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Johnson Controls

Commonwealth of Pennsylvania
Pennsylvania Public Utilities Commission
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Harrisburg, PA 17105-3265

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

April 16, 2012

M-2012-2289411

Dear Chairman Powelson,

Johnson Controls and its subsidiary company EnergyConnect are grateful for the opportunity to provide input to the discussion around Phase Two of the Act 129 Energy Efficiency and Conservation Program.

EnergyConnect and Johnson Controls have been directly involved with the implementation of the Act 129 legislation and resulting utility programs, including the following:

- Demand Response implementation contracts with PECO, West Penn Power, Met Ed, Penelec and Penn Power, representing a total of 20,000 MWh of peak energy reduction in the 2012/13 delivery year.
- Energy Efficiency and Demand Response project support for dozens of commercial, industrial and institutional customers across the Commonwealth of Pennsylvania in all seven affected EDC's.

Specifically, Johnson Controls is a full service energy efficiency and demand response provider. In 2011 Johnson Controls completed the acquisition of energy Connect, a premier PJM DR provider. Both Johnson Controls and Energy Connect are registered conservation services providers with the PUC, active since 2009. In addition, Johnson Controls has significant manufacturing assets in the Commonwealth of Pennsylvania. Combining these three perspectives, we bring an unparalleled expertise to the evaluation of the effectiveness of the PA ACT 129 programs, as an energy efficiency provider, as a demand response provider, and as a large industrial manufacturing ratepayer. Relying on this experience and incorporating the best practices we have encountered in our work with utility programs and regulatory support for energy efficiency and demand response, we respectfully submit these observations in response to the questions proposed by the Commission in its letter dated March 1, 2012. Specifically, we wish to comment on the following issues raised in sections 2 and 3 of that letter.

energyconnect
BY JOHNSON CONTROLS

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Section 2. Length of the second EE&C Program

While there are always tradeoffs to be made in program design choices, it is our general view that longer terms for EE&C programs are more beneficial to rate payers. This position is based on several observations:

- Longer programs justify initial investment in better program design and process, improving cost-effectiveness by spreading these fixed costs of program administration over a longer time period.
- Longer programs reduce the cost and potential delays associated with starting a new program cycle. For example, in California a three-year program cycle has been adopted, with roughly one year in between cycles devoted to negotiating and refining the portfolio of programs. During this year, funding is frozen and customer projects are suspended as customers wait the PUC decisions and utility interpretation and implementation. Delay adds significant cost to energy efficiency programs, and loses an entire cycle of permanent demand reduction.
- Longer programs provide consistent signals to the marketplace, reducing the uncertainty around incentives and therefore increasing the impact of the program on purchasing decisions. As the PUC is aware, the PJM programs are changing a great deal, and change implies risk to participants. To the extent that the ACT 129 Demand Response Programs remain consistent in incentives and measurement, customer adoption for the multiple year programs is more certain.
- Longer programs accommodate major retrofit projects and comprehensive energy initiatives, which include development, engineering and construction components that last a year or longer.
- Longer programs encourage a more holistic approach to managing energy, reducing the incentive to "cream-skim" by pursuing only those projects and activities that are easily transactable and eligible for incentives.
- Longer programs support the development of a green economy by providing a framework for an ecosystem of service providers to make commitments and generate jobs in the region. Even if the short-term forecast suggests profitability, a business will avoid making significant investments if the policy support is likely to disappear after one or two years.

Considering these factors, we support a program term of 5 years.

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Section 3. Inclusion of a Demand Response Curtailment Program

The energy efficiency objectives driving this legislation are laudable and important. In addition to the goal of using less energy, reducing peak demand provides significant value to society. Benefits of reduced peak demand include the avoided financial and environmental impact of new electric grid assets, as well as improved reliability and more economically efficient operation of the grid. While energy efficiency can and often does deliver peak demand reductions, it does not emphasize peak demand and therefore does not fully address these goals. For this reason, it is imperative that a Demand Response Curtailment Program be part of the next round of the EE&C program. The commission letter provides three options to consider funding for Demand Response.

We understand and support the decision to assess cost-effectiveness of demand response programs, and we look forward to the results of this analysis. However, we are concerned that a limited evaluation based on a single year of data may lead to an inaccurate view of the potential benefits available through demand response. Many of the costs incurred during ramp up will no longer be necessary to continue the programs and extend participation, meaning the cost-benefit analysis would look less attractive for the first year than in subsequent years. In addition, the timing of the cost-benefit assessment threatens to impede the momentum gathered in the market through the first year of program participation. As mentioned above, inconsistent incentives can send confusing signals to both end users and service providers, reducing the likelihood of meeting Pennsylvania's goals for the reduction of peak demand. As demand response curtailment programs are by nature a response to grid and market conditions at a specific time period, any demand reductions achieved by the program will be lost. For these reasons, we strongly recommend a continuation of demand response programs under Phase Two of the Act 129 Program. In the terms used in the Commission's letter, we strongly discourage the implementation of the original timeline established in 2009. This timeline withholds evaluation and approval of renewal of demand response until May 2013, and as such has the clear potential to have demand response programs go dark, thereby negating any long term social benefit to ratepayers of the reductions. Renewal and start up is virtually impossible if approval is withheld until May 31, 2013 for a program that begins June 1, 2013.

We also encourage and support a review of the TRC test applied across the different EDC's for the DR programs. For practical purposes, because EDC's are only measured on performance in the 2012 summer season, this is a one year program. In contrast, the EE measures have been deployed over three years, with start up costs and marketing spread out over that time period. Additionally, in a review of the EDC filed application of the TRC test to DR we noted that it differs from EDC to EDC. JCI would like to emphasize that this is the only program in the ACT 129 portfolio that requires no capital investment on the part of program participants. Participants are paid for proactive participation, not capital-intensive investments. The customer benefit is

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almost immediate, and nowhere in the test do we see the ability to value the socialized benefit of reducing demand across the entire ratepayer base in cost avoidance of new generation or reduced wholesale pricing as a result of ACT 129 DR.

All programs are implemented through third parties, yet some EDC show 100% of the DR program as cost with no customer incentives being paid. We support a review of the consistent and fair application of the TRC test, and are prepared to offer our resources to participate in that process.

Thank you for the opportunity to contribute comments. We welcome any additional discussion about these ideas and look forward to continuing our shared effort to deliver the benefits of energy efficiency and demand response to the Pennsylvania electric system.

Sincerely,

Mark F. Wagner
Vice President, Government Relations
Johnson Controls, Inc.

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