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April 27, 2015

VIA eFILING

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

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

Dear Secretary Chiavetta:

Pursuant to the Commission's March 11, 2015 Tentative Order in the above-referenced docket, enclosed please find **Comments of PECO Energy Company on the Proposed 2016 Revisions to the Total Resource Cost Test**.

As instructed, the Comments have been mailed electronically, in Word format, to Scott Gebhardt (sgebhardt@pa.gov) and Louise Fink Smith (finksmith@pa.gov). Please do not hesitate to contact me if you have any questions.

Very truly yours,

Michael S. Swerling

Enclosure

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

COMMENTS OF PECO ENERGY COMPANY
ON THE PROPOSED 2016 REVISIONS TO THE TOTAL RESOURCE COST TEST

Pursuant to the March 11, 2015, Tentative Order entered by the Pennsylvania Public Utility Commission (the "Commission") in the above-referenced docket, PECO Energy Company ("PECO" or the "Company") hereby submits comments on the Commission's proposed revisions to the total resource cost ("TRC") test for use in evaluating the cost-effectiveness of the energy efficiency and conservation plans ("EE&C Plans") of electric distribution companies ("EDCs"). PECO appreciates the opportunity to comment on this matter and commends the Commission's efforts to refine the existing TRC for use during Phase III of the Act 129 EE&C Program. The Company has a limited number of substantive comments and requests for clarification which are provided below in the format directed by the Tentative Order.

V. BENEFITS AND COSTS – CHANGE PROPOSED

A. Avoided Transmission And Distribution Costs

In 2014, PECO conducted a study of its transmission and distribution ("T&D") avoided costs over a ten-year period (2014-2023) and provided a copy of that study to the Statewide Evaluator ("SWE"). In the Tentative Order, the Commission proposes that, for Program Year 8 (which begins June 1, 2016), EDCs should use the starting values of T&D avoided costs per kW-year that are listed in Table 1-3 of the *Demand Response Potential Study*[1] prepared by the SWE. The values in Table 1-3, however, differ from those in PECO's study and the SWE has not

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[1] *See* http://www.puc.pa.gov/filing_resources/issues_laws_regulations/act_129_information/act_129_statewide_evaluator_swe_.aspx, dated February 25, 2015, and released February 27, 2015.

explained the basis for this variance. PECO believes that it should be permitted to utilize the values from the Company's T&D avoided costs study instead of those provided in Table 1-3.

B. Incremental Measure Costs Data

PECO is not commenting on this topic.

C. Transmission, Distribution, And Capacity Costs

The Commission proposes that the BLS Electric Power Generation Transmission Distribution (GTD) sector price index (BLS factor: NAICS[2] 221110) be used as the proxy rate for escalation of transmission, distribution, and capacity costs for periods after which such cost values are available.[3] More specifically, the Commission proposes that the escalation rate be determined using "the 60-month calculation period for the BLS factor [beginning] in July 2010 and end[ing] in June 2015." [4] The Commission further proposes to continue to use the rolling average BLS factor to escalate the PJM RPM capacity prices in years four through twenty and to escalate the T&D costs in years two through twenty. [5]

PECO requests clarification regarding the Commission's proposed calculation period because the time period from the July 2010 BLS index value to the June BLS index 2015 value is 59 months, not 60 months. The Company requests confirmation that the Commission intended to recommend a calculation period beginning with the June 2010 BLS index value and ending with the June 2015 BLS index value, such that the annual escalation rate would be calculated as [[(June 2015 BLS index value)/(June 2015 BLS index value)]^(1/5)]-1. If this is not correct, PECO requests that the Commission provide additional detail regarding its intended calculation period. Also, PECO requests confirmation that it would be acceptable to use the "preliminary"

2 North American Industry Classification System.

3 *See* Tentative Order, pp. 23-25.

4 *Id.* at 24.

5 *Id.*

June 2015 index value provided by the Bureau of Labor Statistics if the final value is not available at the time of the calculation of the escalation rate.

In addition, the Company requests clarification regarding two items related to the avoided cost-of-capacity. First, PECO would like confirmation that the assumed capacity price should be set equal to the "Zonal Capacity Price" as reported by PJM. Second, PECO requests clarification on whether the assumed capacity price for a given delivery year should be set equal to: (1) the Base Residual Auction capacity price; or (2) the most recently reported capacity price (at the time of the avoided cost calculation) which reflects both the Base Residual Auction capacity price and possibly one or more Incremental Auction[6] capacity prices. The Company has requested a similar clarification in Section VII.B. regarding avoided cost-of-capacity for potential demand response programs in Phase III.

Finally, PECO agrees with the Commission that the rolling average BLS factor should be used to escalate the PJM RPM capacity prices and T&D costs when necessary. In particular, for T&D costs, the Company believes that the escalation factor should be employed when a value is needed for a year that is beyond the scope of the EDC's then-current long-range plan, which, in PECO's case, looks forward five years.

D. Locational, Temporal, And Zonal Differences

The Commission proposes that the energy basis adjustments (to convert energy prices at PJM Western Hub into energy prices at the appropriate EDC zone) continue to be based on NYMEX futures prices, in the same manner as they were in Phase II.[7] The Commission also proposes that, if the futures prices needed to calculate the necessary energy basis adjustments are

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6 For each delivery year, PJM administers "Incremental Auctions" for capacity after the initial "Base Residual Auction" and, as each Incremental Auction is completed, PJM reports a price for capacity reflecting the combined auction results.

7 *See* Tentative Order, p. 25.

not available, the EDC could use "the historical basis adjustment methodology as used in Phase I,"[8] but extend the 15-year period to twenty years.

As of the filing date of these comments, the most recently reported NYMEX futures prices would not be sufficient to calculate all of the energy basis adjustments needed for the TRC Test. PECO anticipates that sufficient futures price data will also not be available at the time the actual energy basis adjustments will need to be calculated for the TRC Test. Specifically, PECO believes that NYMEX futures prices for the PECO Zone may not be reported for all of the twenty-four calendar (monthly on-peak/off-peak) periods. As a result, PECO would be unable to calculate basis factors (PECO Zone price / PJM Western Hub price) for some of the twenty-four calendar periods using NYMEX futures price data.[9]

PECO seeks clarification from the Commission regarding the specific calculation methodology to be utilized in this situation, understanding that the Commission has prescribed the application of "the historical basis adjustment methodology as used in Phase I."[10] In its 2009 TRC Test Order, the Commission provided for "EDC zonal basis adjustments made based on the *PJM State of the Market* report data 'Zonal real-time, simple average LMP (dollars per MWh).'"[11] However, in its 2013 TRC Test Order, the Commission recognized that recent *PJM State of the Market Reports* no longer provide this exact data, but do provide "Zonal real-time

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[8] *Id.*

[9] For any one of the twenty-four monthly on-peak/off-peak calendar periods, if a NYMEX futures price is not available for the PECO Zone for that on-peak/off-peak calendar period in at least one year, then a basis factor (PECO Zone price / PJM Western Hub price) for that given monthly on-peak/off-peak calendar period cannot be calculated.

[10] *See* Tentative Order, p. 25.

[11] *See Implementation of Act 129 of 2008 –Total Resource Cost (TRC) Test,* Docket No. M-2009-2108601 (Order entered June 23, 2009), p. 18.

load weighted LMP" data.[12] Furthermore, in that 2013 Order, the Commission allowed for the use of "Zonal real-time load weighted LMP" data to calculate the basis adjustments when sufficient NYMEX futures data is not available.[13] As such, PECO requests that the Commission confirm that the following specific basis adjustment calculation methodology is acceptable for Phase III:

1) For any of the twenty-four calendar (monthly on-peak/off-peak) periods in which sufficient NYMEX futures price data is available to calculate energy basis adjustments, the basis adjustments shall be calculated using the NYMEX futures price data.

2) For any of the twenty-four calendar (monthly on-peak/off-peak) periods in which sufficient NYMEX futures price data is not available to calculate energy basis adjustments, PECO may use real-time, load-weighted, average LMP data from the most recent *PJM State of the Market Report*. For example, the *2014 PJM State of the Market Report* provides four relevant real-time, load-weighted, average LMPs: 2014 PECO Zone, 2014 PJM Western Hub, 2013 PECO Zone, and 2013 PJM Western Hub. If the *2014 PJM State of the Market Report* is the most recent *PJM State of the Market Report* at the time of the calculation, the basis factor for any given monthly on-peak or off-peak period (in which sufficient NYMEX futures price data is not available to calculate basis adjustments) may be calculated as the average of two ratios: [(2014 PECO Zone)/(2014 PJM Western Hub)] and [(2013 PECO Zone)/(2013 PJM Western Hub)].

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12 *See 2012 PA Total Resource Cost (TRC) Test*, Docket Nos. M-2012-2300653 & M-2009-2108601 (Order entered August 30, 2012), pp. 35-36.

13 *Id*.

If PECO's proposal is not consistent with the Commission's recommendation, then PECO requests that the Commission provide a detailed description of a different approach that is acceptable.

VI. NET-TO-GROSS – CHANGE PROPOSED

A. Basis Of TRC Test Benefits

PECO is not commenting on this topic.

B. Net-To-Gross (NTG) Adjustments To Savings

PECO is not commenting on this topic.

C. Inclusion Of Costs For Free Riders In TRC Test Calculations

PECO is not commenting on this topic.

VII. DEMAND RESPONSE – CHANGE PROPOSED

A. Inclusion Of Demand Response

PECO is not commenting on this topic.

B. TRC Test Benefits From Demand Response

In the Tentative Order, the Commission provides proposed guidelines regarding the values to be used for the avoided cost-of-capacity for potential demand response programs in Phase III. The Commission proposes that, unless the EDC elects to bid a program into PJM's forward capacity market and have the program recognized as a wholesale resource (in which case the actual revenue earned from the transaction should be used), "[a]ll peak demand reduction values will be multiplied by the avoided cost of generation capacity ($/kW-year for the Annual Product Type) for the delivery year as set by PJM's Base Residual Auction."[14]

PECO requests two clarifications regarding this proposal. First, PECO would like confirmation that, in the cases in which the EDC does not elect to bid a program into PJM's

[14] *See* Tentative Order, p. 29.

forward capacity market and have the program recognized as a wholesale resource, the assumed avoided cost of generation capacity should be set equal to the "Zonal Capacity Price" as reported by PJM.[15] Second, PECO requests that the Commission clarify whether the assumed avoided cost of generation capacity for a given delivery year should be set equal to: (1) the Base Residual Auction capacity price; or (2) the most recently reported capacity price (at the time of the avoided cost calculation) which reflects both the Base Residual Auction capacity price and possibly one or more Incremental Auction capacity prices.

C. 75% Participant Cost Assumption

PECO is not commenting on this topic.

D. Measure Life Of Demand Response Equipment

PECO is not commenting on this topic.

E. Treatment Of DR Payments To CSPs And EDCs From PJM

PECO is not commenting on this topic.

VIII. FREQUENCY OF REVIEW OF TRC TEST

PECO is not commenting on this topic.

IX. NEW MATTERS

With respect to the calculation of the avoided costs of supplying electricity, in its 2013 TRC Test Order, the Commission accepted a prior proposal by PECO allowing for the calculation of avoided energy costs for later years of the forecast based on NYMEX natural gas futures prices.[16] The Commission added, "To the extent NYMEX natural gas futures prices are

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15 *See* http://www.pjm.com/~/media/documents/manuals/m18.ashx, http://www.pjm.com/markets-and-operations/rpm.aspx.

16 *See 2012 PA Total Resource Cost (TRC) Test*, Docket Nos. M-2012-2300653 & M-2009-2108601 (Order entered August 30, 2012), p. 32. The natural gas prices are converted into estimated wholesale energy prices through the use of heat rates spark price spreads calculated as prescribed by the Commission.

not available in years 11 through 15, the EDC(s) may use the natural gas price projections within the [U.S. Energy Information Administration's ("EIA") Annual Energy Outlook ("AEO")]…"[17]

PECO believes that using both NYMEX natural gas futures prices and EIA AEO natural gas projections within a single forecast may be problematic for several reasons. First, the EIA AEO is an entirely different data source, which increases the chance of internal inconsistencies in the forecast. Second, the EIA AEO is updated infrequently (often only once per year), so the EIA AEO projections may not be reflective of current market expectations, while more current expectations are embedded in the recent market price data from NYMEX, which is updated on a daily basis. Third, the NYMEX market prices pertain to a precise delivery point applicable to PECO, while the EIA AEO projections pertain to a very broad "Middle Atlantic Region" designation, which can result in inconsistencies between the data sources due to differences in delivery locations.

For all of these reasons, PECO requests that, for the years where NYMEX natural gas futures prices are not available, the Commission allow PECO to calculate natural gas prices by applying the same BLS escalator that the Commission has proposed that PECO use to escalate capacity, transmission, and distribution prices.[18]

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[17] *Id.*

[18] *See* Tentative Order, pp. 23-25.

X. CONCLUSION

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

Respectfully submitted,

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For PECO Energy Company