

**PECO ENERGY COMPANY
STATEMENT NO. 4**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

DOCKET NO. P-2016-_____

DIRECT TESTIMONY

WITNESS: CHANTALE LACASSE

SUBJECTS: RFP PROCESS, PRODUCTS, LOAD CAPS,
ROLE OF INDEPENDENT EVALUATOR
AND RFP PROTOCOLS

DATED: MARCH 17, 2016

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**DIRECT TESTIMONY
OF
CHANTALE LACASSE**

I. INTRODUCTION AND PURPOSE OF TESTIMONY

1. Q. Please state your full name and business address.

A. My name is Chantale LaCasse. My business address is 1255 23rd St. NW, Washington, DC, 20037.

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

A. I am a Senior Vice President with NERA Economic Consulting (“NERA”). I also serve as Chair of NERA’s Energy, Environment, and Network Industries Practice.

3. Q. Please summarize your prior professional experience.

A. Before joining NERA in 2001, I held various full-time academic positions in Canada. I taught economics to graduate and undergraduate students, and I conducted original research on auctions and other issues in economic policy. My last position was as a tenured associate professor of Economics at the University of Alberta (Edmonton, Canada).

In 1997-98, I held the T.D. MacDonald Chair in Industrial Economics at the Canadian Competition Bureau. The Competition Bureau is the Canadian equivalent of the antitrust division at the Department of Justice. The T.D. MacDonald Chair is a one-year visiting position that was offered to one outstanding Canadian academic each year. I provided advice on various antitrust matters as well as on the implementation of a competitive bidding process for the

1 sale of spectrum licenses. Starting in 1998, I provided consulting advice on
2 competitive bidding processes and on antitrust matters on a freelance basis.

3 I joined NERA in 2001. My consulting experience at NERA has principally
4 consisted of providing conceptual advice on the design of competitive bidding
5 processes, of providing detailed practical advice on their implementation, and of
6 managing the bidding processes themselves. My recent engagements have been
7 as follows.

8 First, I provided advice to and assisted PECO Energy Company (“PECO” or the
9 “Company”) in the design, implementation and administration of a competitive
10 bidding process for the Company’s first three default service programs, spanning
11 the period from January 1, 2011 to May 31, 2017. I reviewed some of the default
12 service plan elements designed by PECO and provided advice so that the
13 Requests for Proposals (“RFPs”) used to solicit bids would attract strong
14 participation and yield prices consistent with wholesale energy market, including
15 preparation of bidder rules. NERA has also served and is serving as the
16 Independent Evaluator under each of PECO’s default service programs. In this
17 role, NERA manages the competitive bidding process as approved by the
18 Pennsylvania Public Utility Commission (“Commission”). NERA responds to
19 bidder questions; maintains a website to provide information to bidders; maintains
20 a website through which bidders submit their proposals; qualifies bidders; and
21 administers the bidding procedures by which bids are received and evaluated.

1 Second, I have assisted other utilities in Pennsylvania in designing and
2 implementing competitive bidding processes for their procurement of default
3 service. PPL Electric Utilities Corporation (“PPL Electric”) retained NERA to
4 serve as Independent Evaluator starting in 2007. NERA administered PPL
5 Electric’s RFPs for the procurement of full requirements products for its
6 Competitive Bridge Plan. NERA continued in this role for PPL Electric’s
7 subsequent default service programs and administered the associated RFPs. I
8 provided advice to Pennsylvania Power Company (“Penn Power”) in 2005, and
9 again later for its first Default Service Program following its integration into the
10 PJM footprint, regarding the design and implementation of a competitive
11 solicitation to procure full requirements supply for its default service customers. I
12 provided advice to the Metropolitan Edison Company (“Met-Ed”) and to the
13 Pennsylvania Electric Company (“Penelec”) in 2006, and again later for their first
14 Default Service Programs, for the procurement of full requirements products for
15 their default service customers. NERA also served as the Independent Evaluator
16 for Met-Ed, Penelec, and Penn Power during the implementation of their first
17 Default Service Programs.

18 Third, in New Jersey, I have served as the auction manager for the statewide
19 Basic Generation Service auctions (the “BGS Auctions”) since their inception.
20 Every year I provide advice on improvements to the competitive bidding process
21 and assist the four New Jersey electric distribution companies (“EDCs”) in
22 formulating their proposal for submission to the New Jersey Board of Public
23 Utilities (“Board”). I manage the competitive bidding process as approved by the

1 Board by responding to bidder questions; maintaining a website to provide
2 information to bidders; preparing and leading training sessions for bidders;
3 qualifying bidders; administering the bidding procedures by which bids are
4 received and processed in accordance with procedures approved by the Board;
5 and finally provided a report to the Board concerning the central aspects and
6 results of the Auction Process. After each auction, I have advised the EDCs
7 concerning potential improvements to the Auction Process. The BGS Auctions
8 have been successful at attracting robust participation and each year the Board has
9 approved the auction results.

10 Fourth, in Illinois, I have assisted the Illinois Power Agency (“IPA”) since its
11 creation in 2008 with the procurement of standard block products and renewable
12 energy credits for the portfolio of Commonwealth Edison Company. More
13 recently I have also assisted with procurement for the portfolio of Ameren Illinois
14 Company. Before each procurement event, NERA administers a comment
15 process on the contract terms and credit instruments and takes these comments
16 into account when finalizing the standard forms of the contract and credit
17 instruments that all suppliers will use. I prepare detailed rules for the conduct of
18 the competitive bidding processes and serve as procurement administrator and
19 evaluator. At the conclusion of the bidding process, NERA prepares a
20 confidential report for the Illinois Commerce Commission.

21 Fifth, in Ohio, I provided advice to Ohio Power Company (“AEP Ohio”) in
22 designing and implementing a Competitive Bidding Process (“CBP”) to procure
23 supply for Standard Service Offer (“SSO”) customers under its Electric Security

1 Plan. I also participated in the stakeholder process to develop collaboratively
2 specific elements of the CBP. AEP Ohio has retained NERA to serve as Auction
3 Manager for their CBP. Additionally, in 2004 and 2005, I managed the
4 competitive bidding processes to procure supply for the default service customers
5 of the Ohio FirstEnergy Companies.

6 Finally, NERA has been retained on other occasions where I have been called
7 upon to advise on the design and implementation of competitive bidding
8 processes, most notably for the World Bank in its implementation of an auction
9 for methane and climate change mitigation; for the Independent System Operator
10 of New England in its redesign of certain aspects of the forward capacity market;
11 and for the Legal Services Commission (UK) in its design of a competitive
12 bidding process for the procurement of legal aid services.

13 **4. Q. What is your educational background?**

14 A. I hold an Honors B. Soc. Sc. in Economics (1983) and an Honors B.A. in
15 Mathematics (1984) from the University of Ottawa (Canada). I hold an M.A.
16 (1986) and a Ph.D. in Economics (1991) from the University of Western Ontario
17 (Canada).

18 **5. Q. Have you prepared an Exhibit that sets forth your professional experience
19 and educational background?**

20 A. Yes. PECO Ex. CL-1 is my curriculum vitae and it provides those details.

21

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

2 A. In this default service program (“DSP IV”), PECO is proposing to continue to
3 procure full requirements supply through an RFP process for all of its default
4 service customers. The full requirements supply is on a fixed-price basis for the
5 Residential and Small Commercial Class. For the Large Commercial and
6 Industrial Class (which includes the Class formerly known as the Medium
7 Commercial Class) energy is priced to the PJM day-ahead market. My testimony:

- 8 • Describes the RFP process, proposes modifications to improve the
9 RFP process, and explains why the RFP process should be approved;
- 10 • Reviews the product structure proposed by PECO for DSP IV and
11 discusses PECO’s proposal to continue the current limit to the amounts
12 that any one supplier can bid and win (the “load cap”); and
- 13 • Summarizes NERA’s role as Independent Evaluator and the protocols
14 that NERA will follow to conduct the solicitations under the RFP
15 process.

16 **7. Q. What exhibits are attached to and incorporated in your direct testimony?**

17 A. To my testimony are attached:

- 18 • The RFP Rules (PECO Ex. CL-2), which contains a number of
19 appendices, including the forms that potential suppliers would use to
20 submit their qualifications; and
- 21 • The RFP Protocol (PECO Ex. CL-3), which describes how NERA will
22 manage the RFP process and will communicate with all parties.

23

1 **8. Q. How is the remainder of your testimony organized?**

2 A. Section II of my testimony reviews the key elements of the RFP process and
3 explains the proposed changes to this process for DSP IV. Section III summarizes
4 the products proposed to be procured in DSP IV. Section IV summarizes the
5 activities that NERA will undertake in its role as Independent Evaluator as
6 provided in more detail in the RFP Protocol.

7 **II. PROPOSAL TO MAINTAIN ONLINE PROPOSAL PROCESS WITH MODEST**
8 **CHANGES TO IMPROVE EFFICIENCY**

9 **9. Q. Were there changes made to the RFP Process under PECO's current default**
10 **service program, "DSP III"?**

11 A. Yes. Under DSP III, the most significant change is that the proposal submission
12 process was moved online and bidders were able to submit all materials but their
13 bid assurance collateral electronically via a secure, customized, proposal
14 submission website.

15 **10. Q. Have these changes, and the RFP Process under DSP III more generally,**
16 **been successful?**

17 A. Yes. The online proposal submission process has reduced the administrative
18 complexity and burden for bidders of the submission of proposals and for the
19 Independent Evaluator of the evaluation of proposals. The Commission has thus
20 far approved the results of every solicitation under DSP III. Solicitations under
21 DSP III have attracted between nine (9) and thirteen (13) suppliers qualified to
22 bid. This is the same robust level of participation that was seen in the solicitations
23 for full requirements supply on a fixed-price basis in DSP I and DSP II.

1 Solicitations have produced prices for customers that are consistent with then-
2 current market conditions. The main activities of each solicitation, including the
3 submission of possible modifications to the credit instruments, the qualification of
4 bidders, and the submission of bids, were completed successfully and on
5 schedule.

6 **11. Q. Are you proposing changes to the RFP process?**

7 A. The majority of the elements of the RFP process would remain the same. I am
8 proposing a minor improvement to the RFP process related to comments on the
9 guaranty appended to the Uniform SMA with the objective of conducting the
10 solicitations more efficiently. As I testified, the RFP process under DSP III has
11 been successful and the modification that I propose will build on this success.

12 **12. Q. What are the key elements of the RFP process?**

13 A. The key elements of the RFP process are:

- 14 • The communication with bidders;
- 15 • The qualification of bidders;
- 16 • The submission and evaluation of bids; and
- 17 • The reports provided to the Commission.

18 **13. Q. Please describe how the Independent Evaluator communicates with bidders.**

19 A. The RFP Protocol establishes how NERA communicates with bidders. In
20 particular, the Protocol specifies the procedures for managing the dissemination
21 of information to bidders and ensuring that information is provided fairly and
22 equally to all bidders. In order to provide information to bidders on a fair and

1 equal basis, NERA maintains a website that provides bidders with access to
2 historical data, including hourly usage data, number of retail customers, and
3 capacity peak load contributions. The website also allows bidders to submit
4 questions concerning the RFP process and/or data provided. If PECO receives
5 any questions directly, PECO directs those questions to NERA.

6 NERA responds individually to each questioner and posts the question and
7 answer to the frequently asked questions (“FAQs”) page of the RFP website so
8 that all bidders have access to the same information. When necessary, NERA
9 draws on PECO’s expertise in drafting responses after the identity of the
10 questioner is redacted.

11 NERA communicates with bidders regarding the status of their proposals or bids
12 with individuals directly authorized to assist with the RFP process. This is
13 essential to maintain the confidentiality of the bidder’s information. A bidder
14 submits its proposal in two parts and, after processing each part, NERA notifies
15 the bidder of the status of its proposal. Any notification that a bidder has
16 qualified to continue in the RFP process, along with any documents necessary for
17 such participation, are delivered by secure file transfer to individuals directly
18 authorized to assist with the RFP process.

19 **14. Q. Please describe how the Independent Evaluator qualifies bidders.**

20 A. The bidder qualification process requires bidders to submit their proposals in two
21 parts. All representations and certifications required in the RFP process must be
22 made by a single individual. This individual must be an individual who can bind

1 the bidder and is authorized to undertake contracts, including the Uniform SMA,
2 which is the standard contract that suppliers and PECO execute for the provision
3 of default service supply. Such an individual is an “Officer of the RFP Bidder”
4 and has the option of submitting all of the representations for the RFP process
5 (“Part 1” and “Part 2”) at once.

6 In the Part 1 proposal, all bidders are required to submit to a creditworthiness
7 assessment and have the opportunity to propose modifications to the standard
8 credit instruments. Bidders that are not existing suppliers are also required to
9 demonstrate that they can fulfill all technical and regulatory requirements of the
10 Uniform SMA and are asked to provide information for the preparation of the
11 Uniform SMA and, if applicable, for preparation of the guaranty. The bidder
12 must represent that it is bidding independently and that all information provided is
13 accurate and will remain valid throughout the RFP process.

14 In the Part 2 proposal, all bidders provide pre-bid security to support their bids. A
15 bidder certifies that the bids it submits will be binding and agrees to promptly
16 execute the Uniform SMA, the transaction confirmations, and, if the bidder is
17 relying on the financial standing of a guarantor, the guaranty, upon approval of its
18 winning bids by the Commission.

19 For each part of the proposal, NERA evaluates whether the bidder has submitted
20 all information and documents in a manner consistent with the RFP process.

21 NERA advises the bidder of any deficiencies in the proposal and provides a pre-
22 determined period to cure any such deficiencies.

1 **15. Q. Please describe how bidders submit bids and how the Independent Evaluator**
2 **evaluates the bids.**

3 A. After qualifying to bid, pursuant to completing the Part 1 and Part 2 proposals,
4 bidders may submit their bids or price offers. A bidder submits a separate price
5 offer for each tranche that it wishes to supply, stated in dollars per MWh. A
6 bidder may bid on as many tranches as are available subject to load cap
7 restrictions and provided that these bids are supported by sufficient pre-bid
8 security. A bidder uses a spreadsheet provided by the Independent Evaluator to
9 enter its bids and submits its bids through a secure electronic interface.

10 Bids are evaluated on a price-only basis. For each product, NERA selects the
11 lowest-priced bids to fill the available tranches and identifies these to the
12 Commission as winning bids.

13 **16. Q. Please describe the reports that NERA submits to the Commission in its role**
14 **as Independent Evaluator.**

15 A. NERA provides two confidential reports to the Commission. Ten days before
16 bids are due, if desired by the Commission, NERA provides a ‘Market
17 Information Report’. This report summarizes the then-current market conditions.
18 NERA is available for any questions or any supplemental information request
19 from the Commission in this regard. Further, if there are significant changes in
20 market conditions in the ten-day period immediately preceding the bid date,
21 NERA updates its analysis for the Commission.

1 The day after bids are due, NERA provides to the Commission a full factual
2 report on the results of the solicitation. This report summarizes the efforts to
3 inform potential suppliers of the solicitation, the results of the procedure to
4 qualify bidders, as well as the results of the evaluation of the bids. The
5 Commission renders a decision on the results of the solicitation within one
6 business day of the submission of the report. If the Commission does not act
7 within one business day of receiving the confidential report, the results of the
8 solicitation are deemed approved.

9 **17. Q. What changes are you proposing to the RFP process?**

10 A. Under DSP III, potential suppliers had the opportunity to propose changes to the
11 guaranty appended to the Uniform SMA in a separate process held prior to
12 proposal submission. I am proposing to change this timing by offering suppliers
13 the opportunity to propose changes to the guaranty with their Part 1 Proposals.
14 Potential suppliers would remain able to request use of an alternate guaranty prior
15 to the submission of proposals as they do today upon request to the Independent
16 Evaluator.

17 While the online proposal submission process will be the same as the one used
18 under DSP III, I am also proposing to adapt the RFP Rules for DSP IV to conform
19 more closely to this electronic process. Under DSP III, additional instructions
20 that were specific to the online proposal submission platform were issued to
21 potential suppliers separately in an addendum. For DSP IV, I am proposing to
22 integrate these instructions into the RFP Rules and to align the order of the

1 requirements in the RFP Rules to the order in which potential suppliers encounter
2 the corresponding questions in the online proposal submission platform.

3 **18. Q. How will these modifications improve the efficiency of the RFP process?**

4 A. Allowing bidders to propose modifications to the guaranty as part of the Part 1
5 proposal streamlines the RFP process and should reduce the burden on bidders.
6 The Part 1 proposal already includes the bidder's proposed modifications to other
7 standard credit instruments such as the letter of credit used as bid assurance
8 collateral and therefore bidders can review and propose changes to all credit
9 instruments collectively. It will also be more convenient for bidders to access the
10 RFP requirements and instructions in a single document during the bid proposal
11 submission process.

12 **19. Q. Are NERA's proposals on these items reflected in PECO Ex. CL-2, the
13 proposed RFP, and in PECO Ex. CL-3, the RFP Protocol?**

14 A. Yes.

15 **III. PRODUCTS AND APPLICABLE LOAD CAPS**

16 **20. Q. Please summarize the products PECO proposes to procure under DSP IV.**

17 A. For procurement and rate design purposes, PECO divides its customers into the
18 following classes:

- 19 • Residential;
- 20 • Small Commercial (up to 100 kW);
- 21 • Consolidated Large Commercial and Industrial (over 100 kW).

1 As Mr. McCawley explains in PECO Statement No. 3, PECO is proposing one
2 modification to the DSP III procurement classes to consolidate procurement for
3 all commercial and industrial customers receiving hourly-priced default service
4 (i.e., those with annual peak demands greater than 100 kW). Accordingly, those
5 customers will be grouped in a single procurement class in the RFP process (the
6 “Consolidated Large Commercial and Industrial Class”).

7 PECO proposes to continue to procure full requirements supply through an RFP
8 process for all of its default service customers. The full requirements supply is on
9 a fixed-price basis for the Residential and Small Commercial Classes and with
10 energy price to the PJM day-ahead market for the Consolidated Large
11 Commercial and Industrial Class.

12 Default service supply for the Residential Class would consist primarily of
13 laddered one-year and two-year contracts procured approximately two months
14 prior to delivery. In addition, as Mr. McCawley explains, PECO is proposing to
15 procure two tranches of a five-year product.

16 Default service supply for the Small Commercial Class would consist of laddered
17 one-year and two-year contracts also procured approximately two months prior to
18 delivery. Default service supply for the Consolidated Large Commercial and
19 Industrial Class would consist of spot-priced twelve-month full requirements
20 contracts.

21

- 1 **21. Q. Is PECO proposing a change to the load cap percentage for DSP IV?**
2 A. No. Each supplier may not hold at any one time more than 50% of all tranches
3 for a Class. For purposes of this calculation, tranches won by a supplier under
4 DSP III that have a supply period that continues into the DSP IV period are
5 included.

6 **IV. NERA’S ROLE AS INDEPENDENT EVALUATOR**

- 7 **22. Q. Do you propose any changes to the division of responsibilities for the**
8 **administration of the RFP Process?**

9 A. No.

- 10 **23. Q. Do you propose any changes to the RFP Protocol regarding interactions**
11 **between NERA and PECO?**

12 A. No. The process has worked well and there is no reason for change.

13 **V. CONCLUSION**

- 14 **24. Q. Dr. LaCasse, does this conclude your direct testimony?**

15 A. Yes.