-half of the difference between the peak winter measured demand and the base load demand over the two most recent winter seasons preceding the start of the current winter season (October 1st). The demand reduction will be subject to annual review and any revisions will be based on the two most recent winter seasons. The base load demand will be defined as the lowest measured demand during the period from October to May. For time-of-use metered customers, the demand reduction will be based upon the difference between the peak winter and base load demands regardless of whether they occur on or off peak. During this period, the billing demand shall never be less than 15 kilowatts; except for those customers in service as of February 18, 1971, the billing demand during October through May shall not be less than one-half of the monthly measured demand.

A customer whose demand reduction was calculated under the methods in effect on October 17, 1996, will continue to receive the same reduction until January 2, 2000 unless the current method (described in the preceding paragraph) yields a smaller billed demand for the customer.

A customer who adds new electrical connected heating load will receive the same proportion of forgiven demand to total demand that they currently receive.

This demand modification will only be applicable within 30 days of the date that the customer requests billing under this provision. It shall be the responsibility of the customer to notify the Company of any subsequent changes to its heating equipment or requirements.

B. Separate Meters.

At the option of the customer, electricity supplying permanently connected space heating installations or heating equipment sensitive to outdoor temperature with a total capacity of not less than 5 kilowatts, which are acceptable to the Company, will be measured apart from the customer's other requirements for electric service at the premises. Air conditioning equipment of rated electrical capacity up to twice that of the heating equipment also may be supplied through this separate heating circuit.

During October through May the usage of this separate circuit shall be billed at the charges listed below in lieu of the pricing of the basic Monthly Rate Table.

VARIABLE DISTRIBUTION SERVICE CHARGE:	0.86¢ per kWh	(I)
COMPETITIVE TRANSITION CHARGE:	1.77¢ per kWh	(I)
ENERGY AND CAPACITY CHARGE:	The following Energy and Capacity Charges will apply to the customer if the customer receives Default PLR Service. These charges are not applicable to the customer if it obtains Competitive Energy Supply:	
Competitive Energy Supply:	3.91¢ per kWh	(I)

During June through September the combined usage shall be billed under the price provisions of the basic Monthly Rate Table.

TRANSMISSION SERVICE FOR CUSTOMERS RECEIVING DEFAULT PLR SERVICE: Unless such a customer is able to obtain transmission service on its own, PECO Energy will provide transmission service, and will impose charges on such a customer for such transmission service.

OFF-PEAK THERMAL STORAGE PROVISION.

Off-peak energy may be provided exclusively for qualifying Thermal Storage applications only in conjunction with this rate schedule when the load supplied is separately metered. This service will be billed separately at the rate of \$11.39 per month, plus the charges listed below.

OFF-PEAK USAGE DURING THE WINTER AND SUMMER MONTHS:

VARIABLE DISTRIBUTION SERVICE CHARGE:	1.44¢ per kWh	(I)
COMPETITIVE TRANSITION CHARGE:	0.95¢ per kWh	(I)
ENERGY AND CAPACITY CHARGE:	The following Energy and Capacity Charges will apply to the customer if the customer receives Default PLR Service. These charges are not applicable to the customer if it obtains Competitive Energy Supply:	
	1.89¢ per kWh	(I)

(I) Indicates Increase

RATE-GS GENERAL SERVICE (continued)

ON-PEAK USAGE DURING THE WINTER MONTHS:

VARIABLE DISTRIBUTION SERVICE CHARGE:	2.21¢ per kWh	(I)
COMPETITIVE TRANSITION CHARGE:	1.44¢ per kWh	(I)
ENERGY AND CAPACITY CHARGE: The following Energy and Capacity Charges will apply to the customer if the customer receives Default PLR Service. These charges are not applicable to the customer if it obtains Competitive Energy Supply.	2.92¢ per kWh	(I)

TRANSMISSION SERVICE FOR CUSTOMERS RECEIVING DEFAULT PLR SERVICE: Unless such a customer is able to obtain transmission service on its own, PECO Energy will provide transmission service, and will impose charges on such a customer for such transmission service.

During the summer months, any on-peak demand and energy will contribute to the pricing of the basic Monthly Rate Table. To qualify for this provision, the customer must submit an engineering study performed by a professional engineer registered in the Commonwealth of Pennsylvania to the Company for technical review and approval. On-peak hours are defined as the hours between 8:00 a.m. and 8:00 p.m., Eastern Standard Time or Daylight Savings Time, whichever is in common use, daily except Saturdays, Sundays and holidays; except that the on-peak hours will end at 4:00 p.m. on Fridays. Off-peak hours are defined as the hours other than those specified as on-peak hours. For Cooling Thermal Storage applications, during the months of June through September, on-peak hours will commence at 10:00 a.m. instead of 8:00 a.m.

SPECIAL PROVISION.

In accordance with Section 1511, Title 66 Public Utilities, a volunteer fire company, non-profit rescue squad, non-profit ambulance service or a non-profit senior citizen center meeting the requirements set forth below, may, upon application, elect to have its electric service billed at any of the following rate schedules: Rate R Residential Service, Rate RT Residential Time of Use, Rate R-H Residential Heating Service, or Rate OP Off-Peak Service as appropriate for the application. The execution of an electric service contract for a minimum term of one year at the chosen rate will be required of any entity electing service pursuant to the options provided by this provision.

For the purposes of this provision, the following words and terms shall have the following meanings, unless the context clearly indicates otherwise:

VOLUNTEER FIRE COMPANY - a separately metered service location consisting of a building, sirens, a garage for housing vehicular fire fighting equipment, or a facility certified by the Pennsylvania Emergency Management Agency (PEMA) for fire fighter training. The use of electric service at this location shall be to support the activities of the volunteer fire company. Any fund raising activities at this service location must be used solely to support volunteer fire fighting operations.

The customer of record at this service location must be a predominantly volunteer fire company recognized by the local municipality or PEMA as a provider of fire fighting services.

NON-PROFIT SENIOR CITIZEN CENTER - a separately metered service location consisting of a facility for the use of senior citizens coming together as individuals or groups and where access to a wide range of services to senior citizens is provided. The customer of record at this service location must be an organization recognized by the Internal Revenue Service (IRS) or the Commonwealth as a non-profit entity and recognized by the Pennsylvania Department of Aging as an operator of a senior citizen center.

NON-PROFIT RESCUE SQUAD - a separately metered service location consisting of a building, sirens, a garage for housing vehicular rescue equipment; and qualified by the Commonwealth as a non-profit entity; and a facility recognized by the Pennsylvania Emergency Management Agency (PEMA) or the Pennsylvania Department of Health as a provider of rescue services. The use of electric service at this location shall be to support the activities of the non-profit rescue squad. Any fund raising activities at this service location must be used solely to support the non-profit rescue squad operations.

NON-PROFIT AMBULANCE SERVICE - a separately metered service location consisting of a building, sirens, a garage for housing vehicular rescue equipment; and qualified by the Commonwealth as a non-profit entity; and a facility licensed by the Pennsylvania Department of Health as a provider of ambulance services. The use of electric service at this location shall be to support the activities of the non-profit ambulance service. Any fund raising activities at this service location must be used solely to support the non-profit ambulance service operations.

TERM OF CONTRACT. The initial contract term shall be for at least one year.

PAYMENT TERMS. Standard.

(I) Indicates Increase

RATE-HT HIGH-TENSION POWER

AVAILABILITY.

Untransformed service from the Company's standard high-tension lines, where the customer installs, owns, and maintains, any transforming, switching and other receiving equipment required.

CURRENT CHARACTERISTICS.

Standard high-tension service.

MONTHLY RATE TABLE.

FIXED DISTRIBUTION SERVICE CHARGE: \$291.43

METERING AND BILLING CREDITS A customer receiving Advanced Meter Services from a AMSP other than the Company will receive a credit on the Fixed Distribution Service Charge equal to the Total Metering Credit set forth for this Base Rate in Appendix B to the Joint Petition for Full Settlement. A customer receiving Consolidated EGS Billing will receive a credit on the Fixed Distribution Service Charge equal to the Billing and Collection Credit set forth for this Base Rate in Appendix B to the Joint Petition for Full Settlement.

VARIABLE DISTRIBUTION SERVICE CHARGE:

- \$1.68 per kW of billing demand (l)
- 0.91¢ per kWh of the first 150 hours' use of billing demand (l)
- 0.54¢ per kWh of the next 150 hours' use of billing demand, (l)
- but not more than 7,500,000 kWh
- 0.18¢ per kWh for additional use. (l)

COMPETITIVE TRANSITION CHARGE:

- \$4.74 per kW of billing demand (l)
- 2.62¢ per kWh for the first 150 hours' use of billing demand (l)
- 1.58¢ per kWh for the next 150 hours' use of billing demand, (l)
- but not more than 7,500,000 kWh
- 0.56¢ per kWh for additional use. (l)

ENERGY AND CAPACITY CHARGE: The following Energy and Capacity Charges will apply to the customer if the customer receives Default PLR Service. These charges are not applicable to the customer if it obtains Competitive Energy Supply.

- \$6.45 per kW of billing demand (l)
- 4.94¢ per kWh for the first 150 hours' use of billing demand (l)
- 3.53¢ per kWh for the next 150 hours' use of billing demand, (l)
- but not more than 7,500,000 kWh
- 2.13¢ per kWh for additional use. (l)

TRANSMISSION SERVICE FOR CUSTOMERS RECEIVING DEFAULT PLR SERVICE: Unless such a customer is able to obtain transmission service on its own, PECO Energy will provide transmission service, and will impose charges on such a customer for such transmission service.

TIME-OF-USE ADJUSTMENT:

Customers with measured demand of 2,000 kW or greater will be given a credit for energy use during off-peak hours and will be subject to an additional charge for energy use during on-peak hours. On-peak hours are defined as the hours between 8:00 am and 8:00 pm, Eastern Standard Time or Daylight Savings Time, whichever is in common use, daily except Saturdays, Sundays and holidays; except that the on-peak hours will end at 4:00 pm on Fridays. Off-peak hours are defined as the hours other than those specified as on-peak hours. The credits and charges are as follows:

	Summer Months (June through September)	Winter Months (October through May)
Off-peak credit.....	0.21¢ per kWh	0.21¢ per kWh
On-peak charge.....	0.58¢ per kWh	0.22¢ per kWh

If the customer receives Default PLR Service, the rate adjustments shall apply. They shall not apply if the customer obtains competitive energy supply.

HIGH VOLTAGE DISTRIBUTION DISCOUNT:

- For customers supplied at 33,000 volts: 7¢ per kW of measured demand.
- For customers supplied at 69,000 volts: 28¢ per kW for first 10,000 kW of measured demand.
- For customers supplied over 69,000 volts: 28¢ per kW for first 100,000 kW of measured demand.

STATE TAX ADJUSTMENT CLAUSE, NUCLEAR DECOMMISSIONING COST ADJUSTMENT APPLY TO THIS RATE.

(l) Indicates Increase

RATE-HT HIGH-TENSION POWER - CONTINUED

DETERMINATION OF BILLING DEMAND.

The billing demand will be computed to the nearest kilowatt and will never be less than the measured demand, adjusted for power factor in accordance with the Rules and Regulations, nor less than 25 kilowatts. Additionally, during the eight months of October through May the billing demand will not be less than 40% of the maximum demand specified in the contract nor less than 80% of the highest billing demand in the preceding months of June through September (applied on an unbundled basis). There will be a one-time waiver of the application of the previous sentence as it relates to minimums associated with PLR Energy and Capacity charges the first time a customer at a service location elects to receive Competitive Energy Supply. This one-time waiver is specific to a particular service location unless a new entity has assumed operation of the service location from a customer which has ceased operations at that location as a result of dissolution provided the new entity was not created through merger, partnership, joint venture, acquisition and/or any other type of combined business structure with the former customer.

DELIVERY POINTS.

Where the load of a customer located on single or contiguous premises becomes greater than the capacity of the standard circuit or circuits established by the Company to supply the customer, an additional separate delivery point may be established for such premises upon the written request of the customer with billing continued as if the service were being delivered and metered at a single point, provided such multi-point delivery is not advantageous to the Company. (C)

MINIMUM CHARGE.

The monthly minimum charge shall be the Fixed Distribution Service Charge, plus the charge per kW component of the Variable Distribution Service Charge, the CTC, and the Energy and Capacity Charge, less the high voltage discount where applicable.

TERM OF CONTRACT.

The initial contract term shall be for at least three years.

PAYMENT TERMS.

Standard.

(C) Indicates Change

RATE RT RESIDENCE TIME-OF-USE SERVICE

AVAILABILITY.

Single-phase service in the entire territory of the Company to the dwelling and appurtenances of a single private family for the domestic requirements of its members when such service is provided through one meter. Service is also available for related farm purposes when such service is provided through one meter in conjunction with the farmhouse domestic requirements.

The term "residence service" includes service to: (a) the separate dwelling unit in an apartment house or condominium, but not the halls, basement, or other portions of such building common to more than one such unit; (b) the premises occupied as the living quarters of five persons or less who unite to establish a common dwelling place for their own personal comfort and convenience on a cost-sharing basis; (c) the premises owned by a church, and primarily designated or set aside for, and actually occupied and used as, the dwelling place of a priest, rabbi, pastor, rector, nun or other functioning Church Divine, and the resident associates; (d) private dwellings in which a portion of the space is used for the conduct of business by a person residing therein; (e) farm purpose uses by an individual employing the natural processes of growth for the production of grain, stock, dairy, poultry, garden truck, or other agricultural products.

The term does NOT include service to: (a) Premises institutional in character including Clubs, Fraternities, Orphanages or Homes; (b) premises defined as a rooming house or boarding house in the Municipal Code for Cities of the First Class enacted by Act of General Assembly; (c) a premises containing a residence unit but primarily devoted to a professional or other office, studio, or other gainful pursuit; (d) farms operated principally to sell, prepare, or process products produced by others, or farms using air conditioning for climatic control in conjunction with growth processes (except those customers receiving such service as of August 2, 1969); (e) electric furnaces or welding apparatus other than a transformer type "limited input" arc welder with an input not to exceed 37-1/2 amperes at 240 volts.

CURRENT CHARACTERISTICS. Standard single-phase secondary service.

DEFINITION OF PEAK-HOURS. On-Peak Hours are defined as the hours between 8:00 am and 8:00 pm, Eastern Standard Time or Daylight Savings Time, whichever is in common use, daily except Saturdays, Sundays and holidays; except that the on-peak hours will end at 4:00 pm on Fridays. Off-Peak Hours are defined as the hours other than those specified as on-peak hours.

MONTHLY RATE TABLE.

FIXED DISTRIBUTION SERVICE CHARGE: \$10.35

METERING AND BILLING CREDITS A customer receiving Advanced Meter Services from a AMSP other than the Company will receive a credit on the Fixed Distribution Service Charge equal to the Total Metering Credit set forth for this Base Rate in Appendix B to the Joint Petition for Full Settlement. A customer receiving Consolidated EGS Billing will receive a credit on the Fixed Distribution Service Charge equal to the Billing and Collection Credit set forth for this Base Rate in Appendix B to the Joint Petition for Full Settlement.

VARIABLE DISTRIBUTION SERVICE CHARGE:

SUMMER MONTHS (June through September)

1.94¢ per off-peak kWh

(I)

7.77¢ per on-peak kWh

(I)

WINTER MONTHS (October through May)

1.94¢ per off-peak kWh

(I)

7.13¢ per on-peak kWh

(I)

COMPETITIVE TRANSITION CHARGE:

SUMMER MONTHS. (June through September)

1.56¢ per off-peak kWh

(I)

6.03¢ per on-peak kWh

(I)

WINTER MONTHS. (October through May)

1.56¢ per off-peak kWh

(I)

5.54¢ per on-peak kWh

(I)

ENERGY AND CAPACITY CHARGE:

Standard Pricing Option-The following Energy and Capacity Charges, which are not applicable to a customer who obtains Competitive Energy Supply, will apply to the customer who received Default PLR Service as of the effective date of this tariff, and continues to receive this service, or is a customer who returns to Default PLR Service and receives this service for a minimum period of twelve months or is a customer on the Company's Monthly Pricing Option and wants to return to the Standard Pricing Option and meets certain conditions described in the Monthly Pricing Option. The requirement for a minimum period of 12 months is not applicable unless the monthly pricing option has been implemented by the Company. A customer returning from Competitive Default Service will not be subject to the minimum twelve month stay provision.

SUMMER MONTHS. (June through September)

3.90¢ per off-peak kWh

(I)

10.97¢ per on-peak kWh

(I)

WINTER MONTHS. (October through May)

3.90¢ per off-peak kWh

(I)

10.19¢ per on-peak kWh

Monthly Pricing Option- Upon 60 days prior written notice to the PaPUC, the Company may implement this Monthly Pricing Option, which allows Customers who return to Default PLR Service to elect their service on a monthly basis. The following Energy and Capacity Charges apply to the Monthly Pricing Option.

(I) Indicates Increase

SUMMER MONTHS. (June through September)

The Company will determine a market rate by May 1st for the subsequent summer months in the year in which the Monthly Pricing Option is implemented by the Company. (C)

WINTER MONTHS. (October through May)

Same as the Standard Pricing Option winter months charge. (C)

If the returning customer, within the first twelve months of the customer's return to the Company, is on the Monthly Pricing option and requests to be removed from the Monthly Pricing Option and switched to the Standard Pricing Option, then the customer will be required to stay with the Company for the remainder of this initial twelve month period under the Standard Pricing Option. The customer will be switched to the Standard Pricing Option on the regularly scheduled meter reading date which falls five calendar days following the customer's request.

If the returning customer has stayed with the Company for at least twelve months and is on the Monthly Pricing Option, the customer can request to be switched to the Standard Pricing Option with no minimum stay provision on this option. The customer will be switched to the Standard Pricing Option on the regularly scheduled meter reading date which falls five calendar days following the customer's request.

The prices for Default PLR Service were determined in accordance with Section L, paragraph 38(e) of the Joint Petition for Full Settlement at Docket Nos. R-00973953 and P-00971265.

Within one business day of a request from a customer, or a customer's EGS, to return the customer to PLR Service, the Company will send a letter to the customer requesting the customer to choose between the Standard Pricing Option and the Monthly Pricing Option. If the Company does not receive a response from the Customer within ten calendar days from the date of the letter, the terms and conditions of the Standard Pricing Option will apply. The Customer's return to PLR Service will become effective as of the next scheduled meter reading date, provided that the Company received the request for the return at least 16 days prior.

TRANSMISSION SERVICE FOR CUSTOMERS RECEIVING DEFAULT PLR SERVICE: unless such a customer is able to obtain transmission service on its own, PECO Energy will provide transmission service, and will impose charges on such a customer for such transmission service.

MINIMUM CHARGE. The minimum charge per month will be the Fixed Distribution Service Charge.

STATE TAX ADJUSTMENT CLAUSE, NUCLEAR DECOMMISSIONING COST ADJUSTMENT, UNIVERSAL SERVICE FUND CHARGE APPLY TO THIS RATE.

CONTRACT TERM. Not less than twelve months.

PAYMENT TERMS. Standard.

(C) Denotes Change

INTERRUPTIBLE RIDER – 2 (IR-2)

AVAILABILITY. This rider is applicable to Rate HT, GS, and PD Customers, including Customers with contracts executed pursuant to the Economic Efficiency Rider ("EER"), who fulfill the load requirement and can demonstrate to the Company's satisfaction the ability to reduce load in accordance with the "Curtailment" section below. The Company shall be the sole judge of whether the Customer is eligible for a rate negotiated pursuant to this rider. The Customer's participation in other load curtailment programs may render them ineligible to participate in the curtailment programs described below.

LOAD REQUIREMENT. A customer must have interval metering and the ability to curtail, at a minimum, the greater of 100 kW of load or five percent (5%) of its peak demand.

FIRM DEMAND. The firm demand is the demand to which the Customer must reduce its load when called upon to curtail pursuant to the "Active Load Management (ALM) Curtailment" section below, and in no event, will be less than 25 kW.

TERM OF CONTRACT. The contract term for service under this rider shall be for a period of no more than one year.

CURTAILMENT. Subject to the restrictions contained in the "Other Riders" Section below, the Customer's contract may include provisions for Active Load Management (ALM), Economic Curtailment, or PJM Load Response Programs.

Active Load Management (ALM): If included in the Customer's contract, when, in the sole judgment of the Company, and at any time and for any duration, there exists any potential or actual production, transmission, or distribution capacity limitation, the Company will notify the Customer that the Customer must reduce load for the duration of the limitation to its firm demand within the time period specified in the contract between the Customer and the Company. The Company will make its best efforts to notify the Customer of ALM curtailment as far in advance as possible.

Economic Curtailment: In addition, if a Customer purchases their energy and capacity from PECO Energy, and if included in the Customer's contract, the Customer will be compensated for voluntarily curtailing its energy usage during periods of high energy prices when requested by the Company, in accordance with the "Curtailed Energy Credit" section below. The conditions under which the Customer will be asked to curtail and the methodology for calculating the amount of energy curtailed will be specified in the Customer's contract.

PJM Load Response Programs:

In addition to the above programs, PECO will act as a PJM Curtailment Service Provider (CSP) for Customers who wish to participate in PJM's Economic and Emergency Load Response Programs. The conditions under which the Customer will be asked curtail and the methodology for calculating the amount of energy curtailed will be specified in the customer's contract.

RATE AND BILLING. The Customer will be billed for its energy usage and demand in accordance with all of the terms and conditions of their billing rate (HT, PD, GS) and any applicable riders, with the following modifications:

Monthly administration charge: Customers executing a contract for Economic Curtailment will be subject to the following additional monthly charge: \$101.59

Interruptible Demand Credit ("IDC"): If the Customer's contract includes provisions for ALM Curtailment, then each month the Company will apply an Interruptible Demand Credit (IDC), expressed as a \$/kW - month to the Customer's monthly electric bill. The IDC shall be applied to the Customer's interruptible demand, which is the capacity for which the Company receives ALM credit from PJM, or the successor thereto, as specified in the PJM Reliability Assurance Agreement and PJM Manual M-19 Load Data Systems, Section 5 – "Active Load Management", or other succeeding document which governs the ALM credit and is recognized for PJM accounting purposes. The IDC shall be established in the Customer's contract and shall be based on a negotiated percentage of the clearing price for applicable PJM capacity auctions and/or prevailing capacity prices the Company pays to obtain sufficient capacity for its customers. In no event shall the percentage applied exceed 100%.

INTERRUPTIBLE RIDER - 2 (continued)

Curtailed Energy Credit ("CEC"): If the Customer's contract includes provisions for Economic Curtailment, then the Company will apply, on an annual basis, the CEC to the Customer's energy and capacity charges to compensate the Customer for curtailing energy usage during periods of high energy prices. The amount of the Customer's CEC will be established in the Customer's contract.

Customers who sign up for both Economic Curtailment and ALM Curtailment will be eligible for the CEC on any load curtailed above the amount required for their ALM Curtailment.

PENALTY FOR FAILURE TO CURTAIL. In any billing month in which the Customer fails to comply with a mandatory ALM curtailment, above, the Company will not apply the IDC to the Customer's bill. Additionally, the Customer will be responsible for any penalties or other economic consequences imposed by PJM, as described in PJM manual M-19, or the successor thereto. For customers who participate in the PJM day ahead economic program, appropriate penalties, as described in PJM's FERC Electric Tariff, will apply.

OTHER RIDERS. Firm back up or maintenance power under the Auxiliary Service Rider may not be purchased or used to serve interruptible load during periods of interruption. Customers served under the Curtailment HT Rider and Large Interruptible Load Rider ("LILR") are not eligible for the ALM Curtailment portion of this rider.

NIGHT SERVICE GS RIDER

(The number of customers served under this rider may be limited
by the availability of the required demand meters.)

AVAILABILITY/APPLICABILITY. To service provided during Off-Peak Hours for demands in excess of those supplied during On-Peak Hours. The demand specified for Off-Peak Hours may be limited to an amount determined by the Company which shall be dependent upon the capacity of the generation, transmission and distribution facilities available for such supply.

DEFINITION OF PEAK HOURS. On-Peak Hours are defined as the hours between 8:00 am and 8:00 pm, Eastern Standard Time or Daylight Savings Time, whichever is in common use, daily except Saturdays, Sundays and holidays; except that the On-Peak Hours will end at 4:00 pm on Fridays. Off-Peak Hours are defined as the hours other than those specified as On-Peak Hours.

RATE IMPACT. Rate GS (with demand measurement), including all its terms and guarantees, is applicable. The blocking of the energy charges contained in the Variable Distribution Service Charges, CTCs, and Energy and Capacity Charges (if applicable) shall be based on the billing demand for On-Peak Hours. If the customer receives Default PLR Service, the terms of this rider shall also apply to the Energy and Capacity Charge.

MONTHLY RATE TABLE.

Night Service billing and metering charge: \$9.11

The meter charge will be \$5.00 for those customers served before November 23, 1983 whose metering does not provide for the extended Off-Peak Hours beginning at 4:00 pm on Fridays.

Charge per kW of Off-Peak billing demand per month: \$0.48 per kW.

(I)

STATE TAX ADJUSTMENT CLAUSE APPLIES TO THIS RIDER.

DETERMINATION OF OFF-PEAK BILLING DEMAND. The Off-Peak billing demand shall be the amount by which the greatest demand during Off-Peak Hours, as determined by measurement, exceeds the billing demand for On-Peak Hours, whether the latter is a minimum or an actual demand.

OTHER RIDERS. This rider will not be applied in conjunction with the Temporary Service Rider.

TERM OF CONTRACT. The initial contract term shall be for at least one year.

(I) Indicates Increase

NIGHT SERVICE PD RIDER

AVAILABILITY/APPLICABILITY. To service provided during Off-Peak Hours for demands in excess of those supplied during On-Peak Hours. The demand specified for Off-Peak Hours shall be limited to an amount determined by the Company which shall be dependent upon the capacity of the generation, transmission and distribution facilities available for such supply.

DEFINITION OF PEAK HOURS. On-Peak Hours are defined as the hours between 8:00 am and 8:00 pm, Eastern Standard Time or Daylight Savings Time, whichever is in common use, daily except Saturdays, Sundays and holidays; except that the On-Peak Hours will end at 4:00 pm on Fridays. Off-Peak Hours are defined as the hours other than those specified as On-Peak Hours.

RATE IMPACT. Rate PD, including all terms and guarantees, is applicable during On-Peak Hours. The capacity charges and blocking of the energy charges contained in the Variable Distribution Service Charges, CTCs, and Energy and Capacity Charges (if applicable) shall be based on the billing demand for On-Peak Hours except that, when the greatest demand during Off-Peak Hours, as determined by measurement, exceeds the demand specified for Off-Peak Hours, the amount of such excess shall be added to the billing demand for On-Peak Hours and the resultant sum shall then constitute the basis for said capacity charges and blocking of energy charges. If the customer receives Default PLR Service, the terms of this rider shall also apply to the Energy and Capacity Charge.

MONTHLY RATE TABLE.

Night Service billing and metering charge: \$11.39
Charge per kW of Off-Peak billing demand per month: \$0.87

(I)

STATE TAX ADJUSTMENT CLAUSE APPLIES TO THIS RIDER.

DETERMINATION OF OFF-PEAK BILLING DEMAND. The Off-Peak billing demand shall be the amount by which the greatest demand during Off-Peak Hours, as determined by measurement, exceeds the billing demand for On-Peak Hours, whether the latter is a minimum or an actual demand, except that, when said greatest demand during Off-Peak Hours exceeds the demand specified for Off-Peak Hours, said greatest Off-Peak demand shall be reduced by the amount of the excess in determining the Off-Peak billing demand.

OTHER RIDERS. Where the Off-Peak Rider and this rider are applied to the same contract, the Off-Peak Rider will be applied only to the provisions of the contract, and this rider will then be applied to the contract as modified. This rider will not be applied in conjunction with the Temporary Service Rider.

TERM OF CONTRACT. The initial contract term shall be for at least one year.

(I) Indicates Increase

NIGHT SERVICE HT RIDER

AVAILABILITY/APPLICABILITY. To service provided during Off-Peak Hours for demands in excess of those supplied during On-Peak Hours. The demand specified for Off-Peak Hours shall be limited to an amount determined by the Company which shall be dependent upon the capacity of the generation, transmission and distribution facilities available for such supply.

DEFINITION OF PEAK HOURS. On-Peak Hours are defined as the hours between 8:00 am and 8:00 pm, Eastern Standard Time or Daylight Savings Time, whichever is in common use, daily except Saturdays, Sundays and holidays; except that the On-Peak Hours will end at 4:00 pm on Fridays. Off-Peak Hours are defined as the hours other than those specified as On-Peak Hours.

RATE IMPACT. Rates HT or EP, including all terms and guarantees, are applicable during On-Peak Hours. The capacity charges and blocking of the energy charges contained in the Variable Distribution Service Charges, CTCs, and Energy and Capacity Charges (if applicable) shall be based on the billing demand for On-Peak Hours except that, when the greatest demand during Off-Peak Hours, as determined by measurement, exceeds the demand specified for Off-Peak Hours, the amount of such excess shall be added to the billing demand for On-Peak Hours and the resultant sum shall then constitute the basis for said capacity charges and blocking of energy charges. If the customer receives Default PLR Service, the terms of this rider shall also apply to the Energy and Capacity Charge.

MONTHLY RATE TABLE.

Night Service billing and metering charge: \$11.39
Charge per kW of Off-Peak billing demand per month: \$0.92

(I)

STATE TAX ADJUSTMENT CLAUSE APPLIES TO THIS RIDER.

DETERMINATION OF OFF-PEAK BILLING DEMAND. The Off-Peak billing demand shall be the amount by which the greatest demand during Off-Peak Hours, as determined by measurement, exceeds the billing demand for On-Peak Hours, whether the latter is a minimum or an actual demand, except that, when said greatest demand during Off-Peak Hours exceeds the demand specified for Off-Peak Hours, said greatest Off-Peak demand shall be reduced by the amount of the excess in determining the Off-Peak billing demand.

OTHER RIDERS. Where the Off-Peak Rider and this rider are applied to the same contract, the Off-Peak Rider will be applied only to the provisions of the contract, and this rider will then be applied to the contract as modified. This rider will not be applied in conjunction with the Temporary Service Rider.

TERM OF CONTRACT. The initial contract term shall be for at least one year.

(I) Indicates Increase

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**POLICIES TO MITIGATE POTENTIAL :
ELECTRICITY PRICE INCREASES : DOCKET NO. M-00061957**

DIRECT TESTIMONY

OF

MICHAEL M SCHNITZER

**Commenting Upon Issues Raised By The
Commission In Its May 24, 2006
Investigation Order**

June 15, 2006

1 Q. **Please state your name.**

2 A. Michael M. Schnitzer.

3 Q. **What is your business address?**

4 A. My business address is 55 Old Bedford Road, Lincoln, Massachusetts 01773.

5 Q. **Mr. Schnitzer, by whom are you employed and in what position?**

6 A. I am a Director of the NorthBridge Group, Inc. (“NorthBridge”). NorthBridge is a
7 consulting firm specializing in providing economic and strategic advice to the electric
8 and natural gas industries.

9 **I. PURPOSE OF TESTIMONY AND CONCLUSIONS**

10 Q. **What is the purpose of your testimony?**

11 A. The purpose of my testimony is to address Issue No. 6 in the Commission’s May 24,
12 2006 Investigation Order, relating to the interplay between wholesale and retail electric
13 markets. To that end, I first provide a forecast of the potential range of PECO Energy
14 Company’s (“PECO” or “the Company”) POLR (Provider of Last Resort) supply costs
15 and average retail rates in 2011, and compare that range to PECO’s 2010 rates under its
16 restructuring settlement agreement.

17 Second, I discuss price volatility more broadly, including the issue of a fixed price versus
18 variable price offering for small customers, and how a full requirements auction like the
19 one the Company has proposed can bring the benefits of wholesale competition in the
20 PJM market to retail customers and mitigate retail rate volatility.

21

1 Q. What are your conclusions?

2 A. I have three:

3 1. Based on current forward prices for natural gas and electricity, I estimate that PECO's
4 average rates in 2011 will be about 11% higher than its 2010 rates under the
5 settlement. Of course wholesale market prices are quite uncertain. Based on
6 historical levels of price volatility, the change in PECO's average rates from 2010 to
7 2011 could be as high as a 26% increase or as low as a 5% decrease.

8 2. To reduce price volatility for POLR customers, POLR supply can be procured under
9 fixed price contracts. Particularly for small customers, volatility is reduced further if
10 the fixed price contracts are multi-year in term, with only a portion of the customer
11 load put out to bid each year, under a "rolling" procurement.

12 3. Procurement of fixed priced supply through a full requirements auction, in addition to
13 reducing retail price volatility, will provide the benefits of wholesale competitive
14 markets to customers who "choose not to choose", or who prefer to be served by
15 PECO as their retail generation supplier. The PJM wholesale electricity market
16 structure provides a strong platform for a full requirements auction for Pennsylvania
17 load in that it provides potential bidders with numerous competitive options for
18 supplying POLR customer load from the PJM market.

19 **II. BACKGROUND AND QUALIFICATIONS**

20 Q. **Mr. Schnitzer, please summarize your relevant experience in the electric energy**
21 **industry.**

1 A. In 1992, I co-founded NorthBridge. Before that, I was a Managing Director of Putnam,
2 Hayes & Bartlett, which I joined in 1979. I have focused throughout this time on
3 assisting energy companies deal with strategic issues, particularly those relating to
4 finance and market structure issues. In so doing, I have experience working with private
5 sector clients in the electric utility, natural gas, private power, steel and coatings
6 industries, as well as with public and nonprofit agencies.

7 I have testified before the Federal Energy Regulatory Commission (FERC) and a number
8 of state commissions on issues relating to competitive restructuring and wholesale market
9 design, including Locational Marginal Pricing and Financial Transmission Rights,
10 Regional Transmission Organizations (RTOs), standard market design, resource
11 adequacy, and transmission expansion pricing policies. On several occasions I have been
12 invited by FERC staff to participate as a panelist in technical conferences on these
13 subjects.

14 Last year I testified before the Illinois Commerce Commission on behalf of
15 Commonwealth Edison, an electric distribution company that is an affiliate of PECO, in
16 support of ComEd's proposal to supply its default mass market customers through a full
17 requirements competitive auction.

18 **Q. Mr. Schnitzer, please summarize your educational background.**

19 A. I hold a Master of Science degree in Management from the Sloan School of Management
20 of the Massachusetts Institute of Technology, which I received in 1979. My
21 concentration was in finance. I also received a Bachelor of Arts degree in chemistry,
22 with honors, from Harvard College in 1975.

23

1 **III. PROJECTED 2011 POLR SUPPLY COSTS**

2 **Q. Is it possible to forecast retail rates in 2011 for customers who are supplied by**
3 **PECO?**

4 A. Yes. The rates will be the sum of delivery rates (including transmission and distribution)
5 plus the cost of supplying the full generation requirements of POLR customers. To
6 estimate these rates, we have taken 2010 delivery rates and added to them the estimated
7 cost of full requirements supply in 2011.

8 **Q. Can you know the cost of full requirements supply in 2011 with any certainty?**

9 A. Future market prices for electricity are, of course, uncertain. And while it is possible to
10 forecast 2011 full requirements prices based on current forward market price data, there
11 is no guarantee that market conditions will not change between now and then. Indeed, it
12 is almost certain that they will change. But with those caveats, it is possible to forecast
13 2011 full requirements prices, and I have prepared such a forecast.

14 **Q. Can you please briefly describe your forecast methodology?**

15 A. Yes. Right now, there are no prices that can be directly observed for 2011, because no
16 one is currently offering full requirements power for 2011 delivery. Nor are there
17 currently any offerings for around-the-clock (ATC) energy (i.e., block energy) or
18 capacity for 2011. Thus, the starting point for the forecast is the best available market
19 price data for full requirements service, which are the New Jersey BGS (Basic Generation
20 Service) auction results for POLR supply for the period June 1, 2006 through May 31,
21 2009. The average price for POLR supply acquired in the New Jersey auction was about
22 \$102 per MWH, excluding line losses, but including network transmission charges. The

1 corresponding figure without transmission charges is about \$98 per MWH, for the 2006
2 to 2009 period.

3 **Q. How did you translate those results to a 2011 forecast for PECO POLR load?**

4 A. The two biggest “drivers” of POLR supply costs during this period are natural gas prices
5 and PJM capacity prices – both of which are beyond the Company’s and the
6 Commonwealth’s control. My approach therefore was to take the New Jersey results and
7 adjust them for forecast changes in natural gas and capacity prices relative to their 2006
8 to 2009 values.

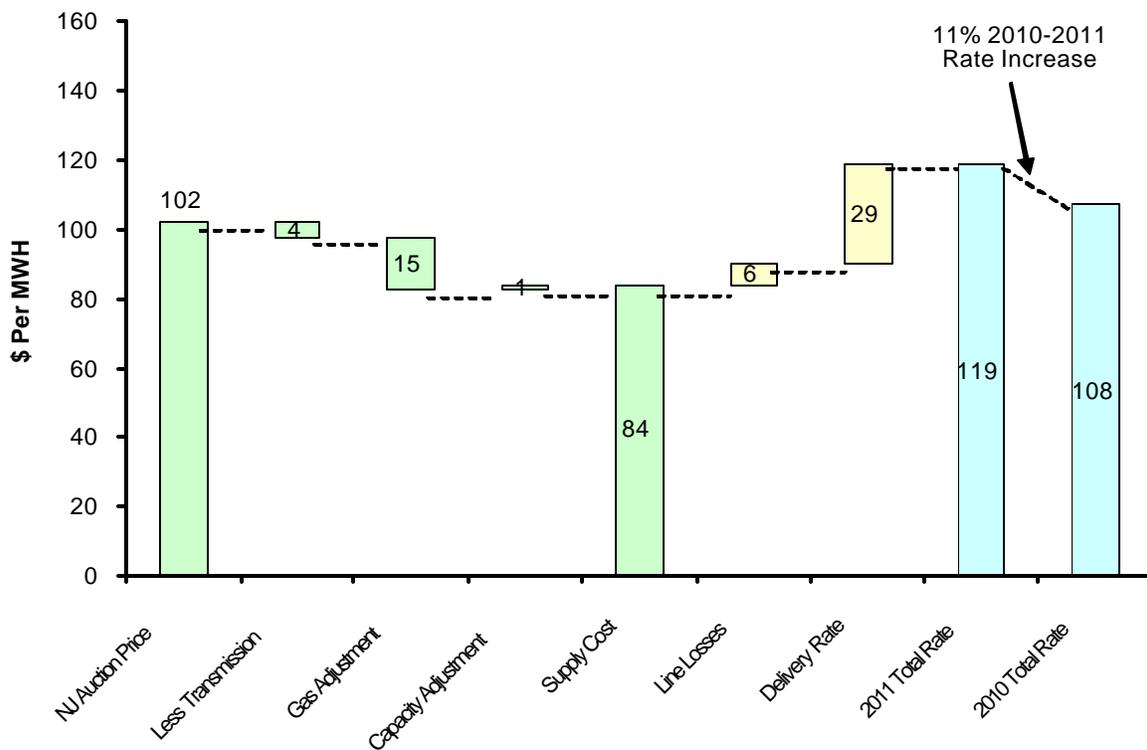
9 **Q. Please explain.**

10 A. At the time of the BGS auction, forward prices for natural gas for delivery in the 2006 to
11 2009 period averaged \$9.5 per MMBtu. However, current forward prices for natural gas
12 for 2011 delivery are about \$7.6 per MMBtu – significantly lower than the 2006 to 2009
13 prices at the time of the BGS auction. Because natural gas-fired generation sets the
14 market price for electricity in Eastern PJM for the majority of the on-peak hours, and
15 because POLR consumption is heavily weighted toward on-peak hours, natural gas prices
16 and POLR prices are directly linked. My analysis of the POLR prices indicates that for
17 each ten percent change in natural gas prices (up or down), there will be a corresponding
18 effect on the energy component of POLR prices of about eight percent. Based on this
19 relationship, and the fact that forward gas prices have come down somewhat since the
20 time of the prior BGS auction, the forecast 2011 PECO POLR rate is \$15 per MWH
21 lower than the BGS result.

22 The capacity adjustment, while similar, goes in the opposite direction. Market capacity
23 prices for 2006 to 2009 suggest a capacity component of the BGS price of just under \$7

1 per MWH. PJM forecast capacity prices in Eastern PJM for 2011 translate to a capacity
 2 component of 2011 PECO POLR costs of just under \$8 – or \$1 per MWH higher than
 3 the BGS auction results. The figure below summarizes these two adjustments, and shows
 4 that the forecast 2011 PECO POLR supply cost is \$84 per MWH, excluding line losses
 5 and transmission costs. (T&D costs are combined on the chart as a “delivery rate”.)

6 **Figure 1 -- Projected 2011 Average PECO Rate**



7
 8 **Q. Assuming these supply cost forecast results come to pass, what are the retail rate**
 9 **implications?**

10 A. PECO’s forecast 2010 average retail rates under the settlement are about \$108 per MWH,
 11 including an average delivery rate of \$29 per MWH, excluding gross receipts tax. As the
 12 figure above shows, adding the \$84 per MWH supply cost, plus line losses, to the 2010

1 delivery rate yields a 2011 total rate of about \$119 per MWH (11.9 cents/kWh), an 11
2 percent increase over the 2010 rate.

3 **Q. Could the rate increase be much different than your forecast?**

4 A. Yes. First, I should note that my forecast implicitly assumes that Pennsylvania defines
5 similar POLR products and adopts similar switching rules as New Jersey. If
6 Pennsylvania does not do so, these price forecasts for PECO could be materially affected.
7 Second, as I explained before, one of the biggest “drivers” of POLR supply costs is
8 natural gas prices, which are very uncertain. For example, natural gas forward prices for
9 delivery in 2010 have been quoted on the New York Mercantile Exchange (“NYMEX”)
10 since November 2004. Since November 2004 the prices for 2010 delivery have been as
11 low as \$5.00 per MMBtu and as high as \$8.90 per MMBtu, a range of \$3.90 per MMBtu.
12 Based on this evidence, it is clear that 2011 POLR supply costs could be significantly
13 higher or lower than my forecast. To illustrate this point, I have applied the historical
14 range of \$3.90 per MMBtu to the current 2011 forward prices for natural gas – meaning
15 2011 natural gas prices could turn out to be \$1.95 per MMBtu higher *or* lower than the
16 current 2011 forward price of \$7.60 per MMBtu. This yields a range of 2011 gas prices
17 from \$5.70 to \$9.60 per MMBtu. Using the same forecast methodology for POLR prices,
18 this range of gas prices could result in a 2010 to 2011 average PECO rate increase of
19 26% at the high end, or, on the low end, a decrease of 5%.

20 IV. MINIMIZING PRICE VOLATILITY

21 **Q. What do you mean by volatility of POLR prices?**

1 A. We all know that wholesale prices for electricity vary dramatically – over the course of a
2 day, a month, a season, and from year to year. The question is how much of this
3 variation should be reflected in retail prices, particularly for small customers.

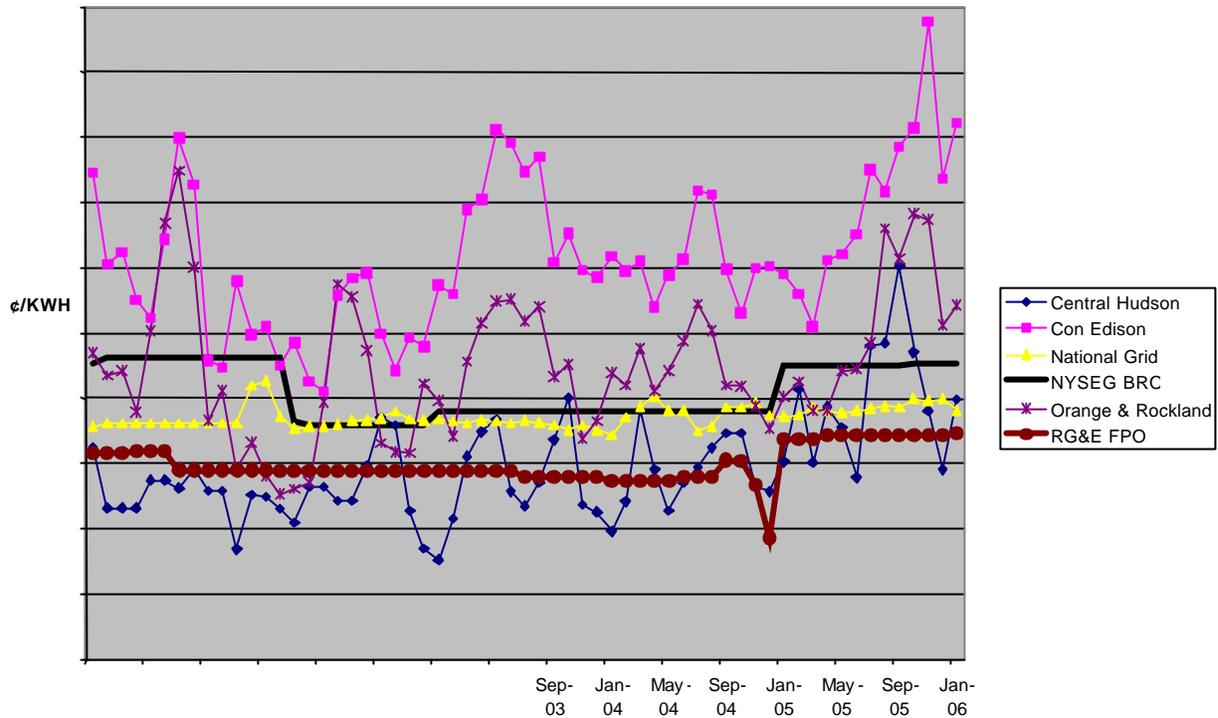
4 **Q. How does a spot price “pass through” for POLR customers work?**

5 A. Under a spot price pass-through, a utility does not enter into any long-term supply
6 contracts on behalf of its POLR load. Rather, it buys every day from the spot market and
7 passes through the charges directly to customers. The pass-through can be in the form of
8 hourly real-time pricing, in which case retail customers are charged the hourly PJM spot
9 price, based on their consumption in each hour (assuming they have interval metering.)
10 Real-time prices vary widely over the course of a 24 hour period, and any large industrial
11 customers who are “exposed” to such hourly prices can tailor their consumption patterns
12 accordingly. However, such an hourly pricing structure cannot be used for small
13 customers, who – at least today -- do not use hourly interval meters.

14 For small customers without interval metering, spot price pass-through generally means a
15 pass through of spot prices on a monthly basis, based on the cost to supply them out of
16 the PJM spot market. Experience in other markets indicates that a spot price pass through
17 of this sort can result in quite a bit of volatility from month to month in electric bills. The
18 figure below illustrates the variability in residential POLR rates for certain New York
19 utilities, three of whom offered a “fixed price” or hedged product (National Grid,
20 NYSEG and Rochester G&E) and three who generally were less hedged and passed
21 through spot prices (Central Hudson, Con Edison and Orange & Rockland.) The chart
22 shows the monthly and seasonal swings experienced by the customers of the pass-through
23 utilities, in contrast to the more stable rates experienced by customers under the fixed

1 price offers. (The fact that prices are higher on average for Con Edison and O&R is
2 largely a function of locational price differences within the state.)

3 **Figure 2 – New York Residential POLR Rates**



4 Residential Total Rate Based on 600 kWh per Month Usage

5 **Q. You have already mentioned fixed price full requirements contracts for serving**
6 **POLR load. Do they reduce price volatility for retail customers?**

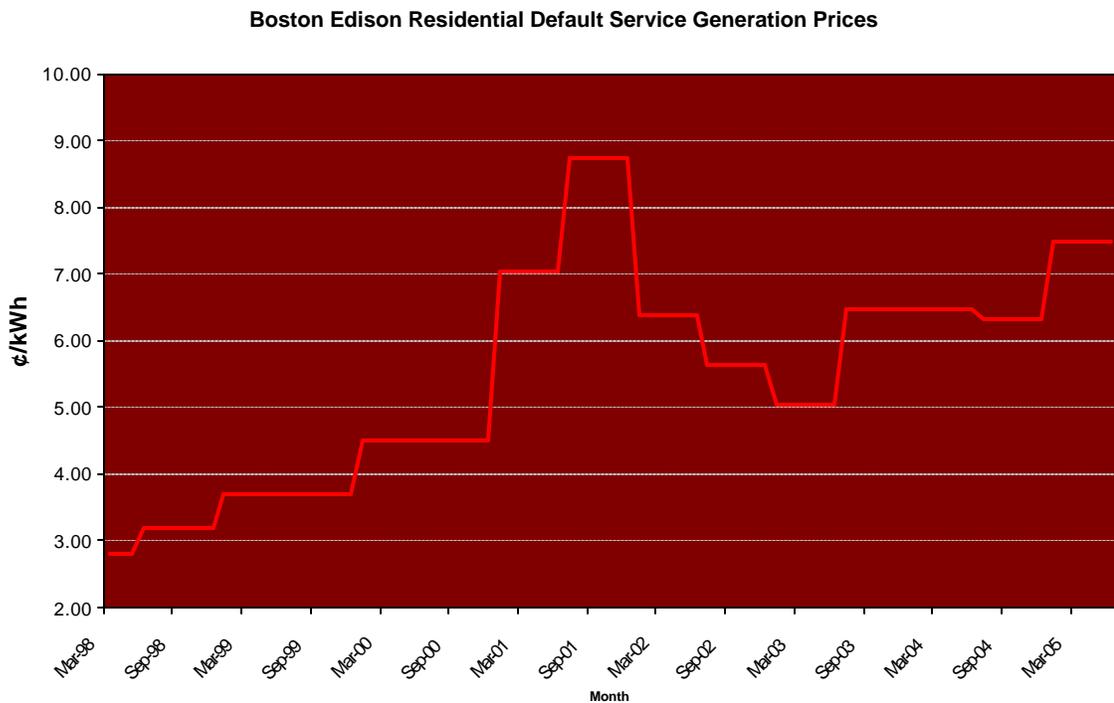
7 A. The answer depends on two variables – the length of the contract term, and the amount of
8 load that is put out to contract at one time.

9 **Q. Please explain.**

10 A. Under very short term fixed price POLR contracts – meaning 6 months to one year –
11 prices are fixed only for a short period. They can change frequently, and they can change

1 significantly. For example, in Massachusetts, residential default service was
 2 competitively procured every six months for a six month duration. As the figure below
 3 illustrates, default service customers were exposed to significant price volatility, with
 4 default service prices nearly tripling in a three and a half year period. So, longer contact
 5 terms provide more insulation from volatility.

6 **Figure 3 – Massachusetts (NStar) Residential POLR Rates**
 7



Source: Massachusetts Department of Telecommunications and Energy: <http://www.state.ma.us/dpu/restruct/competition/defaultservice.htm>

8
 9 But any procurement approach, which is structured to “turn over” all the load at once –
 10 even if the contracts in question are very long term -- can also result in significant abrupt
 11 changes. Therefore PECO advocates an approach for small customers in which there is
 12 an auction each year to procure a three year fixed price supply for one third of the full
 13 requirements of the POLR load. This results in a rolling procurement and a dollar
 14 averaging effect that dampens price swings for customers. I should note that a multi-year

1 (e.g. rolling three-year) purchase is recommended only for smaller customers who are
2 less likely to switch back and forth between POLR and competitive retail suppliers. For
3 large customers, PECO advocates procuring full requirements POLR supply based on one
4 year fixed price contracts.

5 **Q. By a portion of the small customer load being put out to contract, do you mean that**
6 **supply only for certain customers is put out to bid each year?**

7 A. No. What is put out to bid each year is a “slice” (e.g. one third) of the entire small
8 customer POLR load. The price charged to all POLR customers (in the same rate class)
9 is the same and it is “blend” of the contract prices from each year.

10 **Q. Have other jurisdictions approved such a plan?**

11 A. Yes, both New Jersey and Illinois have approved multi-year, rolling procurement for
12 small POLR customers. In each state, an annual auction is (or will be) conducted in
13 which the delivery companies obtain three year fixed price contracts for full requirements
14 supply. One third of the POLR load is put out to bid each year. The price to POLR
15 customers is a blend of all three “vintages” of contracts.

16 **Q. If putting all the load out to bid at once can create a large price change, how can a**
17 **utility manage the one-time transition from price caps to rolling 3-year contracts?**

18 A. There are several options, including starting the forward procurement well in advance of
19 the expiration of the current price caps. This issue is discussed in more detail in the
20 testimony of PECO witness Lisa Crutchfield.

21

1 **V. OTHERS BENEFITS OF A FULL REQUIREMENTS AUCTION**

2 **Q. Are there other benefits of using a competitive auction to procure fixed price full**
3 **requirements power on behalf of default electric customers?**

4 A. Yes. Besides reducing volatility of retail prices, under this approach all default
5 customers can get the benefits of wholesale competition, even though they have not
6 chosen alternative retail providers.

7 **Q. Please explain.**

8 A. Through PJM, Pennsylvania is embedded within one of the largest competitive wholesale
9 power markets in the world. Each bidder in a full requirements auction will make its own
10 judgments about how best to supply the fixed price product from this wholesale market,
11 and the bidders will compete on that basis -- who can procure from the wholesale market
12 at the lowest cost. There are many supply choices for the bidders to make – for example,
13 whether to make short term or long term purchases, whether or not to “lock in” fuel costs,
14 whether to buy an equity interest in generating assets. The price ultimately paid by the
15 retail customers will be based on the bidders’ best judgments about how to tap into the
16 wholesale market. Thus all mass market customers – those who remain with their utility
17 and those who choose alternative retail providers -- will get the benefits of two levels of
18 competition: the competition among generating resources in the underlying wholesale
19 market, and the competition among full requirements suppliers for how best to buy in that
20 market. This should provide substantial benefits to Pennsylvania consumers.

21 **Q. What are the prerequisites for successful fixed price full requirements**
22 **procurement?**

1 A. Basically, there are two prerequisites: a well functioning competitive wholesale market,
2 and a well structured set of rules for the competitive procurement process and associated
3 customer choice issues. As to the second element, I have already noted that my analysis
4 implicitly assumes that Pennsylvania adopts POLR products and switching rules similar
5 to those in New Jersey. These rules are material to full requirements bidders and can
6 affect the price and even the viability of full requirements procurement. As to the actual
7 mechanics of the full requirements auction, if the PaPUC permits PECO to pursue the
8 auction approach, it will have several examples of well structured processes to draw upon
9 – in particular the BGS auctions in New Jersey and the Commonwealth Edison auction in
10 Illinois. There is one feature of these rules which I would like to elaborate upon –
11 namely, the importance of not undermining supply contracts which “after the fact”
12 become above-market in price.

13 **Q. Why is this important?**

14 A. From a commercial point of view, the prospect that the rules could be changed or
15 contracts revisited after the auction has been completed would be highly problematic.
16 This risk could change suppliers’ view of the product that they are being asked to bid on,
17 from a forward contract to an options contract.

18 **Q. Please explain.**

19 A. If bidders believe that contracts will honored and rules will not be changed after the fact
20 if wholesale prices stay the same or go up, but that if wholesale prices go down, then the
21 rules may be changed (and the utility’s ability to honor the contracts may be
22 compromised) then the bidders will effectively view the product they are be asked to bid
23 on as an option, not a forward contract. Normally an option is priced in two parts – a

1 price to hold the option, then a price when and if it is exercised. But in the context of a
2 full requirements auction, a bidder is limited to a single bid price. The only way it can be
3 compensated for the risk of offering an option is by bidding a very high price – a price
4 above the expected wholesale price at that time. For instance, suppose the current
5 forward price is \$50. If the bidder believes it is really bidding on an option, due to
6 regulatory review risk, its view will be that if prices fall to \$40, the option will not be
7 exercised (because the auction results will be rejected), but if prices rise to \$60, the
8 bidder will be held to its commitment. In that case, the bidder will be forced to offer a
9 price somewhere above \$50 – say, \$55 -- in order to be compensated for the asymmetric
10 risk it is taking on. Of course, this strategy will be self-defeating, because if all suppliers
11 take this view (as is likely) the clearing price will be perceived as being above-market,
12 and the auction results will be rejected. So the result of the risk of future rules changes is
13 the possibility of lower participation (and higher prices) or, in the worst case, a failed
14 auction altogether.

15 The "deal" for POLR suppliers is that the PAPUC is committed to a competitive
16 process, and seeks only to assure itself that the process was followed and that results are
17 consistent with current wholesale market conditions, not that the Commission gets to wait
18 and see how market conditions might change following the auction. A short review
19 window (with all the prior review) is adequate for that purpose. A longer review period
20 or the potential for other rules changes raises the possibility of some other standard of
21 review, potentially an opportunistic approach to market price movements. Such a
22 perception by suppliers will undermine the auction effectiveness, and increase prices.

1 **VI. PJM SUPPORTS COMPETITIVE FULL REQUIREMENTS AUCTION**

2 **Q. Why do you assert that PJM markets provide a good platform for a full**
3 **requirements auction?**

4 A. PJM is a very large regional wholesale electric market that is carefully designed and
5 monitored to promote robust competition. Bidders in a fixed price full requirements
6 auction can draw on this entire market in many different ways, and will compete in the
7 auction on the basis of how to serve full requirements load at the lowest possible cost
8 from this market. Thus the efficiency of the PJM markets will be passed through to
9 customers through the mechanism of the full requirements auction.

10 **Q. Is PJM unique in this respect?**

11 A. No, but it is the largest and one of the best developed of its type. And it is important to
12 recognize that the PJM model has several key features that are not present in many parts
13 of the country but are essential to the concept of a full requirements auction. For
14 instance, PJM runs a central energy market that dispatches generation across PJM at least
15 cost to serve all PJM load reliably. PJM also provides ancillary services on a competitive
16 basis. Therefore full requirements suppliers need not own or control generation in order
17 to serve their load. This substantially increases the universe of potential bidders in a full
18 requirements auction, relative to the situation in other parts of the country without
19 organized central markets.

20 In areas without central markets, a full requirements supplier almost invariably must not
21 only own or control generation, but it must own or control several types of generation
22 including load following capability and operating reserves. Furthermore, with physical
23 transmission rights rather than PJM-style congestion pricing, there is a distinct advantage

1 to generation located in the same control area as the load. Thus the universe of potential
2 full requirements suppliers would typically not be large – not large enough to support a
3 competitive procurement.

4 Put another way, under the PJM structure there are no physical barriers to entry to a full
5 requirements auction. As I noted, bidders in a full requirements auction do not need to
6 own or contract with any generation in order to serve load in PJM. If a bidder wins the
7 auction, but never contracts with a single generator, load will still be served reliably from
8 the daily PJM spot market, and the bidder will be charged the cost. Thus bidders can
9 make a firm fixed price commitment to serve load without having any generation under
10 contract. Their only risk from doing so is financial, not physical. And the utility does not
11 have to require that bidders own or control generation; it only needs to assure their
12 financial strength. The universe of entities that are financially strong is far larger than the
13 universe of companies that own generation in Pennsylvania or even in PJM. Thus this
14 aspect of the PJM market facilitates the largest possible field of bidders in a full
15 requirements auction.

16 The entire PJM market is available to full requirements bidders to hedge their fixed price
17 obligation. Bidders can contract bilaterally with any generator in PJM, and with financial
18 players as well, without transmission reservations. Put another way, bilateral contracts in
19 PJM are financial, not physical. A bidder can contract bilaterally with a generator in
20 Maryland just as easily as with a generator in Illinois. A bidder can also contract with
21 one of the many financial players who offer forward products in PJM. Thus, given the
22 large size of the PJM market, the potential supply of price hedges available to bidders in
23 the full requirements auction is huge. Price competition among bidders in the FR auction

1 will reflect the depth of the underlying PJM market and bring the benefit of that market to
2 POLR customers in Pennsylvania.

3 **Q. Does this complete your direct testimony?**

4 A. Yes.