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Our Energy...Your Power

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May 25, 2011

VIA E-FILING

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

Re: Petition of Duquesne Light Company for Approval of its Energy Efficiency and Conservation and Demand Response Plan
Docket No. M-2009-2093217

Dear Secretary Chiavetta:

Please find enclosed for filing Duquesne Light Company's ("Duquesne") Response to the Answers of Duquesne Industrial Intervenors ("DII") and the Office of Consumer Advocate ("OCA"), filed on May 19, 2011 in the above-referenced proceeding. Duquesne files this response in order to answer questions DII and OCA raised in their answers and to supplement the record.

If you have any questions, please do not hesitate to contact me.

Sincerely yours,

Gary A. Jack

Enclosures

cc: All Parties listed
on the Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of Duquesne Light Company's Response to the Answer of DII and OCA has been served upon the following persons, in the manner indicated, in accordance with the requirements of § 1.54 (relating to service by a participant):

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Dated May 25, 2011

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Duquesne Light Company For Approval of its Energy Efficiency and Conservation and Demand Response Plan	: : : :	Docket No. M-2009-2093217

RESPONSE OF DUQUESNE LIGHT COMPANY

Duquesne Light Company ("Duquesne Light" or "Company") hereby files this Response to new matters raised by the Duquesne Industrial Intervenors ("DII") and the Office of Consumer Advocate ("OCA") in their Answers filed May 19, 2011, in the above-referenced proceeding.

I. BACKGROUND

1. On May 9, 2011, Duquesne Light filed a petition ("Petition") requesting that the Commission modify Duquesne Light's Energy Efficiency and Conservation ("EE&C") Plan ("Current Plan") to approve proposed changes to the approved Demand Response ("DR") Programs. Specifically, Duquesne Light asked that the Commission approve a proposed change to eliminate the residential and small/midsized commercial and industrial ("C&I") air conditioning cycling demand response programs as they are not cost effective. The resulting funds from the residential DR program ($2,928,071) were proposed to be shifted to the existing residential energy efficiency programs and held in reserve until Duquesne determines the most prudent use of the funds for the residential customers and files with this Commission for approval to expend those funds in a particular program(s). The resulting funds from the small/midsized C&I DR program ($892,000)[1] were proposed to be shifted into the existing large C&I DR program, which has shown very cost effective demand reductions.
2. Duquesne Light also asked the Commission to issue an Order approving the Petition if possible by June 9, 2011, to allow the Company to not spend additional ramp-up funds on the residential and small C&I DR programs that are not beneficial to the ratepayers.

[1] $992,000 minus $100,000 ramp-up costs already expended.

3. On May 19, 2011, DII filed an Answer to Duquesne Light's Petition ("DII Answer") objecting, in summary, to the proposed transfer of funds to the large C&I DR program and raising issues it felt should be addressed. Specifically, DII opposes (a) the Company's proposal to cancel its residential and small/midsized DR programs; (b) the Company's proposal to shift $892,000 in EE&C fund responsibility to the large C&I DR program; (c) the Company's proposal to achieve larger reductions (40 MWs) for the approved budgeted amount for the large C&I DR program; and (d) the Company's proposal to increase the large C&I DR program by an additional 20 MW, at a cost expected to be about $300,000. The Office of Consumer Advocate also filed an Answer noting possible long term benefits from a residential DR program and that a stakeholder meeting be held prior to recommending to the PUC where to allocate the residential DR budget of $2,928,070.
4. Duquesne Light would like to respond to the questions raised by DII and OCA in their Answers and supplement the record.

II. REPLY TO DII NEW MATTERS

5. Duquesne Light, along with other Pennsylvania EDCs, must achieve the reductions required by Act 129. The Company is not achieving the reductions in demand that it had planned, and needs to alter its overall Plan to obtain the demand reductions from other areas that have proven to be more successful, certain, and cost effective. The large C&I DR program appears to be Duquesne's best (and possibly only) option of meeting the required demand reductions by the summer of 2012.

6. The Company notes that much of the demand reductions for Duquesne's programs come from energy efficiency programs. Duquesne predicted in its filing that approximately 73.7% of its demand reductions will be produced by its energy efficiency programs. That level has dropped and DII requested an explanation on which energy efficiency programs the Company expects to underperform concerning the originally projected demand savings. DII Answer at 7. Commercial and industrial customers have not been as quick to enroll and adopt energy efficiency programs to date. While the residential customers responded more than Duquesne expected (mainly through purchase of compact florescent

lights), the load reduction connected with residential CFLs is much lower than that of commercial and industrial energy efficiency programs. Also, Duquesne estimated the amount of demand it could achieve from energy efficiency programs at the time of the filing in July 2009 based upon the established protocols at the time. Measurement of DR reductions had not been finalized by the PUC, and Duquesne made some estimates on likely DR outcomes that are now high in light of current protocols. Finally, a part of the problem is the timing of having to achieve the DR reductions by the summer 2012. That means that the EE programs in the last three quarters of 2012 cannot be counted toward the overall 113 MW demand reduction goal.

7. DII further asked for justification why the Company could not provide a more balanced mix of programs, rather than relying to such a great extent on the large C&I DR program. DII Answer at 6. Duquesne Light evaluated the different customer class characteristics and usages, and it would be wrong to simply split the budgets equally among customer classes. Concerning demand response programs, there are certain opportunities that large C&I customers have that are very difficult to aggregate and materialize with divergent residential customers. For example, a steel plant can shift load to off peak hours to drop MWs and still meet its day-to-day business needs. Whereas residential customers, many of whom rely on air conditioning on warm summer days, cannot shift a large amount of that usage to off peak hours. With demand response programs, the industrial customer class has obvious flexibility that the residential customers do not.

8. DII also asks for clarification surrounding the large C&I customers potential "cost burden." DII Answer at 6. Duquesne Light would like to clarify that the proposed transferred costs to the large C&I DR program will only be spent if the large C&I customers use the program. If the program is unused or undersubscribed, the incentive funds will not be spent. This program is entirely voluntary, and the Company is offering it not only because of its cost effectiveness, but because it believes there is an interest among large C&I customers to participate in the program.

9. Duquesne Light would like to provide the information requested regarding the differing TRC for residential and small/midsized C&I DR programs between Duquesne Light and PECO Energy Company ("PECO"). DII asked why Duquesne Light's TRC is so low, when PECO's DR programs for the residential and small/midsized C&I customer class is above a 1. DII answer at 7. Duquesne's residential and small/midsized C&I DR programs differ from PECO's in terms of the method of calculating costs. Duquesne considered the incentives paid for customer participation as a cost, while PECO has not included incentives in the TRC calculations. Duquesne uses a much shorter amortization period for its equipment since the program is for this Plan period. *See* PECO EE&C Plan, dated July 1, 2009 at Docket No. 2009-2093215. In addition, energy and capacity costs are higher in eastern PA than in western PA. The DLC zonal capacity values reflect the relative absence of transmission system congestion costs, not applicable for many other PA EDCs. For example, 2013-2014 for PECO or PENLC range from $226.15 to $245.09 per MW-day compared to $27.73 in DLC's territory.[2] Accordingly, Duquesne's programs yield lower TRCs.

10. Finally, DII raises the question of the TRC value for the proposed expansion of the large C&I DR program to achieve up to 60 MW. DII Answer at 8. At this point in time, Duquesne believes the TRC will be the same, or about the same, for the additional 20 MW as it is for 40 MW. This is noteworthy in that Duquesne believes the program can be expanded without paying significantly higher amounts per MW for the load reductions. The expected additional cost of $300,000 translates to $15,000/MW for an incremental 20 MW, which is slightly higher than the $13,900/MW cost for the base amount of 40 MW within a base budget of $556,000.

11. DII states that the Company's proposed elimination of the DR residential and small/midsized DR programs is "noncompliant on its face." DII Answer at 5. DII references the Commission's Implementation Order, specifically the requirements to offer "well-reasoned" and "balanced set of measures" to all customer classes. *Id.* In order to offer a "well-reasoned" set of measures, the Company continues to evaluate the

[2] Duquesne acknowledges that the prices merged closer together in the latest PJM RPM capacity auction.

cost effectiveness of the programs in light of changing markets, costs, and RFPs to CSPs. The factors change, and the plan should change to incorporate changes. The TRC test is an important aspect of a "well-reasoned" program, and a DR program that had a TRC of 1.4 and now, at implementation time, has a TRC of .05 is not reasonable and a prudent use of ratepayer dollars. Duquesne acknowledges that cancellation of the residential and small C & I DR program would leave those customers without a direct DR program as part of the Current Plan. But with reductions in DR occurring through aggressive spending on the residential EE programs, along with small Time of Use pilots beginning for residential customers through other Duquesne offerings, there are programs available that meet the intent of providing DR opportunities for these small customers.

12. Additionally, although the PUC's Implementation Order notes that each customer class should have an energy efficiency and demand response program, the Commission has the jurisdiction and power to modify its prior orders.[3] Duquesne respectfully asks that the Commission review the requirements of the Implementation Order as they pertain to Duquesne Light's EE&C Plan, specifically the residential and small/midsized C&I DR programs, in light of the information provided in Duquesne's Petition and this Response.

III. Reply to OCA

13. The Office of Consumer Advocate ("OCA") is correct that it is possible that DR reduction mandates could be extended beyond 2013. The approved Plan is valid only to May 31, 2013 and there is no extension known to occur at this time. The PUC is required to evaluate the results by November 2013 and to report to the Legislature on the benefits and costs of the program. *See* 66 Pa. C.S. 2806.1(i)(2). (Duquesne feels certain that a TRC of 0.05 would not be considered beneficial and even if a longer period were used, it would still not be cost effective.) Based on current facts, the PUC needs to review the matter based on existing required reductions to be met for 2012.

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[3] See 66 Pa. C.S. §501(a) ENFORCEMENT OF PROVISIONS OF PART.-- In addition to any powers expressly enumerated in this part, the commission shall have full power and authority, and it shall be its duty to enforce, execute and carry out, by its regulations, orders, or otherwise, all and singular, the provisions of this part, and the full intent thereof; ***and shall have the power to rescind or modify any such regulations or orders***. The express enumeration of the powers of the commission in this part shall not exclude any power which the commission would otherwise have under any of the provisions of this part. (emphasis added)

14. Duquesne has no objection, and in fact supports, the recommendation by OCA that consultation with interested stakeholder occur prior to recommending how to spend the funds from the residential DR program. We also would consider any other forms of residential DR control programs as part of that stakeholder meeting.

IV. CONCLUSION

Duquesne understands that the large C&I customer group does not want additional costs to be paid by its customers. However, the funds allocated to the large C&I class will only be used should the interest be there for those customers to participate in DR. If additional load reduction of DR from those large customers does not materialize, the funds will not be spent. But Duquesne believes the interest to participate exists. Large C&I customer participation results in benefits/incentives paid to them, so the DR program can be mutually beneficial. Additionally, the law requires reductions be made by Duquesne, and there are very limited options available. The most cost effective use of the funds is in the manner proposed by Duquesne. Without this change, it is questionable whether Duquesne can meet its DR reduction requirement.

Wherefore, Duquesne Light Company respectfully requests that the Commission consider its Response to DII's and OCA's Answer when considering its Petition to modify the demand response programs and approve the request to terminate the residential and small C & I DR programs, at this time, and to move the funds to the residential EE programs and the large C&I program as requested.

Respectfully Submitted,
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Dated May 25, 2011