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PA PUBLIC UTILITY COMMISSION
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July 9, 2012

VIA FEDERAL EXPRESS

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

Re: Implementation of Act 129 of 2008 – Total Resource Cost (TRC) Test – 2012 Phase II of Act 129, Docket Nos. M-2012-2300653 & M-2009-2108601

Dear Secretary Chiavetta:

Pursuant to the Commission's Order entered May 25, 2012 in the above-referenced dockets, enclosed please find an original and three (3) copies of the **Reply Comments of PECO Energy Company**.

As instructed, the comments also have been filed electronically in Word format with Laura Fusare Edinger (ledinger@pa.gov) and Louise Fink Smith (finksmith@pa.gov).

Very truly yours,

Jack R. Garfinkle

Enclosures

c: Per Certificate of Service

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Implementation of Act 129 of 2008 -	:	**Docket Nos.**
Total Resource Cost (TRC) Test	:	**M-2012-2300653**
2012 Phase II of Act 129	:	**M-2009-2108601**

**REPLY COMMENTS OF PECO ENERGY COMPANY
ON THE PROPOSED 2013 REVISIONS TO THE TOTAL RESOURCE COST TEST**

Pursuant to the May 25, 2012 Tentative Order ("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. The TRC Test is for use in evaluating the cost-effectiveness of the energy efficiency and conservation plans ("EE&C Plans") of electric distribution companies ("EDCs") during the proposed second phase of EE&C Plans ("Phase Two") which, if approved, would begin June 1, 2013.

I. SPECIFIC REPLY COMMENTS

A. Exclusion of Societal and Environmental Costs from the TRC Test Is Appropriate

Northeast Energy Efficiency Partnership ("NEEP")/Pace Energy and Climate Center ("Pace") and Keystone Energy Efficiency Alliance ("KEEA")/PennFuture argue in their comments that the TRC Test should consider non-energy impacts, including fuel and water savings, avoided environmental compliance costs, reduced customer arrearages and improved health and safety. They assert this because of the alleged significant implications on the cost-effectiveness of energy efficiency programs.[1] According to KEEA/PennFuture, the inclusion of

[1] *See generally* Joint Comments of NEEP and Pace, pp. 3-5; Joint Comments of KEEA and PennFuture, pp. 3-8.

non-energy impacts can sometimes make the difference in rendering a program cost-effective (or not).[2] The Commission should reject these arguments for several reasons.

First, the proposals to include non-energy impacts in the TRC Test is contrary to the plain language of Act 129 of 2008 ("Act 129"). As the Commission explained in the Tentative Order, Section 2806.1(m) of Act 129 expressly provides that only "avoided monetary cost[s] of *supplying electricity*" are to be factored into the TRC Test.[3] Accordingly, the Commission's proposal to continue to exclude environmental and societal costs from the TRC Test for Phase Two EE&C Plans is consistent with the clear intent of Act 129.

Second, PECO believes that any values included in the TRC Test must be quantifiable and substantial. However, it will be nearly impossible to obtain realistic non-energy "impact" data for most programs and projects. While KEEA and PennFuture claim that non market-based impacts can be quantified, they neither offer any methodology for measuring specific non-energy costs and benefits nor provide any evidence that such costs and benefits will have a significant impact on TRC calculations.

In their comments, NEEP/Pace and EnerNOC also recommend exploring ways to incorporate alleged wholesale market price suppression "benefits" due to the implementation of EE&C programs into the TRC Test. PECO opposes that recommendation for several reasons. First, if programs are not economic on their own (without accounting for any price suppression effects that they may have on electricity usage), then their adoption can have detrimental long-term effects on competitive electricity markets. Notably, in Section 2802 of the Pennsylvania Public Utility Code, the General Assembly expressly provided that "[c]ompetitive market forces are more effective than economic regulation in controlling the cost of generating electricity."

[2] Joint Comments of KEEA and PennFuture, pp. 4-5.

[3] 66 Pa.C.S. § 2806.1(m) (emphasis added).

Adoption of customer-funded programs that are not justified based on their own economics – but rather on their alleged effects in suppressing wholesale market prices – will tend to discourage future market-based investment in electricity supply capacity. This is due to the fact that merchant electricity suppliers and their investors, who know that the value of their projects can be "devalued" by uneconomic customer-funded projects, will be less likely to enter the market, and indeed, will be more likely to exit it.

The proposals put forth by NEEP/Pace and EnerNOC contain several other defects. For example, any price suppression effect may be short-lived because a reduction in market prices would make it less economical for electricity suppliers to remain in or enter the market, which in turn would encourage such suppliers to exit (or not enter) the market, resulting in an offsetting and upward effect on wholesale market prices. In addition, quantifying the extent of any such price suppression would be overly complex and potentially arbitrary because supply and demand curves are unknown and will vary among EDC service territories. Even NEEP/Pace acknowledges that "…this effect in the context of the broader PJM market may be difficult to quantify…."[4] As a result, the generic price suppression estimate of $0.82/MW-year offered by EnerNOC (p. 12) is largely meaningless.

For the foregoing reasons, EDCs should be permitted to continue to exclude environmental and societal costs and benefits from the TRC Test for Phase Two EE&C Plans.

B. EnerNOC's Proposed Modifications to the TRC Framework for Evaluating the Cost-Effectiveness of Demand Response Programs Should Not Be Adopted

Because the Commission has not determined whether it will require additional demand response ("DR") reductions for Phase Two or potential subsequent phases of Act 129, the

[4] Joint Comments of NEEP and Pace, p. 4.

revised TRC Test, as proposed in the Tentative Order, does not apply to DR programs.[5] However, the Commission notes that if revisions to the TRC Test are deemed necessary due to the adoption of a new DR structure, further revisions would be issued for comment.[6] Despite the Commission's direction in the Tentative Order (pp. 29-30) that all DR comments should be provided in the Phase Two EE&C proceeding at Docket No. M-2012-2289411, EnerNOC proposes several changes to the Tentative Order regarding the evaluation of the cost-effectiveness of DR programs.

First, EnerNOC argues that assessment of the cost-effectiveness of DR programs should continue to be assessed in Phase Two. In support of that proposal, EnerNOC provides an exhibit displaying calculated TRC benefit to cost ratios exceeding 1.0, which it claims demonstrate that Phase One DR programs were cost-effective and will likely continue to be cost-effective in Phase Two.[7] EnerNOC's conclusion, however, cannot be accepted in the absence of a comprehensive review of the assumptions used in its analysis. In any event, it would be inappropriate to include DR programs in the TRC Test until the Statewide Evaluator ("SWE") has completed its study of the cost-effectiveness of Phase One DR programs.

Second, EnerNOC contends that EDCs failed to appropriately consider the benefits associated with avoided transmission and distribution ("T&D") investments for their TRC assessments of DR and energy efficiency program effectiveness.[8] The *2009 TRC Test Order* provides that TRC Test calculations must consider transmission prices, as set by the Federal

[5] Tentative Order, p. 28.

[6] *Id.*

[7] EnerNOC Comments, p. 6.

[8] *Id.*, p. 8.

Energy Regulatory Commission ("FERC") to the EDC zone and EDC distribution rates.[9] However, the Commission specifically rejected the use of marginal T&D costs, as EnerNOC proposes, on the ground that introducing such marginal costs "would increase the complexity without adding any assurance of greater accuracy."[10] In fact, consistent with the Commission's guidance in the *2009 TRC Test Order*, PECO has taken into account avoided T&D investments in its filings with the Commission (i.e., not only in its Phase One Act 129 EE&C Plan filing, but also in its Phase One annual reports to date). In addition, PECO intends to include the avoided T&D costs in its final report to be submitted at the conclusion of the Phase One DR performance period (Summer of 2012).

In its approved Phase One Act 129 EE&C Plan, PECO used the following values for avoided T&D costs: $59/MWh for residential customers, $25.50/MWh for small commercial and industrial ("C&I") customers and $12.60/MWh for large C&I customers. The foregoing avoided T&D cost values represent transmission prices as set by FERC and PECO distribution rates, but do not include marginal T&D costs. PECO provided similar avoided T&D cost data to the SWE for use in its study of potential ongoing energy efficiency savings. Accordingly, PECO's treatment of T&D costs in its EE&C filings comports with the Commission's guidance in the *2009 TRC Test Order*.

Finally, EnerNOC recommends excluding 50% of DR implementation costs from the TRC Test on the ground that such amount is a transfer or "pass-through" payment to the

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[9] *See* Order, *Implementation of Act 129 of 2008 – Total Resource Cost (TRC) Test*, Docket No. M-2009-2108601 (Order entered Jun. 18, 2009), pp. 13-14 ("transmission prices, as set by FERC, to the EDC zone will be included as will EDC distribution rates…We do, however, reject the use of marginal T&D costs at this time. We feel that introducing marginal costs for T&D, although hypothetically more economically accurate, would increase the complexity without adding any assurance of greater accuracy").

[10] *Id.*

customer as an incentive.[11] Under the *2011 TRC Test Order*, 100% of customer incentive costs are included in the TRC Test as a proxy for transaction costs.[12] EnerNOC cites California as an example of a jurisdiction allowing 25% of DR aggregator costs (inclusive of customer incentives) to be considered transfer payments and thus not burdened as a cost in the TRC Test.[13] The 2010 California DR Cost-Effectiveness Protocols referenced by EnerNOC, however, do not specifically establish a 25% "pass-through" allowance but rather direct utilities to conduct sensitivity analyses that use the full amount of incentive costs and bill reductions (less capital costs) as the high value to approximate transaction costs.[14] In addition, EnerNOC has not provided any evidence that Pennsylvania customers incur "negligible" costs to participate in DR programs. While PECO agrees with the Commission that DR customer incentives can be used as an estimate for transaction costs, it believes that 75% of incentive payments would represent a reasonable proxy. Therefore, the Commission should reject EnerNOC's proposal to exclude 50% of incentive payments.

[11] EnerNOC Comments, pp. 10-11.

[12] Final Order, *Implementation of Act 129 of 2008 – Total Resource Cost (TRC) Test 2011 Revisions*, Docket No. M-2009-2108601 (Order entered Aug. 2, 2011), pp. 14-15.

[13] EnerNOC Comments, p. 10.

[14] *See* CA PUC, CA Protocols, Attach. 1- 2010 DR Cost Effectiveness Protocols, Docket R. 07-01-041 (Dec. 16, 2010), p. 36 ("Hence, for the purpose of calculating values for the TRC test, *for voluntary DR programs only*, LSEs should assume that the *maximum possible* value of the transaction costs and value of service lost can be approximated as the value of all incentives paid to customers plus the customers' total estimated bill reductions minus any participant capital costs") (emphasis in original).

II. CONCLUSION

PECO appreciates the opportunity to comment on this important matter and believes that the Company's recommended revisions can further improve the effectiveness of the TRC Test.

Respectfully submitted,

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