Keystone Energy Efficiency Alliance
1924 Arch Street Philadelphia, Pa. 19103 Tel. 215.609.1048 Fax 215.988.0919 www.keealliance.org

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLY COMMENTS OF THE KEYSTONE ENERGY EFFICIENCY ALLIANCE TO TENTATIVE IMPLEMENTATION ORDER REGARDING THE DESIGN AND IMPLEMENTATION OF ANY FUTURE PHASE OF ENERGY EFFICIENCY and CONSERVATION PROGRAMS UNDER ACT 129

I. Introduction

The Keystone Energy Efficiency Alliance ("KEEA"), a nonprofit trade association with a membership of fifty-six (56) energy efficiency and demand response companies and organizations, appreciates the opportunity to submit reply comments to the PUC's Tentative Implementation Order for Phase II of Act 129. We thank the Commission for this opportunity.

II. Reply Comments

1. Proposed Savings Targets

KEEA respectfully disagrees with the comments filed by certain parties (Duquesne Light, Energy Association of Pennsylvania, FirstEnergy Companies, and PPL) expressing concern that the targets identified in the Tentative Implementation Order will be difficult to achieve. Reasons cited include funding constraints, acquisition cost underestimation, the impact of potential downward adjustments to savings in future versions of the Technical Reference Manual (TRM), and changes set forth in the Energy Independence and Security Act of 2007 (EISA). The Statewide Evaluator (SWE) took all of these factors into consideration when calculating its recommended Phase II savings goals in the Electric Energy Efficiency Potential for Pennsylvania Final Report (Potential Report).[1] The SWE increases the average weighted Phase I acquisition cost of $139.38 to $221.39 for Phase II – an increase of 60% – to account for these

[1] GDS Associates. 2012. *Electric Energy Efficiency Potential for Pennsylvania Final Report.*

presumed changing market conditions. KEEA's initial comments (pp. 2-3) to the Tentative Order (May 10, 2012) posit that acquisition costs calculated by the SWE are not in line with other states' analyses of programs at a similar level of development. The comments provide supporting documentation from our consultants – Energy Futures Group and Optimal Energy – who analyzed the level of low cost measures still available in Pennsylvania, as well as other factors. KEEA concluded that the potential savings goals are too low even with the 2% spending cap. What's more, the SWE-projected jump in costs from start up to Phase II does not account for the sunk costs of energy efficiency and conservation (EE&C) program startup, state average program costs, or the assumption that a variety of low-cost measures have not reached market saturation. Looking next door to Ohio, levelized acquisition costs run $120 per MWh, placing it more in line with Pennsylvania's Phase I costs.

KEEA is joined by seven other parties that filed similar comments questioning the SWE acquisition cost analysis.[2] Overstating acquisition costs will lead to anemic goals and reduced opportunity for customer savings at a time when utilities have demonstrated they can meet higher goals than planned in Phase II. Better aligning Pennsylvania electric distribution companies' (EDCs) acquisition costs with the lower costs seen in other similar states will bring the goals more in line with data compiled by the American Council for an Energy-Efficient Economy (ACEEE) on Pennsylvania's actual performance, and will not result in a retreat from its progress. EE&C programs can help break the cycle of higher costs.

KEEA supports ACEEE's comments stating that Pennsylvania should implement an annual 1% consumption reduction goal. ACEEE states that the other 24 states with an energy efficiency resource standard (EERS) establish either: (1) BOTH cumulative energy savings targets and incremental annual targets; or (2) incremental annual targets only (p. 6). Cumulative and incremental goals are both important and complementary. We ask the Commission to require Pennsylvania EDCs to meet annual targets of 1% energy consumption reduction, and hold them accountable if they do not meet the goals.

[2] See comments of: The American Council for an Energy-Efficiency Economy (ACEEE), Citizens for Pennsylvania's Future (PennFuture), Sustainable Energy Fund of Central Eastern Pennsylvania, Northeast Energy Efficiency Partnerships (NEEP), The Sierra Club, The Reinvestment Fund, and Opower, Inc.

Cost/Benefit Impacts – Rural Service Territories

KEEA disagrees with FirstEnergy's position that EDC-specific acquisition costs should be higher for an EDC with lower rates and/or a more rural service territory. FirstEnergy asserts acquisition costs of $250/MWh annually and perhaps $300/MWh annually, depending on treatment of sector carve-outs (p. 7). As stated in KEEA's comments (pp. 2-3), program averages of $165 per MWh in states that have had programs for five or six years provide a reasonable indicator of true costs.[3] States with similar ratios of rural to urban populations have demonstrated acquisition costs more in line with what KEEA and other commenters have suggested. For example, ACEEE documents research in its comments showing that Ohio, Michigan, Illinois, Iowa and Arkansas experience acquisition costs of $10 to $20 per net MWh levelized (p. 5). In first-year cost terms, these are equivalent to an average of $120 per first-year MWh.

FirstEnergy has not submitted any analysis to refute data provided by KEEA's technical consultants – Energy Futures Group and Optimal Energy – in its June 25 comments. In addition, none of the EDCs have explained in their comments why their own data gathered in the SWE's Statewide Residential End-Use and Saturation Study[4] supports the conclusion that lower cost measures like CFLs have been exhausted. In contrast, KEEA and other stakeholders have found that states with similar profiles experience acquisition costs ranging from $160 - $190 per MWh. We note that in 2009 and 2010, several southwestern utilities achieved program savings at an average cost of $160 - $190 per first year MWh (Xcel - Colorado = $180/MWh; Rocky Mountain Power - Utah = $190/MWh; and Arizona Public Service = $160/MWh).[5]

If FirstEnergy does not believe they can meet Phase II goals when many utilities have demonstrated their ability to do so, it might be time for the Commission to allow FirstEnergy to forego their program administration role as outlined in Act 129 and opt to hire an outside administrator.[6] This remedy may lead to a higher level of service and more cost-effective delivery of energy savings to all customer classes.

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[3] Molina, Maggie. ACEEE information on utility energy efficiency program acquisition costs. 2012.

[4] GDS Associates, Nexant, and Mondre Energy. 2012. *Pennsylvania statewide residential end-use and saturation study.*

[5] ACEEE, 2012

[6] Act 129, Section 2806.1 (F)

PPL's Suggestion for Phase II Costs

PPL requested in its comments that the Commission allow EDCs to begin implementing their Phase II programs by incurring Phase II costs during Phase I. In response to this request, KEEA asks that the Commission provide clear and non-overlapping definitions of Phase I versus Phase II program activities. KEEA reiterates its support for banking excess Phase I savings into Phase II, and assumes the Commission will clarify that EDCs will be able to draw down on Phase II funding only after Phase I goals have been met.

TRM Adjustments

The Energy Association of Pennsylvania (EAP) and PPL believe the annual TRM updates must be considered in setting consumption reduction targets, but their conclusion is to recommend the lower targets so that the Phase II goals are easier to achieve. The SWE already accounted for the effects that changing baseline conditions will have in Phase II when determining proposed reduction targets. Changing consumption reduction targets during Phase II implementation would cause confusion and uncertainty in the marketplace, dilute Pennsylvania's energy efficiency efforts, and weaken EDC motivation to reach any goal.

2. Compliance

KEEA disagrees with EAP's recommendation that the Commission should determine EDC compliance with Act 129 by considering whether the EDC used its best efforts to achieve a fixed percentage of the three-year consumption reduction targets set forth in the Potential Report. As mentioned previously, if EDCs are not held accountable to a set consumption reduction goal, there will be no incentive for them to implement effective EE&C programs in each year and risk non-compliance at the end of Phase II. Moreover, KEEA notes that the Act 129 legislation states, "If an electric distribution company fails to achieve the required reductions in consumption under subsection (C) or (D), responsibility to achieve the reductions in consumption shall be transferred to the Commission."[7] KEEA asks the Commission to closely examine EDC compliance using set annual milestones to determine whether each EDC can adequately implement their EE&C programs.

[7] Act 129, Section 2806.1 (F), formerly HB 2200

3. Cost Recovery

KEEA supports the comments of other stakeholders (Office of Consumer Advocate, PECO, and EAP) urging the Commission not to change the reconciliation mechanism for Phase II. However, KEEA believes that any revenues outside the program expenditures or generated through PJM auctions should not be returned to ratepayers. Rather, dollars should be re-allocated to energy efficiency programs. As mentioned in KEEA's comments (pp. 6-7), if those dollars were invested in energy efficiency instead of being returned to customers, they would be leveraged 8 to 1.[8]

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

KEEA agrees with the comments submitted by Duquesne Light stating support for the existing 10% carve-out for the government, educational and non-profit (GENP) sector and the inclusion of EE&C measures for multifamily housing.

KEEA disagrees with the comments submitted by FirstEnergy and PECO stating that sector carve-outs and associated penalties are inappropriate. It is important now more than ever that this sector receive robust energy efficiency offerings. Pennsylvania schools have undergone serious budget cuts recently and need EDC EE&C programs to help them save money on energy bills. As the SEDA-Council of Governments states in their comments, many municipalities lack both the staff and resources to fully implement energy efficiency upgrades to their facilities. Act 129 EE&C programs are necessary to ensure that municipalities and schools can access the same energy efficiency upgrades that other customer groups can. Without the motivation of clear goals and penalties for non-compliance, this sector may be underserved.

5. Low-Income Programs

KEEA disagrees with requests by PPL, FirstEnergy, and Duquesne Light for changes to the low-income sector carve-out. PPL requests that the PUC maintain the existing low-income carve-out based on a proportion of measures available; FirstEnergy submits that sector carve-outs and associated penalties are inappropriate and both FirstEnergy and Duquesne Light

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[8] Optimal Energy, Inc. 2011. *Pennsylvania 2013 - 2018 energy efficiency goals.*

oppose the proposed 4.5% carve-out target. KEEA supports the changes recommended by the Tentative Order for the low-income carve-out because they ensure EDCs will achieve deeper savings in the low-income sector. Low-income customers and all ratepayers will be better served by increasing energy savings in low income homes. In KEEA's comments (pp. 10-11), we state that raising the income guideline to 250% of the Federal poverty level will give utilities more flexibility in program design and delivery and help them increase cost-effectiveness for these programs. KEEA understands low-income programs require greater financial support but some of these costs may be offset by refining program design, incorporating additional behavioral approaches, increasing coordination with weatherization programs, and providing better conservation incentives through Customer Assistance Programs. By providing additional support in this sector, utilities help reduce dependence on direct subsidy programs, such as fuel assistance, which is an added societal benefit.

6. Inclusion of a Demand Response Curtailment Program

KEEA signed on to comments submitted by the Joint Demand Response (DR) group and now supports their Reply Comments. In addition, KEEA supports the Office of Consumer Advocate (OCA) comments. In particular KEEA supports OCA's point that consumers have already paid upfront sunk costs for DR investments and have received economic value from their investments.

III. Conclusion

KEEA is grateful for the opportunity to submit these Reply Comments on the Commission's Tentative Order on Act 129. We look forward to working together to make Phase II of the Commonwealth's energy efficiency policy as successful as possible. We also look forward to participating in the on-bill financing working group.

Respectfully submitted on behalf of KEEA,

President
Board of Directors