BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

INVESTIGATION OF PENNSYLVANIA'S RETAIL ELECTRICITY MARKET	:	**DOCKET NO. I-2011-2237952**

TESTIMONY OF RICHARD G, WEBSTER, Jr.
ON BEHALF OF
PECO ENERGY COMPANY

March 21, 2012 *En Banc* HEARING

Chairman Powelson, Vice Chairman Coleman, Commissioners Cawley, Gardner and Witmer and Chief Administrative Law Judge Rainey: My name is Dick Webster, and I am Vice President, Regulatory Policy and Strategy of PECO Energy Company. I appreciate the opportunity to comment on the Commission's End State Discussion Document.

Let me begin by saying that PECO agrees with the Commission that the focus of today's discussion should be on the default service *product*. We believe that if the default service product is structured to encourage robust and sustainable shopping, while at the same time providing the price stability sought by the legislature under Act 129, the actual provider of the service becomes less relevant.

Specifically, PECO believes that a properly structured end state default service product for residential and small commercial customers should be more reflective of shorter term market prices, while also protecting customers against extreme volatility. We therefore propose a one-year product, perhaps procured through laddered full requirements contracts or based on a transparent forward market index, to hedge against buying all of the supply at the top of the market. Setting the price as closely as possible to the actual time of delivery would help ensure that the default service price is more closely reflective of current market prices. We believe shortening the length of the contract term and holding the procurements close to the time of delivery would help reduce the “boom or bust” cycle created by procuring default supply through longer term contracts. A default service product with a minimum one-year term, however, protects smaller customers from the extreme volatility that likely would occur with a shorter term default service product.

On the other hand, PECO believes that because medium and large commercial customers are in a better position to manage volatility, they could benefit from having a product that reflects real-time wholesale market prices. Accordingly, we envision that most non-residential customers, perhaps down to 25kW, could be systematically transitioned to an hourly- or monthly-priced default service product. We recommend linking the timing of this transition with predetermined shopping thresholds and coordinating it with the installation of the interval meters and billing process changes necessary to accomplish hourly billing.

With that in mind, PECO offers its comments on the three Models proposed by Staff in its discussion document. PECO believes that Model B is the most attractive of the three products for mass market customers. As I stated previously, setting prices based on a one-year product would provide a shorter term market-reflective rate and could help to sustain more robust shopping while also providing mass market customers with sufficient rate stability.

With respect to Model A, while we believe the hourly- and monthly-priced products under Model A could be appropriate for commercial and industrial customers, they are too volatile for mass market customers. PECO has concerns about moving mass market customers to an hourly or monthly default service product due to the potential for extreme price volatility which would likely lead to customer dissatisfaction. Default service pricing with that much volatility would present significant challenges to many residential and small commercial customers who would have difficulty absorbing a sudden shift to a high-priced hourly product in a high usage month, such as July or August. This in turn could create credit and collection issues and call center impacts for any billing agent with Purchase of Receivables responsibilities. If that credit and collection risk remains with the EDCs, the Commission should consider mechanisms to mitigate that exposure, such as a bad debt tracker or rider.

Model A also poses challenges for universal service programs because it does not produce a baseline price to calculate discounts for low-income customers and it is not clear how these programs could be redesigned to protect non-low-income customers who pay for these discounts. If Model A is implemented, the Commission should consider a funding mechanism such as a societal benefits charge to mitigate these concerns.

As I stated at the outset, however, with an appropriate transition plan, PECO does believe the Model A product could be appropriate for medium and large commercial and industrial customers.

Finally, we do not support Model C because it fails to change the default service product, which is important to foster sustainable shopping.

As a general matter, if the EDCs were to be moved out of the default service role, we respectfully suggest that this should be implemented over a phased transition, moving larger customers first followed by smaller customers and based on predetermined shopping thresholds. This would allow time to increase customers' level of comfort with shopping and to allow the competitive enhancements and increased consumer education to take hold and shopping levels to increase organically. Removing the EDC from the default service role would involve forcibly switching customers to the new EGS default service provider, which customers are likely to view negatively. Allowing more time for the competitive enhancements and modified default service products to increase voluntary shopping would minimize the number of customers that would be assigned to an EGS default service provider and mitigate potential repercussions.

Additionally, we believe that the entity responsible for default service also should be responsible for providing complex functions such as the emergency backstop service in the event of supplier default.

Finally, we agree with the Commission that many of the approaches being considered would require legislative changes. We look forward to working with the Commission and other stakeholders to improve the retail electric market in Pennsylvania and help ensure its sustainability.

I will be happy to answer any questions. Thank you.