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VIA FEDERAL EXPRESS

June 5, 2009

James J. McNulty, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, Pennsylvania 17120

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

Dear Mr. McNulty:

Enclosed for filing on behalf of PPL Electric Utilities Corporation ("PPL Electric") are an original and five (5) copies of PPL Electric's comments in the above-captioned proceeding. PPL Electric is submitting these comments pursuant to the Public Utility Commission's ("Commission") Secretarial letter dated May 21, 2009.

Pursuant to the Commission's May 21, 2009 Secretarial letter, PPL Electric is sending the enclosed comments to the Commission's Act 129 e-mail account. In addition, PPL Electric is posting this filing on its Act 129 website. The URL address for that website, which is available to all interested parties and to the public, is www.pplact129.com.

Pursuant to 52 Pa. Code 1.11, the enclosed document is to be deemed filled on June 5, 2009, which is the date it was deposited with an overnight express delivery as shown on the delivery receipt attached to the mailing envelope.

In addition, please date and time-stamp the enclosed extra copy of this letter and return it to me in the envelope provided.

If you have any questions regarding this filing or PPL Electric's Act 129 website, please call me at (610) 774-4254.

Very truly yours,

Paul E. Russell

Enclosures

cc: Gregory A. Shawley
Louise Fink Smith, Esquire

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Implementation of Act 129 of 2008 -	:	
Total Resource Cost Test	:	Docket No. M-2009-2108601

Comments of PPL Electric Utilities Corporation

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

I. Introduction

On October 15, 2008, Governor Rendell signed HB 2200 into law as Act 129 of 2008 ("Act 129" or the "Act") with an effective date of November 14, 2008. The Act expands the oversight responsibilities of the Public Utility Commission ("PUC" or the "Commission") and imposes new requirements on Electric Distribution Companies ("EDCs") with the overall goal of reducing energy consumption and demand, enhancing procurement of generation supply for default service, expanding the installation of smart meter technology, and expanding alternative energy sources.

In an Implementation Order entered on January 16, 2009 at the above-captioned docket, the Commission established, consistent with the requirements of Act 129, that EDCs are required to demonstrate the cost effectiveness of their Energy Efficiency and Conservation Plans using the Total Resource Cost Test ("TRC Test"). Act 129 defines that 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 that the net present value of the monetary cost of energy efficiency conservation measures." In the Implementation Order (pages 14-15), the Commission concluded that California's TRC Test provides a good starting point, but it will be necessary to modify the California TRC Test in order to meet the unique requirements of Act 129 and the Commonwealth's electric industry.

By Secretarial Letter dated May 21, 2009, the Commission issued a proposed TRC Test, and requested comments on that proposal. The Secretarial Letter states that comments are due June 5, 2009, but does not establish a process for the filing of reply comments.

PPL Electric Utilities Corporation ("PPL Electric" or the "Company") is an EDC serving 1.4 million customers in central eastern Pennsylvania. PPL Electric was an active participant in the development of Act 129 and continues to be an active participant in the development of the rules and regulations necessary to implement Act 129. Under the Act, PPL Electric is required to file an Energy Efficiency and Conservation Plan and to employ the TRC Test to demonstrate the cost effectiveness of that plan. PPL Electric appreciates this opportunity to comment on the proposed TRC Test, and looks forward to continuing to work with the Commission and all interested stakeholders to address issues associated with implementation of the Act. For the sake of efficiency, PPL Electric has organized the comments that follow under the headings used in the Commission's May 21, 2009 proposal.

II. Comments

(a) Level at Which to Measure TRC

The Commission's proposal states that the TRC Test will be applied at the plan level rather that at the component, program, or measure level. PPL Electric concurs with this approach. The Company believes that, in order to address needs across diverse customer groups, and meet the Act 129 customer segment set-asides and equity requirements, it may be necessary to offer some programs or measures that produce a benefit to cost ratio less than one. Requiring that each program or measure, meet the TRC Test could put some EDCs at risk of non-compliance with Act 129. These EDCs may miss reduction targets for low-income and institutional customer sectors or may not provide what some might judge to be an equitable distribution of programs. By applying the TRC Test at the plan level, EDCs will be better able to meet the dual objectives of proposing a cost-effective use of ratepayer funds and providing an equitable distribution of programs across customer segments.

(b) Avoided Costs of Supplying Electricity

PPL Electric believes that the Commission's proposal provides, with one exception, a complete list of the components that make up the cost of supplying electricity and of the adjustments that need to be made. However, the Company believes that certain simplifications and clarifications may be appropriate. The purpose of the TRC Test is to provide a framework within which to assess the cost effectiveness of measures relative to each other and to determine whether EDCs' plans are cost effective. To do this, certain assumptions must be made and those assumptions must be consistent with the TRC Test methodology and plan timeframes. Because the TRC Test will also serve as a screening tool for measures, the Company believes that it is important that the assumptions be as simple as practicable, be applicable to a wide range of measures, and yet produce results that are generally consistent with the results that would be produced by more detailed analyses and assumptions. Accordingly, the assumptions used in the TRC Test may be different than those used in base rate proceedings, default service procurement proceedings, or other more focused analyses. Following is a list of PPL Electric's recommendations regarding determination of the avoided cost of supplying electricity:

1. The Company believes that calculation of the wholesale market price of electricity should be simplified. The proposal's use of three price forecast periods with different sources of information in each period is, in the Company's opinion, more complex than is necessary to carry out the purposes of the TRC Test. Instead, the Company recommends the first five-year period reflect NYMEX futures for an appropriate delivery point adjusted for delivery to the EDC zone and, also, the results of any actual default service procurements that the EDC has completed. In the case of PPL Electric, the appropriate delivery point would be the PJM Western Hub with adjustment as appropriate to the PPL zone. The Company recommends that the last two five-year periods simply be based on the

EIA Annual Outlook. Furthermore, the Company believes that if supply has actually been procured for any of the period covered by the Plan, the actual cost of that supply should be used to determine the avoided cost of supply for those specific years. Depending on whether the procured supply includes all necessary components, adjustments may still be required. Also, depending on the supply period covered by the procurement, procurement results may need to be blended with supply costs obtained through one of the forecasting methods described above to produce an avoided cost applicable to a specific program year.

2. With regard to on- and off-peak adjustments, the 50%/50% adjustment identified in the proposal is appropriate for around-the-clock flat usage. The proposal further states that resultant values may be further adjusted to reflect historical EDC-specific usage characteristics by customer class and rate class. Under the heading "Adjustments:" the proposal also describes adjustments for "class time-of-use characteristics". The Company believes that the correct adjustment is the "end use characteristic". For example, the assessment of a compact fluorescent light bulb program for residential customers should reflect the residential lighting profile and not the general residential profile for all uses.
3. The costs of compliance with the Commonwealth's Alternative Energy Portfolio Standards Act need to be included. The costs should reflect the appropriate percentage of each required resource and the price should be consistent with the Commission's annual determination of market price, or published indices or quotes to the extent that those are available.
4. The Company agrees that its avoided cost of supply should reflect the capacity prices determined by PJM's RPM Auction process. Near term prices should be escalated at an appropriate rate. The Company also believes that ancillary costs charged by an RTO are a cost of supply that can be avoided. Finally, the Company believes that line losses need to be reflected in order to establish a price that reflects retail costs and is, therefore, consistent with the level at which reductions will be measured.

5. The Company agrees that the EDC's weighted average cost of capital is the appropriate discount factor.
6. The Company is uncertain as to what the Commission intends by "a market uncertainty adjustment". When bidding on supply, both wholesale providers bidding on default service and competitive retail providers seeking to serve retail load typically include in their prices an amount to cover risks and profit. If this is what the proposal intends, the Company recommends that 3% would be an appropriate amount. If, as the Company speculates, this adjustment is intended to reflect supplier risk and profit, then it would only be appropriate to add this when the cost of supply is constructed starting with the NYMEX or EIA prices as the starting point. In the circumstance where avoided cost reflects an actual procurement (as recommended by the Company, see (b).1, above), any risk/profit adjustment would already be included in the bid price.

(c) Maximum 15-Year Measure Life

The Commission's proposal states, "Act 129 limits the TRC test evaluation process to consideration of energy efficiency measure lives of 15 years or less." The Commission interprets this limitation to mean that if an EDC's plan includes a measure that has a useful life of 20 years, the plan can only include the savings that will be realized in the first 15 years. While the Company does not disagree with the Commission's conclusion, the Company notes that Act 129 does not limit the life of measures to 15 years. Instead, it limits the horizon of the TRC Test as follows: "(a) standard test that is met it, over the effective life of the <u>plan not to exceed 15 years</u>..." (Section 2806.1(M), emphasis added). Accordingly, the Company believes that, for measures included in a plan demonstrated to be cost effective over a 15-year plan horizon, the tracking of benefits should follow the actual useful life of the measure. This means that if a measure has only a 6 year life, then 6 years of benefits will be reflected in the TRC Test and 6 years of savings will be captured in the measurement and verification process. Conversely, if a measure has a 20 year life, 15 years of benefits will be reflected in the TRC Test, but the full 20 years of savings can be captured in the measurement and verification process. Similarly, if a measure has a 15 year-life, but is not implemented until the third year of the plan, its full 15 years of savings can also be captured in the measurement and verification process.

(d) Incentive Payments from an EDC

The Commission's proposal states, "(C)osts calculated in the TRC test will include EE&C plan costs whether paid by the EDC or by the participants." The proposal also states, "Incentive payments from an EDC to a customer will not be included in the TRC test because such costs are a cost to the EDC and a benefit to the customer that cancel each other out." PPL Electric is concerned that these two statements could be read as inconsistent. Incentive payments by the EDC to customers will be part of the plan budget, and the first sentence would suggest that they be included in the TRC Test. However, it is also the Company's understanding that, in other jurisdictions where the TRC Test is used, incentive payments from the EDC are not included, as stated in the second sentence. Accordingly, to avoid uncertainty the Company recommends revising these sentences to read as follows:

> "(C)osts calculated in the TRC test will *generally* include EE&C plan costs whether paid by the EDC or by the participants. *However*, incentive payments from an EDC to a customer will not be included in the TRC test because such costs are a cost to the EDC and a benefit to the customer that cancel each other out."

(e) Incentive Payments from Outside Sources

The Commission proposes that the TRC Test reflect, as reductions in the cost of programs, incentive payments from outside sources including, for example, tax credits, funds from Pennsylvania Act 1 of 2008, and the American Recovery and Reinvestment Act of 2009. The Company concurs, noting that to do otherwise would overstate the true cost of a plan, potentially resulting in some programs not being included or, in the alternative, additional EDC funds being allocated. In addition, failing to reflect these payments could jeopardize EDC's ability to achieve required reductions, and frustrate the ability to allocate funds from programs such as Act 1.

(f) Savings Claims from Act 1 Programs and Act 129 Programs

The Commission's proposal states that if a customer receives incentives for the same measure from both Act 129 and Act 1, the EDC may include the entire savings achieved by the measure for purposes of the TRC Test. The Company agrees with this approach. Not following this approach would require complex pro ration calculations in an attempt to identify that portion of the benefits associated with Act 129 incentives separately from that portion associated with Act 1 incentives. In addition, the Company believes that confirming incentives and performing such pro rations would consume a significant amount of EDCs' limited funds for a result that would have little value. Pro-rating savings would also lead to "competition" between Act 129 and other energy efficiency initiatives instead of cooperation by discouraging EDCs from pursuing projects with customers who have additional funding sources. The ability to combine energy efficiency incentives can be a major advantage for consumers to justify and quickly implement energy efficiency measures, especially in a challenging economic climate.

(g) Net-to-Gross (NTG) Adjustments to Savings

The Commission's proposal describes the nature and purpose of NTG adjustments and, explains that NTG determinations are the result of measure-specific participant level research that will consume a significant amount of EDCs' limited budgets. Accordingly, the proposal recommends, in the absence of specific NTG data, that plans include no NTG adjustment in the first year of the programs. The proposal further states that the Commission will direct the EDCs to undertake studies of free-rider, take-back and spillover effects for their more "prevalent" measures, and use the results of those studies to determine the need for NTG adjustments in subsequent years.

PPL Electric agrees with the proposal's description of NTG adjustments and the fact that they are typically determined through measure-specific participant level research. The Company also agrees that each EDC's initial plan filing on July 1, 2009 should make no NTG adjustments (effectively assuming NTG adjustment factors of 1 for each measure). As a practical matter, there is not sufficient time to perform NTG research and, as the Company commented in regard to the Technical Reference Manual, research from other jurisdictions will not reflect the unique circumstances that exist in Pennsylvania. The Company believes that using a NTG adjustment factor of 1 is an appropriate approach. However, the Company is concerned that the process described in the proposal for subsequent years will not be workable because EDC plans will need to reflect NTG adjustments for each of the 15 years of the plan and not just the first year. The Company recommends that the proposal be revised to specify that the initial plans filed on July 1, 2009 should reflect NTG adjustment factors of 1 for all measures for each year in which each measure produces benefits. The Company supports further study of the matter, and believes that such efforts should be overseen by the statewide evaluator. Finally, to the extent that there are significant additional costs associated with such studies that must be borne by the EDCs, the Company recommends that such costs be handled in a manner that will not be a drain on each EDC's limited plan budget.

Appendix

The Company notes that the Appendix attached to the proposal includes the formulas for not only the Total Resource Cost Test, but, also, for the Participant Test, and the Life-Cycle Revenue Impact Test. The Commission's Implementation Order clearly states that only the TRC Test be used. Accordingly, the Company recommends that, to avoid confusion, the Appendix be revised to remove material not related to the TRC Test.

III. Conclusion

For all of the reasons stated above, PPL Electric Utilities Corporation recommends that the Public Utility Commission proceed with development of the TRC Test consistent with PPL Electric Utilities Corporation's comments.

Respectfully submitted,

S/ Paul E. Russell

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Dated: June 5, 2009
At Allentown, Pennsylvania