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VIA EFILE

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

Re: 2016 Total Resource Cost (TRC) Test;
Docket No. M-2015-2468992

Dear Secretary Chiavetta:

Enclosed herewith for filing are the Comments of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company to the Pennsylvania Public Utility Commission's March 11, 2015 Total Resource Cost Tentative Order.

Please contact me if you have any questions regarding this matter.

Very truly yours,

John L. Munsch

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JLM:jss

Enclosure

cc: (Via Email in Word Format)
Scott Gebhardt
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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

2016 Total Resource Cost (TRC) Test	:	**Docket No. M-2015-2468992**

COMMENTS OF METROPOLITAN EDISON COMPANY, PENNSYLVANIA ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN POWER COMPANY TO THE TOTAL RESOURCE COST TENTATIVE ORDER

I. Background

Act 129 of 2008 requires electric distribution companies ("EDCs") to demonstrate that their energy efficiency and conservations plans are cost-effective using the Total Resource Cost ("TRC") Test.[1] The TRC Test is "a standard test that is met if, over the effective life of each plan not to exceed 15 years, the net present value of the avoided monetary cost of supplying electricity is greater than the net present value of the monetary cost of energy efficiency conservation measures."[2]

On March 11, 2015, the Commission issued a Tentative Order ("Tentative TRC Order") seeking comments and reply comments on the proposed TRC Test for use during the Commission's proposed Phase III Energy Efficiency and Conservation ("EE&C") Plan for Commonwealth EDCs to begin June 1, 2016. Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company (collectively, the "Companies") appreciate the opportunity to address the specific issues and topics raised in the Tentative TRC Order and offer the following comments for the consideration of the Commission.

[1] 66 Pa. C.S. §2806.1(b)(1)(i)(I)
[2] 66 Pa. C.S §2806.1(m)

II. TRC Test Topics: Changes Proposed in Tentative TRC Order

In Parts IV and V of the Commission's Tentative TRC Order the Commission discusses aspects of the TRC Test that the Commission recommends changing from Phases I & II, and others that should remain unchanged. The Companies agree with the Commission with respect to TRC topics for which no changes are proposed. As for the Commission's proposed changes to the TRC test for use in Phase III, the Companies offer the following comments concerning changes to measurement of avoided transmission and distribution ("T&D") costs and changes to the Commission's incremental cost analysis.

A. Avoided T&D Costs – In Phases I and II the Commission directed EDCs to use transmission prices set by the Federal Energy Regulatory Commission ("FERC") and fully loaded EDC distribution rates to monetize reductions achieved by EE&C Programs. Both of the values were set on an energy basis. For Phase III the Commission proposes to use T&D avoided costs in terms of cost per annual kilowatt of demand ("$/kW-year") calculated by the State Wide Evaluator ("SWE"). Beginning on June 1, 2016, the Commission proposes that EDCs should use the starting values of T&D avoided costs per $/kW-year that are listed in Table 1-3 of the DR Potential Study,[3] as illustrated below:

[3] Demand Response Potential for Pennsylvania – Final Report, submitted by GDS Associates, Inc. February 25, 2015; directed by Commission Order entered February 20, 2014, Docket Nos. M-2012-2289411 and M-2008-2069887.

Table 1-3: Forecast of Average T&D Avoided Costs ($/kW-year) by EDC

EDC	Average T&D Avoided Cost per kW/year for 2016	Average Transmission Only Avoided Cost per kW/year for 2016
Duquesne	$40.88	$40.88
FE: Met-Ed	$40.98	$14.77
FE: Penelec	$40.98	$14.77
FE: Penn Power	$40.98	$14.77
FE: West Penn	$40.98	$14.77
PECO	$49.27	$3.88
PPL	$20.10	$0.00

The Companies agree with the Commission that the avoided T&D values should be based on an avoided demand basis as opposed to an avoided energy basis. However, the methodology that was used to calculate avoided T&D was overly simplistic and did not take into account several key considerations, as evidenced by the results presented in the SWE Table 1-3 of the DR Potential Study that shows disparate and unreasonable values across the Pennsylvania EDCs.

First, the Companies agree with the Commission that "only the variable components of the distribution are avoidable through conservation."[4] However, in arriving at the final recommended results for the Companies, the SWE did not reduce the forecast of T&D investments to account for investments related to variable costs only. Second, the Companies believe the methodology incorrectly used only five years of load growth. A total of five years of forecasted T&D investments were summed and then divided by the load growth over that same period to arrive at the $/kW-year values. This relatively narrow snapshot in time can be heavily skewed in one direction or the other based on unique circumstances at each EDC regarding their T&D investments and load calculations. Furthermore, T&D investments made over a period of five

[4] 2016 Total Resource Cost (TRC) Test Tentative Order, Docket No. M-2015-2468992, V. A. 2. , at p. 21.

years are intended for load growth of a much longer time horizon and, therefore, using only five years overstates the avoided T&D values.

Accordingly, the Companies propose that the EDCs work with the SWE to refine the initial values presented in SWE Table 1-3 to adjust for these issues. This effort could be reasonably completed in time for the Phase III Planning process, would provide more appropriate avoided T&D costs and would result in more realistic TRC results.

B. Incremental Measures Cost Data – The Commission proposes that incremental measures cost data be defined in the same manner as in Phase II. The Companies recommend flexibility to choose between values in the new SWE incremental costs database, adjusted values from the California Database for Efficient Energy Resources ("DEER"), or the values currently used for program planning and cost-effectiveness testing. EDCs would be expected to document, in the annual Phase III reports, the source and the reason for choosing the preferred source. EDCs would not be able to switch between sources unless approved by Commission.

The Companies believe that EDCs should also have the option to continue using current methodology to determine the most accurate incremental measure cost. The SWE and DEER databases may not have the latest available or fully applicable information. Currently, in the annual reporting process, the Companies' independent evaluator uses a program participant evaluation sample based on actual reported data to determine incremental measure costs. The advantage of this methodology is that a representation of customers' actual cost data is used, as opposed to a database wherein the measure cost data may become stagnant over time, or that may not reflect customers' actual cost for other reasons, such as geographic differences and supplier quantity discounts. Furthermore, the Companies request the flexibility to determine the source of the incremental measure level cost at the measure level.

III. Demand Response – Changes Proposed in Tentative Order from Phase I and II

A. Inclusion of Demand Response In Phase III – The Commission has proposed to set mandatory peak demand reduction targets for the proposed five-year Phase III EE&C program period as described in the Tentative Implementation Order at Docket M-2014-2424846, entered March 11, 2015. Commensurate with the instant comments submitted on the TRC Test, the Companies are submitting comments at Docket No. M-2014-2424846 relative to whether mandatory DR requirements should be established for Phase III. In summary, the Companies believe that the statutory timeframe for a cost-benefit analysis has passed, that the Commission may not establish mandatory DR targets beyond mid-2017, and that mandatory DR targets are elusive and an ineffective use of EE&C budgets.

B. TRC Test Benefits from DR – The Commission has proposed that, for purposes of the 2016 TRC test, EDCs would average the gross verified demand reductions over each hour of performance and apply a line loss adjustment factor to estimate the magnitude of the peak demand reduction ("PDR"). Then the PDR would be multiplied by avoided cost of capacity values (avoided cost of generation, avoided cost of transmission and avoided cost of distribution unless transmission-only customers). Energy impacts from DR programs should also be considered in the TRC test. The DR Potential Study assumed that each kWh reduced during a DR event is offset by an extra kWh used during an off-peak hour. Therefore, under this approach, the avoided cost of energy from a DR program is equal to the kWh impact during event hours multiplied by the difference in the EDC's on- and off-peak summer avoided cost of energy.

The Companies assert that avoided T&D costs should be excluded in the TRC test for DR programs. Targeting peak loads in excess of 96% of peak load for a maximum of 4-event hours and 6 events per summer period will not impact the system actual peak to a level that results in any avoided T&D investments. Additionally, any demand reductions may be short-lived or infrequent, as customers may opt out of DR programs. Lastly, as stated in comments at Part II.A. concerning avoided T&D costs, reductions in either EE or DR may not cause a decrease in T&D investments because the location of the reduced demand may not be coincident with the location of the loading conditions necessitating T&D investments. For these reasons, including avoided T&D costs on a one-for-one basis in the cost benefit calculations will overstate cost-effectiveness of these programs. Thus, avoided T&D should be excluded in the TRC test for DR programs.

IV. Conclusion

Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company appreciate the opportunity to provide comments on the Commission's Tentative Order regarding the 2016 Total Resource Cost Test. The Companies look forward to working with the Commission and the other parties on this matter.

Respectfully submitted,

Dated: April 27, 2015

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