

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place
Harrisburg, Pennsylvania 17101-1923
(717) 783-5048
800-684-6560 (in PA only)

IRWINA. POPOWSKY
Consumer Advocate

FAX (717) 783-7152
consumer@paoca.org

June 5, 2009

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

RE: Total Resource Cost (TRC) Test –
Pennsylvania Specific
Docket No. P-2009-2108601

Implementation of Energy Efficiency and
Conservation Program
Docket No. M-2008-2069887

Dear Secretary McNulty:

Enclosed are the Comments of the Office of Consumer Advocate, in the above-referenced proceeding.

Copies have been served electronically to the Commission's Act 129 e-mail account.

Sincerely,

A handwritten signature in cursive script that reads "Tanya J. McCloskey".

Tanya J. McCloskey
Senior Assistant Consumer Advocate
PA Attorney I.D. # 50044

Enclosure

cc: Greg Shawley, CEP – VIA E-MAIL ONLY
Louise Fink Smith, LAW – VIA E-MAIL ONLY

00113365.docx

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Implementation of Act 129 of 2008 :
Total Resource Cost Test : Docket M-2009-2108601

COMMENTS OF THE
OFFICE OF CONSUMER ADVOCATE

I. INTRODUCTION

On May 21, 2009, the Commission issued a draft order setting forth the Total Resource Cost Test to be used to evaluate the electric distribution company (EDC) energy efficiency and conservation Plans required under Act 129. The draft order sets out the elements of the Total Resource Cost (TRC) test, substantially modeled after the *California Standard Practice Manual – Economic Analysis of Demand-Side Programs and Projects*, dated July 2002. The Commission had indicated in its Implementation Order entered January 16, 2009 that it would model the Pennsylvania TRC test on the *California Manual*, but would make necessary changes to make it Pennsylvania specific. The current draft order is intended to identify the remaining modifications necessary for the development of the Pennsylvania-specific TRC test.

The OCA is in general agreement with the modifications contained in the Commission's draft order. The OCA has identified some concerns with complexity of the avoided energy calculation and recommends that it be simplified. Additionally, the OCA recommends that the Commission provide additional details on some of the adjustments to the avoided energy calculation to assure uniform application of the adjustments across the EDC

Plans. The OCA submits that with certain clarifications and simplification of the avoided energy calculation, the Pennsylvania-specific TRC test can provide a sound basis at this time for evaluating the EDC's initial energy efficiency and demand response plans.

II. COMMENTS

A. Level at Which to Measure the TRC

At pages 5-6 of the Draft Order, the Commission proposes to apply the TRC test at the plan level rather than at the component, program or measure level. As the Commission notes, Section 2806.1(b)(1)(I) requires the EDC to demonstrate that the plan is cost effective using the total resource cost test. The OCA agrees with the Commission that the Act requires the full EE/DSM Plan to be cost effective under the TRC.

While the OCA agrees with the Commission's approach, the OCA submits that the EDCs should also analyze each program and measure using the TRC to ensure selection of appropriate programs and ensure a balanced plan. Such analysis will be particularly important given the specific requirements set forth in the Act for a diverse cross section of alternatives for all customers of all rate classes.

B. Avoided Costs of Supplying Electricity

The Draft Order proposes a methodology for calculating the avoided monetary cost of supplying electricity for purposes of the TRC test. The Commission proposes to include cost components for generation, transmission and distribution. The Draft Order also proposes the use of certain predictive assumptions and adjustments for use in the calculation. The OCA is in general agreement with the inclusion of generation, transmission and distribution in the avoided cost calculation, but is concerned that the predictive assumptions used to calculate the cost of generation for the 15-year period may be unnecessarily complex for the intended purpose.

The adjustments may also need some added specificity to ensure that they are uniformly applied across the EDCs.

The Commission proposes to break the 15-year computation period into three segments of five years. For the first five year segment, the Commission proposes the use of the NYMEX PJM futures prices, adjusted to reflect on-peak and off-peak prices. Since NYMEX futures prices can be volatile, and can change on a daily basis, the Commission may wish to specify the use of an average of futures prices over a defined period. For consistency across the programs, the OCA recommends that the Commission select a specific 30 or 60 day period for the NYMEX futures data that is to be used by all EDCs.

For the second five year segment, the Commission proposes the use of NYMEX gas futures prices converted to an energy price through a spark spread calculation. This methodology seems to introduce a level of complexity and uncertainty that may not be needed for the purposes of these TRC calculations. As the Commission recognizes, EIA provides Annual Energy Outlook projections that can be used in the TRC test. For ease of application, the Commission should consider using the EIA Annual Energy Outlook projections for the second and third segments.

As to the adjustments, the Commission proposes an adjustment for market uncertainty. It is unclear to the OCA what this adjustment is intended to reflect. If retained, the Commission should explain in detail the adjustment and provide a uniform method of calculating the adjustment for all of the EDCs so that there is consistency in plan analysis. The Commission should also provide additional detail as to the determination of the EDC's weighted average cost of capital that is to serve as the discount rate in the calculation, including the time period used to determine the weighted average cost of capital and the methodology. For consistency of

program review across the EDCs, each EDC should use the same methodology and time frame for determining their weighted average cost of capital for purposes of the discount rate.

C. Maximum 15-Year Measure Life

As the Commission notes, Act 129 requires that the TRC test be applied to measure lives of 15 years or less. While the OCA agrees with the Commission that the expected useful life of some measures will extend beyond the 15 year life specified in Act 129, the Act requires the use of the 15 year life. Some concern that this approach could limit the implementation of otherwise cost-effective programs can be addressed by the Commission's proposal to evaluate the cost-effectiveness at the Plan level and not the individual measure level. This methodology will allow for measures that may not achieve a cost/benefit ratio of 1 or higher during the 15-year period, but may have other long term benefits.

D. Incentive Payments from an EDC

The Commission proposes that incentive payments from an EDC to a customer will not be included in the TRC test since these payments cancel each other out (*i.e.*, a benefit to the customer and a cost to the EDC). It is the OCA's understanding that this is consistent with the application of the TRC under the California Manual.

E. Incentive Payments from Outside Sources

The Commission proposes to treat tax credits and incentive payments from other outside sources as a benefit to reduce customer costs in the TRC test. This treatment of tax credits is consistent with the *California Manual*. It is not clear to the OCA that the *California Manual* specified the treatment of other outside sources in the TRC, but the OCA agrees that other outside sources should receive similar treatment in the context of the TRC test as that

provided to tax credits. The OCA submits that the Commission's proposal is reasonable and necessary given the potential for significant outside funding that is developing.

F. Savings Claims from Act 1 Programs and Act 129 Programs

The Commission recognizes that it is possible for customers to participate simultaneously in Act 1 and Act 129 programs. The OCA would note that customers may also be able to participate simultaneously in other developing programs. As the Commission correctly recognizes, it would be difficult and time consuming to determine on a case-by-case basis the precise role that one incentive/rebate program versus another incentive/rebate program would play in motivating a customer to participate in a program. The Commission concludes that, as a practical matter, the entire savings can be claimed by the EDC for TRC testing purposes. The OCA supports this approach. This approach will also better ensure that programs are properly coordinated and that inefficiencies in program delivery do not develop.

G. Net-to-Gross Adjustment to Savings

The draft order explains that a common consideration for determining the cost benefit of energy efficiency programs is whether to make adjustments to gross energy savings through the use of a net-to-gross ratio. As the Commission notes, these adjustments are sometimes made to address three common factors referred to as "free riders," "take-back effect," and "spillover effect." These factors can sometimes offset one another to some extent. The net-to-gross adjustment attempts to account for these factors in assessing the energy efficiency gains. At this time, the Commission proposes that no net-to-gross adjustment be made and that the EDCs study these effects to determine if an adjustment is necessary in the future.

The OCA supports the Commission's approach. At this time, it is more important to complete the analysis and move forward with program implementation. As information, data

and experience is gained, any adjustments can be considered or addressed in the future if necessary.

III. CONCLUSION

The OCA looks forward to continuing to work on the development of the EDCs' energy efficiency and demand response plans. The final development of the Pennsylvania-specific Total Resource Cost test is a key element in completing the Plans.

Respectfully submitted,



Tanya J. McCloskey
Senior Assistant Consumer Advocate
PA Attorney I.D. # 50044
E-Mail: TMcCloskey@paoca.org

Counsel for:
Irwin A. Popowsky
Consumer Advocate

Office of Consumer Advocate
555 Walnut Street 5th Floor, Forum Place
Harrisburg, PA 17101-1923
Phone: (717) 783-5048
Fax: (717) 783-7152

DATED: June 5, 2009
113332