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September 12, 2011

**VIA FEDERAL EXPRESS**

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17120

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SEP 12 2011

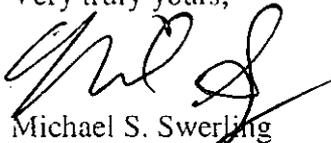
PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Re: **Net Metering – Use of third Party Operators**  
**Docket No. M-2011-2249441**

Dear Secretary Chiavetta:

Enclosed are an original and five (5) copies of the *Comments of PECO Energy Company to the Commission's Tentative Order* in the above-captioned matter. An additional copy of this letter is also enclosed to be date-stamped and returned to PECO Energy.

Very truly yours,



Michael S. Swerling  
Enclosures

cc: Scott Gebhardt, Analyst (via electronic mail)  
Kriss Brown, Assistant Counsel (via electronic mail)

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BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION  
PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

Net Metering –  
Use of Third Party Operators

Docket No. M-2011-2249441

**COMMENTS OF PECO ENERGY COMPANY  
TO THE TENTATIVE ORDER**

On July 28, 2011, the Pennsylvania Public Utility Commission (“Commission” or “PUC”) entered a Tentative Order proposing a policy that supports access to alternative energy systems to as broad an array of consumers as possible. The Order plans to create greater opportunities for customer-generators to interconnect and net meter small alternative energy systems. To promote this policy, the Commission proposed that the term “operator” (contained in the AEPS’s definition of “customer-generator”) include customer-generators with alternative energy systems that contract with third parties to install, own, operate and maintain these systems on customer premises (the “third party option”). The electricity generated would be sold to a **single** consumer through a power purchase agreement to offset the customer’s electric consumption. The Commission also proposed a 110% renewable generation system cap for customer-generators that wish to net meter. The cap will help prevent the installation of oversized alternative energy systems - merchant generation posing as customer-generators.

The Commission invited interested parties to file comments to the proposed policy within thirty (30) days after the Tentative Order was published in the *Pennsylvania Bulletin* (August 13, 2011). PECO commends the Commission’s efforts to promote reasonable customer access to alternative energy systems and prevent system oversizing and hereby files its comments in support of the Tentative Order.

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COMMENTS

I. The Third Party Option and 110% Cap Provide A Fair and Balanced Approach:

PECO believes that the third party option and 110% cap is a fair and balanced approach that will balance the need to increase customer access to alternative energy systems with the allocation of costs between renewable and non-renewable customers. Two approaches that may be used to increase customer access to alternative energy systems are: 1) the third party option with a generation cap; and 2) "community energy." The third party option will reasonably limit customer costs to install and maintain renewable systems, and the 110% cap will reasonably limit the size of the renewable facility – thereby controlling rising subsidies associated with system oversizing. A community energy approach would limit customer costs to install and maintain renewable systems, but not limit the size of the renewable facility – thereby promoting a significant increase in subsidies (avoided Transmission and Distribution costs ("T&D")) that are passed on to non-renewable customers. Compared to a "community energy" approach, a third party option and cap better balances the need to increase customer access to alternative energy systems with the resulting allocation of T&D rate components between renewable and non-renewable customers.

More specifically, the third party option will make the initial capital outlay more tenable for customers because the third party operators can absorb some or all of the customer installation and maintenance costs, making it more attractive for customers to invest in renewable generation. The 110% cap will ensure that the size and output of renewable generation facilities are appropriately limited – thereby controlling the amount of T&D that can be passed onto non-renewable customers by any one system. The cap will keep cost shifting from spiraling out of control.

Several other states utilize some form of community energy, – a much more unbalanced approach because while it may reduce the initial capital outlay, it increases subsidization from non-renewable customers. Community energy allows multiple properties or sites with more than one meter to receive net metering benefits from a single renewable energy system. Many times it involves *virtual net metering, wherein credits generated by a renewable system offset load at multiple retail accounts.* The generating facility can be owned by a group of owners or investors who share the net metering and virtual net metering benefits of the system even when the power itself cannot be physically shared. This method also allows the system installation costs to be shared among those participating in the group, thereby reducing the initial capital outlay that any one person would have to pay.

Although community energy reduces the initial cost outlays, it conversely increases costs to non-renewable customers, thereby causing an unfair and unbalanced result. Community energy creates oversized systems, which allow merchant generators to net meter and circumvent the wholesale electric market. Basically, it allows individuals to group together and share the net metering benefits created by one large merchant generation facility. By allowing these groups to evade the requirement that the third party operator sell electricity generated to a **single** consumer through a power purchase agreement, the groups collectively avoid the T&D rate components for the electricity generated by the merchant facility on a grander scale than currently exists. The avoided T&D components are then passed on to the remaining non-renewable customers. This type of cost shifting can drastically increase the amount of subsidization passed on to non-renewable customers, depending on the size of the community facilities and the number of them that operate.

Therefore, PECO requests that the Commission's policy statement indicate that the third party option and cap not be used as a means for system operators to promote community energy, but instead allows electricity generated to be sold to a **single** consumer through a power purchase agreement to offset that customer's electric consumption. The final policy statement should also indicate that merchant generators are not allowed to use the third party option as a means to circumvent the wholesale electric market and unfairly shift renewable costs to non-renewable customers.

**II. Recommendations for Implementing the 110% Renewable Generation System Cap:**

As PECO understands it, the 110% cap will apply to customers in four situations: 1) existing customer generators who already have constructed and operate alternative energy systems; 2) existing customers who plan to build new renewable facilities; 3) customers who wish to expand their existing renewable systems; and 4) new customers who plan to build new alternative generation systems. To facilitate implementation of the 110% cap in these situations, PECO requests that the Commission consider the recommendations set forth below.

**A. Existing Customers with Existing Alternative Energy Systems:**

For existing customer generators who already have constructed and operate alternative energy systems, the net metering benefits should be limited to 110% of the past 12 month's usage. Therefore, no matter the system size, the customer could only receive net metering benefits on 110% of their past 12 month's usage.

**B. Existing Customers Building New Alternative Energy Systems:**

For existing customers that wish to become customer-generators and build new renewable generation systems, the 110% cap should be implemented using a three-step process. First, renewable systems should be built within the kilowatt parameters already specified in the AEPS act. Second, the net metering benefits should be limited to 110% of the past 12 month's usage. Third, after determining what 110% of the previous 12 month's usage is, the system should be sized so that it only generates 110% of the previous 12 month's usage. Therefore, the system should be **designed and built** to match 110% of the usage that the customer exhibited in the 12 months before submitting the interconnection application.

**C. Existing Customers Planning to Expand Their Alternative Energy Systems:**

If after the system is built, customer-generators increase their end-use load and wish to expand their alternative energy systems, they can file expansion interconnection applications and the utility will review the electricity consumption in the 12 months immediately preceding the submission of the expansion application. The system will be resized so that it can only generate 110% of the consumption measured in the 12 months immediately preceding the submission of the expansion application to prevent system oversizing.

**D. New Customers Building New Alternative Energy Systems Lacking 12 Month's of Historical Usage:**

For new customers without 12 month's of historical usage that wish to build new renewable generation facilities, an estimate should be used to calculate the 110% cap for that

system. The estimate should be calculated by the customer/installer and provided to the EDC, which may review the estimate and ultimately be responsible for accepting or rejecting it.

**E. Billing and Cost Recovery:**

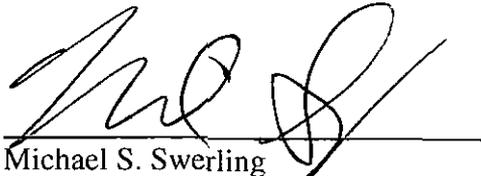
Regardless of whether EDCs are required to implement changes to its billing system or institute manual tracking processes to comply with this Tentative Order, PECO recommends that EDCs be allowed reasonable cost recovery to implement the necessary changes.

**CONCLUSION**

PECO respectfully requests that its comments to the Tentative Order be considered.

Respectfully submitted,

Dated: September 12, 2011



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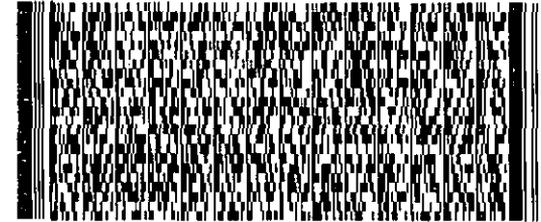
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Penna. Public Utility Commission  
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HARRISBURG, PA 17120

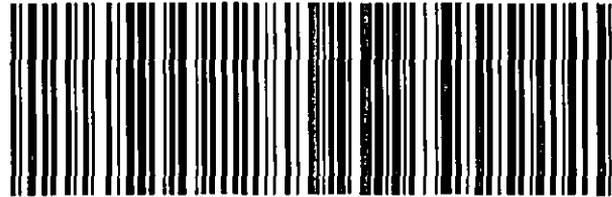
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