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June 14, 2011

VIA OVERNIGHT DELIVERY

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
P.O. Box 3265
400 North Street
Harrisburg, PA 17105-3265

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JUN 14 2011

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

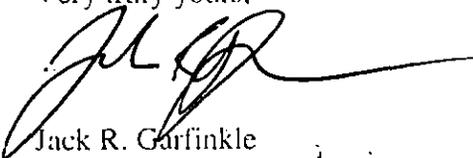
Re: Implementation of Act 129 of 2008 – Total Resource Cost (TRC) Test 2011 Revisions
Docket No. M-2009-2108601

Dear Secretary Chiavetta:

Pursuant to the May 6, 2011 Tentative Order and May 17, 2011 Secretarial Letter in the above-referenced docket, enclosed please find an original and fifteen (15) copies of the Reply Comments of PECO Energy Company. The Reply Comments have also been electronically mailed to Gregory A. Shawley and Louise Fink Smith.

Kindly return a time-stamped copy of the Reply Comments in the self-addressed envelope that is enclosed. Please do not hesitate to contact me should you have any questions regarding this filing.

Very truly yours,



Jack R. Garfinkle

Enclosures

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JUN 14 2011

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Implementation of Act 129 of 2008 - :
Total Resource Cost (TRC) Test : Docket No. M-2009-2108601
2011 Revisions :

**REPLY COMMENTS OF PECO ENERGY COMPANY
ON THE PROPOSED 2011 REVISIONS TO THE TOTAL RESOURCE COST TEST**

Pursuant to the May 6, 2011 Tentative Order entered by the Pennsylvania Public Utility Commission (the "Commission") in the above-referenced docket, PECO Energy Company ("PECO" or the "Company") hereby replies to comments submitted by other parties on the Commission's proposed revisions to the total resource cost ("TRC") test.

I. SPECIFIC REPLY COMMENTS

A. The Use Of Supplemental Funding To Support Act 129 Programs Is Appropriate And Beneficial

The Department of Environmental Protection ("DEP") argues in its comments that non-customer-based funds, like American Recovery and Reinvestment Act ("ARRA") funds, should not be used to support or enhance the energy efficiency and conservation plans ("EE&C Plans") of electric distribution companies ("EDCs"). DEP Comments, pp. 2-3. While it is unclear how DEP would like the Commission to respond to this general statement, the issue of "co-funded" measures has been addressed on several occasions and the Commission has consistently concluded that the public interest will be best served by taking advantage of all incentives and rebates available.

In PECO's EE&C Plan proceeding, for example, DEP challenged the Company's proposal to take credit for the full benefits of co-funded measures. *See Petition of PECO Energy Company for Approval of its Act 129 EE&C Plan*, Docket No. M-2009-2093215 (Order entered October 28, 2009). The Commission rejected DEP's argument, noting that Act 129 specifically

provides that EE&C measures may be funded “in whole or in part” by the EDC. *Id.* citing 66 Pa. C.S. § 2806.1(m). The Commission concluded that PECO was entitled to count all savings from co-funded measures towards its Act 129 compliance requirements, reasoning that “[r]ather than pit one government program against another, the programs should complement each other and, optimally, produce greater savings than the programs would generate working in isolation.” *Id.* In addition, in the general TRC proceeding, the Commission found that incentive payments from outside sources are benefits that should be recognized in TRC calculations. *See 2009 TRC Test Order*, Docket No. M-2009-2108601 (Order entered June 23, 2009).

The Commission has thoroughly reviewed and appropriately considered the various arguments related to co-funded EE&C measures and PECO respectfully submits that the DEP’s general comments do not warrant reconsideration of those issues.

B. The Use Of Verified Gross Savings To Measure EDC Compliance With Act 129 Is Entirely Appropriate

The Sustainable Energy Fund (“SEF”) contends that the Commission’s proposal to use verified gross savings to measure compliance with Act 129, as opposed to using net savings, violates the intent of the Act and prevents meaningful revisions of EE&C Plans to make them more cost-effective. *See generally* Comments of SEF, pp. 3-7. SEF’s arguments should be rejected because the Commission’s determination is consistent with Act 129 and reflects the practical limitations associated with quantifying net savings.

Verified gross savings represent savings resulting directly from program participant actions and are determined through a rigorous evaluation, measurement and verification process carried out by each EDC and verified by the Statewide Evaluator (“SWE”). Net savings, on the other hand, are verified gross savings adjusted to exclude savings that are not uniquely attributable to the program. Net-to-gross (“NTG”) adjustments are complicated, expensive and

“incorporate a slew of highly variable factors that depend as much or more upon consumer behavior than on the program itself.” *Net Savings: An Overview* (April 14, 2010) (prepared by GDS Associates, Inc., Nexant & Mondre Energy for the Commission).

Act 129 does not require that savings generated from EE&C Plans be subjected to a NTG adjustment before being counted towards consumption and demand reduction goals. In fact, and as noted by the Commission, all approved EE&C Plans were based upon the measurement of savings at a gross level. *See* Tentative Order, p. 17. To alter the compliance framework mid-stream for EE&C Plans would almost guarantee that some EDCs would fail to meet Act 129 savings targets (and thus incur substantial penalties) unless they were somehow able to very quickly: (1) perform complex NTG studies; (2) identify additional EE&C measures to make up for potential savings shortfalls; and (3) implement those new measures without incurring any further costs. In any event, transitioning to a net savings framework would result in significant new implementation costs with little or no benefit to customers in terms of total savings. It is also worth noting that the SWE recently reviewed the basis and methodologies for determining net savings and concluded that verified gross saving were more appropriate for measuring compliance with Act 129 savings goals: “[V]erified gross savings represent actual savings accrued by the EDC resulting directly from its programs. Thus, if the EDCs must achieve a set level of savings per the legislation[] through their programs, verified gross savings best represent this achievement.” *Net Savings: An Overview*, *supra*.

Although net savings are not appropriate for determining Act 129 compliance, the Commission recognizes the value of NTG research in evaluating measures during the course of EE&C Plan implementation. In particular, the Commission requires each EDC to conduct NTG studies and use the results of that research to determine when a measure or program should be

removed because it is no longer cost-effective. *See* Tentative Order, p. 18. Thus SEF's complaint that the Commission has "required no affirmative action on NTG issues" and effectively ignores "the availability of potentially more cost effective programs and measures" is unwarranted and in error.

PECO believes the Commission's proposal to use verified gross savings to measure Act 129 compliance is well supported and consistent with the Act. SEF's proposal to measure compliance with net savings should therefore be rejected.

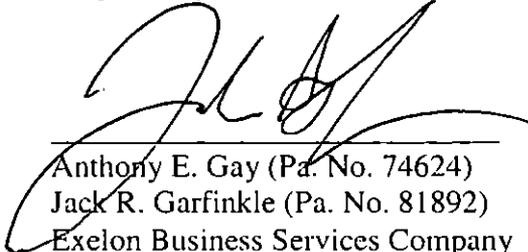
C. The Costs Of Additional Research Should Be Recovered Outside Of EE&C Plan Budget Caps

In the Tentative Order, the Commission proposes that EDCs perform new research in two areas (NTG evaluations and baseline market studies) and recover the associated costs within their existing EE&C Plan budget caps. *See* Tentative Order pp. 18-19 (NTG), pp. 30-31 (baseline studies). Several EDCs commented that these research costs should be recoverable *outside* of existing budget caps because the research obligations are new (i.e., not already incorporated into the existing EE&C Plan and budget) and the expenditures will be significant (the Tentative Order notes that "NTG research is not simple or inexpensive"). *See, e.g.*, Comments of Duquesne Light Company, pp. 3, 6; Comments of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company, pp. 8-9, 15. PECO agrees with these comments and notes that requiring such significant new obligations to be funded under existing budget caps could complicate, if not frustrate, the successful implementation of approved EE&C Plans.

II. CONCLUSION

PECO appreciates the opportunity to participate in this important proceeding and believes that the Company's recommended revisions can further improve the effectiveness of the TRC test.

Respectfully submitted.



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June 14, 2011

For PECO Energy Company

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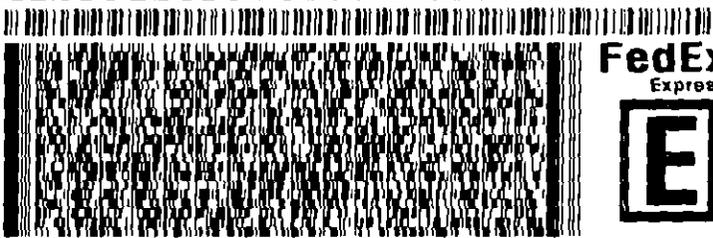
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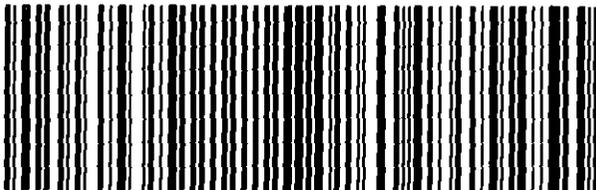
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