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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Re: Act 129 Energy Efficiency and Conservation Program Phase Two

Docket No. M-2012-2289411

SEDA-COG's ENERGY RESOURCE CENTER COMMENTS
TO
SECRETARIAL LETTER REGARDING THE DESIGN AND IMPLEMENTATION
OF
ENERGY EFFICIENCY & CONSERVATION PROGRAMS UNDER ACT 129
PHASE TWO

Introduction

This is in response to the Pennsylvania Public Utility Commission ("Commission") Secretarial Letter seeking comments on future energy efficiency and conservation ("EE&C") planning issues under Act 129 of 2008. Under Act 129, the PUC is required to set new incremental consumption and peak demand reductions for the electric distribution companies ("EDCs") subject to the law if the PUC finds that Phase One of Act 129 was cost-effective.

The SEDA-COG Energy Resource Center ("ERC") provides education to create energy demand reduction across all sectors, workforce training to locally meet that demand, and energy management development assistance to institutional clients within the SEDA-Council of Government ("SEDA-COG") 11-county service area in central Pennsylvania. SEDA-COG is also a member of the Pennsylvania Energy Partnership ("PEP") comprised of energy programs within the seven PA Local Development District offering similar programs within 52 of the Commonwealth's 67 counties. However, there is far more energy efficiency and associated environmental benefits to be achieved and local jobs to be created.

Comments

1. **Length of Second EE&C Program**

SEDA-COG appreciates that the PUC is initiating proceedings to ensure a smooth and coordinated transition from the initial phase of Act 129 to a new phase. In our view, Act 129 has been successful to date in beginning to deploy energy efficiency and demand response statewide to benefit all classes of electric utility customers. We recommend that the Commission extend Act 129 for five (5) years until May 31, 2018. We encourage the *Commission to require that EDCs meet intermediate savings and demand reductions of* energy savings of 1.25% annually from the original baseline of 2009. Extending Act 129 to five additional years will minimize administrative costs and maximize the flexibility for EDCs to design diverse programs to meet their customers' needs, making it easier for utilities to achieve deeper savings and reach more customers in a manner that is fair to all sectors.

2. **Aligning EDC Targets and Funds**

A valuable feature of Phase One that should be continued in Phase Two is the uniform savings and demand response targets across EDCs that permit each EDC to spend the maximum allowable amount in its EE&C programs. While the amount of funding available for each EDC's plan varied in Phase One, that aspect of the program's design encouraged each EDC to strive for energy savings through a variety of program offerings. Should the Commission cap the EE&C budgets at a fixed amount per MWh, the Commission would negatively impact that benefit of the Act 129 program that it was trying to encourage. Notwithstanding his recommendation to retain the uniform savings and demand response targets across all EDCs, flexibility in EDC program offerings that cost-effectively engage a far larger number of residents, low-income households, small C&I and institutional clients in energy consumption reduction should be encouraged. We encourage the Commission to consider permitting the EDCs to pursue deeper savings through whole building approaches, perhaps by measuring energy reduction in mbtus rather than strictly kWhs.

3. **Continue Carve-Out for Institutional Sector**

The ERC strongly recommends that a minimum 10% of the required energy consumption reduction continue to be required to come from governments, schools, and non-profits. Energy reduction by municipalities and schools, in particular, has the potential to achieve significant transformation of the market. These clients are often in aged buildings retained in service for decades. It is our experience in providing technical assistance to these clients that cumulative savings resonate strongly with these institutions. Energy reduction opportunities for most of these facilities encompass not only kWh reductions through primarily lighting, but even greater opportunities through air sealing, insulation and HVAC upgrades. Their energy costs are borne by all local taxpayers, significantly leveraging the value of investments in these facilities, especially when whole building energy consumption is addressed. Institutional clients have been traditionally underserved, and yet they hold the greatest potential to teach by example, providing very cost-effective "marketing by doing" of the economic and environmental benefits of energy efficiency and conservation in general and Act 129 EE&C programs in particular.

Tailoring Act 129 Phase Two programs to meet the unique needs of municipalities has the potential to transform the energy reduction market through a ripple effect of energy reduction engagement by all sectors locally by example, locally create and recirculate wealth through savings achieved and the opportunity for local job creation to meet increased energy reduction demand. However, attention must be paid by the EDCs to design programs that meet municipality's needs. Smaller municipalities (under 20,000 population), which comprise the majority of municipalities in the Commonwealth, average 20 electric accounts and 10 heating accounts. Almost all lack the in-house technical capacity to identify how much energy they use or how they use it. They lack the capacity to identify and prioritize specific energy reduction measures. Consequently, it is difficult for them to recognize the potential for and value of cumulative energy savings. Municipalities benefit from independent, third-party utility bill analyses (UBAs) of all of their energy use, not just facility energy use. The UBAs assist the municipalities recognize the value of investing in whole building energy assessments. The UBAs and energy assessments can provide the roadmap necessary for municipalities to invest in energy management planning, often using municipal staff to install the majority of low-cost measures. Payback is often 5 years or less. EDC programs that provide incentives for UBAs and energy assessments by independent, third-parties and a smorgasbord of prescriptive energy efficient equipment purchase and installation incentives have good potential to engage municipalities in Act 129 programs.

While schools have been hit particularly hard by state budget cuts and the recession, we caution the Commission and EDCs that a focus on solely energy reduction measures can compromise the opportunities for increased student productivity, significant environment benefits beyond energy reduction, and lower operating costs that can be achieved through

US Green Building Council LEED school renovations.

The ERC encourages on-bill finance and on-bill replacement as financing tools for all customer classes, including institutional clients. Capital investment decisions are held hostage to the annual municipal budget process, elongating the timeframe for energy conservation investment. Most municipalities and schools have good credit ratings, making them low-risk for default. However, many carry significant debt associated with continual infrastructure upgrade needs, making them reluctant to carry additional on-budget capital debt. On-bill financing by EDCs could enable institutional customers to repay capital costs through cumulative energy savings.

4. Low-Income Sector Carve-Out

The ERC also strongly supports the low-income sector carve-out in Phase Two, with the carve-out tied to actual savings and not to the EE&C budget. We recommend that income guidelines be raised to 250% of the federal poverty level to accommodate a greater number of economically distressed households through the Act 129 program. This recommendation does not imply any support for raising the income guidelines for any other low income program such as the Customer Assistance Program. We further recommend that Phase Two accommodate the counting of fossil fuel savings by expanding the TRC to more accurately assess the costs and savings of low income programs.

5. Transition Issues

We recommend that the Commission maintain the same 2009-2010 baseline when it implements Phase Two.

We encourage the Commission to permit EDCs that reach their Act 129 Phase One goal of 3% by May 31, 2013 to continue accruing energy savings and be allowed to credit any savings in excess of the Phase One goal toward their Phase Two obligations.

We also recommend that EDCs be required to exhaust their Phase One funds before beginning to spend any money from their Phase Two budgets. This will provide the utilities with a much-needed buffer that will help EDCs take advantage of all the EE&C funding permitted under Act 129.

6. Other Act 129 Program Design Issues

Tailoring Phase Two Programs to Increase Participation and Savings

While Act 129 to date has been a success across most of the Commonwealth, a significant portion of the energy savings were achieved through investments by larger institutions with in-house capacity to recognize and organize to take advantage of the programs offered, and by residents with income available to make immediate investments in energy efficiency and conservation. EDC programs in Phase Two must tailored to meet the needs of smaller institutions, commercial and industrial customers, and residents with less disposable income. We urge the Commission to review a number of policy issues regarding cost-effectiveness tests used for Act 129 EE&C programs. Specifically, we recommend that the Commission apply the cost-effectiveness test at the portfolio level. This provides the flexibility necessary for the EDCs to allow some programs the latitude to experiment or target hard-to-reach markets while still ensuring cost-effective investments across the entire portfolio.

Our comments in section 3 on pages 4 and 5 describe some of the unique needs of smaller institutional customers and make broad recommendations to meet these needs more adequately in Phase Two of the Act 129 program. We also encourage the Commission's attention to the value of the EE&C program beyond energy savings, including the opportunity to embed on-going energy reduction technical capacity at the local level both during and beyond Phase Two through greater training and use of local contractors and the formal partnering of EDC with community-based organizations in both the marketing of the program and the delivery of technical assistance. Organizations such as SEDA-COG and its sister organizations across 52 of the Commonwealth's 67 counties contributed significant, unpaid program marketing, contractor training and technical assistance resources prior to and during Phase One. The broad, deep and long-standing relationship of these organizations across all customer sectors contributed in no small measure to the engagement of local contractors and ratepayers in Act 129 programs. The continued reduction of federal and state grants used by these organizations to provide these important services in Phase One are already greatly limiting our ability to continue to provide these valuable resources to the program. The TRC did not capture these significant contributions to the Act 129 program's success in Phase One. Consequently, the real cost of the program was under-represented. These services will be of great value in Phase Two in assisting the EDCs to engage those hard-to-reach customers that require hands-on assistance to engage in these programs across all sectors.

Streetlights

Lastly, one of the key products, from a broad customer base perspective, that should be addressed in Phase Two is electric street lighting as a means to increase energy efficiency within the electric utility industry in the state of Pennsylvania. With the exception of industrial operations such as wastewater and water treatment systems, street lights is often the highest electricity cost for smaller municipalities. The delivery of lighting is extremely inefficient and environmentally harmful. The EDC's replacement of all leased streetlights in Phase Two of Act 129 would reduce transmission load, be of significant environmental value, remove the prohibitive capital cost barrier to municipalities of purchasing the street lights in order to invest in energy efficient lighting. Reducing a municipality's street lighting cost through the installation of light-emitting diode ("LED") street lighting, by their investor owned electric utility, puts downward pressure on citizen taxes, provides for or maintains present health and safety levels versus de-lamping of installed street lights, and frees up municipal revenue to invest in other efficiency improvements and/or local infrastructure needs.

The U.S. Department of Energy estimates that there are in place, nationwide, 35 million streetlights that consume as much electricity each year as 3.9 million households, and generate greenhouse gas emissions equal to that produced by 8 million cars. These lights have an average age of twenty-five (25) years, and carry rising energy and maintenance costs at a time when Pennsylvania municipalities are facing drastic reductions in their general fund revenues.

LED street lighting may provide energy savings as much as fifty (50) to sixty (60) percent when compared to existing street light technologies in place. At the same time LED street lights reduce maintenance costs, improve visibility, and reduce "up-lighting" which is a contributor to light pollution. In addition, the cost of LED street lights continues to drop, and with a statewide bulk purchase program, first cost of acquiring the product would decline further.

In addition to a utility level LED street lighting program as part of Act 129 Phase Two, we recommend that the Commission support the development of innovative energy efficient electric street lighting ratemaking and rate design to promote energy efficiency street lighting gains, thereby providing municipalities more control over their electric consumption and costs.

Thank you for this opportunity to provide comment. Please don't hesitate to contact me if you have any questions or I can provide additional information.

Sincerely,

Stacy Richards

Stacy Richards, Director
Energy Resource Center