

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

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June 21, 2016

Rosemary Chiavetta, Secretary
PA Public Utility Commission
Commonwealth Keystone Bldg.
400 North Street
Harrisburg, PA 17120

Re: Petition of PECO Energy Company for
(1) Approval of its Microgrid Integrated Technology
Pilot Plan and (2) Issuance of a Declaratory Order
Regarding the Recovery of Microgrid Costs
Docket No. P-2016-2546452

Application for Construction of Microgrid
Distribution Energy Resources Fueled by Natural Gas
Docket No. A-2016-2546450

Dear Secretary Chiavetta:

Attached for electronic filing please find the Office of Consumer Advocate's Prehearing Memorandum in the above-referenced proceeding.

Copies have been served per the attached Certificate of Service.

Respectfully submitted,

/s/ Lauren M. Burge
Lauren M. Burge
Assistant Consumer Advocate
PA Attorney I.D. 311570

Attachment

cc: Honorable Cynthia Williams Fordham, ALJ
Honorable Eranda Vero, ALJ
Certificate of Service

222779

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PECO Energy Company for:	:	
(1) Approval of its Microgrid Integrated	:	
Technology Pilot Plan and (2) Issuance of	:	Docket No. P-2016-2546452
A Declaratory Order Regarding the	:	
Recovery of Microgrid Costs	:	
Application for Construction of Microgrid	:	
Distribution Energy Resources fueled by	:	Docket No. A-2016-2546450
Natural Gas	:	

PREHEARING MEMORANDUM
OF THE
OFFICE OF CONSUMER ADVOCATE

Pursuant to Section 333 of the Public Utility Code, 66 Pa. C.S. Section 333, and in response to the Prehearing Conference Order issued by Administrative Law Judge Cynthia Williams Fordham (ALJ Fordham) and Administrative Law Judge Eranda Vero (ALJ Vero) in the above-captioned matter, the Office of Consumer Advocate (OCA) provides the following information:

I. INTRODUCTION

On May 18, 2016, PECO Energy Company (PECO or the Company) filed a Petition with the Pennsylvania Public Utility Commission (Commission) for approval of its Microgrid Integrated Technology Pilot Plan (Microgrid Pilot) and for issuance of a Declaratory Order regarding the recovery of microgrid costs. The Company also filed a related Application for Construction of Microgrid Distribution Energy Resources fueled by Natural Gas, in accordance with 66 Pa. C.S. § 519.

In its Petition, PECO proposes to construct, own and operate a community microgrid within its service territory, in Concord Township. Petition at 1-2. The Petition states that the microgrid will generally operate as part of PECO's distribution system but will be able separate itself from the distribution system to operate in "island mode," providing uninterrupted service within the microgrid during outages, severe storms, or other events. Petition at 12. When operating in island mode, power within the microgrid will be provided by natural gas reciprocating engines, ground-mounted solar photovoltaic installations, batteries, and electric vehicle charging stations. Petition at 11.

The Company's filing also includes a related Application for Construction of Microgrid Distributed Energy Resources Fueled by Natural Gas. (Docket No. A-2016-2546450). This Application is filed pursuant to Section 519 of the Public Utility Code, which requires an electric utility to seek Commission approval prior to construction of a generation facility fueled by natural gas. 66 Pa. C.S. § 519. Through the Application, PECO seeks approval to construct 10 MW of natural gas reciprocating engines to operate as one of the generation sources included within the Microgrid Pilot. Petition at 21.

The Petition states that these distributed energy resources (DER) will provide sufficient generation to meet the typical peak load during outages of the identified customers. Id. The proposed Microgrid Pilot area includes 388 acres of Concord Township and supports various public services such as healthcare, local emergency services, a retirement community, hotels, gas stations, government facilities, and public accommodations. Petition at 10. The Company has projected that the Microgrid Pilot will likely operate in island mode for approximately 28 hours per year, and will otherwise be connected to the grid. Petition at 14.

The Company estimates that the Microgrid Pilot will cost approximately \$35 million to implement, which it proposes to recover from all PECO customers. Petition at 16. In accordance with its Long-Term Infrastructure Improvement Plan (LTIP), the Company proposes to recover approximately \$15.3 million of these costs through its Distribution System Improvement Charge (DSIC). Petition at 16-17. The Company seeks to recover the remaining \$19.6 million in costs that are not eligible for recovery through the DSIC in a future electric distribution base rate case. Petition at 17. Through its Petition, PECO is seeking approval of the Microgrid Pilot and the issuance of a Declaratory Order providing that any costs not recovered through the DSIC are eligible to be recovered in a future base rate proceeding as distribution costs. Petition at 23.

The Office of Consumer Advocate (OCA) filed its Answer to the Petition and Application on June 20, 2016, pursuant to the June 4, 2016 notice in the *Pennsylvania Bulletin*. This case has been assigned to ALJ Fordham and ALJ Vero, and a Prehearing Conference is scheduled for June 22, 2016.

II. ISSUES AND SUB-ISSUES

Based upon a preliminary analysis of PECO's Petition, the OCA has identified a number of issues which it anticipates will be included in its investigation of the Petition. It is anticipated that other issues may arise and be pursued as this case proceeds.

The OCA will begin conducting discovery as any witness(es) have been identified. As the OCA receives responses to interrogatories, the OCA may be able to narrow the scope of additional information requests. Once the discovery process has been completed, the OCA will file direct testimony which will set forth the specific issues that the OCA will address in this

proceeding. At that time, the OCA will also be able to make and to quantify its specific recommendations.

The following list sets forth the issues that, at this time, the OCA anticipates it may raise:

A. Consistency with the Public Utility Code and the Public Interest

The Company's proposal raises significant legal and policy questions that must be addressed regarding the Microgrid Pilot. The OCA will investigate the following issues in this area:

- Whether the proposal is consistent with the Public Utility Code and is in the public interest;
- Whether it is permissible for PECO to operate a microgrid under the Public Utility Code and to recover costs in the manner that PECO has proposed;
- Whether the Microgrid Pilot will provide a benefit to all consumers; and
- Whether PECO's proposal to reclassify generation assets as distribution is consistent with the Public Utility Code.

B. Sale of Generation into the Wholesale Market

The OCA will examine whether PECO's proposal to defray costs associated with the DER technologies by selling excess generation in the wholesale market is consistent with the operation and rules of the wholesale market, and whether it is in compliance with recent court rulings.

C. Funding Sources

The OCA will investigate whether PECO should consider alternative or additional funding sources in order to recover Microgrid Pilot costs, rather than recovering all costs from ratepayers.

D. Reliability

The OCA will examine:

- Whether the Microgrid Pilot is necessary to improve reliability;
- Whether any improvements to reliability resulting from the microgrid will provide a direct benefit to all consumers; and
- Whether, given the costs of this proposal, the Microgrid Pilot is the best way to achieve any necessary reliability improvements.

E. Cost Recovery

The OCA will investigate the proposed costs for the Microgrid Pilot in order to determine whether any costs incurred are properly recoverable in distribution base rates and whether rates will remain just and reasonable.

F. Cost Allocation

The OCA will examine issues related to cost allocation to determine whether any costs are being allocated properly among customer classes in accordance with cost causation principles and legal precedent.

G. Operations

The OCA will examine a variety of specific operational details related to how the proposed microgrid would operate.

III. WITNESSES

The OCA is in the process of identifying one or more witnesses for this proceeding. The OCA intends to present the direct, rebuttal, and surrebuttal testimony, as may be necessary, of the witness(es) it identifies. The witness(es) will present testimony in written form and will also attach various exhibits, documents, and explanatory information which will assist in the

presentation of the OCA's case. Once the OCA has identified its witness(es) for this proceeding, the OCA will promptly notify ALJ Fordham, ALJ Vero, and all parties of record.

IV. SERVICE ON THE OCA

The OCA will be represented in this proceeding by Senior Assistant Consumer Advocates Aron J. Beatty and Darryl Lawrence, and Assistant Consumer Advocate Lauren M. Burge. Two copies of all documents should be served on the OCA as follows:

Aron J. Beatty
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V. DISCOVERY

The discovery modifications proposed by the Company in its Prehearing Memorandum are acceptable to the OCA.

VI. PUBLIC INPUT HEARINGS

At present, it does not appear that a public input hearing in this proceeding is necessary. However, if consumer interest arises, the OCA will make prompt notification to the ALJ Fordham, ALJ Vero, and the parties to request public input hearings.

VII. PROPOSED SCHEDULE

The litigation schedule proposed by the Company in its Prehearing Memorandum is acceptable to the OCA.

VIII. SETTLEMENT

The OCA is willing to discuss settlement at the appropriate time in this proceeding.

Respectfully Submitted,

/s/ Lauren M. Burge

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June 21, 2016

222661

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PECO Energy Company for	:	
(1) Approval of its Microgrid Integrated	:	
Technology Pilot Plan and (2) Issuance of	:	Docket No. P-2016-2546452
A Declaratory Order Regarding the	:	
Recovery of Microgrid Costs	:	
Application for Construction of Microgrid	:	
Distribution Energy Resources fueled by	:	Docket No. A-2016-2546450
Natural Gas	:	

I hereby certify that I have this day served a true copy of the following documents, the Office of Consumer Advocate’s Prehearing Memorandum, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 21st day of June 2016.

SERVICE BY HAND DELIVERY and FIRST CLASS MAIL

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