PECO ENERGY COMPANY
STATEMENT NO. 4

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

ENERGY EFFICIENCY AND CONSERVATION PROGRAM

DOCKET NO. M-2020-3020830

DIRECT TESTIMONY
SUPPORTING PECO'S PETITION FOR APPROVAL
OF ITS PHASE IV EE&C PLAN

WITNESS: RICHARD A. SCHLESINGER

SUBJECT: COST RECOVERY

DATED: NOVEMBER 30, 2020

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DIRECT TESTIMONY
OF
RICHARD A. SCHLESINGER

I. INTRODUCTION AND PURPOSE OF TESTIMONY

1. Q. Please state your full name, professional position, and business address.

A. My name is Richard A. Schlesinger. I am Manager of Retail Rates in the Regulatory Policy and Strategy Department for PECO Energy Company ("PECO" or the "Company"). My business address is PECO Energy Company, 2301 Market Street, Philadelphia, Pennsylvania 19103.

2. Q. Please describe your educational background.

A. I have a Bachelor of Science Degree in Engineering from Widener University. In addition, I have a Master's Degree in Business Administration from Saint Joseph's University.

3. Q. Please describe your work experience in the energy industry.

A. I was hired in 1986 by PECO as a System Engineer in the Plant Operations group supporting the Limerick Nuclear Generating Station. From 1988 to 1991, I held several positions of increasing responsibility supporting plant operations, management, and quality assurance. In 1992, I transferred into the position of Rate Engineer in the Rates and Regulatory Affairs Group. In 1997, I was appointed to the position of Project Manager, Customer Choice Implementation, and was responsible for many regulatory activities related to the phase-in of electric and gas retail choice for all of PECO's two million electric and gas distribution customers. In 2000, I transferred to the Company's Customer and Marketing Services Department and served as e-Commerce Manager and then as Project Manager, overseeing various Business/Information Technology system implementations. In 2004, I returned to the Regulatory and External Affairs Department, where I served as Principal Rate Administrator. In 2009, I was promoted to my current position – Manager of Retail Rates. In this role, I have primary management and oversight responsibility for PECO's electric and gas service tariffs, as well as overseeing numerous filings with the Pennsylvania Public Utility Commission (the "Commission").

4. Q. Mr. Schlesinger, have you submitted testimony previously before the Commission?

A. Yes. I submitted testimony in support of PECO's Phase I Energy Efficiency and Conservation ("EE&C") Plan,[1] PECO's Phase II EE&C Plan,[2] and PECO's Phase III EE&C Plan.[3] In addition, I submitted testimony in support of the Company's Market Rate Transition Energy Efficiency Package[4] and its Residential Real-Time Pricing Program.[5] Finally, I have also submitted testimony in support of several

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[1] *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.

[2] *Petition of PECO Energy Company for Approval of its Act 129 Phase II Energy Efficiency and Conservation Plan,* Docket No. M-2012-2333992.

[3] *Petition of PECO Energy Company for Approval of its Act 129 Phase III Energy Efficiency and Conservation Plan,* Docket No. M-2015-2515691.

[4] *Petition of PECO Energy Company for Approval of its Market Rate Transition Energy Efficiency Package,* Docket No. P-2008-2062740.

[5] *Petition of PECO Energy Company for Approval of Phase I of its Residential Real-Time Pricing Program,* Docket No. P-2008-2032333.

of PECO's Distribution Rate Cases. These include PECO's 2015 Electric Distribution Rate Case,[6] PECO's 2018 Electric Distribution Rate Case,[7] and PECO's recently filed 2020 Gas Distribution Rate Case.[8]

5. Q. What is the purpose of your direct testimony?

A. I am sponsoring a supplement to PECO's Electric Service Tariff bearing a proposed effective date of June 1, 2021, which contains provisions designed to implement PECO's proposed Phase IV EE&C Plan Charge ("Phase IV EEPC"). Accordingly, my testimony: (1) describes PECO's Phase IV EEPC, which is the rate adjustment mechanism the Company proposes to establish under Section 1307 of the Pennsylvania Public Utility Code[9] to recover the costs associated with the Company's Phase IV EE&C Plan; (2) identifies the categories of PECO's Phase IV EE&C Plan costs that the Phase IV EEPC will recover; and (3) provides the Company's current estimates of its Phase IV Plan costs. In addition, I will describe how PECO's rates will be adjusted annually over the term of its Phase IV EE&C Plan to reflect over- or under-recoveries. Finally, I will describe how the Company will separate costs incurred and EEPC revenues billed with respect to its Phase IV EE&C Plan from costs incurred and EEPC revenues billed with respect to its Phase III EE&C Plan.

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[6] *Pa. P.U.C. v. PECO Energy Company – Electric Division*, Docket No. R-2015-2468981.

[7] *Pa. P.U.C. v. PECO Energy Company – Electric Division*, Docket No. R-2018-3000164.

[8] *Pa. P.U.C. v. PECO Energy Company – Gas Division*, Docket No. R-2020-3018929.

[9] Hereafter, unless specifically stated otherwise, all section references are to the Pennsylvania Public Utility Code.

6. Q. Have you prepared any exhibits to accompany your testimony?

A. Yes, I have prepared four exhibits, which consist of the following:

Exhibit RAS-1 –	Proposed supplement setting forth revisions to PECO's Electric Service Tariff (Clean and Redline).
Exhibit RAS-2 –	Program costs by rate class.
Exhibit RAS-3 –	Calculations of the cost recovery charges by rate class for the first year of PECO's Phase IV EE&C Plan.
Exhibit RAS-4 –	Responses to the Commission's filing requirements at 52 Pa. Code § 53.52.

II. PECO'S PROPOSED METHOD OF COST RECOVERY

7. Q. Do the EE&C provisions of Act 129 of 2008 ("Act 129")[10] and the Commission's Implementation Orders[11] grant an electric distribution company ("EDC") the right to recover the costs of its EE&C plan?

A. Yes, they do. Act 129 added Section 2806.1, which provides that EDCs are entitled to recover all reasonable and prudent EE&C plan costs, on a full and current basis, through a cost-recovery mechanism established under Section 1307.[12] The Commission previously directed EDCs to develop separate cost recovery mechanisms for their EE&C Plans and also required that the cost

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10 66 Pa. C.S. § 2806.1, et seq.

11 *See, e.g.*, Implementation Order, *Energy Efficiency and Conservation Program*, Docket No. M-2020-3015228-- (Order entered June 18, 2020) ("*Phase IV Implementation Order*").

12 66 Pa. C.S. § 2806.1(k).

recovery mechanism be non-bypassable and that it not affect the EDCs' prices-to-compare.[13]

8. Q. Please explain the mechanism that PECO is proposing to recover Phase IV Plan costs.

A. Consistent with the authority granted by Section 2806.1(k) and the *Phase IV Implementation Order*, PECO's Phase IV EEPC will be a fully reconcilable, non-bypassable charge. The Phase IV EEPC is designed to adjust customers' distribution rates by the amount of the charge calculated for each rate class and, as a result, PECO's price-to-compare will not be affected by the recovery of Phase IV EE&C Plan costs. The Phase IV EEPC follows the same format the Company used for its currently-effective, Commission-approved Phase III EEPC, which, as previously noted, recovers costs associated with PECO's Phase III EE&C Plan.

Exhibit RAS-1 is a pro forma supplement, in both clean and redlined versions, to PECO's Electric Service Tariff that sets forth the revisions to PECO's currently effective Electric Service Tariff needed to implement PECO's Phase IV EEPC and, therefore, reflects changes with respect to the cost recovery method, the formula for calculating the Phase IV EEPC charge and the Phase IV EEPC charges specific to each rate class. All of the rate schedules setting forth distribution rates that would have to be adjusted to reflect the Phase IV EEPC are also included in the proposed tariff supplement provided as Exhibit RAS-1.

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[13] *See* Implementation Order, *Energy Efficiency and Conservation Program*, Docket No. M-2012-2289411 (Order entered August 3, 2012) ("*Phase II Implementation Order*")

However, PECO will submit the final distribution rates in a compliance filing after its Phase IV EE&C Plan and Phase IV EEPC are approved.

9. Q. What categories of costs will be recovered under the Phase IV EEPC?

A. The Phase IV EEPC will recover any of the fixed capital costs (depreciation and pre-tax return) and operating expenses, not otherwise recovered in base rates, to design and implement the EE&C programs incorporated in its Phase IV EE&C Plan. These costs include, among others, the cost of information technology ("IT") needed to design and implement the EE&C programs; the costs of customer outreach and program promotion; incremental labor costs incurred to manage and administer the EE&C programs on an ongoing basis; the cost to measure and verify EE&C program results; and the cost of incentives offered to customers to participate in the approved EE&C programs.[14]

10. Q. Will the Phase IV EEPC recover any capital expenditures?

A. If the Company incurs IT costs to implement the Phase IV Plan, these costs would be capitalized for financial accounting purposes and depreciated over the service life of the property, which would correspond to the five-year term of PECO's Phase IV EE&C Plan. Accordingly, PECO would include as recoverable costs in its Phase IV EEPC the annual depreciation of this property and a pre-tax return on

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[14] *See Phase IV Implementation Order*, p. 121.

the depreciated original cost at PECO's weighted cost of capital, as permitted by the *Phase IV Implementation Order* (p. 121).[15]

11. Q. What are the Company's budgeted expenditures for its Phase IV Plan?

A. As explained in Section 7 of PECO's Phase IV EE&C Plan, which is being submitted as PECO Exhibit 1 accompanying the Petition of PECO Energy Company For Approval of Its Phase IV Energy Efficiency and Conservation Plan, consistent with the cost limitation imposed by Section 2806.1(g), the Company's budgeted Phase IV expenditures total $427.4 million for the five-year term of the Plan. The Company projects that its budgeted expenditures by rate class will be as follows:

Residential	$136.9 million
Small Commercial and Industrial ("SC&I")	$122.8 million
Large Commercial and Industrial ("LC&I")	$165.9 million
Municipal Lighting ("ML")	$1.8 million
Total	$427.4 million

Exhibit RAS-2 contains a summary of the projected expenditures by class for all of the programs in the Phase IV EE&C Plan.

12. Q. How will Statewide Evaluator ("SWE") costs be handled?

A. The *Phase IV Implementation Order* (p. 123) requires PECO to remove the SWE costs from its EE&C Phase IV budget. (The same requirement was imposed for

[15] PECO proposes to calculate its weighted average cost of capital in the same manner specified by the Commission in the Final Implementation Order, *Implementation of Act 11 of 2012*, Docket No. M-2012-2293611 (Order entered August 2, 2012), pp. 30-31 and Appendix A, Section 2.B.2.

purposes of EDCs' Phase III EE&C Plans, as well.)[16] Accordingly, PECO has not included SWE costs in its Phase IV Plan budget. PECO will track Phase IV SWE costs separately from its Phase IV EE&C Plan costs and, as permitted by the *Phase IV Implementation Order*,[17] will recover both categories of costs through its Phase IV EEPC. Because the Phase IV SWE has not yet been selected, the Company is using estimated SWE costs for the five-year term of the Phase IV EE&C Plan (approximately $2.1 million) as a placeholder for the actual Phase IV SWE costs. More up-to-date projected Phase IV SWE costs will be included in a compliance filing after the Phase IV Plan is approved.

13. Q. What is the cost recovery period and when will it begin?

A. The cost recovery period will begin when bills are sent to customers during July 2021 for June 2021 usage and will continue through bills sent to customers in June 2026 for May 2026 usage. There will be a final "true-up" to the actual EE&C Plan costs at the end of the recovery period, and any over- or under-collection will then be refunded or recouped, as applicable, without interest, over a twelve-month period following the completion of Phase IV.

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[16] *See* Implementation Order, Energy Efficiency and Conservation Program, Docket Nos. M-2014-2424864 (Order entered June 19, 2015) ("*Phase III Implementation Order*")

[17] *See Phase IV Implementation Order*, p. 123.

14. Q. How will the Company ensure that its Phase IV EEPC recovers the cost of particular programs from the classes of customers that will receive the benefits those programs provide?[18]

A. The programs included in PECO's Phase IV EE&C Plan are designed such that the cost of each program is directly assigned to the customer class that will receive the benefits of that program. For programs that provide benefits to more than one class, costs will be allocated using reasonable and generally accepted cost-of-service principles. Common costs will be allocated to each rate class in proportion to the energy savings (MWh) that each rate class is projected to deliver under the Phase IV Plan.

The total projected costs of each program for the five-year Phase IV EE&C Plan term, by rate class, are shown in Exhibit RAS-2, page 1 of 2.

15. Q. Have you developed proposed charges for the Phase IV EEPC for each customer class?

A. Yes, I have developed charges under the Phase IV EEPC based on the total projected program costs to be incurred for each rate class for the first year of the Phase IV EE&C Plan ("Program Year 13" or "PY13"). To develop the charge for each rate class, the total projected program costs to be incurred for that class for PY 13 (see Exhibit RAS-2, pages 2 of 2) was divided by the appropriate projected class billing units (e.g. kilowatt hours of energy use or kilowatts of demand) for

[18] *See Phase IV Implementation Order*, pp. 133-134.

the period from June 1, 2021 through May 31, 2022. In addition, as described previously, although the Phase IV SWE costs will be tracked separately from the Phase IV Plan costs, they are included for recovery under the Phase IV EEPC. The resulting charges were then grossed up to provide for recovery of Pennsylvania Gross Receipts Tax. This calculation produces a charge designed to recover the total program costs for PY 13. Exhibit RAS-3 contains the detailed calculations for the development of the charges for each class.

16. Q. Are there any differences between the Phase III and Phase IV EEPCs?

A. Yes. The *Phase IV Implementation Order* requires that the revenue from Peak Demand Reduction ("PDR") resources that are bid into and clear the PJM Forward Capacity Market ("FCM") are to be used to reduce EE&C Phase IV Plan surcharges and collections from the customer classes from which the savings were acquired. In addition, these must be clearly identified in the 66 Pa. 1307(e) cost recovery reconciliation statement as cost reductions while any deficiency charges will be identified as cost increases. FCM proceeds or penalties will not be treated as "de facto" increases or reductions in the EE&C Phase IV budget and thus will not to be included in the 2% spending cap.[19] As result, the Phase IV EEPC has been revised to reflect these changes.

17. Q. Please explain the annual calculation and adjustment of Phase IV EEPC charges.

[19] EE&C Phase IV Implementation Order, pp.138,141,142.

A. In the *Phase IV Implementation Order* (p. 142), the Commission required the charge to be developed using "projected program costs" and not "the authorized budget amount" because "[t]he development of the surcharge using the projected program costs rather than the authorized budget amount would mitigate over- or under-recoveries of costs during the surcharge application period." Additionally, in that Order (p. 142), the Commission required "each EDC to annually reconcile (i.e., 1307(e) Statement) actual expenses incurred with actual revenues received for the reconciliation period." Accordingly, for the first year of the Phase IV EE&C Plan (PY13), which runs from June 1, 2021 through May 31, 2022, PECO will develop EEPC-adjusted rates based on projected Plan costs that PECO anticipates will be incurred over that year. Thereafter, PECO will reset the EEPC annually to recover the projected Plan costs for the then-upcoming plan year and the appropriate adjustment to reconcile and true-up revenues and the previous program years' actual costs.

18. Q. How does PECO propose to combine the Phase III and IV EEPCs into a single charge?

A. Similar to what the Commission ordered in prior Phases, the *Phase IV Implementation Order* states "…that surcharges should be combined into a single surcharge and tariff with the implementation of Phase IV." (p. 142-143). Accordingly, PECO proposes to combine its Phase III EEPC and Phase IV EEPC into a single surcharge and a single tariff provision with the implementation of its Phase IV EEPC.

19. Q. What does the Phase IV Implementation Order provide with regard to the transition from the Phase III EEPC to Phase IV EEPC?

A. In the *Phase IV Implementation Order* (pages 142-143) the Commission adopted a plan for the transition from the cost recovery methodology utilized during Phase III, ending May 31, 2021, to the cost recovery methodology to be utilized during Phase IV, beginning on June 1, 2021. The plan requires that each EDC reconcile its total actual recoverable EE&C Plan expenditures incurred through March 31, 2021, with its actual EE&C Plan revenues received through March 31, 2021. In addition, each EDC should include, as part of the calculation of the Phase IV rates to become effective June 1, 2021, as clearly identified separate line items, projections of the expenses to finalize any measures installed and commercially operable on or before May 31, 2021, expenses to finalize any contracts, and other Phase III administrative obligations. The Phase III rate that became effective June 1, 2020 will remain effective through May 31, 2021. Consistent with the transition requirements, for PY13 (June 1, 2021 through May 31, 2022), PECO's cost recovery rates will be calculated based on the projected total program expenditures for each rate class for PY13 plus the reconciliation amount for PY12 (June 1, 2020 through March 31, 2021) and any costs remaining from previous periods. As previously explained, for each subsequent Plan year, PECO will develop annual Phase IV recovery rates based on its projected program expenditures for that plan year plus amounts necessary for the reconciliation of costs and revenues from prior periods.

20. Q. What has the Commission directed regarding the application of interest to any Phase III and Phase IV over- and under-recoveries?

A. In the *Phase IV Implementation Order* (page 142), the Commission addresses the application of interest to Phase III and to Phase IV over- and under- recovered amounts. They concluded that interest should not be included on any Phase III or Phase IV net over- or under-recovery amounts. The Phase IV EEPC as described in Exhibit RAS-1 does not include the application of interest. In addition, the EEPC reflects the other provisions that I previously explained (i.e., annual calculation and adjustment, exclusion of SWE costs from the 2% spending cap, the identification of PJM FCM proceeds, the application of a single charge and the transition plan) in order to ensure that the EEPC complies with the Commission's directives on cost recovery.

21. Q. Is the Company proposing any additional tariff changes to transition from the Phase III Plan to the Phase IV Plan?

A. Yes. The Company is proposing to remove the riders associated with PECO's direct load control ("DLC") programs because the Phase IV Plan does not contain any DLC programs. Specifically, the DLC programs are dispatchable demand response programs and, in accordance with the *Phase IV Implementation Order*, such programs cannot be used to meet Phase IV peak demand reduction targets. In Phase IV, the peak demand reductions associated with the Company's energy efficiency programs will be used to meet PECO's peak demand reduction target.

III. SEPARATE ACCOUNTING FOR COSTS INCURRED AND EEPC REVENUES BILLED FOR PHASE IV AND PREVIOUS PHASES

22. Q. What has the Commission directed regarding accounting for costs to be incurred and EEPC revenues to be billed for Phase IV and such costs and revenues associated with prior Phases?

A. On September 9, 2020, the Commission issued a Secretarial letter captioned *Re: Implementation of Act 129 of 2008 – Phase IV Energy Efficiency and Conservation Plan Template* at Docket No. M-2020-3015228. In that Secretarial letter, the Commission stated that EDCs must account for Phase IV costs and revenues separately from the costs and revenues associated with prior Phases.

23. Q. Please explain how the Company intends to comply with the Commission's accounting requirements.

A. PECO will comply with the Commission's directive to separately account for Phase IV costs and revenues by setting up new general ledger accounts for Phase IV costs and revenues. Phase III costs and revenues are currently tracked through similar, separate accounting measures. Thus, there will be no comingling of Phase IV and prior Phase costs or revenues in PECO's accounting records. Phase III costs and revenues will also be clearly identified and tracked separately for purposes of the EEPC. This will allow Phase IV costs to be reconciled against Phase IV revenues billed under the EEPC as explained in the pro forma tariff supplement provided as Exhibit RAS-1.

IV. CONCLUSION

24. Q. Does this conclude your direct testimony?

A. Yes, it does.