Exelon Business Services Company
Legal Department
2301 Market Street / S23-1
P. O. Box 8699
Philadelphia, PA 19101-8699

Direct Dial: 215.841. 4608
Email: Jack.Garfinkle@exeloncorp.com

December 19, 2014

VIA eFILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

Re: Act 129 Energy Efficiency and Conservation Program Phase III
Docket No. M-2014-2424864

Dear Secretary Chiavetta:

Pursuant to the Commission's Order entered October 23, 2014 in the above-referenced docket, enclosed please find the **Comments of PECO Energy Company** (the "Comments").

A copy of the Comments in Word format has been electronically mailed to Megan G. Good (megagood@pa.gov) and Kriss Brown (kribrown@pa.gov)

Sincerely,

Jack R. Garfinkle

JRG/adz
Enclosures

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Act 129 Energy Efficiency and Conservation Program Phase III	: :	**Docket No. M-2014-2424864**

PECO ENERGY COMPANY'S COMMENTS
ON THE COMMISSION'S OCTOBER 23, 2014 SECRETARIAL LETTER

On October 23, 2014, the Pennsylvania Public Utility Commission ("Commission") issued a Secretarial Letter (the "Secretarial Letter") identifying issues relating to the design and implementation of a third phase of Energy Efficiency & Conservation ("EE&C") plans under Act 129 of 2008 ("Act 129" or the "Act"). Pursuant to the Commission's request for comments on these issues, PECO Energy Company ("PECO" or the "Company") hereby submits its comments.

I. INTRODUCTION

Section 2806.1 of Act 129 required Pennsylvania's largest electric distribution companies ("EDCs"), including PECO, to adopt EE&C plans that, *inter alia*, would achieve consumption savings of at least 1% for their retail customers by May 31, 2011 and at least 3% by May 31, 2013. In addition, the Act required EDCs to achieve a peak demand savings over the 100 highest hours of demand of a minimum of 4.5% by May 31, 2013.

Act 129 also required that the Commission evaluate the cost and benefits of the approved EE&C plans by November 30, 2013. If the benefits of the EE&C plans exceeded the costs, the Commission was to establish new, additional incremental consumption and peak demand reduction requirements.[1] In its August 2, 2012 Implementation Order for a second phase of Act 129, the Commission established additional consumption reduction, but not peak demand, targets for EDCs, to be achieved by May 31, 2016.[2]

In the Secretarial Letter, the Commission seeks input on the transition from second phase EE&C plans ("Phase II") to possible third phase EE&C plans ("Phase III") based on the Commission's evaluation of the Phase II results. Specifically, the Commission seeks comments on the following eight areas relating to possible Phase III plans:

(1) Length of Phase III EE&C Program;

(2) Inclusion of Peak Demand Reduction Requirements;

(3) Inclusion of a Reduction Target Carve-out for the Governmental, Educational and Non-Profit ("GEN-P") Sector;

(4) Inclusion of a Reduction Target Carve-out for the Low-Income Sector;

(5) Inclusion of Whole-House Measures;

(6) EDC's Phase III Budgets;

(7) Updating of the Technical Reference Manual; and

(8) Updating of the Total Resource Cost Test.

PECO received approval of its initial Phase ("Phase I") EE&C plan on October 28, 2009 (the "Phase I Plan"), and is currently administering its Phase II EE&C plan which the Commission approved on February 28, 2013 (as amended with Commission approval on May 9, 2013, "the "Phase II Plan"). PECO has enjoyed a collaborative relationship with its stakeholders throughout Phases I and II of the EE&C plan programs and has spent a significant amount of

---

[1] *See* 66 Pa.C.S. §2806.1(c) and (d).

[2] *See Energy Efficiency and Conservation Program* Implementation Order, Docket Nos. M-2012-2289411 and M-2008-2069887 (August 3, 2012) ("Phase II Implementation Order").

time working with stakeholders – both individually and collectively – to gain an acute understanding of their concerns and interests for Phase III.

PECO welcomes the opportunity to file comments on the items identified by the Commission in the Secretarial Letter. PECO notes, however, that there remains substantial uncertainty around the implementation of Clean Air Act Section 111(d) ("Section 111(d)") and FERC Order 745 ("Order 745") and their potential impacts on future energy efficiency and demand response programs, including Phase III programs. Accordingly, PECO recommends that the Commission employ a "status quo" approach with respect to its consideration of energy efficiency and demand response programs until there is a final resolution of Section 111(d) and Order 745.

II. SPECIFIC COMMENTS ON THE TOPICS IDENTIFIED BY THE COMMISSION IN THE SECRETARIAL LETTER

1. Length of Phase III EE&C Program

The Secretarial Letter seeks input on the optimal length of possible Phase III EE&C plans. Among the several options identified, PECO believes, based on its experiences preparing and administering its Phase I and Phase II Plans, that a five-year Phase III program would be the best option among the choices. This term length would send an appropriate signal of program stability – by remaining in market - to customers and the energy efficiency ("EE") marketplace and would avoid confusion for program implementers and stakeholders. Although shorter duration plans enable the use of more accurate economic and energy usage forecasts that may affect a consumer's ability to adopt EE measures, those benefits are outweighed by the costs involved with more frequent plan filings. Preparing and litigating EE&C Plans imposes significant administrative burdens on EDCs, the Commission and interested stakeholders. Three or even four-year EE&C terms would require all involved to follow a near perpetual cycle of plan preparation and evaluation. In fact, while EDCs currently are only slightly more than halfway through Phase II, they are already working with the Commission and stakeholders to prepare comments and meetings for Phase III.

Three or four-year plans also provide a less than ideal platform for implementing and auditing more comprehensive EE&C portfolios. As additional EE&C plan phases are completed and customer efficiency behaviors mature, the easier to achieve – lower impact – measures are no longer driving significant energy savings. EDCs must begin moving toward implementing market transformative programs that require more time to successfully introduce, such as comprehensive EE portfolios including programs aimed at new construction and/or major renovations. On balance, we believe that a five-year plan also provides customers with an appropriate amount of time to consider and pursue more comprehensive energy efficiency treatments, while avoiding reliance on overly long-term forecasts. Having a longer plan length would provide customers who have complex projects and longer planning horizons with the ability to incorporate these comprehensive portfolios into their project plans. Accordingly, PECO believes that a five-year term length for Phase III plans is most appropriate.

The Commission also requested comments regarding the inclusion of an incremental progress requirement for Phase III. PECO recommends that EDCs be required to submit Phase III plans that demonstrate the EDC's annual progress towards their Phase III compliance targets, but would not support any specific incremental progress requirement or target. As EDCs begin to introduce and implement new programs as part of their EE&C plans, they need time for such programs to become fully operational and to enlist new Conservation Service Providers. Particularly with more comprehensive programs, the time and effort needed to get these programs "up and running" and adopted by customers may become significant. As a result, EDCs may not see increased consumption reduction savings until later in the Phase III period. Moreover, the Commission already has implemented a robust reporting process that provides interested parties with plenty of information regarding an EDC's progress in achieving its EE targets. More specifically, EDCs are required to file quarterly and annual reports in connection with their EE&C plans, and the Statewide Evaluator ("SWE") also provides an annual report on those plans. These reports are published on the Commission's website and are available to any interested party.

2. Inclusion of Peak Demand Reduction Requirements

The Secretarial Letter also solicits input on the following questions regarding the inclusion of peak demand reduction requirements:

a) If the SWE determines that there is cost-effective peak demand reduction potential available within the Act 129 framework, the EDCs would be required to meet a May 31, 2017 peak demand reduction target. Should the EDCs be required to continue peak demand reduction programs past the May 31, 2017 target? If so, should there be annual reduction requirements or an average annual reduction requirement over the entire period?

The Commission may establish further peak demand reduction targets if, upon review of the SWE's program potential study, it concludes that sufficient data supports a determination that such targets will be cost effective for all EDCs subject to Act 129. PECO recommends that any further peak demand reduction target be structured as an average annual reduction for the entire Phase III period instead of a single reduction requirement on May 31, 2017. Continuing to implement demand reduction ("DR") programs beyond May 31, 2017 will create continued savings opportunities for customers and allow EDCs to avoid program interruptions and the associated customer re-acquisition costs should additional DR targets be established after Phase III. PECO also recommends the use of a trigger mechanism whereby DR resources would be called if an EDC's day-ahead forecast[3] is at least 95% of its summer peak demand forecast. The Company believes this trigger appropriately links DR deployment to load conditions and would provide EDCs and customers with sufficient advance notice of the need to curtail load.

b) If the SWE determines that there is cost-effective peak demand reduction potential available within the Act 129 framework, the EDCs' budgets would need to be split between consumption reduction and peak demand reduction initiatives. How should the budget be split between the two initiatives?

If the Commission establishes further DR targets, PECO believes an EDC's overall Act 129 budget should be divided between EE and DR programming such that both targets are reasonably achievable. As a practical matter, this division would result in a reduction in the EDC's EE budget as compared to Phase II, where no budget dollars were allocated for DR. The Commission should also consider the following factors when determining how to allocate an EDC's budget: (1) maintaining successful, cost-effective programs; and (2) allowing for the implementation of a comprehensive Act 129 EE&C portfolio.

Generally speaking, and based on PECO's experience with it Mass Market[4] DR program, spending 10-15% of the overall Act 129 budget on DR allows for both meaningful DR programming and robust EE programming. Therefore, PECO recommends that the Commission establish a reasonable limit on an EDC's spending on DR programs, e.g., 10-15% of its overall Act 129 budget.

c) If the SWE determines that there is cost-effective peak demand reduction potential available within the Act 129 framework but would require the majority (e.g., 75%; 80%; 90%, etc.) of the EDCs' budgets, should the EDCs still be required to achieve peak demand reduction targets?

[3] PECO's day-ahead forecast is currently derived from a day-ahead forecast that PJM develops for the Mid-Atlantic region, but the Company would move to utilizing a PJM zonal day-ahead forecast when it becomes available.
[4] "Mass Market" customers are residential and small commercial and industrial ("C&I") with demand up to 100 kW.

No. If the Commission mandated implementation of a DR program that absorbed the majority of an EDC's Act 129 budget, the EDC's ability to maintain robust EE programs that deliver permanent peak load reductions would be seriously impaired. Consistent with the Company's recommendation in Section 2.b above, the Commission should establish a reasonable limit on an EDC's spending on DR programs, e.g., 10-15% of its overall Act 129 budget.

d) If the SWE determines that there is cost-effective peak demand reduction potential available within the Act 129 framework but only for a certain sector (e.g., through residential direct load control programs), can the Commission prescribe a peak demand reduction target? In other words, can the Commission prescribe a target if it can only be met through measures offered to certain rate classes instead of across all rate classes? If so, should the Commission do so?

The Company opposes the establishment of any sector-specific or class-specific DR targets. If the Commission imposes a peak demand reduction target, it should apply to all retail customer segments and EDCs should have the flexibility to determine what mix of DR measures or programs will most cost-effectively meet the target.

PECO currently offers DR programs to both residential and small C&I customers (collectively, "Mass Market" customers), and would like the flexibility to offer DR programming to different customers groups as appropriate. As a general matter, Mass Market customers cannot directly participate in PJM's DR markets in light of the PJM requirements for minimum demand reductions of at least 100 kilowatts ("kW").[5] Large C&I customers, on the other hand, have access to extensive DR programs administered by PJM, either directly or through aggregation programs.[6] Regardless of any final outcome relative to Order 745, the Commission should not attempt to either duplicate or replace these initiatives through Act 129 by requiring

[5] *See* PJM Manual 19, Section 3A.4.2.3.

[6] As noted in the Introduction to these Comments, PECO recognizes the uncertainty that was created when the U.S. Court of Appeals for the D.C. Circuit vacated Order 745, but believes the Commission should assume status quo continuation of DR programs for purposes of the Phase III Tentative Order.

EDCs to design programs for and obtain demand reductions from large C&I customers since these large C&I programs have been shown to be effectively delivered through competitive markets such as PJM.

e) **If the SWE determines that there is cost-effective peak demand reduction potential available within the Act 129 framework but only for a certain EDC service territory, can the Commission prescribe a peak demand reduction target? In other words, can the Commission prescribe a target for only one of the EDCs? If so, should the Commission do so?**

PECO does not believe that Act 129 provides authority to establish peak demand reduction targets for some EDC service territories and not others. Section 2806.1(a) of the Public Utility Code, 66 Pa. C.S. § 2806.1, created a single statewide "energy efficiency and conservation program" requiring all EDCs[7] to adopt and implement plans to reduce energy consumption and demand. The consumption reduction and peak demand reduction targets established in that section explicitly apply to each EDC. *See* 2806.1(c)(l), (c)(2), (d)(1). There is no provision in Section 2806.1(d)(2) for the establishment of further DR targets for some EDCs and not others. In fact, Section 2806.1(d)(2) discusses the Commission's duty to evaluate DR programs on an aggregate, statewide basis before determining whether additional demand reductions should be established. In sum, PECO believes that Act 129 authorizes the establishment of further DR targets only on a statewide basis.

If the Commission determines that it has the authority to prescribe DR targets in some service territories and not others, it should not exercise that authority. PECO believes it would be inequitable for some EDCs to face two separate and distinct Act 129 penalty risks (one for their DR target and one for their EE target) while others face a single Act 129 penalty risk (for their EE target).

[7] Section 2806.1 does not apply to EDCs with less than 100,000 customers. *See* 66 Pa. C.S. § 2806.1(l)

That being said, in the absence of a DR target, EDCs should be permitted to implement voluntary DR programs using Act 129 funds so long as those programs are cost-effective and do not unreasonably impair the EDC's ability to meet EE targets. If the Commission approves such a program, the EDC's EE target should be revised to reflect the reduced budget for EE programming. This revision would be accomplished by taking the new EE budget (the EDC's total Act 129 budget minus the budget for the approved DR program) and dividing it by the EDC-specific acquisition cost determined by the Commission.

f) If the SWE determines that there is no cost-effective peak demand reduction potential within the Act 129 framework, should the Commission again, as in Phase II, allow the EDCs to utilize all of their budgets for consumption reduction programs? Should the EDCs again, as in Phase II, be allowed to include voluntary peak demand reduction programs within their EE&C plans, so long as those programs are cost-effective and the EDCs can still meet their consumption reduction requirements?

If the Commission determines that further peak demand reduction targets will not be cost-effective within the Act 129 framework, PECO believes that EDCs should have the ability to utilize their entire Act 129 budget for EE programs. However, as discussed in Section 2.e above, EDCs should also have the ability to implement voluntary DR programs using Act 129 funds if the programs are cost-effective and will require a reasonably limited share of the EDC's overall Act 129 budget. As noted previously, if an EDC obtains Commission approval of such a program, its EE target should be revised to reflect the reduced budget for EE programs.

3. Inclusion of a Reduction Target Carve-out for the Governmental, Educational and Non-Profit ("GEN-P") Sector

The Secretarial Letter also solicits input on the following questions regarding the carve-out of a reduction target for the GEN-P Sector:

a) If the SWE determines that there is cost-effective consumption and/or peak demand reduction potential in the GEN-P sector within the Act 129

framework, should the Commission include a carve-out for reductions in that sector?

PECO supports a carve-out for consumption reductions in the GEN-P sector. As the Commission and other stakeholders have acknowledged previously, many characteristics of this sector, such as organizational structure and decision-making processes, are unique and different from the general C&I population.[8]

As discussed previously in response to Question 2.d, the Company does not believe that sector-specific DR targets are appropriate. For those same reasons, the Company opposes a specific DR carve-out for the GEN-P sector.

b) If so, should it be:

i) The same 10% carve-out as prescribed in Phases I and II?

ii) A percentage of the overall savings, as in Phases I and II?

iii) A sector carve-out based on that sector's potential in each EDC's service territory? This option may result in different savings carve-outs for each EDC.

iv) Some other methodology?

PECO supports the continuation of the 10% consumption reduction carve-out for the GEN-P sector as an appropriate and achievable goal, which is also consistent with the plain language of Act 129 (66 Pa. C.S. 2806.1(b)(1)(i)(B)).

c) If there is a GEN-P carve-out, should the Commission again, as in Phase II, encourage the EDCs to give special emphasis and consideration to multifamily housing and to reach out to PHFA for assistance and coordination in these efforts? If so, should the Commission require multifamily properties to be owned by a non-profit or government entity to qualify under the GEN-P sector, or should we simply require, as in Phase II, that the properties be financed under a Federal or State affordable housing program and have long-term use restrictions in place?

PECO believes that continued encouragement by the Commission to consider multifamily housing and to work with the PHFA would be beneficial for customers in

[8] *Energy Efficiency and Conservation Program*, Docket Nos. M-2008-2069887, M-2012-2289411 (Implementation Order entered August 3, 2012), pp. 45-49.

multifamily housing and would be consistent with the Company's desire to offer a comprehensive suite of EE&C programs. Although PECO's existing multifamily programming does not differentiate between properties that are owned by a non-profit or government entity and those that are not, the Company believes that EDCs should have the flexibility to offer different or enhanced programs to properties owned by a non-profit or government entity.

4. Inclusion of a Reduction Target Carve-out for the Low-Income Sector

The Secretarial Letter solicits input on the following questions regarding the carve-out of a reduction target for the low-income sector:

> **a) If the SWE determines that there is cost-effective consumption and/or peak demand reduction potential in the low-income sector within the Act 129 framework, should the Commission include a carve-out for reductions in that sector?**

PECO fully supports a continued focus on consumption reductions from the low-income sector. However, PECO recommends that any carve-out be based on spending a fixed percentage of the EE budget on low-income programming rather than one based on obtaining a certain percentage of savings from low-income customers. The Company believes dedicating a portion of the budget to low-income programming will allow EDC's to implement a wider array of measures resulting in more meaningful opportunities for bill reduction for low income customers, who need support in making their bills more affordable, and thus reducing the cost of low-income programs.

Implementing energy efficiency measures in low-income households can be more costly as compared to the general residential population because such treatments are installed without any charge to the participant. Implementation can also be more complex depending upon the functionality of a customer's existing appliances and heating systems and the structural quality of the dwelling. When a carve-out is based on the savings derived from the low-income population, less expensive and less complex measures receive greater emphasis than actions that might bring additional and meaningful cost savings to low-income customers. For example, PECO has encountered low-income customers with a barely functional or non-functional inefficient electric appliance. If the appliance is replaced with a functioning, energy efficient system, the customer's energy consumption would actually increase. So, while replacement of the system may be the best outcome for the customer, it would be counterproductive if one were trying to meet a minimum savings requirement.

If the Commission establishes a budgetary carve-out for the low-income sector, PECO believes that the EE target established for each EDC should reflect the percentage of funds that will be dedicated to low-income customers because they have significantly higher acquisition costs than other customer sectors. The Company understands that there are some hurdles that must be overcome before implementing a budgetary carve-out, including determining low-income customer acquisition costs and the appropriate EDC spend for low-income programming, and PECO would recommend working with its stakeholders directly to address these issues. PECO opposes a sector-specific DR target or other DR carve-out for low-income customers. In addition to the Company's general opposition to sector-specific DR targets discussed in Section 2.d, PECO believes it would not be appropriate to require low-income customers to participate in DR programming because those customers are less likely to have demand that can be shifted. For example, because usage of air conditioning is less common among low-income customers, a DR program focused on air conditioning, such as PECO's AC Saver Program, would not be an effective or appropriate use of funds for low-income customers.

b) If so, should it be:

i) The proportionate number of measures requirement as prescribed in Phase I?

ii) The same 4.5% savings carve-out as prescribed in Phase II?

iii) **A different percentage of the overall savings?**
iv) **A sector carve-out based on that sector's potential in each EDC's service territory?**
v) **Some other methodology?**

Please see the Company's response to Question 4.a above.

c) **If there is a low-income carve-out, should the Commission again, as in Phase II, allow the EDCs to include savings from multifamily housing, up to the percentage of customers living in the multifamily housing with incomes at or below 150% of the FPIG, toward the goal?**

Yes. PECO believes that it remains appropriate to allow EDCs to include savings from multifamily housing, up to the percentage of customers living in the multifamily housing with incomes at or below 150% of the FPIG.

5. Inclusion of Whole-House Measures

The Commission required that EDCs include at least one comprehensive measure for residential and small commercial rate classes in their Phase II plans. In the Secretarial Letter, the Commission requests comments on whether a similar requirement should be included in Phase III, and, if so, whether more than one such measure should be required.

As noted above, PECO believes that a more comprehensive portfolio is required to continue to drive energy efficiency savings for customers. PECO further believes that the term "comprehensive" is more appropriately thought of as a characteristic of the portfolio, rather than as a specific measure within the portfolio. In other words, the portfolio as a whole should be comprehensive and offer energy savings across all cost effective electric end uses through various types of programs, rather than simply requiring "a comprehensive measure" within the portfolio plan. As customers become more aware of the benefits of energy efficiency and the opportunities available through Act 129, their interest in pursuing deeper, comprehensive energy saving projects that capture cost effective opportunities across all electric end uses intensifies.

PECO therefore recommends that the Commission require EDCs to offer each customer class the opportunity to pursue a comprehensive portfolio of cost effective energy savings across all electric end uses. Moreover, acquisition costs used in calculations to establish EDCs' Phase III energy savings targets should reasonably enable EDCs to design and deliver these comprehensive portfolios while minimizing the risk of not achieving those savings targets.

6. EDC's Phase III Budgets[9]

With respect to Phase III budgets, the Secretarial Letter seeks comments in two key areas: (1) accumulated savings in excess of reduction requirements; and (2) finalizing Phase II spending. During the Phase II implementation, the Commission provided clear direction that EDCs would be expected to continue to implement their plans until the end of the Phase II period, even after they achieved their consumption reduction target.[10] This additional spending was permitted – and expected – given that many of the EDCs had surpassed their Phase I consumption reduction requirement before the end of that Phase. PECO believes that, in Phase III, the Commission should follow the current construct to allow for the continued spending of Phase III budgets even after targets are met. It is important to keep energy efficiency programs active and to "stay in market" with customers. Requiring programs to "go dark" upon reaching a certain target could be detrimental to the customer and to the future continuance of such energy efficiency programs. While PECO would support continued spending even after Phase III targets are met, PECO does not believe this is likely to be the case in Phase III or beyond. As energy efficiency programs have matured over time, there is less focus on cheaper, lower-impact measures (e.g., lighting) and greater emphasis on designing a Phase III plan that includes more

---

[9] Comments are based on the current Act 129 legislative construct under which EE&C Plan budgets may not exceed 2% of the EDC's total annual revenue as of December 31, 2006. *See* 66 Pa.C.S.§2806.1(g). Any changes to the statute must go through a legislative process.
[10] *See* Phase II Implementation Order at 25-26.

comprehensive programs/measures. Given the additional expense associated with these programs/measures and the higher overall acquisition cost, PECO expects budgets to be much tighter in Phase III.

The Secretarial Letter also seeks comments on a few specific questions regarding the finalization of Phase II spending:

a) **Should the Commission prescribe a deadline for the submission of rebate applications following the in-service date of the measure? Or should an EDC be required to develop application deadlines specific to its programs?**

PECO believes that rebate application deadlines should be developed by the EDCs. Each program is different, and each will contain unique features and deadlines. Moreover, the length of time necessary for processing and implementing rebates will vary across programs – some may be immediately available, while others may require some time to finalize. There is no solution that would adequately accommodate all of these variables. Accordingly, PECO recommends that each EDC be allowed to develop application deadlines specific to its programs. This solution will allow EDCs to match program-year spending with verified savings. Any such rebate deadlines should be proposed as part of the Phase III Plan and, as such, be subject to the Commission's approval.

b) **Should the Commission prescribe a deadline for the submission of rebate applications for measures installed at the end of a Phase? If so, should it be the same deadline as utilized for measures installed in the beginning or middle of a Phase? Or should the EDCs be required to develop their own program-specific deadlines within their plans?**

PECO, again, believes that the deadlines for submitting rebate applications for measures installed at the end of a Phase should be developed by EDCs within their plans. These deadlines will be subject to Commission approval, and all stakeholders will have an opportunity to address any timing concerns. EDCs will need to ensure that the spending and verified savings associated with such rebate applications are appropriately matched for each program year. Notwithstanding the foregoing, the EDCs should be required to submit all rebate information at least 30 days prior to the issuance of the SWE's Final Annual Report in order for savings and spending to be properly accounted for in a Phase.

c) **What is an appropriate length of time for the EDCs to "true-up" their costs/budgets for Phase II? Should the Commission consider allowing the EDCs to roll all residuals of Phase II into their Phase III surcharges, for true-up purposes only, instead of keeping a Phase II surcharge in place while the Phase III rate is effective?**

PECO believes that the "true-up" of EE&C costs/budgets for Phase II should be modified from the process used during the transition from Phase I to Phase II. PECO recommends that any residual EE&C over/under balances from Phase II should be "rolled into" the Phase III EE&C surcharges and amortized over the length of the Phase III program period. From an administrative standpoint, PECO believes that rolling in the residual over/under balances from Phase to Phase will be much simpler than "truing-up" the costs over a limited time period as was done with the Phase I balances at the beginning of the Phase II program. There would be no need to create separate tariffs/surcharges for each Phase as the Commission ordered during the Phase II rulemaking. By rolling any Phase II over/under balances into the Phase III surcharges there will only be one surcharge per rate class to deal with over the length of the Phase III program; thus tracking and administration for both PECO and the Commission will be simplified. Of course, PECO will continue to keep separate accounting records of the Phase II and Phase III costs and revenues to ensure that there is no comingling of funds as required by the current EE&C regulations.

Moreover, this proposal should ease any customer confusion. Some customers did not understand, during the Phase I to Phase II EE&C program transition, why their EE&C surcharges were modified several times. For each rate class, the Phase II EE&C surcharge was temporarily reduced based on a Phase I surcharge credit which was then replaced by the full Phase II surcharge once the refund was complete. Allowing any residual over/under balances to roll into future Phases would help prevent these rate movements and would provide customers a steady rate.

7. Updating of the Technical Reference Manual

Regarding the Technical Reference Manual ("TRM"), the Secretarial Letter requests input regarding whether an annual updating process should be continued for Phase III, or, if not, how often the TRM should be updated. PECO recommends that the Commission adopt a TRM update schedule commensurate with the length of the Phase III term. This will provide consistent assumptions and deemed savings values during the life of the Phase III plans. Synchronizing the TRM updating with the length of the Phase III program also will provide certainty to EDCs from a compliance standpoint and will minimize the need for plan modifications in response to changing deemed savings values and assumptions. Moreover, since the TRM that will be used for a potential Phase III will have been through seven previous annual updates, PECO believes that all significant issues have been remedied and that more frequent updating is not required.

8. Updating of the Total Resource Cost Test

The Commission also has requested input regarding updating of the Total Resource Cost Test ("TRC Test"). PECO believes that the TRC Test methodology should be updated no more than once per phase, prior to the filing of new phase EE&C plans. Prior to the start of a potential

Phase III, the Commission should review and update the TRC Test methodology, and any changes should then be effective for the entire Phase III period. No periodic reviews or updates should be made within a phase.

Finally, the Commission proposes that societal benefits continue to be excluded from TRC Test calculations. Section 2806.1(m) of Act 129 expressly provides that only "monetary" benefits and costs are to be factored into the TRC Test. PECO supports the continued exclusion of societal benefits because it is consistent with the clear intent of Act 129. Moreover, PECO agrees with the Commission that there is no reason to review this issue again in preparing for Phase III as there are no new data, theories, or arguments relevant to reconsidering this issue.

III. CONCLUSION

PECO appreciates the opportunity to comment on the important topics identified by the Commission in the Secretarial Letter and requests that the Commission consider the foregoing comments in developing the Tentative Implementation Order, and any incremental consumption reduction and peak demand reduction targets or guidelines for future EE&C plans, if required.

Respectfully submitted,

Romulo L. Diaz, Jr., Esquire
PA Atty. I.D. No. 88795
Jack R. Garfinkle, Esquire
PA Atty. I.D. No. 81892
Exelon Business Services Company
2301 Market Street, S23-1
Philadelphia, PA 19103
romulo.diaz@exeloncorp.com
jack.garfinkle@exeloncorp.com
215.841.4608 (dir)
215.568.3389 (fax)

Counsel for PECO Energy Company

Date: December 19, 2014