BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Implementation of Act 129 of 2008 -	:	
Total Resource Cost (TRC) Test	:	**Docket No. M-2009-2108601**
2011 Revisions	:	

COMMENTS OF PECO ENERGY COMPANY ON THE PROPOSED 2011 REVISIONS TO THE TOTAL RESOURCE COST TEST

Pursuant to the May 6, 2011, Tentative Order entered by the Pennsylvania Public Utility Commission (the "Commission") in the above-referenced docket, PECO Energy Company ("PECO" or the "Company") hereby submits comments on the Commission's proposed revisions to the total resource cost ("TRC") test for use in evaluating the cost-effectiveness of the energy efficiency and conservation plans ("EE&C Plans") of electric distribution companies ("EDCs").

I. INTRODUCTION

PECO appreciates the opportunity to comment on this matter and commends the Commission's efforts to refine the existing TRC test to address areas of uncertainty and to further support Act 129's goals. Overall, the Company believes the Tentative Order accurately tracks the discussion and resolution of issues by the Statewide Evaluator and working group participants. However, the Company does have some substantive comments and requests for clarification which are provided below in the format directed by the Tentative Order.

II. COMMENTS ON THE TENTATIVE ORDER

A. Demand Response ("DR")

1. Application Of TRC Test Calculation To DR Programs

PECO is not commenting on this topic.

2. Treatment Of DR Payments To CSPs And EDCs From PJM

In the Tentative Order, the Commission proposes that PJM payments to Conservation Service Providers ("CSPs") for DR market participation be excluded from TRC test calculations. PJM payments to EDCs, however, would be allowed to be recognized as benefits for purposes of the TRC test to the extent that such payments "represent benefits (costs avoided) that exceed those costs avoided which are calculated as set forth in the *2009 PA TRC Test Order*[1]." Tentative Order, p. 9. The Commission explains the different treatment of PJM payments by stating that EDCs provide "full disclosure of program costs" while CSP transactions "lack transparency." Thus, the Commission reasoned, payments to EDCs "are truly net societal benefits" while payments to CSPs "are considered to offset" CSP costs. *Id.* at 9-10. Commissioner Cawley, in his May 5, 2011 Statement, encouraged comments on the issue of whether or not PJM payments should be treated differently depending on whether they are received by an EDC or CSP.

a. Recognition Of PJM Payments To EDCs And CSPs

PECO believes that all costs and benefits, including PJM payments for DR market participation, must be incorporated into the TRC on a consistent basis regardless of whether they pass thorough a CSP or an EDC. The overall purpose of the TRC test is to consistently evaluate the cost-effectiveness of programs contained in EE&C Plans. To this end, all costs and benefits must be captured in order to perform an accurate analysis. The Company understands that the Commission is concerned about a lack of transparency regarding the costs and benefits of CSP-related transactions. There also appears to be a belief that CSPs are unwilling to release any financial performance data, and, if such a release occurred, that it would hurt their competitive position. PECO believes these concerns are overstated and should not be the basis for excluding

[1] *Implementation of Act 129 of 2008 – Total Resource Cost (TRC) Test*, Docket No. M 2009-2108601 (June 23, 2009), corrected by errata on page 7 on October 19, 2009.

PJM payments to CSPs from the TRC test altogether. PECO contractually requires CSPs participating in its current Act 129 DR programs to divulge certain cost and financial incentive data in support of their program participants. This disclosure requirement has not prevented the Company from identifying and contracting with a sufficient number of CSPs to implement its EE&C Plan. Further, several existing CSPs (that operate in PJM and nationwide) are publically traded entities that routinely report their financial performance and earnings data to the investment community.

b. Value Of PJM Payments Included In TRC Test

As noted above, the Commission proposes to allow PJM payments to EDCs to be recognized as benefits "to the extent that these payments represent benefits (costs avoided) that exceed those costs avoided which are calculated as set forth in the *2009 PA TRC Test Order*." It is not clear from the discussion in the Tentative Order why the entire PJM payment should not be included as a benefit. PECO believes that it is appropriate to include the entire PJM payment provided in connection with an Act 129 DR program because it represents an increment to any other avoided cost benefits.

PECO also requests a clarification (and a citation, if available) of the following statement made in this section of the Tentative Order: "The payments by PJM for economic program participation represent benefits that are in excess of the retail rate, by definition." Tentative Order, p. 10.

3. Treatment Of DR Payments To CSPs And Participants From EDCs

In this section of the Tentative Order, the Commission discusses the use of DR participant incentives as a proxy for the participants' transaction costs. The Commission states that the California Protocols provide guidance on this issue and, based on its review of the

Protocols, the Commission proposes that payments made by EDCs directly to participants or CSPs be included as a cost for purposes of the TRC test. Tentative Order, pp. 12-13.

PECO recognizes that DR incentives can be a proxy for transaction costs, but believes that 75% of incentive payments would be an appropriate proxy for transaction costs, instead of the 100% proposed by the Commission. PECO notes that in the California Protocol DR reporting templates, the "base case" utilizes 75% of the sum of incentives and bill reductions in its transactional cost calculations.

Finally, when reviewing this section of the Tentative Order, the Company identified a citation that appears to be incorrect. On page 12 the Commission states: "The California Protocols provide guidance on treatment of payments from EDCs to CSPs or to participants of DR programs and highlight the importance of considering customer costs arising from the loss of electric service (e.g., losses in productivity and comfort) as an element of TRC in DR." The Tentative Order then references page 17 of the California Protocols, which addresses issues such as program administrative costs, ancillary services market revenues and the avoided cost of supplying electricity – but not loss of electric service. The Company requests that a corrected citation be provided in the final order.

4. Treatment of American Reinvestment And Recovery Act Of 2009 (ARRA) Funds

PECO is not commenting on this topic.

5. Measure Life For DR Programs

PECO is not commenting on this topic.

B. Net-To-Gross

1. Net-To-Gross Research And Applications

PECO is not commenting on this topic.

C. Fuel Switching

1. TRC Inputs For Fuel Switching

The Commission proposes to use the 2002 California Standard Practice Model ("CA SPM") as a guide for defining the costs and benefits that should be included in the TRC test for fuel switching purposes. Tentative Order, p. 9. PECO requests that the Commission provide explicit guidance on how to calculate increased supply costs for gas resulting from fuel switching. PECO believes it would be appropriate to use NYMEX gas costs for the first 10 years, and U.S. Energy Information Association ("EIA") projections thereafter.

2. Fuel Switching Appliance Efficiency

PECO is not commenting on this topic.

D. TRC Calculations

1. Database For Deemed Customer Costs Or Incremental Measure Costs As Applicable

The Commission proposes that EDCs continue to use already filed incremental cost data in TRC calculations through May 31, 2013. For measure variants not included in the EDCs' EE&C Plans, the Commission states that EDCs should use the CPUC's Database for Energy Efficient Resources ("DEER") as the primary source of cost data. Tentative Order, p. 22. PECO believes that the use of DEER data, which has been assembled over many years and is updated regularly, may represent an improvement over the filed incremental cost data in some cases. PECO, therefore, requests that the Commission allow EDCs to use DEER data (appropriately adjusted for regional and local conditions) for any measure.

2. Basis Of TRC Benefits – Reported Savings Or Verified Savings; And Basis Of TRC Costs – Actual Costs Or Committed Costs

PECO is not commenting on this topic.

3. Definition Of Incentives In TRC For Energy Efficiency Measures

PECO is not commenting on this topic.

4. Avoided Cost Calculations And Forecasts

In this section, the Commission addresses the calculation of the avoided cost of electricity and, in particular, whether EDCs should use historical or forecast data for the "BLS Electric Power GTD sector price index" as a basis for the escalation rate and for how many years should the BLS factor be applied. Tentative Order, pp. 24-27. The Commission proposes that EDCs use the historical average annual growth rate from a BLS index (provided in the Tentative Order) for the period 2003 through the most recently available annual data point as a proxy for the rate of escalation between the end of the 2013 program year and the beginning of the EIA Annual Energy Outlook in year 11. Tentative Order, p. 26.

PECO requests confirmation from the Commission that the use of this growth rate would apply only to new programs proposed between now and May 31, 2013, consistent with the Commission's proposed resolution of the avoided cost issue addressed in Section III.D.6 of the Tentative Order. *See* Tentative Order, p. 29 ("For program measures that have not been changed, regardless of methodology or data used by an EDC to calculate its original Commission-accepted portfolio TRC test, the avoided costs figures included in TRC calculations in previously approved EE&C/DR program plans need not be updated for the period June 1, 2009, to May 31, 2013, by present or future avoided cost figure revisions or updates.").

5. Inclusion Or Exclusion Of Customer Avoided Operating And Maintenance Costs In the TRC Calculation

PECO is not commenting on this topic.

6. Avoided Costs In The Benefit/Cost Ratios In The Approved EE&C Plans And Avoided Costs Commencing June 1, 2013

PECO is not commenting on this topic.

E. TRC Reporting

1. Baseline Study Research

PECO is not commenting on this topic.

2. Frequency Of Cost-Effectiveness Evaluations And Reporting Results And Timing Of TRC Reports (*e.g.*, When To Freeze Data And Inputs)

PECO is not commenting on this topic.

III. COMMENTS ON OTHER TRC TOPICS

A. Price Suppression Benefit Of DR Programs

One of the key drivers of the Act 129 demand reduction requirement for the top 100-hour period is the price mitigation that results from reducing demand during high priced periods. A 2007 study conducted by PJM, which simulated the effect of demand response on prices, demonstrated that a three percent load reduction in the 100 highest peak hours corresponds to a price decline of six to twelve percent.[2] PECO believes this price reduction represents an additional benefit of DR programs that should be included in the TRC test. The price reduction benefit could be modeled by simulating the PJM market with and without the effects of the Act 129 DR programs using an hourly market simulation model such as PROMOD. PECO recommends that the Statewide Evaluator and working group review possible models and develop a recommendation.

B. TRC Test Period

Act 129 defines the TRC test as "[a] standard test that is met if, over the effective life of each plan not to exceed 15 years, the net present value of the avoided monetary cost of supplying electricity is greater than the net present value of the monetary cost of energy efficiency conservation measures." 66 Pa. C.S. §2806.1(m). PECO believes this language is somewhat

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[2] Markets Committee of the ISO/RTO Council . 2007. "ISO-RTO Council Report, Harnessing the Power of Demand How RTOs and ISOs Are Integrating Demand Response into Wholesale Electricity Markets." http://www.isorto.org/atf/cf/%7B5B4E85C6-7EAC-40A0-8DC3-003829518EBD%7D/IRC_DR_Report_101607.pdf.

unclear with respect to the appropriate TRC test period for measures that are added after an EE&C Plan is approved. Some language in the *2009 PA TRC Test Order* supports a 15-year test period for each measure (regardless of when the measure is added to an EE&C Plan), while other language is less clear. *See, e.g., 2009 PA TRC Test Order,* p. 19 ("Act 129 limits the evaluation and TRC test process to consideration of energy efficiency effective measure lives of 15 years or less"); p. 20 ("We agree that for the purposes of capturing the energy or demand savings in EM&V protocols, savings beyond 15 years, or beyond the term of a particular EE&C plan, should be captured where warranted and may also be included in future EE&C plans.").

PECO believes it is appropriate to calculate savings for a measure with a 15 year life for a 15 year period, regardless of the year of installation, and requests that the Commission address this issue in its final order.

IV. CONCLUSION

PECO appreciates the opportunity to comment on this important matter and believes that the Company's recommended revisions can further improve the effectiveness of the TRC test.

Respectfully submitted,

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For PECO Energy Company