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March 29, 2013

VIA eFILING

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

**Re: 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 Nos. M-2009-2093215 and P-2013-**

Dear Secretary Chiavetta:

Enclosed for filing in the above-referenced proceeding, please find the original unbound **Petition of PECO Energy Company for Approval to Change the Accounting Treatment of Certain Direct Load Control Program Costs** (the "Petition"). Copies of the Petition will be served on all parties as noted on the enclosed Certificate of Service.

If you have any questions regarding this filing, please do not hesitate to contact me at 215-841-4635.

Sincerely,

A handwritten signature in cursive script that reads "Anthony E. Gay".

Anthony E. Gay
Associate General Counsel

Enclosures

cc: Certificate of Service

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PETITION OF PECO ENERGY :
COMPANY FOR APPROVAL OF ITS :
ACT 129 ENERGY EFFICIENCY AND : **DOCKET NO. M-2009-2093215**
CONSERVATION PLAN AND : **DOCKET NO. P-2013-**
EXPEDITED APPROVAL OF ITS :
COMPACT FLUORESCENT LAMP :
PROGRAM :

CERTIFICATE OF SERVICE

I hereby certify that I have this date served true and correct copies of **Petition of PECO Energy Company for Approval to Change the Accounting Treatment of Certain Direct Load Control Program Costs** upon the individuals listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant):

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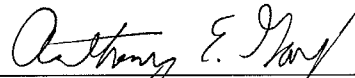
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Date: March 29, 2013

Counsel for PECO Energy Company

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**PETITION OF PECO ENERGY :
COMPANY FOR APPROVAL OF ITS :
ACT 129 ENERGY EFFICIENCY AND : DOCKET NO. M-2009-2093215
CONSERVATION PLAN AND : DOCKET NO. P- _____
EXPEDITED APPROVAL OF ITS :
COMPACT FLUORESCENT LAMP :
PROGRAM**

**PETITION OF PECO ENERGY COMPANY FOR APPROVAL TO
CHANGE THE ACCOUNTING TREATMENT OF CERTAIN
DIRECT LOAD CONTROL PROGRAM COSTS**

I. INTRODUCTION

This Petition is filed by PECO Energy Company (“PECO” or the “Company”) pursuant to 52 Pa. Code § 5.572 to request that the Pennsylvania Public Utility Commission (the “Commission”) amend its Order approving the Company’s Phase I Energy Efficiency and Conservation Plan (“Phase I Plan”) entered October 28, 2009, as revised by Orders entered February 17, 2010 and January 28, 2011, and Secretarial Letter issued August 18, 2011. By this Petition, PECO is requesting that the Commission approve changes to the accounting treatment of certain direct load control (“DLC”) program costs that the Company incurred to implement its Phase I Plan. In particular, the Company is seeking Commission approval to treat equipment, installation and information technology (“IT”)¹ costs for its Residential DLC Program (collectively, the “Equipment Costs”) as operation and maintenance (“O&M”) expenses instead

¹ The capitalized IT costs consist of PECO’s expenditures to modify its billing system, the format of its bill, and its procedures for measuring and verifying billing data, all of which were needed to enable PECO to implement the Residential DLC Program, as well as certain residential non-DLC IT costs.

of capital costs. As such, the Company would recover the unamortized balance of Equipment Costs as part of the reconciliation of Phase I Plan costs and revenues.²

At the end of the Phase I Plan (May 31, 2013), the Equipment Costs that would be recovered as O&M expenses will total approximately \$12.4 million, as shown on the schedule attached to this Petition as Appendix A. Because the Phase I Plan is being implemented at less than its originally budgeted cost, the Company is projecting that it will have over-collected approximately \$20.4 million from residential customers through its Commission-approved Energy Efficiency and Conservation Program Charge (“EEPC”) by May 31, 2013. Recovering its Equipment Costs as of May 31, 2013 from its EEPC over-collection will avoid the need to continue to capitalize the Equipment Costs and amortize those costs, with a return, over the remainder of the 15-year amortization period.

Recovery of these costs as Phase I expenses is reasonable given it is not clear, at this time, that funding will be authorized for DLC programs in future Act 129 energy efficiency plans. Moreover, recovery of these costs as of May 31, 2013 is consistent with the Commission’s guidance in its Phase II Implementation Order that “program measures installed and commercially operable on or before May 31, 2013, as well as CSP or administrative fees related to Phase I are considered Phase I expenses.”³

² The Company notes that it is making a concurrent Phase II compliance filing that includes Phase I Energy Efficiency and Conservation Program Charge tariff pages. *See Petition Of PECO Energy Company For Approval Of Its Act 129 Phase II Energy Efficiency And Conservation Plan*, Docket No. M-2012-2333992 (Opinion and Order entered February 28, 2013) (“*Phase II Order*”) (pp. 44-45). The compliance filing does not reflect the proposed conversion of Equipment Costs from capital to O&M expense. The Company will file appropriate replacement tariff pages reflecting the conversion upon approval of this Petition by the Commission.

³ Energy Efficiency and Conservation Program, Docket Nos. M-2012-2289411 and M-2008-2069887, *Implementation Order* (Order Entered August 3, 2012) (p. 107)

PECO also requests that the Commission address this Petition at its May 9, 2013 public meeting and issue a final order approving the treatment of Equipment Costs as O&M expenses so that the treatment of these costs can be definitively established prior to the end of Phase I on May 31, 2013.

II. BACKGROUND

1. PECO is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania with its principal office in Philadelphia, Pennsylvania. PECO provides electric delivery service to approximately 1.6 million customers and natural gas delivery service to approximately 495,000 customers in Pennsylvania.

2. On October 15, 2008, Act 129 of 2008 (“Act 129”) was signed into law, which added Section 2806.1 to the Pennsylvania Public Utility Code. Act 129 required Pennsylvania electric distribution companies (“EDCs”) to file energy efficiency and conservation (“EE&C”) plans by July 1, 2009 containing the plan elements specified in Section 2806.1(b) (“Phase I EE&C Program”).⁴ 66 Pa.C.S. § 2806.1(b). On January 16, 2009, the Commission entered an Order providing standards and guidance for implementing the Phase I EE&C Program. *See Energy Efficiency and Conservation Program, Docket No. M-2008-2069887 (“Phase I Implementation Order”)*.

3. Sections 2806.1(c) and (d) required that EDCs’ Phase I EE&C plans be designed: (1) to reduce retail energy consumption by a minimum of 1% by May 31, 2011 and a minimum of 3% by May 31, 2013; and (2) to reduce peak demand, measured by reference to the 100

⁴ 66 Pa.C.S. § 2806.1(l) exempts EDCs with fewer than 100,000 customers from this requirement.

highest hours of demand, by a minimum of 4.5% no later than May 31, 2013. 66 Pa.C.S. § 2806.1(c) and (d).

4. The filing requirements set forth in Section 2806.1(b) for EE&C plans included provisions mandating that energy savings be derived from certain customer segments during Phase I and that specific energy efficiency programs should be developed for low-income households proportionate to such households' share of the total energy usage in the EDC's service territory. *Id.* at § 2806.1(b)(1)(i)(G). Finally, an EDC's plan was required to pass a "total resource cost" or "TRC" test to establish whether the cost of electricity that would be avoided by implementing energy efficiency and conservation measures was greater than the cost to implement those measures. 66 Pa.C.S. § 2806.1(b)(1)(i)(I); *2012 PA Total Resource Cost (TRC) Test*, Docket No. M-2012-2300653 (Order entered August 30, 2012).

5. Pursuant to 66 Pa.C.S. § 2806.1(k), EDCs are entitled to full and current cost recovery of prudent and reasonable costs incurred in the provision or management of an EE&C plan. EE&C plan costs include "capital expenditures for any equipment and facilities that may be required to implement the EE&C programs, as well as depreciation, operating and maintenance expenses, a return component based on the EDC's weighted cost of capital, and taxes." *Phase I Implementation Order*, p. 33. However, total annual expenditures for EE&C plans may not exceed 2% of the EDC's total annual revenue as of December 31, 2006. 66 Pa.C.S. §§ 2806.1(g), (h).

6. In compliance with Section 2806.1 and the *Phase I Implementation Order*, PECO prepared and submitted its EE&C plan for the Phase I EE&C Program on July 1, 2009. The Commission subsequently approved PECO's Phase I Plan, with modifications, on October 28,

2009, and further revisions were adopted in various subsequent orders.⁵ PECO's approved Phase I Plan contains energy efficiency programs and demand reduction programs, including the Residential DLC Program.

III. DLC EQUIPMENT COSTS

7. PECO's Phase I Plan identifies certain expenditures as capital costs. For the Residential DLC Program, "Equipment Costs", which include switches, installation costs and certain IT costs⁶, are identified as costs that will be "capitalized over a 15-year time period at a rate of 14.51%." Phase I Plan, pp. 150-151.

8. As previously noted, as of May 31, 2013, the Equipment Costs that PECO requests be treated as an O&M expense will be approximately \$12.4 million. As also previously noted, PECO is projecting that it will have over-collected approximately \$20.4 million from residential customers through the EEPD for Phase I costs as of May 31, 2013. The effect of treating the Equipment Costs as O&M expenses will be to reduce the refund rate for Phase I during the reconciliation period (May 31, 2013 through December 31, 2013) from \$0.00254 per kWh to \$0.00099 per kWh. That difference amounts to approximately \$0.77 on the monthly bill of an average residential customer. (See Appendix A for information regarding the breakdown of costs and refund rates.)

⁵ See, e.g., *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 (Order entered February 17, 2010); *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 (Order entered January 28, 2011); Secretarial Letter, Docket No. M-2009-2093215 (issued August 18, 2011).

⁶ The Residential DLC Program provides residential customers financial incentives to allow PECO, through PECO-owned and PECO-installed remotely activated switches, to interrupt participating customers' central air conditioning units during specified peak load conditions. Comparable costs were not incurred for the Commercial and Industrial ("C&I") DLC Program because participating C&I customers received programmable thermostats that became the customers' property and, therefore, the associated costs were treated as O&M expenses by PECO from the initiation of the C&I DLC Program.

9. Recovering Equipment Costs as an O&M expense, to be funded from the over-collection that will exist as of May 31, 2013, will permit PECO to fully recover its remaining Equipment Costs through the reconciliation of Phase I costs and revenues and will avoid the need to continue to carry the Equipment Costs as capitalized costs and amortize those costs, with a return, over the remainder of the 15-year amortization period.

10. Because the recovery of remaining Equipment Costs can be fully funded from the projected over-collection, customers will not experience any increase in rates under PECO's proposal. Additionally, the administrative burdens associated with the continued capitalization and amortization of the Equipment Costs can be eliminated.

11. The timing of cost recovery will not affect the operability of the installed switches, which will remain available for use by customers participating in the Residential DLC Program, if that program is approved for continuation beyond May 31, 2013. Although there will be administrative and incentive costs associated with a future program, there will be no additional costs to residential customers for the switches resulting from the proposed conversion.

IV. NOTICE

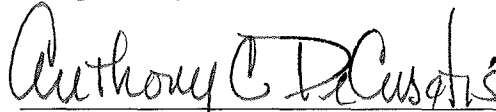
12. PECO is serving copies of this filing on the Office of Consumer Advocate, the Office of Small Business Advocate, the Commission's Bureau of Investigation and Enforcement, and all parties to the Company's Phase I Plan proceeding.

V. CONCLUSION

Based upon the foregoing, PECO respectfully requests that the Commission grant this Petition, amend its Order approving PECO's Phase I Plan entered October 28, 2009, as revised by Orders entered February 17, 2010 and January 28, 2011, and Secretarial Letter issued August

18, 2011, and find that PECO may treat Equipment Costs for its Residential DLC Program as O&M expenses instead of capital costs. As such, PECO will recover the balance of Equipment Costs as part of the Phase I Plan reconciliation of costs and revenues. Additionally, PECO requests that the Commission consider and grant this Petition at its public meeting to be held on May 9, 2013 because it is critically important that PECO obtain confirmation for the treatment of Equipment Costs as O&M expenses prior to the expiration of Phase I of its Energy Efficiency and Conservation Plan on May 31, 2013.

Respectfully submitted,



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March 29, 2013

Counsel for PECO Energy Company

VERIFICATION

I, Richard G. Webster, Jr., hereby declare that I am the Vice President of Regulatory Policy and Strategy of PECO Energy Company; that, as such, I am authorized to make this verification on its behalf; that the facts set forth in the foregoing Petition are true and correct to the best of my knowledge, information and belief; and that I make this verification subject to the penalties of 18 Pa.C.S. § 4904 pertaining to false statements to authorities.



Richard G. Webster, Jr.

Dated: March 29, 2013

APPENDIX A

Conversion of Residential Capital Cost to Expense

	Amount (\$)	Refund Rate (\$/kWh)
Residential Over Collection as of 5/31/13	20,350,960	\$ (0.00254)
Conversion of DLC Switches and IT Costs (see below)	12,396,584	\$ 0.00155
Net Over Collection as of 5/31/13	7,954,376	\$ (0.00099)

Energy Efficiency Phase I Residential Capital Costs (\$)

	DLC Switches	IT	Total
Original Cost	12,747,081	738,014	13,485,095
Less Depreciation as of 5/31/13	1,641,403	137,758	1,779,160
Net Book Value as of 5/31/13	11,105,678	600,256	11,705,934
Gross Receipts Tax	655,235	35,415	690,650
Total Cost to be charged to Expense	11,760,913	635,671	12,396,584