

June 5, 2009

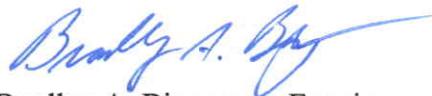
VIA PERSONAL DELIVERYJames J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120***Re: Total Resource Cost ("TRC") Test – Pennsylvania Specific
Docket No. M-2009-2108601******Implementation of Energy Efficiency and Conservation Program
Docket No. M-2008-2069887***

Dear Secretary McNulty:

Enclosed for filing are an original and six (6) copies of Comments of Metropolitan Edison Company, Pennsylvania Electric Company and Pennsylvania Power Company (collectively, "the FirstEnergy Companies") in the above-captioned dockets. In accordance with the Commission's Secretarial Letter of May 21, 2009, an electronic copy of the Comments is being sent to the Commission's Act 129 email account at ra-Act129@state.pa.us.

Please contact me at the above phone number should you have any questions regarding this matter.

Very truly yours,



Bradley A. Bingaman, Esquire

dlm
Enclosures

c: As Per Certificate of Service

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Total Resource Cost (“TRC”) Test – Pennsylvania Specific	:	Docket No. M-2009-2108601
	:	
	:	
Implementation of Energy Efficiency and Conservation Program	:	Docket No. M-2008-2069887
	:	

**COMMENTS OF METROPOLITAN EDISON COMPANY,
PENNSYLVANIA ELECTRIC COMPANY AND
PENNSYLVANIA POWER COMPANY**

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Dated: June 5, 2009

**Counsel for:
Metropolitan Edison Company,
Pennsylvania Electric Company and
Pennsylvania Power Company**

I. INTRODUCTION

On October 15, 2008, Governor Rendell signed House Bill 2200 into law as Act 129 of 2008 (“Act 129”). Act 129 became effective on November 14, 2008. Among other things, Act 129 requires an electric distribution company (“EDC”) to demonstrate that its energy efficiency and conservation plan is cost effective using the Total Resource Cost (“TRC”) test. 66 Pa. C.S. § 2806.1(b)(1)(i)(I). 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).

On January 15, 2009, the Pennsylvania Public Utility Commission (“Commission”) adopted an Implementation Order establishing standards for energy efficiency and conservation plans that will be filed by EDCs by July 1, 2009. *Energy Efficiency and Conservation Program, Docket No. M-2008-2069887* (Implementation Order entered January 16, 2009) (“Implementation Order”). The Implementation Order stated that Act 129 requires that an analysis of the costs and benefits of each EDCs’ energy efficiency and conservation plan, in accordance with a TRC test, be approved by the Commission. The Commission issued a Secretarial Letter dated May 21, 2009, that included a draft order setting forth the nature of the TRC test to be utilized in Pennsylvania. The TRC test will be used to evaluate EDC energy efficiency and conservation programs and EDC performance under the energy efficiency and conservation plans. In other words, the TRC test will be used to determine the cost effectiveness of an EDC’s energy efficiency and conservation plan.

California has previously developed a TRC test. The Commission's proposed TRC test modifies the California TRC test in order to meet the unique Pennsylvania requirements of Act 129.

The FirstEnergy Companies have been an active participant in the Commission's efforts to implement Act 129 and will continue to work with the Commission and other interested parties to develop the rules and processes associated with this endeavor. The FirstEnergy Companies respectfully submit these comments for the Commission's consideration.

II. COMMENTS

A. **General Comments:** In accordance with Act 129 and the Implementation Order, the sole purpose of the TRC test is to calculate the cost-effectiveness, or analyze the costs and benefits, of energy efficiency and conservation programs, or a portfolio of programs, in order to rank and prioritize these programs. In other words, the TRC test is a tool to determine the cost effectiveness of an EDC's portfolio of programs designed to meet the energy efficiency goals set forth in Act 129. The assumptions and projections used to review program cost effectiveness in Act 129 proceedings should be used solely for that purpose. Parties in other unrelated proceedings should not attempt to utilize or carry over any calculations or avoided costs supported by the EDC for the TRC test as a proxy for revenue requirements in a future base distribution rate or default service proceeding. There must be a separation between the TRC test and any other unrelated revenue requirement exercises.

In addition, due to the fact that Act 129 is in its infancy, and the short time afforded to the Commission to develop and consider comments supporting the TRC draft order, going forward the TRC test should be applied and interpreted in a flexible manner. With respect to

interpretation and application of the TRC test, there may be an opportunity for the Commission to look at synergies between how EDCs apply the test and define avoided costs after the initial EDC plans are in place and all stakeholders have more experience with Act 129 programs. While EDCs are likely to comment on the avoided costs outlined in the draft order, it would be premature for the Commission to attempt to prescribe more details regarding avoided costs prior to the EDC plan filings on July 1, 2009. Further, following completion of the review, the Commission may wish to refine its final order based on experience gained through the review process.

B. Avoided Costs of Supplying Electricity: For the purposes of calculating the TRC test in the Commission's proposed draft order, the Commission proposes methodologies for calculating the avoided monetary cost of supplying electricity that includes generation, transmission and distribution cost components, and ancillary service and capacity rates, to the extent known. The draft order further describes certain adjustments to reflect local conditions, losses and market uncertainty, and directs the addition of gross receipts taxes to the generation, transmission and distribution avoided cost benefits. The draft order focuses on two aspects: prediction assumptions and adjustments.

In the draft order, the Commission breaks down the 15-year period for calculating avoided electricity supply costs into three segments of five years each. In the first five-year segment, the Commission proposes to use wholesale electric generation prices as reflected in the NYMEX PJM futures price which will be adjusted to reflect both on- and off-peak prices on a 50% on- and 50% off-peak basis. A further adjustment may be applied to reflect historical EDC-specific usage characteristics by customer, and rate, class. In the second five-year period, the Commission proposes to use the NYMEX Natural Gas futures price which would be converted

into an estimated wholesale energy price through the use of a spark price spread calculation. Finally, in the third five-year period, the Commission proposes to use the U.S. EIA's annual energy outlook projections. The estimated price for the PJM RTO's RPM capacity price broken down into a cents per kWh value will also be used, as well as transmission prices as set by the Federal Energy Regulatory Commission ("FERC") to the EDC's zone, and distribution and ancillary costs.

The wholesale electric generation prices will be modified to reflect class, time-of-use characteristics, congestion, zonal location basis differences, losses, and a market uncertainty adjustment. Generation, transmission and distribution costs will be adjusted for losses and market uncertainty, and gross receipts taxes will be added. The total annual generation, transmission and distribution costs will be discounted over the 15-year period, and the EDC's weighted average cost of capital will be used as a discount factor. The total discounted benefits avoided by a project will be defined as the "net benefit" of the project, which will ultimately be compared to the net cost.

The Commission's draft order regarding avoided transmission and distribution costs at Page 3 properly indicates that "...the benefits calculated in the TRC test will include the avoided supply costs, such as the reduction in transmission, distribution, generation and capacity costs valued at *marginal* cost for the periods when there is a consumption reduction." (Emphasis added.) However, on Page 7 of the proposed order, the Commission states that "[T]ransmission prices, as set by FERC, to the EDC zone will be included; as will EDC distribution rates. Generally accepted ancillary service rates will be included to the extent known."

The FirstEnergy Companies could agree that they might avoid costs associated with transmission, distribution and ancillary services, but not to the extent of the full retail rates being

charged for these services. The full retail rates charged for these services are based on embedded base-year costs to perform basic distribution service which includes many fixed costs, including meter reading, billing, customer calls, normal distribution maintenance, corporate overheads, etc. These costs do not vary with a company's sales and, therefore, are not avoided based on reductions in marginal sales. Avoiding marginal distribution costs, in particular, requires targeted reductions in peak demands in regions nearing delivery capacity. Reducing load in under-loaded areas, or reducing energy during off-peak periods, does not avoid any distribution or transmission investment or cost.

The FirstEnergy Companies propose that the Commission evaluate a marginal cost of transmission and distribution which would more closely reflect avoided costs, and associate the avoided transmission and capacity value with the peak load reductions (kW) supported in the Technical Reference Manual ("TRM") as opposed to energy rates. The use of the full transmission, distribution and ancillary service rates as a basis for evaluating avoided marginal transmission and distribution costs does not reflect avoided costs and should not be included in the TRC test.

Regarding avoided capacity cost forecasts, the Commission's proposed order at Page 7 addresses avoided costs by stating, "[w]e will also include and estimate price for the PJM RTO's RPM capacity price, broken down into a cents/kWh value." The FirstEnergy Companies offer several recommendations on this concept.

First, as avoided capacity is based on the peak load reductions required under Act 129, and estimated peak load reduction impacts are supported in the TRM, the FirstEnergy Companies strongly recommend using projected peak load reduction impacts and avoided capacity costs based on projected dollars per megawatt-days consistent with the referenced PJM

capacity pricing forecasts, or based on the equivalent avoided dollar per kW-year. Spreading avoided capacity costs over energy can be accomplished, but this significantly understates the value of programs focused on managing peak loads (e.g., residential direct load control) which cannot be modeled based on energy savings. At a minimum, utilities should be offered the option of modeling programs based on the value of reduced peak loads (rather than energy) for programs whose primary impact is peak load reduction.

Second, PJM capacity values resulting from the RPM auction model are limited to a three to four-year forward period. Given the developmental nature and novelty of the RPM auction, projecting capacity values beyond that period is challenging and subject to significant variation depending on the forecaster. To support more consistency among utilities, the FirstEnergy Companies recommend reference to a “proxy plant” to value avoided capacity costs.

One example of this is MidAmerican of Iowa which uses the economic carrying charges on a new combustion turbine to calculate the avoidable capacity costs. Using this methodology, the annual cost in 2008 was \$48.96 per kW. The installed cost of the unit was estimated to be \$536.01 per kW, based on a combination of cost data from the EPRI Technical Assessment Guide, local cost experience from the installation of a combustion turbine at the Greater Des Moines Energy Center, and assessment of the current combustion turbine market and construction costs.

C. **Appendix:** Pages i through vi of the Appendix are not relevant to the Pennsylvania-specific TRC test and should not be included in the Appendix. Those pages include different tests used in California that are unrelated to the TRC. Assuming the Commission is not interested in utilizing those other, unrelated tests, the FirstEnergy Companies recommend including only Page vii of the Appendix attached to the draft order, because Page vii

illustrates the relevant TRC test. In addition, Page vii should be revised to ensure that all of the acronyms used in the TRC test and formula are properly defined on Page vii.

D. **Timing:** The FirstEnergy Companies commend the Commission and its Staff for its strong efforts in developing the process and rules for the energy efficiency and conservation programs in such a short timeframe. The FirstEnergy Companies continue to be concerned that the deadlines prescribed in Act 129 do not allow adequate time to vet issues regarding the TRC, in addition to the TRM and the development of specific EDC plans. The tight timeframe has resulted in a need to proceed with developing energy efficiency and conservation programs despite various flaws that may require correction or revision in future years as Pennsylvania's expertise with the energy efficiency and conservation program grows.

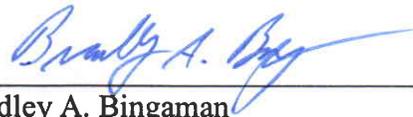
As a result of the short timeframe related to the TRC test and the need to finalize energy efficiency and conservation programs to satisfy the filing deadline of July 1, 2009, the FirstEnergy Companies have calculated avoided costs based upon the companies' recommended modifications to the provisions in this draft proposed order. As time is of the essence due to the aggressive schedule set forth in Act 129, and because cost-benefit modeling of the portfolio of energy efficiency and conservation programs is time-intensive, it may be difficult, if not impossible, for the FirstEnergy Companies to revise the avoided cost calculations for inclusion in the July 1 filing, following the Commission's issuance of a final order on the TRC.

III. CONCLUSION

The FirstEnergy Companies appreciate the opportunity to provide Comments on the TRC test. For the reasons set forth above, the FirstEnergy Companies respectfully request that the Commission develop and adopt a TRC test consistent with the foregoing Comments.

Respectfully submitted,

Dated: June 5, 2009



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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and correct copy of the foregoing document upon the individuals listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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Dated: June 5, 2009



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