BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PECO ENERGY COMPANY FOR APPROVAL OF ITS ACT 129 PHASE II ENERGY EFFICIENCY AND CONSERVATION PLAN	: : : : :	**DOCKET NO. M-2009-2093215**

PETITION OF PECO ENERGY COMPANY FOR APPROVAL OF ITS PHASE II ENERGY EFFICIENCY AND CONSERVATION PLAN

I. INTRODUCTION

PECO Energy Company ("PECO" or the "Company") hereby petitions the Pennsylvania Public Utility Commission (the "Commission") for approval of the Company's Phase II Energy Efficiency and Conservation Plan ("Phase II Plan" or "Plan"). The Phase II Plan is intended to reduce energy consumption in accordance with the requirements of Act 129 of 2008, 66 Pa.C.S. § 2806.1 ("Act 129" or the "Act") and the Commission's Implementation Order entered August 3, 2012 at Docket Nos. M-2008-2069887 and M-2012-2289411 (the "*Phase II Implementation Order*").

PECO requests that the Commission: (1) find that the Phase II Plan satisfies the requirements of 66 Pa.C.S. § 2806.1(b)(1) and the *Phase II Implementation Order*, including those provisions mandating the implementation of programs designed to achieve the energy savings target established for PECO and the savings carve-outs for the governmental, institutional and non-profit ("GIN-P") and low-income sectors;[1] (2) approve tariff provisions to implement a Section 1307 surcharge to recover Phase II Plan costs; (3) approve Phase II

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[1] As discussed later in this Petition, PECO filed a Petition for an Evidentiary Hearing regarding the Company's energy savings target. *See* Docket No. P-2012-2320334. If the target is modified as a result of that proceeding, the Company reserves the right to revise its proposed Phase II Plan.

treatment for certain Phase I projects; and (4) approve the attached conservation service provider ("CSP") contract between PECO and JACO Environmental, Inc.[2]

PECO's Phase II Plan is a robust and comprehensive package of energy efficiency measures designed to satisfy the Company's current energy savings target and stay within applicable cost limitations. After a thorough plan development process, including analysis of PECO's current suite of energy efficiency offerings, PECO selected thirteen energy efficiency programs tailored for its residential, commercial and industrial customers. The Company estimates that these programs will reduce annual energy consumption by 1,184,222 MWh. The Plan describes each program in great detail, consistent with the content and formatting requirements of the filing template issued by the Commission on September 26, 2012 at Docket No. M-2012-2289411. Finally, in keeping with PECO's practice for its Phase I EE&C Plan, PECO has met with interested stakeholders both individually and collectively to discuss the Phase II Plan proposed in this Petition.

II. BACKGROUND

1. PECO is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania with its principal office in Philadelphia, Pennsylvania. PECO provides electric delivery service to approximately 1.6 million customers and natural gas delivery service to approximately 475,000 customers in Pennsylvania.

2. On October 15, 2008, then Governor Edward G. Rendell signed Act 129 into law, which added Section 2806.1 to the Pennsylvania Public Utility Code. Act 129 required Pennsylvania electric distribution companies ("EDCs") to file energy efficiency and conservation

[2] This contract is confidential and is being provided to the Commission only.

("EE&C") plans by July 1, 2009 containing the plan elements specified in Section 2806.1(b) ("Phase I EE&C Program").[3] 66 Pa.C.S. § 2806.1(b). Additionally, Sections 2806.1(c) and (d) required that EDCs' Phase I EE&C plans be designed: (1) to reduce retail energy consumption by a minimum of 1% by May 31, 2011 and a minimum of 3% by May 31, 2013; and (2) to reduce peak demand, measured by reference to the 100 highest hours of demand, by a minimum of 4.5% no later than May 31, 2013. 66 Pa.C.S. § 2806.1(c) and (d).

3. The EE&C plan filing requirements set forth in Section 2806.1(b) included provisions mandating that energy savings be derived from certain customer segments during Phase I. Specifically, a minimum of 10% of an EDC's consumption reductions had to be obtained from the GIN-P sector. 66 Pa.C.S. § 2806.1(b)(1)(i)(B). In addition, each EDC's Phase I plan was to include specific energy efficiency programs for households with income at or below 150% of the Federal Poverty Income Guidelines ("low-income sector") that are proportionate to such households' share of the total energy usage in the EDC's service territory. *Id.* at § 2806.1(b)(1)(i)(G). Finally, an EDC's plan had to pass a "total resource cost" or "TRC" test, which is a test that establishes whether the avoided cost of supplying electricity is greater than the cost of a plan's energy efficiency and conservation measures. 66 Pa.C.S. § 2806.1(b)(1)(i)(I); *2012 PA Total Resource Cost (TRC) Test*, Docket No. M-2012-2300653 (Order entered August 30, 2012).

4. Pursuant to the Act, EDCs are entitled to full and current cost recovery of prudent and reasonable costs, including administrative costs, but annual plan expenditures were limited to 2% of the EDC's total annual revenue as of December 31, 2006. 66 Pa.C.S. §§ 2806.1(g), (h).

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[3] 66 Pa.C.S. § 2806.1(l) exempts EDCs with fewer than 100,000 customers from this requirement.

5. In compliance with Section 2806.1 and the Commission's Order entered January 15, 2009 at Docket No. M-2008-2069887, which initially implemented the terms of that section, PECO prepared and submitted its EE&C plan for the Phase I EE&C Program on July 1, 2009. The Commission subsequently approved PECO's Phase I Plan, with modifications, on October 28, 2009, and further revisions were adopted in various subsequent orders.[4]

6. Act 129 further required the Commission, by November 30, 2013, to evaluate the costs and benefits of the Phase I EE&C Program and, if the benefits of the Program were found to exceed its costs, to adopt "additional required incremental reductions in consumption" and "additional incremental requirements for reduction in peak demand." 66 Pa.C.S. §§ 2806.1(c)(3) and (d)(2).

7. On August 3, 2012, the Commission entered the *Phase II Implementation Order*, tentatively adopting EDC-specific targets for reducing energy consumption for the next EE&C Program term (June 1, 2013-May 31, 2016). *Phase II Implementation Order,* p. 24. PECO's Phase II consumption reduction target was set at 2.9% of its expected sales for the June 1, 2009 through May 31, 2010 period. *Id.* at 23-24. The Commission directed EDCs to continue to comply with the statutory requirements established for Phase I, namely that: (1) 10% of overall consumption reductions come from the GIN-P sector; and (2) a plan's portfolio of measures include a proportionate number of low-income measures. *Id.* at 45, 54. In addition, the Commission adopted a new requirement -- that EDCs obtain a minimum of 4.5% of their consumption reductions from the low-income sector. *Id.* at 54.

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[4] *See, e.g., Petition of PECO Energy Company for Approval of its Act 129 Energy Efficiency and Conservation Plan and Expedited Approval of its Compact Fluorescent Lamp Program*, Docket No. M-2009-2093215 (Order entered Feb. 17, 2010); *Petition of PECO Energy Company for Approval of its Act 129 Energy Efficiency and Conservation Plan and Expedited Approval of its Compact Fluorescent Lamp Program*, Docket No. M-2009-2093215 (Order entered Jan. 27, 2011).

8. In the *Phase II Implementation Order,* the Commission stated that the tentative consumption reduction targets would become final for any EDC that did not petition the Commission for an evidentiary hearing by August 20, 2012. *Id.* at 30-31. The Commission further explained that timely Petitions would be assigned to the Office of Administrative Law Judge for expedited hearings with certification of the record to the Commission by no later than November 2, 2012. *Id.* at 31. The Commission noted that, for those EDCs seeking an evidentiary hearing, the general plan approval timeline in the *Phase II Implementation Order* would be modified through that separate proceeding. *Id.* at 64.

9. PECO filed a Petition for an Evidentiary Hearing on August 20, 2012, which was assigned to Administrative Law Judge Elizabeth H. Barnes. *See* Docket No. P-2012-2320334. Direct and rebuttal testimony was served in that proceeding and an evidentiary hearing was held on October 3, 2012. Briefing was completed on October 30, 2012 and the record must be certified to the Commission by November 2, 2012.

10. By timely filing its Phase II Plan pursuant to the requirements of the *Phase II Implementation Order*, PECO is not waiving its arguments in the Evidentiary Hearing proceeding and reserves the right to revise its proposed Phase II Plan if its energy savings target is modified as a result of that proceeding. Moreover, PECO expressly reserves its right to address its Evidentiary Hearing arguments in this Phase II Plan proceeding and also reserves the right to challenge its energy savings target based on subsequent changes to the Technical Reference Manual ("TRM") that are not currently known or knowable.

11. On September 4, 2012, PECO filed a Motion for Leave to File a Petition for Reconsideration and a Petition for Reconsideration of the *Phase II Implementation Order*. *See*

Docket Nos. M-2008-2069887, M-2012-2289411. On September 13, 2012, the Commission adopted an order granting PECO's Motion for Leave to File a Petition for Reconsideration.

12. On September 26, 2012, the Commission issued a filing template for Phase II EE&C plans at Docket No. M-2012-2289411.

13. On September 27, 2012, the Commission entered an order denying PECO's Petition for Reconsideration.

14. This Petition describes PECO's Phase II Plan and the proposed mechanism for recovery of Plan costs. This Petition includes the following statements and exhibits, which are attached hereto and incorporated herein by reference:

PECO Statement No. 1	Direct Testimony of Frank J. Jiruska, Director of Energy and Marketing Services for PECO
PECO Statement No. 2	Direct Testimony of Toben E. Galvin, Associate Director in the Energy Practice of Navigant Consulting, Inc.
Exhibit TEG-1	Resume of Toben E. Galvin
PECO Statement No. 3	Direct Testimony of Richard A. Schlesinger, PECO Manager of Retail Rates
Exhibit RAS-1	Proposed revisions to the Electric Service Tariff
Exhibit RAS-2	Program costs by rate class
Exhibit RAS-3	Calculations of the levelized cost recovery charge by rate class
Exhibit RAS-4	Responses to the Commission filing requirements at 52 Pa. Code § 53.52
PECO Exhibit 1	PECO Phase II Energy Efficiency and Conservation Plan (Program Years 2013-2015)
Appendix A	PECO Electricity Consumption Forecast
Appendix B	CSP Contract
Appendix C	Program by Program Savings and Costs for Each Program Year
Appendix D	Calculation Methods and Assumptions
Appendix E	RAS Exhibits

III. PROGRAMS PROPOSED FOR PECO'S PHASE II PLAN

15. As described in detail in the Plan and in the testimony of Messrs. Jiruska and Galvin, PECO leveraged its implementation experience with Phase I programs and conducted an extensive development process to identify and design the programs that should be included in its Phase II Plan. This process included the following key components:

- **Planning and Design Meetings**. PECO conducted research on a broad array of possible measures, including a review of relevant written materials, forecasts of savings and costs, and discussions with current and potential CSPs and evaluators.

- **Design Data Verification**. PECO developed a library of potential measures and reviewed and updated key metrics, such as estimated savings, to make sure they were consistent with the most recent TRM.

- **Design Market Characterization**. PECO reviewed lessons learned from the experience gained under its Phase I Plan and market research to better understand the opportunities and constraints of its service territory.

- **Portfolio Modeling**. PECO conducted iterative portfolio modeling of possible programs, participation levels and costs. With repeated input from CSPs and other industry professionals, PECO produced a final model for the Phase II Plan.

16. As a result of this process, PECO selected a total of thirteen energy efficiency programs. Six of these programs are already successful components of PECO's Phase I EE&C Plan. New programs, such as the PECO Smart Multi-Family Solutions Program and PECO Smart Energy Saver Program, will create new savings and educational opportunities for important segments of the population. *See, e.g., Phase II Implementation Order*, pp. 49-50

(encouraging "special emphasis" for multi-family housing). Below is a summary of all thirteen programs, which are described in detail in Section 4 of PECO's Plan.

A. **PECO Smart Appliance Recycling Program**. This program is designed to eliminate retention of old refrigeration equipment from operation as secondary units in homes and to ensure these units do not re-enter the market place by providing safe and environmentally responsible disposal of these units. It offers free pickup of units from residences plus customer incentives and education about the benefits of secondary unit disposal, to encourage customer participation.

B. **PECO Smart Home Rebates Program**. This program is designed to encourage and assist residential customers in improving the energy efficiency of their homes through a broad range of energy efficiency options that address all major energy end uses. It offers cash rebates to residential customers who install high-efficiency electric equipment and engages equipment suppliers and contractors to promote the rebate-eligible equipment.

C. **PECO Smart House Call Program**. This program is focused on customers with electric heated homes and aims to help them gain a better understanding of their home energy use and achieve savings while also improving the comfort of their homes. The program involves an on-site energy assessment or audit with the direct installation of low-cost measures and rebates for eligible building envelope retrofits only available through the Smart House Call Program. Customers will be made aware of other efficient measures for which rebates are available through the Smart Home Rebate program, and they will be encouraged to participate in these measures as well.

D. **PECO Smart Builder Rebates Program**. This program is intended to accelerate the adoption of energy efficiency in the design, construction and operation of new single-family homes by leveraging the EPA's ENERGY STAR® Homes certification. It will provide education and rebates to inform and encourage architects, builders, and home buyers on the benefits of ENERGY STAR® homes as well as the requirements for gaining certification.

E. **PECO Low-Income Energy Efficiency Program.** The Low-Income Energy Efficiency Program ("LEEP") will educate income-eligible customers on how to make their homes more energy efficient and thereby reduce their energy bills. It will provide home energy audits to participants and the direct installation of needed energy efficiency measures in coordination with other federal and state programs, at no charge to the participants. While modeled on PECO's successful LIURP program, LEEP is separate. While LEEP targets customers with household incomes at or below 150% of the Federal Poverty Income Guidelines ("FPIG"), the program also has the flexibility to include customers with incomes up to 200% of the FPIG, who are also eligible for assistance through the American Recovery and Reinvestment Act of 2009.

F. **PECO Smart Energy Saver Program**. This program consists of an energy-based classroom curriculum in which students will be instructed on energy saving approaches that can be implemented in their homes. Students will be provided a "take home" kit designed to raise awareness about how individual actions and low-cost measures can create significant reductions in electricity and water consumption. The take-home kit will include a range of low-cost, easy to install energy efficiency measures and educational materials.

G. **PECO Smart Usage Profile Program**. This program works by making customers aware of their energy consumption patterns relative to those of other similar customers. The information is presented in the form of regular reports that show energy use relative to other similar homes and suggests ways to decrease energy use. This initiative is designed to increase awareness of energy using behaviors and promote real and lasting behavior change to more energy efficient behaviors.

H. **PECO Smart Equipment Incentives Program (Commercial and Industrial)**. The program is designed to encourage and assist nonresidential customers in improving the energy efficiency of their existing facilities through a broad range of energy efficiency options that address all major end uses and processes. This program offers incentives to customers who install high-efficiency electric equipment and engages equipment suppliers and contractors to promote the incentive-eligible equipment.

I. **PECO Smart Business Solutions Program**. The program provides streamlined, one-stop, turn-key energy efficiency services delivered through registered local contractors. It generates energy savings through the direct installation of eligible measures and incentives. The program includes lighting, refrigeration, and water heating measures that are typically low-cost with reliable, prescriptive energy savings and costs per unit.

J. **PECO Smart Multi-Family Solutions Program**. The program is available for both residential customers and commercial and industrial customers. It targets multi-family property owners and individual accounts in multi-family properties and focuses on replacing existing equipment and providing free direct-install of low cost measures such as

CFLs, advanced power strips, low-flow showerheads, and low-flow faucet aerators.

K. **PECO Smart Construction Incentives Program**. The program is designed to instill and accelerate adoption of design and construction practices so that new commercial and industrial facilities are more energy efficient than the current stock. It provides facility designers and builders with training, design assistance, and incentives to incorporate energy efficient systems and construction practices in newly constructed and renovated facilities.

L. **PECO Smart Equipment Incentives Program (GIN-P)**. This program provides financial incentives and technical assistance to achieve significant electricity savings in public sector facilities. The program offers the same financial incentives to reduce energy use in public sector facilities as in other nonresidential facilities, but also provides assistance in identifying key improvement opportunities and addressing the special planning and purchasing protocols of public and non-profit agencies.

M. **PECO Smart On-Site Program**. This program is designed to encourage installation of Combined Heat and Power ("CHP") projects that maximize operational savings and minimize operational and maintenance costs. It offers incentives to customers who install CHP technologies to reduce facility energy use.

17. As required by Act 129, PECO has applied the TRC test to the Phase II Plan as a whole. It also applied the TRC test to each proposed program. PECO's Plan has an overall TRC score of 1.36, demonstrating significant benefits to PECO's customers compared to the total costs of the proposed energy efficiency measures. The projected energy savings, costs and TRC calculations are detailed in PECO's Plan and accompanying appendices.

18. Consistent with Act 129 and the Company's Phase I Plan, CSPs will be responsible for program implementation, staffing, training and the tracking of programs and measures pursuant to CSP contracts. Wherever possible, incentives and penalties will be built into those contracts to ensure performance. As required by the *Phase II Implementation Order*, PECO will seek Commission approval of Phase II CSP contracts, including those for CSPs that

PECO is retaining from Phase I. *Phase II Implementation Order,* pp. 94-95. The Company has included a Phase II CSP contract with JACO Environmental, Inc. as part of this filing.

19. As required by Act 129 (*see* 66 Pa.C.S. § 2806.1(b)(1)(i)(K)), PECO's Plan also includes an analysis of its expected administrative costs. PECO anticipates that its non-incentive program costs will account for approximately 59% of its total Plan budget.

20. Consistent with PECO's Act 129 obligations, the Plan also includes an extensive set of quality assurance and performance mechanisms for evaluating the Plan on a continuous basis. Each of PECO's proposed programs has detailed measurement and verification ("M&V") requirements tailored to the program. In addition, PECO will be retaining the services of an experienced CSP to provide M&V services, as well as a separate CSP to expand and manage the Company's M&V tracking system for maintaining data and generating reports on each program. A description of PECO's overall approach to quality control and the anticipated tracking system functions are set forth in Sections 6 and 7 of the Plan.

IV. THE PHASE II ENERGY EFFICIENCY AND CONSERVATION RECOVERY CHARGE

21. Act 129 provides that PECO is entitled to recover all reasonable and prudent EE&C plan costs, on a full and current basis, through a Section 1307 cost-recovery mechanism. 66 Pa.C.S. § 2806.1(k). In its *Phase II Implementation Order* (p. 118), the Commission directed that EDCs develop a separate cost recovery mechanism for Phase II and that such mechanism be non-bypassable and not affect the EDCs' prices-to-compare. The Commission also stated that EDCs must account for Phase II costs and revenues separately from Phase I costs and revenues.

22. In accordance with the foregoing directive, PECO is proposing to implement a Phase II Energy Efficiency & Conservation Program Charge ("Phase II EEPC") to recover Plan

costs. The mechanism follows the same format as the Company's existing EEPC, which recovers costs associated with PECO's Phase I Plan. The Phase II EEPC would be a fully reconcilable, non-bypassable charge in accordance with the Act and the *Phase II Implementation Order*.

23. The costs PECO seeks to recover through the Phase II EEPC include all of the costs of designing and developing the thirteen programs in the Phase II Plan, including the necessary information technology costs (including some IT capital expenditures), program outreach and promotion costs, incremental labor, program administration costs, M&V costs, and incentives that will be offered to customers to participate in these programs. PECO also proposes to recover its Phase II Statewide Evaluator costs through the Phase II EEPC.

24. A separate recovery charge will be established for each customer class, corresponding to the costs of the programs that target that class. This ensures that the classes that receive the direct energy and conservation benefits finance those measures. For programs that provide benefits to more than one class (e.g., PECO Smart Construction Incentives Program), costs will be allocated using reasonable and generally accepted cost-of-service principles. *See Phase II Implementation Order*, pp. 110-111. Mr. Schlesinger's testimony includes an estimate of the proposed charges for each customer class.

25. Consistent with PECO's existing EEPC, the Company would recover budgeted Plan expenditures on a levelized basis. The costs incurred and recovered would be reconciled on an annual basis (*see Phase II Implementation Order*, p. 118), with a final "true-up" to the actual Plan costs at the end of the recovery period. Any over or under-collection would then be refunded or recouped without interest over a 12-month period following the completion of Phase II.

26. Finally, PECO will account for the Phase II costs and revenues on its books separately from Phase I by setting up new general ledger accounts for Phase II costs and revenues. Thus, there will be no comingling of Phase I and Phase II costs or funds in PECO's accounting records. Phase I and Phase II costs and revenues will also be clearly identified and tracked separately in the EEPC cost recovery mechanism. This will allow Phase II costs to be reconciled against the Phase II funds collected.

V. REQUEST FOR PHASE TWO TREATMENT FOR DELAYED CUSTOMER APPLICATIONS AND WAITLISTED PROJECTS

27. The Company is requesting to utilize Phase II funds (and generate Phase II energy savings) in the following two circumstances: (1) when a customer completed a measure-eligible action during the Phase I period, but did not apply for an incentive until the Phase II period; and (2) when a customer completed a measure during the Phase I period after being placed on a waitlist. Granting this request will allow the Company to get a "jump start" on the Phase II energy savings target.[5]

VI. PROPOSED SCHEDULE

28. In the event that the approval timeline for PECO's Phase II Plan is not modified as part of the Evidentiary Hearing proceeding at Docket No. P-2012-2320334, the Company proposes the following schedule which is consistent with the *Phase II Implementation Order*:

November 17, 2012	Publication of Notice of Filing in *Pennsylvania Bulletin*
December 7, 2012	Due Date for Answers/Comments/Recommendations

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[5] In approving PECO's Phase I waitlist proposal, Commission Staff found that "such a waitlist will provide PECO with readily available participants should the Commission continue the EE&C program beyond 2013." *See* Secretarial Letter dated August 18, 2011, Docket No. M-2009-2093215.

January 3, 2013	Evidentiary Hearings
January 11, 2013	Initial Briefs
January 22, 2013	PECO Reply Comments and/or Revised Plan
February 28, 2013	Commission Order

VII. NOTICE

29. In accordance with the *Phase II Implementation Order*, PECO is serving copies of this filing on the Pennsylvania Office of Consumer Advocate, the Pennsylvania Office of Small Business Advocate, the Commission's Bureau of Investigation and Enforcement, and all parties to the Company's Phase I EE&C Plan proceeding.

30. In addition, consistent with the filing template issued by the Commission on September 26, 2012 at Docket No. M-2012-2289411, the Company will post a copy of its proposed Phase II Plan on PECO's website (www.peco.com/know).

31. Should the Commission conclude that further notice of this filing is appropriate, PECO will provide such additional notice as directed by the Commission.

VIII. CONCLUSION

Based upon the foregoing, including the attached testimony and exhibits, PECO respectfully requests that the Commission grant this Petition and enter an Order:

(1) Approving PECO's Phase II EE&C Plan and finding that the Plan satisfies the requirements of 66 Pa.C.S. § 2806.1(b)(1) and the *Phase II Implementation Order*;

(2) Approving PECO's proposed tariff provisions to implement a Section 1307 surcharge to recover Phase II Plan costs;

(3) Approving Phase II treatment for certain Phase I projects; and

(4) Approving the contract between PECO and JACO Environmental.

Respectfully submitted,

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