

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Investigation of Pennsylvania’s Retail Electricity Market: Intermediate Work Plan :
: Docket No. I-2011-2237952
:
:

**COMMENTS OF
EXELON GENERATION COMPANY
IN RESPONSE TO THE DECEMBER 16, 2011 TENTATIVE ORDER**

I. INTRODUCTION

Exelon Generation Company and Exelon Energy Company (collectively “Exelon”) hereby submit these Comments in response to the Pennsylvania Public Utility Commission’s (“Commission”) December 16, 2011 Tentative Order (the “Tentative Order”). The Tentative Order sets forth the Office of Competitive Market Oversight’s (“OCMO”) proposed intermediate work plan (“work plan”) developed from stakeholder input during the Commission’s pending Investigation of Pennsylvania’s Retail Electricity Market (“the Investigation”).

Since the Commission initiated the Investigation on April 29, 2011, Exelon has participated actively in Commission proceedings, technical conferences, and several issue specific stakeholder subgroups, including those for both the opt-in auction and customer referral programs, which OCMO recommends EDCs include in their upcoming default service plans. Exelon appreciates the opportunity to provide further comments on the Tentative Order’s important recommendations, focusing specifically on those two programs.

A. Customer Referral Programs

To ensure the earliest possible implementation, OCMO proposes in the Tentative Order that EDCs implement two types of customer referral programs: (1) a new/moving customer referral program; and (2) a standard offer customer referral program. OCMO believes the new/moving customer referral program could be implemented as early as 2012, whereas the standard offer customer referral program would not be implemented until June 2013, along with the EDCs' upcoming default service plans.

Exelon appreciates OCMO's desire to implement a workable, robust customer referral program as soon as possible. Exelon does not believe, however, the proposed new/moving customer referral program will achieve the intended goal of incenting significant shopping. Moreover, its implementation will require stakeholders to invest significant time, money, and effort better spent on finalizing the standard offer customer referral program which will more effectively promote switching.

Although Exelon, along with many other stakeholders and OCMO have recommended modeling the standard offer customer referral program after New York's successful programs, the details of Pennsylvania's program have not yet been finalized. The Commission has recommended that all EDCs include a standard offer customer referral program in their upcoming default service plans, but nothing precludes the EDCs from implementing such a program sooner if stakeholders reach agreement on the program's details. Therefore, Exelon believes that the stakeholders' time is best spent finalizing the details of the standard offer customer referral program, rather than implementing a less effective new/moving customer referral program.

B. Retail Opt-in Auction Programs

As noted in comments Exelon filed previously in the Investigation regarding opt-in auction programs generally, it is concerned that proceeding too quickly could harm, rather than enhance, Pennsylvania's retail competitive market. Such a program not only would be unprecedented, but also would be implemented along with numerous other new programs or enhancements including, but not limited to: customer referral programs; increased statewide consumer education on choice; changes to default service pricing and time of use rates; accelerated switching; and increased hourly or short-term pricing for certain customers. No matter how it is structured, the retail opt-in auction runs the risk of confusing customers simply because it is a different form of default service which would be advertised at the same time as the other new programs and services described above. Therefore, Exelon believes the most beneficial approach would be first to implement and assess the success of the other recommended programs and improvements before executing the retail opt-in auction program. Exelon provides comments on the specific elements of OCMO's opt-in auction proposal below.

1. Customer Eligibility

Exelon supports OCMO's recommendation to target the program to non-shopping default service customers only, but allow all residential customers, whether they are shopping or not, to participate.

2. Pilot Programs

Consistent with its comments filed in the opt-in auction subgroup, Exelon strongly supports OCMO's recommendation and rationale for conducting no pilot program.

3. Program Length/Term

Exelon supports OCMO's proposed term length of six to twelve months. Exelon, however, encourages OCMO to consider imposing exit fees on those customers who chose to leave the program before the contract term expires. The Commission needs to balance its desire to encourage shopping with its desire to obtain the most competitive price. Although anecdotal evidence indicates customers prefer arrangements without exit fees, there is insufficient data to determine whether, and for what price, customers might be willing to trade some switching optionality for a lower cost product. Incentive payments to stay with a supplier for a period of time generally increase the electricity price of the auction product, whereas exit fees generally reduce that price.

Not only will imposing exit fees likely reduce the retail auction price, but also will reduce the default service price because exit fees mitigate switching risk for wholesale suppliers. Given their respective potential impact on ultimate price, labeling incentive payments as customer-friendly while dismissing exit fees as anti-consumer does not reflect the reality that such fees are commonly included in suppliers' current fixed price product offerings without deterring customer switching.

4. Timing

Regarding timing, Exelon supports the proposal to first conduct the default service procurement to establish the price to compare, followed by the retail auction to establish the price for the opt-in auction product, with customer enrollment last. This order allows eligible customers to know the exact price they will pay so they can make an informed decision whether to participate in the opt-in auction program. Exelon does not support allowing customer enrollments to occur **before** the retail auction, even with a guaranteed discount off the EDC's price to compare. Messaging a product without a known price is complicated and will likely

confuse customers. Although enrolling customers before the retail auction may benefit retail suppliers, as they will know the number of customers they will serve, Exelon believes the suppliers, not the customers, should bear the most risk for this program.

Exelon notes that the proposal it supports places the most amount of risk on the wholesale default service suppliers, as they not only will bid on an unknown number of customers, but also, unlike the retail auction suppliers, will not bid against a known price. The risk of losing at one time a large amount of customers, who also are free to return to default service, creates significantly more risk for the wholesale suppliers which must be priced into their bids, ultimately increasing the default service price. In proposing to mitigate migration risk by limiting customer participation in the opt-in auction program, OCMO specifically cites this additional risk. As discussed above, however, Exelon believes such risk should be mitigated not only by limiting customer participation, but also by allowing exit fees for participants who choose to return to default service.

5. Customer and Supplier Participation Caps

To effectively mitigate migration risk and place downward pressure on default service prices, Exelon supports OCMO's proposal to limit customer participation to 50% of an EDC's default service customer base. Exelon does not, however, support limiting suppliers to serving 50% of the customers participating in the auction.

As a rule, Exelon opposes supplier caps because they do not generally promote supplier diversity or increased participation and can lead to higher prices. The only circumstance where requiring supplier caps is constructive is when an auction is not competitive on its own merits. If, however, the Commission determines a lack of supplier diversity requires such caps, Exelon suggests they should be sufficiently high to ensure customers the best possible price.

6. Composition of Customer Offer – Product

OCMO proposes two possible products for the retail opt-in auction: (1) a fixed rate product with a bonus; and (2) a percent-off the price to compare with no bonus. Exelon supports these as two possible products, but also suggests including as a third product a fixed rate product with no bonus. Since retail choice began in Pennsylvania, suppliers have offered, and customers have chosen, fixed rate products with no bonuses. Not requiring a supplier to offer a bonus would likely lower the overall price for the opt-in auction product, which many customers may prefer.

7. Customer Options Upon Program Expiration

Exelon supports OCMO's proposal that, consistent with existing rules and regulations, when the opt-in auction customer's contract term ends, such customers be treated the same as any other shopping customer.

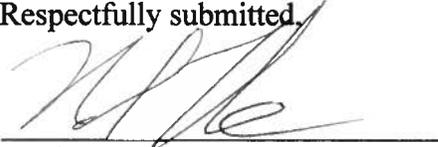
8. Opt-In Auction Structure

Exelon agrees with the majority of the stakeholders that a sealed bid process would be less expensive and easier to implement than the descending clock auction, but that the descending clock auction generally provides more price transparency and may ultimately provide a lower price. Exelon supports the use of either so long as the auction is competitive and as transparent as the chosen process allows.

II. CONCLUSION

Exelon appreciates the opportunity to comment on the Tentative Order and looks forward to continuing to work with the Commission and other stakeholders on the Investigation's important retail market issues.

Respectfully submitted,



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Date: January 17, 2012

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PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Investigation of Pennsylvania's : **Docket No. I-2011-2237952**
Retail Electricity Market: Intermediate :
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CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served a copy of the **Comments of Exelon Generation Company on the Commission's Tentative Order** on the following persons in the matter specified in accordance with the requirements of 52 Pa. Code §

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