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June 25, 2012

VIA OVERNIGHT MAIL

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

RECEIVED
JUN 25 2012
PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Re: Energy Efficiency and Conservation Program
Docket No. M-2012-2289411

Dear Secretary Chiavetta:

Enclosed for filing are an original and 3 copies of Duquesne Light Company's Comments in the above referenced docket.

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

Sincerely yours,

Tishekia E. Williams

Enclosure

Cc: Megan Good, via email at megagood@pa.gov
Kriss Brown, via kribrown@pa.gov

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BEFORE THE
PENSYLVANIA PUBLIC UTILITY COMMISSION

Energy Efficiency and Conservation Program	:	**Docket No. M-2012-2289411**

Comments of Duquesne Light Company on the Commission's Energy Efficiency & Conservation Plan Tentative Implementation Order

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On March 1, 2012, the Pennsylvania Public Utility Commission ("Commission") issued a Secretarial Letter to begin the process of evaluating EDC Energy Efficiency and Conservation ("EE&C") Phase I programs and transitioning to Phase II. In the Secretarial Letter, the Commission sought comments on the planning timeline, inclusion of Demand Response ("DR") requirements, and the alignment of funding and target requirements, among other things. On March 16, 2012, the Commission held a stakeholder meeting to gather input on issues addressed in the Secretarial Letter. On May 10, 2012, the Commission issued its Tentative Implementation Order ("Order") at dockets number M-2012-2289411 and M-2012-2069887. Pursuant to the May 10, 2012 Order, Duquesne Light Company ("Duquesne" or "Company") hereby submits its comments regarding the EE&C Phase II implementation.

Background

Duquesne Light is a public utility and an electric distribution company ("EDC") as defined in Sections 102 and 2803 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 102, 2803. Duquesne Light furnishes electric distribution services to approximately 579,000 customers throughout its certificated service territory, which includes the City of Pittsburgh and portions of Allegheny and Beaver Counties, Pennsylvania.

Act 129 of 2008 ("Act 129" or the "Act") became effective on November 14, 2008. Among other things, Act 129 requires electric distribution companies ("EDC") with at least

100,000 customers to develop and adopt an EE&C plan to reduce retail customer energy consumption. Specifically, Act 129 requires EDCs to achieve consumption reductions of at least one percent (1%) by May 31, 2011, and at least three percent (3%) by May 31, 2013. Additionally, EDCs are required to achieve a four and one-half (4.5%) percent peak demand reduction of the one hundred (100) highest hours by May 31, 2013. The Commission is required to evaluate the cost and benefits of the EE&C plans by November 30, 2013. If the benefits of the EE&C plans exceed the costs, the Commission must establish additional incremental consumption and peak demand reduction requirements.

On June 30, 2009, Duquesne filed its EE&C plan with the Commission pursuant to Act 129 and related Commission orders. Duquesne's EE&C plan was approved by the Commission on October 27, 2009, with certain modifications. The EE&C plan was further revised by Petition *of Duquesne Light Company for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2009-2093217 (Order entered January 28, 2011).

Duquesne's EE&C plan includes a broad portfolio of programs targeted at each customer segment and is designed to achieve the consumption and demand reduction requirements established by the Act. Indeed, Duquesne Light has made significant strides toward achieving its Act 129 goals with programs that are cost effective and achieve significant verified savings with high customer satisfaction. Duquesne Light has and continues to be an active supporter of the Commission's implementation of Act 129 EE&C programs and appreciates the opportunity to provide meaningful comments on Phase II implementation. Duquesne Light has considered each issue raised in the Order and offers comments on select issues discussed below. Although each issue will not be addressed substantively in these comments, the comments are arranged consistent with the Order.

A. Evaluation of EE&C programs and Additional Targets

1. Evaluation of EE&C program

Duquesne Light agrees that EDCs have the potential to achieve additional cost-effective savings with a budget set of 2% of the EDC 2006 annual revenues, *excluding EDC payments to the Statewide Evaluator* ("SWE"). The Electric Energy Efficiency Potential for Pennsylvania Report completed by the State-wide Evaluator ("SWE") indicated that EDCs have the opportunity to achieve additional cost effective consumption reduction savings within the EE&C program budget set at 2% of the EDCs 2006 annual revenues. However, as discussed below, Duquesne Light notes that it will be increasingly more challenging to meet the Phase II consumption reduction targets within the allotted funding constraints.

2. Proposed Additional Incremental Reductions

a. Length of program

Duquesne Light does not oppose the Commission's proposed three year timeframe for Phase II programs but continues to believe that a four year program is preferable. First, a four year program is consistent with the duration of the EDCs' Phase One EE&C Plans. Second, a four year program provides sufficient time for EDCs to respond to the evolving energy efficiency market place. Specifically, EDCs must continuously evaluate and update EE&C Plan forecasts, react to consumer responses to offered energy efficiency measures, and adapt to changing Federal legislation and regulations impacting minimum efficiency standards. The need for the EDCs to react to these changes must be done within in the approved budgets for the Commission-approved EE&C Plans and to ensure compliance with reduction targets approved by the Commission. EE&C programs that are shorter than four years will inhibit the EDCs' ability to respond to the changing energy efficiency market place. Third, a shorter EE&C Plan period could limit an EDC's ability to modify, if necessary, its plan once approved by the Commission in time to produce meaningful effects on required reductions.[1]

b. Baseline for targets

Duquesne Light supports the use of the 2009-2010 energy year forecast as the baseline for measuring incremental savings for the Phase II period.

c. Reduction Targets

While the proposed reduction targets are aggressive, Duquesne Light anticipates that it will be able to achieve the proposed targets. Accordingly, Duquesne Light does not oppose the targets proposed in the Order subject to the concerns otherwise addressed in these comments.

d. Aligning Targets and Funding

As stated in our comments to the Secretarial Letter of March 1, 2012, Duquesne Light supports the use of individual EDC reduction targets to be consistent with the amount of funding available under each EDC's 2% revenue cap. Duquesne Light notes that Phase II presents novel challenges for EDCs in achieving consumption reduction targets. Like many EDCs, Duquesne Light has already achieved the consumption savings available from "low hanging fruit" such CFL lighting. Moreover, changes in federal law may require EDCs to expend greater resources to achieve savings. While Duquesne Light believes that it will be able to achieve the proposed targets with the funding available, it should be noted that the savings cost per kilowatt hour will likely increase substantially.

[1] At present the Commission requires EDCs to seek prior Commission approval to implement all changes to its EE&C Plan. The timing to receive Commission approval is contingent upon that nature of the proposed modifications and stakeholder response to the proposed changes. A shorter EE&C Plan could impair an EDC's ability to modify its EE&C Plan and to implement these changes.

3. Peak Demand Reduction

a. Exclusion of Peak Demand Reduction Obligations

Duquesne Light agrees with the Commission's proposal to exclude of DR programs in EDC Phase II EE&C Plans. DR programs are more appropriately left to the competitive, market-based DR programs operated by PJM. Duquesne Light believes that EDC DR programs are duplicative with competitive market products, such as PJM's DR programs provided by curtailment service providers.

By November 30, 2013, the Commission is required to evaluate the total cost of EDC EE&C plans as compared to the total energy and capacity costs savings to retail customers, or other costs as determined by the Commission. If the costs of EDC EE&C plans exceed retail savings to the customers, the Commission must establish additional incremental requirements for reduction in peak demand for the 100 hours of greatest demand, or an alternative approach. The Commission correctly notes that EDC DR programs have not proven to be cost effective at this time. Accordingly, Duquesne Light agrees that it would be premature to impose additional demand response requirements on EDCs at this time. The Commission further notes that if demand response programs are proven to be cost effective, it will implement additional demand response programs in Phase III.

b. Interim Demand Response Program

Duquesne Light supports the Commission's decision to exclude an interim DR requirement in the absence of evidence that the Phase I programs have been cost-effective. This approach is consistent with the requirements of Act 129 and is a reasonable and prudent approach.

c. Amending the Top 100 Hour Methodology

If the Commission determines to set peak demand reduction targets, Duquesne Light recommends that the Commission eliminate the "100 hours of highest demand" requirement in place for EDC's current EE&C Plans and identify "an alternative reduction" as permitted by Act 129. 66 Pa. C.S. § 2806.1(d)(1).

4. Carve outs

a. Government/Education/ Nonprofit Carve outs

Duquesne Light supports the existing 10% carve-out for the government, educational and non-profit sector and believes that it should remain in place. Section 2806.1(b)(1)(i)(B) of Act 129 provides that, "[a] minimum of 10% of the required reductions in consumption...be obtained from units of the Federal, State and local government, including municipalities, school districts, institutions of higher education and nonprofit entities." 66 Pa. C.S. 2806.1(b)(1)(i)(B). The existing 10% carve-out for the government, educational and non-profit sector is consistent with the statutory requirement. Moreover, Duquesne Light's programs for this sector are working well for Duquesne Light and its customers. Duquesne Light has designed programs to help these market segments, and these programs have had high levels of participation. In addition, the Company has created a private-public partnership where all levels of government have participated. These programs have worked very well for our customers in our service territory.

b. Multi-Family Housing

Duquesne supports the inclusion of EE&C measures for multifamily housing. The public agency partnership model that has been successful in the government sector has also had successes in the multifamily housing arena. Multifamily housing is a critical sector for addressing energy efficiency. The opportunities and challenges unique to the multifamily sector can be met with well-designed and well-coordinated programs. Included in Duquesne Light's filed EE&C Plan is the multifamily market manager approach under the public agency partnerships and the low income energy efficiency program. Duquesne Light is partnering with public agencies and integrating the funding sources to reach market segment.

c. On-bill financing

Duquesne Light does not support mandated EDCs on-bill financing programs. These services should be left to companies that offer financing as part of their core business as these companies have the required infrastructure and expertise to provide these services. Implementing EDC on-bill financing would require EDCs to incur additional expenditures to implement and manage on-bill financing, especially given the complex credit, accounting, regulatory (utility and financial) issues involved. EDC on-bill financing could result in the EDC and its ratepayers becoming the lender and assuming the risks and responsibilities associated with this role.

Moreover, there are numerous entities that presently offer these services including, sustainable energy funds, Energy Services Companies, Keystone HELP, and banks. EDC EE&C Programs have been designed to encourage customer participation. Currently, EDCs encourage customer participation via rebates and potential savings to be achieved. To achieve this, EDCs have attempted to minimize both the cost and the complexity for customers. Requiring EDCs to offer on-bill financing would increase both the cost and the complexity of the EE&C Program. For these reasons, Duquesne Light does not support EDC on-bill financing.

However, Duquesne Light welcomes the opportunity to participate in a working group to evaluate on-bill financing issues.

5. Low Income Measures

a. Prescription of a Low Income Carve out

Duquesne Light does not support a requirement to obtain a minimum of four-and-a-half (4.5%) of the Phase II consumption in addition to the requirement to provide a proportionate number of measures for the low income sector. Duquesne Light and other EDCs dedicate a substantial amount of resources to low income energy efficiency measures. It is not apparent that this additional mandate adds enough value to justify additional cost.

b. 250% of the Federal Poverty Level Income Guideline

Duquesne Light supports the Commission's proposal to allow EDCs the flexibility to voluntarily expand the low-income programs to include households up to 250% Federal Poverty Income Guidelines and that it continues to be based upon a "proportion of measures available."

6. Accumulated Savings

Duquesne Light agrees that EDCs should be permitted to carry accumulated savings in excess of reduction requirements forward to the next phase. Allowing EDCs to carry excess reduction forward has two major benefits: 1) it prevents programs from going dark, and 2) reduces the administrative burden of multiple ramp ups. Moreover, consistent with the objectives of Act 129, namely achieving consumption and demand reductions that exceed retail savings to the customers, Duquesne Light endeavors to achieve its targets in a cost effective manner. Accordingly, when EDCs are able achieve consumption reduction targets below budget, retail customer should be permitted to receive those savings. Duquesne Light understands that the program budget is set for the entire Phase and therefore, EDCs are not required to spend their annual program budget to the extent that they have achieved their targets.

B. Plan Approval Process

1. Phase II EE& C Plan approval process.

The procedure for EE&C plan approval is critically important. The Commission's plan approval process must balance stakeholder's right to due process with EDC's need for an expeditious review that minimizes administrative burden, cost and provides flexibility in meeting EE&C targets. To that end, Duquesne Light agrees that public input hearings are not necessary for Phase II as stakeholders have ample opportunity to be heard in this process.

In addition to having the ability to comment and make suggestions regarding EDC EE&C plans through the regulatory approval process, Duquesne Light also holds stakeholders meetings each year whereby participants can listen to updates on goals as well as ask questions and provide input to new initiatives that are under consideration.

2. Phase II Timeline

Duquesne Light offers no comments regarding the proposed timeline.

3. Additional Phase II Orders

Duquesne Light offers no comments regarding this section.

C. Plan Effectiveness and Evaluation Process

1. Statewide Evaluator

Duquesne Light supports the use of a competitive bid process for the selection of a statewide evaluator for Phase II and agrees that funding for the SWE should be prorated among the EDCs and handled in the same manner as Phase I.

2. Technical Reference Manual

a. Updating Frequency

The Technical Reference Manual (TRM) is critical to each EDC EE&C Plan accordingly periodic updates are necessary. The process for updating the TRM employed in Phase I provided appropriate flexibility and opportunities for EDC input. Duquesne Light supports continued flexibility and opportunities for EDC input in Phase II. It is important to note, however, that updates to the TRM have altered, and in many cases reduced, the consumption savings that may be counted by an EDC. Accordingly, changes to the TRM impact a EDCs ability to meet its consumption reduction targets. While periodic changes are necessary, implementing changes mid-way through Phases raises issues of fairness, particularly when using shorter Phases. Changes to the TRM should continue to be prospective only, and should not include major mid to late- plan revisions when EDCs have limited time to adjust its plan accordingly. EDCs cannot be reasonably expected to hit a "moving target."

b. 2013 TRM Update Timeline

Duquesne Light offers no additional comments to this section.

c. Aligning the TRM Update with the Implementation Timeline

Duquesne Light offers no additional comments regarding this issue.

3. Annual and Quarterly Reporting

Duquesne Light supports the proposed the annual and quarterly reporting requirements outlined in the Order.

D. Cost-Benefit Analysis

1. TRC Test

To the extent necessary, Duquesne Light will separately provide any comments on this issue as required by the Commission's May 24, 2012 Order.

2. Net to Gross Adjustment

Duquesne Light supports the Commission's proposal to use the Net to Gross (NTG) adjustments for program design and implementation, but not for compliance purposes.

E. Analyzing the Program and EDC specific plans

Duquesne Light has no comments on this issue.

F. Standard to ensure measures Applied Equitably

Duquesne Light offers no comments on this issue.

G. Process to Recommend Additional Measures

Duquesne Light supports a 15 day automatic approval process for minor changes proposed by the EDC. Again, EDCs ability to react to changing markets and conditions is critical. Duquesne Light believes that permitting minor changes to become effective if no objection is filed within 15 days gives parties an adequate opportunity to be heard, while allowing EDC the flexibility to meet its targets.

H. Competitive Bidding and approved contracts with CSPs

Duquesne Light respectfully disagrees with the Commission's proposal requiring that the EDC again competitively bid all CSP contracts for Phase II regardless of whether the EDC has an existing contract in a program that is to continue in Phase II. EDCs should be required to hold a competitive bid process when programs and services will be implemented that are new to the EDC's EE&C plan (i.e., any service or program that was not implemented in Phase I) or when existing CSP managed programs or services have material changes to the service being provided or the program being managed.

The process for conducting a Request for Proposal ("RFP") is costly and potentially burdensome. Indeed, existing CSPs have established relationships which lessen the required "ramp up," and their associated cost. Again, EDCs should be permitted the flexibility required to implement prudent, cost-effective EE&C plans so long as those plans are consistent with Act

129. Duquesne Light believes that to the extent that a CSP was initially chosen through a competitive procurement process, the CSP contract is consistent with Act 129.

I. Ensuring Compliance with Consumption Reduction Targets.

Duquesne Light offers no comments on this issue.

J. Participation of Conservation Providers

Duquesne Light offers no comments on this issue.

K. EDC Cost Recovery

1. Determination of allowable cost.

a. Phase II allowable cost.

Duquesne Light offers no comments on this issue.

b. Application of excess budget

Duquesne Light supports the Commission's proposal to allow EDCs the full use of their Phase II budgets even if Phase I consumption reduction targets have been exceeded and carried forward to Phase II. At the conclusion of each Phase, any excess budget should be reconciled to the appropriate rate class.

2. Allocation of Cost to Customers

a. Bidding Energy Efficiency Resources into the PJM Market

At this time, Duquesne Light does not support a mandate requiring EDCs to bid qualified energy efficiency resources into the PJM capacity markets.

b. Other Allocation of Cost Issues

Duquesne Light offers no comments on these issues.

3. Cost Recovery

The Commission sought comments on adjustments to currently authorized Phase I cost recovery and reconciliation mechanisms for Phase II EE&C Plans. The Commission now recommends a standardized reconciliation process and the inclusion of interest on over- or under-recoveries at the legal rate of interest of 6%. Additionally, the Commission recommends that the surcharge should be based on projected program costs rather than authorized program budget amounts and that for reconciliation, actual expenses incurred should be reconciled to actual revenues received. Finally, the Commission proposes EE&C cost recovery rates for Phase II should be adjusted June 1 of each year, to reflect reconciliation of expense and revenue for the twelve-month reconciliation period ended May 31 of that year, with the EDC filing the annual rate adjustment and a separate annual reconciliation statement ten days prior to a June 1 effective date (i.e. May 22 filing). (Order pages 67-71).

Rather than standardizing the entire cost recovery mechanism for all EDCs, the Commission should continue to allow EDCs flexibility to design their programs in a manner that fits the EDC and customer needs. Current cost recover mechanisms were designed with input from customers during the Phase I proceedings. The Commission approved the existing cost recovery mechanism which was further refined to accommodate additional customer preference after its initial effective date. Duquesne Light has not received complaints regarding its current tariff mechanism since its initial effective date whether to the amount of the charge, the reconciliation process or the allocation of costs to the customer class.

The Company does not object to inclusion of interest on over- or under-recoveries at the legal rate of interest of 6%, reconciliation on actual expenses incurred versus actual revenues received, and a reconciliation of expense and revenue for the twelve-month reconciliation period ended May 31 of each year.

The Company agrees with developing a surcharge based on projected costs as opposed to authorized budgets as this will mitigate reconciliation differences and more accurately charge customers for expected program costs. However, the EDC must have the flexibility in developing customer group projected costs relative to the assumed costs used to develop the authorized budget. For example, the authorized budget will include an initial estimate of projected costs for residential customer group. Assume the EDC changes the residential programs for the upcoming planning year resulting in a decrease to the projected costs for the residential customer group. The EDC should have the flexibility to develop the residential customer group surcharge without additional Commission approval.

Regarding a June 1 effective date for annual surcharges, the Company recommends the Commission implement a *September 1* effective date in a standardized reconciliation process. EDCs will not close their accounting records for the month of May until early June. Reconciliations submitted in a May 22 filing will include estimates for the month of May. EDCs and customers could be implementing programs and products in May effective June 1 when the PJM planning period begins which could exaggerate over- or under-recoveries for the month of May. The effective date of the non-bypassable EE&C surcharge has no effect on other rates (e.g. default service, transmission). Extending the effective date to September 1 with a July 1 filing date, or an August 22 filing date, will ensure actual expense and actual revenues collected for the full 12 month period ending May of each year are included in the surcharge. Additionally, many EDCs have rates that change June 1 for default service and for transmission, as well as other surcharges. Creating another rate change effective June 1 could create customer confusion.

Conclusion

Duquesne Light appreciated the opportunity to comment on the important issues raised in the Tentative Implementation Order.

Respectfully Submitted,

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David Defide
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