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April 17, 2012

Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

**RE: Act 129 Energy Efficiency and Conservation Program Phase Two**
**Docket No. M-2012-2289411**

Dear Secretary Chiavetta:

Enclosed please find the Comments of PPL Electric Utilities Corporation EE&C Program Phase Two for the above-referenced proceeding.

Respectfully Submitted,

Andrew S. Tubbs

AST/skr
Enclosures

**BEFORE THE**
**PENNSYLVANIA PUBLIC UTILITY COMMISSION**

| | | |
|---|---|---|
| Act 129 Energy Efficiency and Conservation Program Phase Two | : | Docket No. M-2012-2289411 |

**COMMENTS OF**
**PPL ELECTRIC UTILITIES CORPORATION**
**EE&C PROGRAM PHASE TWO**

## I. INTRODUCTION

On March 1, 2012, the Pennsylvania Public Utility Commission ("Commission") issued a Secretarial Letter pursuant to Act 129 of 2008, P.L. 1592, 66 Pa. C.S. §§ 2806.1 and 2806.2 ("Act 129"). In its Secretarial Letter, the Commission stated that Act 129 requires the Commission to evaluate the costs and benefits of the Energy Efficiency & Conservation ("EE&C") Programs currently being operated by Pennsylvania's electric distribution companies ("EDCs") by November 30, 2013. In addition, the Commission stated that Act 129 directs the Commission to set new incremental consumption and peak demand reductions, if the Commission determines that the EE&C program benefits exceed the costs. 66 Pa. C.S. §§ 2806.1(c) and (d). Therefore, by its Secretarial Letter, the Commission initiated the required evaluation.

In addition, the Commission's Secretarial Letter stated that advance planning and input from interested parties would serve to assist it in coordinating the transition to the possible second phase of EE&C Programs ("Phase Two"). To that end, the Commission requested comments on a number of topics required to design and implement future EE&C programs including: (1) planning timeline; (2) determining the length of the second EE&C Programs; (3) including a demand response curtailment ("DR") program; (4) aligning EDC targets and funding using dollars per MWh of expected reductions; (5) including a reduction target carve-out for the governmental, educational and non-profit sector; (6) including a low-income sector carve-out; (7) addressing various transition issues; and (8) other Act 129 design issues.

PPL Electric Utilities Corporation ("PPL Electric" or the "Company") offers the following Comments to the Commission's March 1, 2012 Secretarial Letter. In summary, PPL Electric's positions on the items addressed in the Commission's Secretarial Letter are as follows:

- Supports the proposed timeline with modifications/clarifications;
- Supports a three-year EE&C Program;
- Does not support peak load reduction requirements;
- Supports continued inclusion of a government, educational, and non-profit carve-out with programmatic considerations;
- Does not support on-bill financing;
- Supports using the 2% maximum allowable funding for all EDCs and an individual MWh/yr compliance target that could differ for each EDC;
- Supports continuing the existing low income carve-out based on offering a specific proportion of measures to those customers at or below 150% of the Federal Poverty Income Guidelines;
- To prevent programs from going dark, PPL Electric supports allowing EDCs to apply savings (and associated costs) toward Phase Two whenever an EDC reaches its customer sector or portfolio targets for Phase One before May 31, 2013;
- Supports providing the EDC's with the discretion to use existing Contract Service Providers ("CSPs") for Phase Two, as determined by the EDC based on the CSP's performance and the potential to improve cost effectiveness;
- Supports the advance release of the EE&C Plan Template.

In the interest of clarity, PPL Electric has organized its responses and will explain its positions in the order presented in the Secretarial Letter.

## II. BACKGROUND

PPL Electric is a public utility and an EDC as defined in Sections 102 and 2803 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 102, 2803. PPL Electric furnishes electric distribution, transmission, and default service provider electric supply services to approximately 1.4 million customers throughout its certificated service territory, which includes all or portions of twenty-nine counties and encompasses approximately 10,000 square miles in eastern and central Pennsylvania.

On July 1, 2009, PPL Electric filed its EE&C Plan with the Commission pursuant to Act 129 and various related Commission orders. PPL Electric's EE&C Plan includes a broad portfolio of energy efficiency and conservation programs and peak load reduction programs. PPL Electric's portfolio of programs was designed to provide customer benefits and to meet the energy saving and peak load reduction goals set forth in Act 129. The Company's EE&C Plan includes a range of energy efficiency and demand response programs to assist every customer segment in PPL Electric's service territory. These programs are the key components of a comprehensive electric energy efficiency initiative designed to achieve the 1,146,000 MWh of reduced energy consumption and 297 MW of peak demand reductions required by Act 129.

The PPL Electric EE&C Plan proceeding was docketed by the Commission at Docket No. M-2009-2093216. The Commission approved PPL Electric's EE&C Plan, with modifications, on October 26, 2009[1] and further revisions were approved on February 17, 2010.[2] On September 15, 2010, PPL Electric filed a petition seeking approval to change certain aspects of the previously approved EE&C Plan. On January 28, 2011, the Commission approved certain modifications to the EE&C Plan, but deferred action on other proposed modifications subject to the Company filing a black-line EE&C Plan illustrating all of the proposed changes.

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[1] *Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2009-2093216 (Order Entered October 26, 2009) ("*October 2009 Order*").
[2] *Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2009-2093216 (Order Entered February 17, 2010).

On February 28, 2011, PPL Electric submitted a compliance filing that included the required black-line version of the EE&C Plan. After reviewing comments and reply comments filed in response to the Company's compliance filing, the Commission approved PPL Electric's compliance filing on May 6, 2011.[3]

PPL Electric continues to support Act 129 EE&C Programs and appreciates the opportunity to provide input to the Commission's deliberation in this matter. As an EDC operating an EE&C program, PPL Electric believes that its comments will provide the Commission with a valuable perspective in its evaluation of Phase Two of the EDCs' EE&C Programs.

## III. COMMENTS ON THE ISSUES IDENTIFIED BY THE COMMISSION

### A. Planning Timeline

The Commission proposed the following planning timeline for its evaluation into the need for, and potential implementation of, Phase Two:

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| May 10, 2012 | Tentative Implementation Order |
| June 25, 2012 | Tentative Order Comments |
| July 6, 2012 | Tentative Order Reply Comments |
| August 2, 2012 | Final Implementation Order |
| November 1, 2012 | EDCs file EE&C Plans |
| February 28, 2013 | Commission rules on EE&C Plans |
| June 1, 2013 | EE&C Plans begin |

[3] *Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2009-2093216 (Order Entered May 6, 2011).

PPL Electric generally supports the Commission's proposed timeline but requests the following additions/modifications to ensure the development of a complete timeline. First, the Commission should clarify that an EDC may submit its Phase Two EE&C Plan prior to the November 1, 2012 filing due date. If an EDC files its Phase Two EE&C Plan prior to November 1, 2012, the Commission should act on the Plan within the specified 120 days from the date of filing.[4] This approach would provide more time between the Commission's ruling on the EDC's Phase Two EE&C Plan and the June 1, 2013 plan implementation date. This additional time will help to ensure a smoother transition between Phase One and Phase Two. Second, the timeline proposed by the Commission provides interested parties with 46 days to file comments in response to the Commission's Tentative Implementation Order. The Commission should reduce the allotted time for filing comments to the Tentative Implementation Order. This would allow the Commission to advance the dates for filing reply comments and potentially the date by which the Commission could adopt its Final Implementation Order.

In addition, the Commission should advance the date for issuance of its orders for the 2013 Technical Reference Manual ("TRM"), the 2013 Total Resource Cost test ("TRC"), and the release of the Phase Two EE&C Plan Template. It is important that all the key rules used to develop and implement the Phase Two EE&C Programs be finalized in coordination with the Commission's Final Implementation Order. In order to develop Phase Two EE&C Programs in an effective and timely manner, EDCs need to know the key rules that will significantly influence their EE&C Programs including, but not limited to, savings for each measure, evaluating cost-effectiveness, as well as the format and content of EE&C Programs. If this information is not known by the EDC

[4] See, 66 Pa. C.S. § 2806.1(e)(2).

during the plan development phase, it could impair an EDC's ability to prepare its Phase Two EE&C Programs. Moreover, it could result in uncertainty regarding the status of the Phase Two EE&C Programs, as such plans could require further proceedings to come into compliance with subsequent Commission requirements. Such uncertainty could cause confusion for EDC customers and trade allies, delay implementation of programs and measures, and increase EDC and Commission administrative costs to implement the changes required without providing any benefits.

Further, the Commission should address both the timing and the applicability of future revisions to the 2013 TRM during the course of this proceeding. The addition of new measures to the Commission's TRM is valuable to both EDCs and consumers, as it provides new options for achieving additional savings. However, once an EDC's EE&C Plan is approved, downward adjustments to previously approved deemed savings values could jeopardize an EDC's ability to meet the reduction targets set by the Commission.

B. Length of Second EE&C Program

In its Secretarial Letter, the Commission requested comment on whether the Phase Two EE&C Programs should be 3, 4 or 5 years in duration. PPL Electric supports a 3-year program for several reasons.

First, the EDC's Phase One DR programs will be implemented during the summer of 2012. Pursuant to Act 129, the Commission is required to evaluate the results of these programs to determine whether the benefits of DR programs exceed their costs. The Commission's statewide evaluator ("SWE") will perform its analysis of the current DR programs at the conclusion of the summer of 2012 and may not report the results until the end of November 2012, but in no event before the scheduled filing of the EDCs' Phase Two EE&C Programs on November 1, 2012. Therefore, should the Commission determine in December 2012 that further DR targets are warranted, a 3-year Phase Two EE&C Plan (June 1, 2013 – May 31, 2016) would provide the Commission and stakeholders with time to evaluate the potential structure for future DR targets and more appropriately identify DR targets for inclusion as part of a "Phase Three" EE&C Program.

This approach is consistent with Section 2806.1(d)(2) which provides that, should the Commission determine to set additional incremental requirements for peak demand reductions, the required reductions are to be accomplished no later than May 31, 2017. 66 Pa. C.S. § 2806.1(d)(2). If the Commission sets an additional peak demand reduction compliance target, the EDC's must implement the DR programs and achieve the peak demand reductions between June 1, 2016 through September 30, 2016 since that is the last summer before the May 31, 2017 compliance date[5]. If Phase Two is a 3-year cycle that ends May 31, 2016, that provides a clear delineation between Phase 2 (a 3-year Plan, presumably with no peak load reduction target) and Phase 3. The timing of the 4-year and 5-year Phase Two EE&C Plan options does not provide this same degree of flexibility. A 4 or 5-year Phase Two EE&C Plan would require EDCs to implement DR programs before the completion of their Phase Two EE&C Plans. That would require EDCs to revise their Phase Two Plans midstream to incorporate peak demand reduction programs. Those peak demand reduction programs must be approved by the Commission by mid-2015 so EDCs can recruit DR program participants in time to achieve the peak demand reductions starting in May 2016.

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[5] Presumably, peak load reduction targets will continue to apply only for the summer period.

Second, ENERGY STAR® ratings for energy efficient consumer products relied upon by customers when choosing efficient equipment are changing. In addition to the original ENERGY STAR® rating, ENERGY STAR® has added a new rating category that identifies the "most efficient" products that qualify for an ENERGY STAR® rating. This change by ENERGY STAR® demonstrates that technology and the associated energy savings are rapidly changing. The adoption of a 3-year Phase Two EE&C Plan is best suited for the continuously evolving energy efficiency technology. Locking in a plan for 4 or 5 years diminishes the impact that advances in technology could have on EDC EE&C Programs and savings opportunities would be missed. A shorter plan can remove this uncertainty.

Third, the EDCs, the SWE, and Commission are discussing significant changes to the TRM including updated savings, hours of use, and other assumptions to more accurately reflect Pennsylvania-specific conditions and how to best incorporate future changes in codes and standards. The process to collect the key information (such as metering or light logging studies) associated with these discussions will not be completed in time for Phase Two EE&C Programs. Should the Commission decide to significantly modify the TRM, these changes should not occur during the implementation of the Phase Two EE&C Programs. Instead, it is more appropriate for the changes to the TRM to coincide with a complete EE&C Program cycle (included in the planning assumptions and in place for as much of the total EE&C Program duration as possible). A shorter Phase Two Plan, *i.e.* a 3-year plan, will facilitate this result. Annual changes to the TRM also make it difficult to craft a contract, scope of work, and fee schedule with CSPs for more than three years. As noted above, the results a CSP is required to deliver may vary over time, requiring changes to budgets and program cost effectiveness.

Fourth, energy prices have fluctuated dramatically in the last four years in a way that was not anticipated in planning for the Phase One EE&C Programs. Recognizing that prices may continue to change, a 3-year plan would provide more opportunity to provide optimal programs to meet customer's needs. Declining energy prices can financially benefit customers, but such declining prices may also make it more difficult for customers to justify investments in energy efficiency measures. This results in higher EDC acquisition costs per kWh saved, such as increased incentives. This kind of price elasticity relative to installation of energy efficiency measures supports the approval of a 3-year EE&C Plan. In addition, a 3-year Phase Two EE&C Plan would create a sense of urgency, due to its compressed term, and encourage customers to "act now" rather than delay participation in an EE&C Program, thereby providing better opportunity to engage customers and achieve targets.

Finally, Act 129 has previously been subject to legislative amendment. At the conclusion of the Phase One EE&C Programs, the potential exists that Act 129 may again become subject to further review and amendment. A 3-year Phase Two EE&C Plan provides the most flexibility to all interested parties if legislative changes occur. In addition, the Commission's ongoing Investigation of Pennsylvania's Retail Electricity Market ("RMI") may impact the way EDCs currently operate, and may require changes in the EDCs' roles in delivering and funding EE&C programs. More closely aligning the duration of Phase Two with the outcome of the RMI would benefit customers as it leaves the opportunity to more easily revise the structure of EE&C programs after three years.

For the reasons set forth above, PPL Electric supports the adoption of a 3-year Phase Two EE&C Plan. However, regardless of what the Commission decides relative to the length of the Phase Two EE&C Plans, the date for achieving the compliance targets set by the Commission should coincide with the end of the Phase Two EE&C Programs, and should not include multiple or mid-point targets during the term of the Phase Two EE&C Plans.

C. Inclusion of a Demand Response Curtailment Program

In its Secretarial Letter the Commission notes that the EDC's Phase One DR program(s) will not be implemented until the summer of 2012. Therefore, the Commission is not yet in position to determine whether the EDC's DR programs are cost-effective. In fact, PPL Electric's current EE&C Plan projects that both of its DR programs will not be cost-effective. Indeed, as discussed above, the Commission's SWE analysis of the current EDC DR programs is not expected until November 30, 2012. Therefore, neither the Commission nor the EDCs will likely be in position to evaluate the cost effectiveness of the DR programs until after the EDCs file their Phase Two EE&C Plans.

In this proceeding, the Commission has requested comments on the potential structure for future DR programs, should the Commission require a peak load reduction target for EDCs. As discussed in detail below, PPL Electric does not support including DR programs in EDC EE&C Plans.

PPL Electric currently offers two peak demand programs in its Phase One EE&C Plan: load curtailment for large commercial and industrial ("C&I") customers and the E-

Power Peak Saver program (direct load control of central air conditioning) for residential and small C&I customers. Based upon its experience operating these programs, PPL Electric believes that Act 129 DR programs are duplicative with competitive market products, such as PJM's DR programs provided by curtailment service providers. Further, PPL Electric's experiences show that EDC sponsored DR programs are costly, create operational and compliance coordination challenges with competitive market products, and provide few incremental reductions compared to the PJM programs.

Based upon PPL Electric's existing DR programs, the Company would need to spend approximately $11-14 million for each year that has a demand response compliance target.[6] This cost is approximately 18% of PPL Electric's total annual EE&C Program budget of $61.5 million dollars. In large measure, the DR program costs are incentives paid to participants/CSPs. Unlike energy efficiency measures, DR measures have a 1-year life and the incentives must be paid each year to repeat participation. PPL Electric's current estimates suggest that these DR programs are not cost-effective under the TRC. However, without results from the EDCs and the SWE's Plan Year 4 Evaluations of the DR programs, it is difficult to determine how to adjust and address these programs. For these reasons, the funds currently spent for DR programs would be better utilized by offering additional energy efficiency programs that provide coincident peak reductions as identified in the TRM to provide ongoing savings and do not require an annual incentive or other recurring costs.

Again, the results of the SWE's evaluation of the summer 2012 DR programs is not scheduled to be available until after the required Phase Two filing date. Following

[6] PPL Electric's approved budget for its direct load control program is approximately $10.6 million annually. In addition, PPL Electric's current EE&C plan budgets $14.7 million annually for load curtailment.

the SWE's report, should the Commission determine that DR programs are not cost effective, it should not establish any DR programs in Phase Two. However, if the Commission determines that DR programs are cost effective, there will be insufficient time to include DR programs in the Phase Two EE&C Programs. Further, as noted above, Act 129 DR programs are duplicative with competitive market products, such as PJM's DR programs provided by curtailment service providers. EDC DR programs should not compete against the existing competitive market DR programs. Therefore, should the Commission determine that DR programs are appropriate, the Commission should use its discretion and set the Phase Two peak load reduction targets at zero.

In the event that the Commission determines it is appropriate to set peak demand reduction targets, PPL Electric recommends that the Commission eliminate the "100 hours of highest demand" requirement in place for EDCs' current EE&C Plans and identify "an alternative reduction" as permitted by Act 129. 66 Pa. C.S. § 2806.1(d)(1). Presently, EDCs have established DR programs based upon the "100 hours of highest demand" to meet their demand reduction targets, but are unable to determine which hours in the summer of 2012 will be the "100 hours of highest demand" until after the summer has concluded. Therefore, during the summer of 2012, EDCs may call and pay for customer demand reductions in hours that fall outside the "100 hours of highest demand." However, despite incurring these costs, any savings achieved outside the top 100 hours cannot be used by an EDC to meet its Act 129 peak load reduction target.

D. <u>Aligning EDC Targets and Funding Using Dollars per MWh of Expected Reductions</u>

During Phase One of the EE&C Programs, each EDC is required to reduce electric consumption by at least 1% of its expected consumption for June 1, 2009, through May 31, 2010, by May 31, 2011, and by at least 3% by May 31, 2013. 66 Pa.C.S. § 2806.1(c) and (d). To achieve these targets, the total cost of an EDC's Phase One EE&C Program could not exceed 2% of that EDC's 2006 total annual revenue. 66 Pa.C.S. § 2806.1(g). Varying EDC targets and funding levels result in differing per megawatt hour ($/MWh) program costs to achieve savings for each EDC service territory. This has resulted in some EDCs spending significantly more dollars per megawatt hour ($/MWh) than the others. The Commission has requested comments on whether the Commission should address this funding imbalance in the Phase Two EE&C Programs.

PPL Electric supports the Commission setting individual EDC reduction targets for the Phase Two EE&C Programs. Further, PPL Electric believes that each EDC should be permitted to use the full amount of funding available to it under the Act 129 limitation on costs. As noted in the Commission's Secretarial Letter, the SWE is scheduled to release the Pennsylvania Electricity Market Potential Study ("Market Potential Study") results in May 2012. The SWE's Market Potential Study is intended to determine Phase Two market potential for energy efficiency measures and programs in each EDC's service territory. The Commission may use this information to set individual Phase Two compliance targets for each EDC. This information will then be used to estimate both the potential savings and the estimated costs for achieving these savings for each EDC in Phase Two, based upon each EDC's statutorily set Act 129 limitation on costs.

PPL Electric believes that this result is appropriate as each EDC's service territory differs relative to what energy efficiency opportunities are available and the costs to achieve these savings. The setting of individual EDC reduction targets, based upon the estimated costs to achieve these savings, will result in varying MWh targets on an EDC-specific basis. However, this approach will result in the maximum energy savings statewide, within the maximum allowable funding.

### E. Inclusion of a Reduction Target Carve-Out for the Government, Educational and Non-Profit Sector

Currently, each EDC's EE&C Program has been designed and implemented to obtain at least 10% of the required reductions in consumption from units of Federal, State and local government, including municipalities, school districts, institutions of higher education and non-profit entities. This design parameter is consistent with the EDC's Phase One EE&C Programs. See, 66 Pa. C.S. § 2806.1(b)(1)(i)(B). In its Secretarial Letter, the Commission identified potential modifications to the existing carve-out for the government, educational and non-profit sector including: (1) increasing or decreasing the 10% requirement; (2) eliminating the savings requirement for the sector in favor of a minimum budget requirement; and (3) setting the sector carve-out based upon the energy saving potential in each EDC's service territory. In addition, the Commission requested comments on the potential for developing EDC on-bill financing programs to assist customers in this sector.

PPL Electric supports the existing 10% carve-out for the government, educational and non-profit sector and believes that it should remain as a design parameter for Phase Two EE&C Programs. This carve-out is consistent with the current operation of the EDCs' Phase One EE&C Programs. Indeed, customers in the government, educational and non-profit sector are challenged to control operating costs in a difficult economic environment. The carve-out encourages PPL Electric and these customers to work together to reduce these entities' energy costs, which are a potentially large part of their operating costs. This coordination has assisted PPL Electric in its efforts to meet its Act 129 targets.

As noted above, the Commission requested comments on the potential for developing EDC on-bill financing programs for customers in this sector. PPL Electric does not support requiring EDCs to establish and operate on-bill financing programs for the government, educational and non-profit sector for the reasons set forth below.

First, financing should be provided by companies that have financing as their core business. Companies and institutions that presently offer financing have the infrastructure and expertise to provide these services to customers. Indeed, there are numerous entities that presently offer these services including, sustainable energy funds, numerous Energy Services Companies, Keystone HELP, and banks. PPL Electric does not believe it is appropriate for EDCs to "compete" with these entities. Nor does it have the expertise to do so. In addition, EDC on-bill financing would require EDCs to incur additional costs to implement and manage on-bill financing, especially given the complex credit, accounting, and regulatory (utility and financial) issues involved. PPL Electric's preliminary scope estimates suggest that such modifications would cost up to $500,000.

Further, EDCs' EE&C Programs were designed to achieve participation levels (and reduction targets) by minimizing both cost and complexity for customers. However, requiring EDC on-bill financing would increase both the cost and the complexity of EDC EE&C Programs. Presently, EDC EE&C Programs encourage customer participation via rebates and the potential savings to be realized by participating in the various programs and measures offered. In addition, EDCs have made participation in these programs as simple as possible and the costs and benefits to be achieved by customers are clear. However, EDC on-bill financing would alter the existing structure by requiring EDCs to become lenders and to undertake all the responsibilities and risks associated with this new role. Moreover, under some default scenarios, PPL Electric's customers could be required to bear the costs and risks associated with EDC on-bill financing. PPL Electric does not believe it is appropriate to place ratepayers at risk to finance individual customer projects. Instead, such services and risks should be left to financial institutions that have been established to assess customer credit and manage these risks. Moreover, EDC provided on-bill financing may lead to customer confusion as to the impact on the customer's electric service of a default on an EDC provided financing instrument.

In addition, PPL Electric does not support the Commission requiring EDCs to partner with lending institutions to provide low cost financing. Currently, EDCs claim savings under their EE&C Plans based on the deemed or calculated savings for the measures installed by the customer. Requiring EDCs to expend funds on loan write-downs or loan guarantees in no way increases the level of savings the customer realizes or that PPL Electric is able to claim.

For these reasons, PPL Electric does not support EDC on-bill financing.

F. <u>Inclusion of a Low-Income Sector Carve-Out</u>

Presently, the Phase One EE&C Programs include specific energy efficiency measures for households at or below 150% of the Federal Poverty Income Guidelines in proportion to that sector's share of the total energy usage in the EDC's service territory. In its Secretarial Letter, the Commission requests comments as to whether: (1) the existing low income carve-out should be expanded to include low-income households at or below 250% of the Federal Poverty Income Guidelines; (2) the structure of the low-income carve-out should be set as a percentage of the overall EE&C Plan budget; and (3) the carve-out could be set up so that the low-income carve-out would designate a percentage of energy savings to be achieved from this sector. PPL Electric recommends that the Commission maintain the existing low-income carve out and that it continue to be based upon a "proportion of measures available."

The EDCs' Phase One EE&C Programs include specific energy efficiency measures for households at or below 150% of the Federal Poverty Income Guidelines in proportion to that sector's share of the total energy usage in the EDC's service territory. See 66 Pa.C.S. § 2806.1(b)(1)(i)(G). The present low income carve-out for customers at or below 150% of Federal Poverty Income Guidelines and the "proportion of measures available" structure is consistent with the language of Act 129 and has worked well for PPL Electric and its customers. Further, the structure of PPL Electric's EE&C Plan has resulted in 102 measures being made available to PPL Electric's eligible low-income consumers, comprising 50% of the Company's total Phase One EE&C Program measures. This is a significant number of options available to these customers.

Low-income customers can participate in all residential energy efficiency programs. In addition, PPL Electric offers two programs (Low Income WRAP and E Power Wise) solely for the benefit of low income customers. As of the end of March 2012, 8,788 homes have benefitted from Act 129 Low Income WRAP and 5,494 low income customers have received energy education and energy efficient measures through E Power Wise. Further, if EDCs were directed to expand the low income target based on a percentage of total savings or a percentage of total budget, program costs would significantly increase and would likely cause EDCs to miss overall compliance targets (i.e., there will not be enough funding left over for all other customer sectors). Indeed, PPL Electric's cost (including direct and common costs) for programs offered to low-income customers averages $1.40 a kWh compared to $0.19 a kWh for all programs. Further, if the Commission were to raise income guidelines to up to 250% of Federal Poverty Income Guidelines, the higher costs associated with the low-income programs would significantly increase PPL Electric's program cost per kWh. Moreover, raising the income guidelines may reduce the opportunity for customers at or below 150% of the Federal Poverty Income Guidelines that have not yet participated in Act 129 programs.

For the reasons noted above, PPL Electric recommends that the low-income carve-out not be modified for the Phase Two EE&C Programs.

G. Transition Issues

In its Secretarial Letter, the Commission requested comments on whether: (1) an EDC that exceeds the consumption reduction targets in Phase One should receive a credit toward achieving its incremental target set in Phase Two, and, if so, whether the EDC's Phase Two budget should be reduced to account for the portion of the target that it achieved in Phase One; (2) an EDC that has met its Phase One consumption reduction target but has remaining Phase One funds should continue operating its Phase One EE&C Plan until its Phase One funds are exhausted or immediately reconcile the remainder of its Phase One budget to ratepayers; and (3) the Commission should maintain the same baseline 2009-2010 energy year forecast and apply the next percentage reduction targets in addition to the Phase One percentage reduction targets.

PPL Electric believes that it is critical that the transition from Phase One EE&C Programs to Phase Two be seamless for customers and EDCs. Therefore, PPL Electric recommends that if an EDC exceeds its Phase One targets (savings for overall portfolio, for a sector, or for a program) prior to May 31, 2013, the EDC receive a credit in Phase Two for its over-compliance. In addition, PPL Electric believes that if an EDC achieves its Phase One targets prior to May 31, 2013, the EDC should be permitted to continue operating its EE&C Program and account for any additional savings and costs as part of the EDC's Phase Two EE&C Program. To do otherwise, would require EDC EE&C Programs to "go dark", which would result in a significant loss of momentum and could jeopardize the EDC's Phase Two compliance.

PPL Electric also supports the Commission's use of the same EDC baseline load for Phase Two as for Phase One (2009-2010 delivered energy). The Phase Two percentage reduction target should be added to the Phase One percentage reduction target and should be a single cumulative reduction that must be met at the end of the Phase Two term, not yearly compliance targets that must be met at the end of each program year during the Phase Two term.

H. Other Act 129 Program Design Issues

1. Reconciliation Process

Under the current EDC EE&C Programs, program costs and revenues are reconciled without any interest collected or charged. The Commission has requested comments on whether Phase Two EE&C Program should continue to reconcile costs without interest or to amend reconciliation procedures to apply interest. PPL Electric recommends that the Commission not change the existing reconciliation process in place. PPL Electric proposes to continue to annually reconcile the revenues collected under the Company Act 129 Compliance Rider with the adjusted budget amounts for that year.

2. Existing Conservation Service Provider ("CSPs") Contracts

In its Secretarial Letter, the Commission invited comments on other issues not identified by the Commission. As noted above, PPL Electric believes that it is vital that the transition from Phase One EE&C Programs to Phase Two be seamless. To that end, PPL Electric recommends that the Commission permit EDCs to continue their currently approved contracts with CSPs in its Phase Two EE&C Program. PPL Electric makes this recommendation for several reasons. First, the existing EDC/CSP contracts were competitively bid and reviewed by the Commission. Second, the start-up costs for the existing EDC/CSP contracts were amortized during Phase One. If EDCs are required to rebid these contracts, start-up costs would be incurred for a second time for existing programs and/or measures. Third, during the course of the Phase One EE&C Programs, EDCs and CSPs have established relationships, systems, processes and controls. It would be costly and time consuming for EDCs to replicate these with new CSPs. Fourth, requiring EDCs to engage new CSPs for Phase One programs/measures that will remain a part of Phase Two would be costly and impractical. Indeed, such a requirement would require PPL Electric to replace its existing tracking system. However, for new programs being offered for the first time in Phase Two, or if PPL Electric rebids a current program contract, PPL Electric would follow the Commission-approved RFP process. Fifth, if new CSPs are required, those contracts would have to be in place prior to the start of the Phase Two EE&C Programs to ensure a quick, smooth and seamless transition. Given the tight timeframe between the submittal of EDCs' Phase Two EE&C Programs on November 1, 2012, Commission approval by February 28, 2012, and the launch of Phase Two programs in June 2013, there is not enough time to obtain all new CSPs and develop new systems and processes.

For the reasons set forth above, the Commission should permit an EDC to continue its currently approved contracts with CSPs in its Phase Two EE&C Program.

3. EE&C Plan Template

As noted above, PPL Electric requests that the Commission advance the release of the Phase Two EE&C Plan Template to coincide with the release of the Commission's final Implementation Order. This will ensure that EDCs have all essential requirements for planning their Phase Two EE&C Plans (targets, funding, as well as level of detail and type of information required). In addition, PPL Electric requests that the Commission, in preparing the Phase Two EE&C Plan Template allow for flexibility in the format, content, and level of detail of the EDC EE&C Plans. Specifically, PPL Electric requests that the Commission allow reasonable ranges per measure (instead of single values) for incentives, participation levels, costs, and savings within program and customer sectors. These ranges recognize that it is impossible to predict exact values (such as the number of SEER 16 heat pumps in year one, year two or in total) and requiring exact values is unrealistic and results in "hundreds" of very minor changes that must be resolved through the lengthy and costly EE&C Plan Revision process.

## IV. CONCLUSION

For the reasons set forth above, PPL Electric Utilities Corporation respectfully requests that the Commission take these Comments into consideration in preparing its Tentative Implementation Order.

Respectfully submitted,


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