

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

ENERGY EFFICIENCY AND CONSERVATION
PROGRAM

DOCKET NO. M-2009-2093215

DIRECT TESTIMONY
SUPPORTING PECO'S PETITION FOR APPROVAL OF
ITS PHASE II EE&C PLAN

WITNESS: RICHARD A. SCHLESINGER

SUBJECT: COST RECOVERY

DATED: NOVEMBER 1, 2012

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**DIRECT TESTIMONY
OF
RICHARD A. SCHLESINGER**

I. INTRODUCTION AND PURPOSE OF TESTIMONY

1. Q. Please state your full name, professional position, and business address.

A. My name is Richard A. Schlesinger. I am Manager of Retail Rates in the Regulatory Policy and Strategy Department for PECO Energy Company (“PECO” or the “Company”). My business address is PECO Energy Company, 2301 Market Street, Philadelphia, Pennsylvania 19103.

2. Q. Please describe your educational background.

A. I have a Bachelor of Science Degree in Engineering from Widener University. In addition, I have a Masters Degree in Business Administration from Saint Joseph’s University.

3. Q. Please describe your work experience in the energy industry.

A. I was hired in 1986 by PECO as a System Engineer in the Plant Operations group supporting the Limerick Nuclear Generating Station. From 1988 to 1991, I held several positions of increasing responsibility supporting plant operations, management, and quality assurance. In 1992, I transferred into the position of Rate Engineer in the Rates and Regulatory Affairs Group. In 1997, I was appointed to the position of Project Manager, Customer Choice Implementation, and was responsible for many regulatory activities related to the phase-in of electric and gas retail choice for all of PECO’s two million electric and gas distribution customers. In 2000, I

1 transferred to the Company's Customer and Marketing Services Department and
2 served as e-Commerce Manager and then as Project Manager, overseeing various
3 Business/Information Technology system implementations. In 2004, I returned to the
4 Regulatory and External Affairs Department, where I served as Principal Rate
5 Administrator. In 2009, I was promoted to my current position – Manager of Retail
6 Rates. In this role, I have primary management and oversight responsibility for
7 PECO's electric and gas service tariffs, and oversee numerous filings with the
8 Pennsylvania Public Utility Commission (the "Commission").

9 **4. Q. Mr. Schlesinger, have you submitted testimony previously before the**
10 **Commission?**

11 A. Yes. I submitted testimony in support of PECO's Phase I Energy Efficiency and
12 Conservation ("EE&C") Plan.¹ In addition, I submitted testimony in support of the
13 Company's Market Rate Transition Energy Efficiency Package² and its Residential
14 Real-Time Pricing Program.³

15 **5. Q. What is the purpose of your direct testimony?**

16 A. I am sponsoring the revised PECO Electric Service Tariff, bearing a proposed
17 effective date of June 1, 2013, which contains provisions designed to implement
18 PECO's proposed Phase II EE&C Plan Charge ("Phase II EEPC"). The Phase II

¹ *Petition of PECO Energy Company for Approval of its Act 129 Energy Efficiency and Conservation Plan and Expedited Approval of its Compact Fluorescent Lamp Program*, Docket No. M-2009-2093215.

² *Petition of PECO Energy Company for Approval of its Market Rate Transition Energy Efficiency Package*, Docket No. P-2008-2062740.

³ *Petition of PECO Energy Company for Approval of Phase I of its Residential Real-Time Pricing Program*, Docket No. P-2008-2032333.

1 EEPC will recover the costs associated with the Company's Phase II EE&C Plan.
2 Accordingly, my testimony will: (1) describe the rate adjustment mechanism the
3 Company proposes to establish under Section 1307 of the Public Utility Code; and (2)
4 identify the categories of Phase II Plan costs the mechanism will recover and provide
5 the Company's current estimates of those costs. In addition, I will describe how the
6 Company will keep costs incurred and revenues collected for its Phase I EE&C Plan
7 separate from those for its Phase II EE&C Plan.

8 **6. Q. Have you prepared any exhibits to accompany your testimony?**

9 A. Yes, I have prepared four exhibits, which consist of the following:

10 **PECO Exhibit RAS-1** – Proposed revisions to the Electric Service Tariff.

11 **PECO Exhibit RAS-2** – Program costs by rate class.

12 **PECO Exhibit RAS-3** – Calculations of the levelized cost recovery charges by rate
13 class.

14 **PECO Exhibit RAS-4** – Responses to the Commission filing requirements at 52 Pa.
15 Code § 53.52.

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II. PECO'S PROPOSED METHOD OF COST RECOVERY

7. Q. What do Act 129⁴ and the Commission's Phase II Implementation Order⁵ provide with regard to an electric distribution company's ("EDC") right to recover the costs of its EE&C plan?

A. Act 129 provides that PECO is entitled to recover all reasonable and prudent EE&C plan costs, on a full and current basis, through a Section 1307 cost-recovery mechanism.⁶ In its *Phase II Implementation Order* (p. 118), the Commission directed that EDCs develop a separate cost recovery mechanism for Phase II plans and that such mechanism be non-bypassable and not affect the EDCs' prices-to-compare.

8. Q. Please explain the mechanism that PECO is proposing to recover Phase II Plan costs.

A. The Phase II EEPC would be a fully reconcilable, non-bypassable charge in accordance with the Act and the *Phase II Implementation Order*. Customers' distribution rates would be adjusted by the amount of the charge calculated for each rate class, and thus PECO's price-to-compare will not be affected. The mechanism follows the same format utilized by the Company for its existing EEPC, which recovers costs associated with PECO's Phase I Plan ("Phase I EEPC"). As described

⁴ 66 Pa. C.S. § 2806.1, et seq.
⁵ Docket Nos. M-2008-2069887, M-2012-2289411 (August 3, 2012) ("*Phase II Implementation Order*").
⁶ 66 Pa. C.S. § 2806.1(k).

1 later in my testimony, the Phase II mechanism will track and reconcile costs and
2 revenues separately from the Phase I costs and revenues.

3 Exhibit RAS-1 displays the tariff revisions needed to implement the Phase II EEPC.
4 The tariff language has been revised to reflect the Phase II EEPC cost recovery
5 method, the formula for calculating the Phase II EEPC charge and the Phase II EEPC
6 charges specific to each rate class. All of the rate schedules containing distribution
7 rates that would have to be adjusted to reflect the Phase II EEPC are also provided in
8 the proposed tariff. PECO will submit the final distribution rates in a compliance
9 filing after the Phase II Plan is approved.

10 **9. Q. Is PECO proposing to levelize the Phase II EEPC over the term of the Phase II**
11 **Plan?**

12 A. Yes. Consistent with PECO's existing Phase I EEPC, the Company would recover
13 budgeted Phase II Plan expenditures on a levelized basis. Levelizing the Phase II
14 EEPC will ensure an even distribution of cost recovery over the course of the Phase II
15 Plan. The costs incurred and recovered would be reconciled on an annual basis, with
16 a final "true-up" to the actual Plan costs at the end of the Phase II period. Any over
17 or under-collection would then be refunded or recouped without interest over a 12-
18 month period following the completion of Phase II.

19 **10. Q. What are the categories of costs that the Phase II EEPC will recover?**

20 A. The costs that will be recovered by the Phase II EEPC consist of all of the costs, both
21 capital and expense, of designing and implementing the thirteen energy efficiency and

1 conservation programs included in the Phase II Plan, which include, among others,
2 the cost of information technology needed to design and implement the programs; the
3 costs of customer outreach and program promotion; incremental labor costs incurred
4 to manage and administer the programs on an ongoing basis; the cost to measure and
5 verify program results; and the cost of incentives offered to customers to participate
6 in the approved programs.⁷

7 **11. Q. Will the Phase II EEPC recover any capital expenditures?**

8 A. Yes. The Company will incur certain IT capital costs in order to implement the Phase
9 II Plan. The Company intends to depreciate these costs over the three year Phase II
10 Plan period, and earn a return based on PECO's weighted cost of capital in
11 accordance with the *Phase II Implementation Order* (p. 102). PECO does not expect
12 the IT capital costs to exceed \$1 million.

13 **12. Q. What are the Company's budgeted expenditures for its Phase II Plan?**

14 A. As set forth in Section 8 of the Phase II Plan, the Company has budgeted expenditures
15 totaling \$256.4 million for the duration of the Plan. The portions of the budgeted
16 expenditures projected for each rate class are: \$131.1 million for the residential class;
17 \$53.4 million for the small commercial & industrial class ("SC&I"); \$70.1 million for
18 the large commercial & industrial class ("LC&I"); and \$1.80 million for the lighting
19 class ("ML"). PECO Exhibit RAS-2 contains a summary of the projected
20 expenditures for each of the thirteen programs spread across these rate classes.

⁷ See *Phase II Implementation Order*, p. 102.

1 13. Q. Will Statewide Evaluator (“SWE”) costs be included in the Phase II EEPC?

2 A. Yes. Consistent with the *Phase II Implementation Order* (p. 71) and Phase I cost
3 recovery, PECO has not included SWE costs in its Phase II Plan budget. PECO will
4 track Phase II SWE costs separately from the Phase II Plan costs, but will recover
5 both through the Phase II EEPC mechanism. Because the Phase II SWE has not yet
6 been selected, the Company is using actual Phase I SWE costs (approximately \$2.6
7 million) as a placeholder.⁸ The actual Phase II SWE costs will be included in a
8 compliance filing after the Phase II Plan is approved.

9 14. Q. What is the cost recovery period and when will it begin?

10 A. The cost recovery period would begin with bills sent to customers during July 2013
11 (June usage) and continue through bills sent to customers in June 2016 (May usage).
12 As noted above, there would be a final “true-up” to the actual Plan costs at the end of
13 the recovery period, and any over or under-collection would then be refunded or
14 recouped without interest over a 12-month period following the completion of Phase
15 II.

16 15. Q. How will the Company ensure that the Phase II EEPC recovers the cost of
17 particular programs from the classes of customers that will receive the benefits
18 those programs provide?

19 A. The cost of programs that target specific rate classes will be directly assigned to those
20 classes for purposes of developing the recovery charge. The cost of programs that

⁸ Per the *Phase II Implementation Order*, the SWE will be determined through a bid process with a contract effective as of March 1, 2013. See p. 70.

1 provide benefits to more than one rate class, such as the Commercial/Industrial
2 (“C&I”) Smart Construction Incentives Program, will be allocated among the affected
3 rate classes using allocation factors developed on the basis of reasonable, generally-
4 accepted cost of service principles (e.g., small C&I class revenues to total C&I
5 revenues.)⁹ The allocation of costs, by program and by rate class, is shown in PECO
6 Exhibit RAS-2.

7 **16. Q. Can you provide an example that illustrates the concept you just described?**

8 A. Yes. The estimated residential class Phase II EEPC of 0.35 cents per kilowatt hour
9 includes all of the costs of the eight proposed programs that are targeted to the
10 residential class (i.e., Smart Appliance Recycling, Smart Home Rebate, Smart House
11 Call, Residential Builder Rebates, Low-Income Energy Efficiency, Smart Energy
12 Solutions, Smart Usage Profile, and the Residential Multi-Family Solutions). These
13 costs were directly assigned to the residential class. The same process was used to
14 assign costs to the other classes (SC&I, LC&I and ML). In addition, all of the
15 administrative/common costs were allocated according to each program’s individual
16 spend to the total program spend, again in accordance with general cost of service
17 principles as specified in the *Phase II Implementation Order*. PECO Exhibit RAS-2
18 shows the results of the allocation of the proposed Phase II Plan costs to each rate
19 class.

⁹ See *Phase II Implementation Order*, pp. 110-111.

1 17. Q. **Have you developed proposed cost recovery rates under the Phase II EEPC for**
2 **each customer class?**

3 A. Yes, I have developed cost recovery rates based on the total projected program
4 expenditures assigned and allocated to each rate class for the duration of the Plan. To
5 develop the recovery charge for each rate class, the total projected expenditure for
6 that class was divided by the appropriate projected class billing units (e.g. kilowatt
7 hours of energy use or kilowatts of demand) for the period from June 1, 2013 through
8 May 31, 2016. In addition, as described previously, the Phase II SWE costs will be
9 tracked separately from the Phase II Plan costs, but included in the EEPC mechanism.
10 The resulting charges were then grossed up to provide for recovery of Pennsylvania
11 Gross Receipts Tax. This calculation produces a charge that will recover the total
12 expenditures on a levelized basis over the recovery period. PECO Exhibit RAS-3
13 contains the detailed calculations for the development of the recovery charges for
14 each class.

15 18. Q. **You said the Phase II EEPC follows the same format as the Company's existing**
16 **Phase I EEPC. Are there any differences between the Phase I and Phase II**
17 **EEPCs?**

18 A. Yes. For residential customers, the Phase II EEPC will no longer apply to the Off-
19 Peak Service (Rate OP) because Rate OP is being eliminated as of January 1, 2013 in
20 accordance with PECO's Default Service Plan at Docket No. P-2008-2062739. As of
21 January 1, 2013, OP customers will receive electric service under either Rate R or RH
22 and thus will still pay the appropriate residential Phase II EEPC. For lighting

1 customers, the Phase II EEPC will not apply to rate schedules POL and SL-S.
2 Customers on those rates utilize lights that are owned by PECO, and, therefore,
3 cannot directly participate in program measures related to those lights.

4 **III. SEPARATE ACCOUNTING OF COSTS AND RECOVERIES FOR PHASE I AND**
5 **PHASE II**

6 **19. Q. What does the *Phase II Implementation Order* provide with regard to the**
7 **accounting of Phase I costs and recoveries and Phase II costs and recoveries?**

8 A. The Order states that EDCs must account for Phase II costs and revenues separately
9 from Phase I costs and revenues. Similarly, reconciliation of costs against revenues
10 collected must occur separately for each phase.¹⁰

11 **20. Q. Please explain how the Company intends to address these accounting**
12 **requirements.**

13 A. PECO will account for Phase II costs and revenues on its books separately from
14 Phase I by setting up new general ledger accounts for Phase II costs and revenues.
15 Phase I costs and revenues are currently tracked through separate accounting. Thus,
16 there will be no comingling of Phase I and Phase II costs or revenues in PECO's
17 accounting records. Phase I and Phase II costs and revenues will also be clearly
18 identified and tracked separately in the EEPC cost recovery mechanism. This will
19 allow Phase II costs to be reconciled against the Phase II revenues collected. *See*
20 *Exhibit RAS-1.*

¹⁰ See *Phase II Implementation Order*, pp. 115, 119.

1 21. Q. How will any Phase I over/under collection balances be treated with the start of
2 Phase II?

3 A. In accordance with the reconciliation method approved in PECO's Phase I
4 Implementation Plan at Docket No. M-2009-2093215, any Plan I over/under
5 recoveries are to be reconciled as part of the Phase I EEPC rate adjustment effective
6 from June 1, 2013 through December 31, 2013. Since Phase II rates will also go into
7 effect starting on June 1, 2013, there will be a seven month period during which the
8 Phase I EEPC reconciliation and Phase II EEPC will be "netted" in determining the
9 EEPC. As described earlier in my testimony, PECO will submit final distribution
10 rates in a compliance filing after the Phase II Plan is approved that will reflect this
11 netting process. Prior to December 31, 2013, PECO will then make an additional
12 filing to revise the EEPC rates, to be effective January 1, 2014, to reflect only the
13 Phase II EEPC rates as the Phase I EEPC reconciliation will have been completed.

14 IV. CONCLUSION

15 22. Q. Does this conclude your direct testimony?

16 A. Yes.