Met-Ed/Penelec/Penn Power/West Penn Statement No. 1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

METROPOLITAN EDISON COMPANY
Docket No. __________

PENNSYLVANIA ELECTRIC COMPANY
Docket No. __________

PENNSYLVANIA POWER COMPANY
Docket No. __________

WEST PENN POWER COMPANY
Docket No. __________

ENERGY EFFICIENCY AND CONSERVATION PLANS

Prepared
Direct
Testimony
of
John C. Dargie

List of Topics Addressed

Overview of the
Companies and their EE&C Plans

I. <u>INTRODUCTION AND BACKGROUND</u>

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is John C. Dargie and my business address is FirstEnergy Corp. ("FirstEnergy"), 76 South Main Street, Akron, Ohio 44308.

Q. MR. DARGIE, BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by FirstEnergy Service Company as Vice President, Energy Efficiency. I am responsible for ensuring that FirstEnergy's ten electric distribution utilities comply with, among other things, all energy efficiency and conservation ("EE&C") and peak demand reduction ("PDR") requirements imposed at either the federal or state level. This involves the development, coordination, implementation and oversight of programs that promote EE&C, PDR, demand-side management and emerging technologies. I report to the Senior Vice President and President of FirstEnergy Utilities, but also work closely with the presidents of each of FirstEnergy's utilities on most matters.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND AND RELEVANT EXPERIENCE.

A. I began my career in sales at S.D. Myers, Inc., an engineering and transformer company in the Akron area, where I progressed through the company's sales organization for 20 years. I joined FirstEnergy in 1997 as director of national accounts. In 1999 I was promoted to director of sales and in 2002 was again promoted to manager of customer support services. From 2006 through 2009, I was director of asset management. In 2009, I became manager of national accounts and portfolio management and was promoted to my current position in 2011.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of Metropolitan Edison Company ("Met-Ed"), Pennsylvania Electric Company ("Penelec"), Pennsylvania Power Company ("Penn Power"), and West Penn Power Company ("West Penn") (collectively, the "Companies"). Unless otherwise stated, my testimony equally applies to all four Companies.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony is to provide an overview of: (i) the Companies; (ii) the Companies' EE&C requirements for Phase II; and (iii) the Companies' Phase II EE&C Plans.

Q. PLEASE IDENTIFY THE OTHER WITNESSES WHO WILL BE PROVIDING TESTIMONY IN THIS PROCEEDING?

A. Mr. Edward C. Miller, a Manager of FirstEnergy's Compliance and Development Department, (Met-Ed/Penelec/Penn Power/West Penn Statement No. 2) will discuss the details of each of the Companies' Phase II EE&C Plans, explaining how each complies with the requirements set forth in Act 129 and the Commission's 2012 Implementation Order,[1] and why this Commission should approve the Plans.

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[1] *Energy Efficiency and Conservation Programs*, Docket Nos. M-2012-2289411 and M-2008-2069887 (Implementation Order entered August 3, 2012) ("2012 Implementation Order")

Mr. Kevin Siedt, a State Regulatory Analyst within the FirstEnergy Pennsylvania Rates and Regulatory Affairs Department (Met-Ed/Penelec/Penn Power/West Penn Statement No. 3), will discuss the Companies' proposal to recover the costs associated with developing and implementing the Phase II EE&C Plans through new tariff riders for each of the Companies, as well as continuing the existing Energy Efficiency and Conservation Charge Rider ("EEC-C Rider") of Met-Ed, Penelec and Penn Power for final recovery of Phase I costs.

II. <u>THE COMPANIES</u>

Q. PLEASE GENERALLY DESCRIBE THE FIRSTENERGY CORPORATE STRUCTURE AS IT RELATES TO STATE REQUIREMENTS TO IMPLEMENT THE COMPANIES' PHASE II EE&C PLANS.

A. FirstEnergy is a diversified energy company headquartered in Akron, Ohio. Among its many subsidiaries are ten electric utility subsidiaries –Met-Ed, Penelec, Penn Power and West Penn in Pennsylvania, three electric distribution utilities in Ohio (Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company), Jersey Central Power and Light Company in New Jersey, Monongahela Power Company in West Virginia and The Potomac Edison Company in both West Virginia and Maryland. These ten electric utility operating companies comprise one of the nation's largest investor-owned electric systems, based on six million customers served within a nearly 65,000 square-mile area of Ohio, Pennsylvania, New Jersey, West Virginia and Maryland. FirstEnergy's goal is to develop cost effective EE&C solutions that can, when appropriate, be consistently applied not only in Pennsylvania, but also in the other states within the FirstEnergy footprint. This approach enables FirstEnergy customers to benefit from economies of scale and broader program experiences.

Q. PLEASE GENERALLY DESCRIBE THE COMPANIES.

A. Met-Ed is a wholly owned subsidiary of FirstEnergy that provides service to approximately 553,000 electric utility customers in eastern Pennsylvania. Penelec is a wholly owned subsidiary of FirstEnergy that provides service to approximately 590,000 electric utility customers in central and western Pennsylvania. Penn Power is a wholly owned subsidiary of Ohio Edison Company, which, in turn, is a wholly owned subsidiary of FirstEnergy. Penn Power provides service to approximately 161,000 electric utility customers in western Pennsylvania. West Penn is a wholly owned subsidiary of Allegheny Energy, Inc., which, in turn, is a wholly owned subsidiary of FirstEnergy. West Penn provides service to approximately 718,000 electric utility customers in western Pennsylvania.

III. <u>ACT 129 ENERGY EFFICIENCY AND CONSERVATION TARGETS</u>

Q. WHAT ENERGY EFFICIENCY AND CONSERVATION REQUIREMENTS APPLY TO THE COMPANIES?

A. On October 15, 2008, then Governor Rendell signed House Bill 2200 into law as Act 129 of 2008 ("Act 129"). Act 129 required the Commission to establish an energy efficiency and conservation program ("EE&C Program").[2] The EE&C Program contemplated multiple phases.

Q. PLEASE DESCRIBE PHASE I OF ACT 129.

A. In Phase I of Act 129 ("Phase I"), Pennsylvania electric distribution companies ("EDCs") were required to reduce electric consumption by at least one percent (1%) of their expected load as calculated for the period from June 1, 2009, through May 31, 2010, adjusted for weather and extraordinary loads. This one percent (1%) interim reduction was to be accomplished by May 31, 2011. Further, by May 31, 2013, EDCs were required to have reduced their total annual weather-normalized consumption by a minimum of three percent (3%). Also, by May 31, 2013, EDCs were expected to have reduced their peak demand by a minimum of four-and-one-half percent (4.5%) of their annual system peak demand in the 100 hours of highest demand, as measured against the EDC's peak demand during the period from June 1, 2007 through May 31, 2008.[3] These goals were to be accomplished with a cost limit based on 2% of total annual revenues as of December 31, 2006. Act 129 also includes some sector targets, such as for low-income programs, and government/non-profit sectors. Each EDC's Phase I EE&C Plan, goals and budgets were all as approved by the Commission.

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[2] 66 Pa.C.S. §§ 2806.1 and 2806.2.
[3] 66 Pa.C.S. §§ 2806.1 (c)(1) and (2).

Q. PLEASE DESCRIBE PHASE II OF ACT 129.

A. Act 129 requires that the Commission determine if energy efficiency and demand response goals should be established beyond the Phase I goals.[4] Specifically, Act 129 requires that by November 30, 2013, the Commission is to assess the cost-effectiveness of the EE&C Program and set additional incremental reductions in electric consumption if the EE&C Program's benefits exceed its costs.[5] Earlier this year the Commission began the process of evaluating the costs and benefits of the EE&C Program. The Commission determined that it was cost effective to continue the EE&C requirements for a second phase, Phase II. Phase II EE&C goals were established for each EDC in *Energy Efficiency and Conservation Programs*, Docket No. M-2012-2289411 and M-2008-2069887 (Implementation Order entered August 3, 2012) ("2012 Implementation Order").

Q. **DOES THIS PROCEEDING CONCERN PHASE I OR PHASE II OF THE COMPANIES' EE&C PLANS?**

A. The Companies' Proposed Plans concern Phase II. The Companies filed their Phase I EE&C Plans on July 1, 2009 for the period June 1, 2010 through May 31, 2013 ("Existing Plans"), which were subsequently approved by the Commission. Phase I is only involved in this proceeding from the standpoint of the wind up of the Phase I cost recovery rider, which is more fully discussed by Companies' Witness Siedt in his testimony.

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[4] 66 Pa. C.S. §§ 2806.1(c)(3) and 2806.1(d)(2).
[5] *Id*.

Q. WHAT IS THE REQUIRED TIMING FOR FILING THE COMPANIES' PROPOSED PHASE II EE&C PLANS?

A. The Commission's 2012 Implementation Order required that the Companies' Phase II EE&C Plans ("Proposed Plans") be filed no later than November 1, 2012. However, on November 1, 2012, the Commission issued a Secretarial Letter extending the Companies' deadline to file their Plans to as late as November 15, 2012 due to Hurricane Sandy.[6] Consistent with this directive, the Companies are filing their Proposed Plans, which are included as Attachments A (Met-Ed), B (Penelec), C (Penn Power), and D (West Penn) to the Joint Petition. These plans are designed to be in effect for the period June 1, 2013 through May 31, 2016 ("Phase II Period").

Q. ARE THE COMPANIES DISPUTING THE ADDITIONAL INCREMENTAL PHASE II REDUCTION TARGETS SET FOR THEM BY THE COMMISSION IN ITS 2012 IMPLEMENTATION ORDER?

A. Yes. As I previously mentioned, the Commission established specific EE&C benchmarks for EDCs in its 2012 Implementation Order for the Phase II Period based on prescribed acquisition costs for each EDC. The Commission gave the EDCs until August 20, 2012, to either accept the Commission's proposed consumption reduction benchmarks, or to file a petition for an evidentiary hearing; otherwise the energy efficiency benchmarks would be deemed accepted. On August 20, 2012, the Companies

[6] The Commission's 2012 Implementation Order also allowed EDCs who were challenging the Implementation Order additional time to file their EE&C Plans. Even though the Companies have challenged the Implementation Order goals, and thus are entitled to additional time to finalize their Phase II plans, taking such an election would have compromised the schedule for completing Commission review of the plans in time to commence Phase II on June 1, 2013. Therefore, the Companies have not elected to take the additional time to file their Phase II EE&C Plans.

jointly filed a Petition for an Evidentiary Hearing at Docket Nos. P-2012-2320450, P-2012-2320468, P-2012-2320480, and P-2012-2320484. The record for this proceeding was closed and certified on November 2, 2012, prior to the new extended due date for the Companies to file their Phase II EE&C Plans.[7]

Q. WILL THE COMMISSION'S DECISION IN THE COMPANIES' PETITION FOR EVIDENTIARY HEARING AFFECT THIS PROCEEDING?

A. To some degree, yes, it will. If the Commission would rule in favor of the Companies and reduce the specific consumption targets it established for each Company in its 2012 Implementation Order, then the Companies' capability to meet their Phase II goals would be greatly enhanced and appropriate adjustments to incentive and cost levels could be made. The Companies' plans are based on the cost assumptions made by the Commission in the 2012 Implementation Order relative to overall cost, incentive levels, administrative costs and other factors influencing achievement of the targets. Therefore, while the Companies do not anticipate changes in program design, should the Commission modify the Phase II targets, they do anticipate modifications to the underlying assumptions, such as budgets and participation rates, that were used to develop the portfolio of programs included in the Proposed Plans. Companies' Witness Miller will explain this more fully in his testimony.

[7] *Petition of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company For an Evidentiary Hearing on the Energy Efficiency Benchmarks Established for the Period June 1, 2013 through May 31, 2016,* Docket Nos. P-2012-2320450, P-2012-2320468, P-2012-2320480, and P-2012-2320484 (Order entered September 18, 2011).

IV. PHASE II ENERGY EFFICIENCY AND CONSERVATION PLANS

Q. HOW ARE EACH OF THE PROPOSED PLANS ORGANIZED?

A. Each of the Companies' plans are organized consistent with the filing format and template outlined by the Commission in its September 26, 2012 Secretarial Letter. The organization of each plan is set forth in its respective Table of Contents.

Q. WHAT AREAS ARE ADDRESSED IN EACH OF THE PROPOSED PLANS?

A. Each of the Proposed Plans addresses all issues identified in the Commission's template for Phase II filings, including the specific programs selected to achieve the Companies' respective additional consumption reduction targets adopted by the Commission's 2012 Implementation Order. These and other issues are addressed by Companies' Witness Miller in his pre-filed testimony (Met-Ed/Penelec/Penn Power/ West Penn Statement No. 2).

Q. WHAT WERE THE COMPANIES' OVERALL OBJECTIVES WHEN DEVELOPING THE PROPOSED PLANS?

A. As when designing the Companies' Existing Plans, the Companies, when developing the Proposed Plans, strived to design plans that: (i) comply with statutory and regulatory requirements; (ii) include at least one program for each of the major customer segments; and (iii) balance costs with results. I believe the Proposed Plans accomplish each of these objectives.

Q. PLEASE GENERALLY DESCRIBE THE COMPANIES' PROPOSED PLANS BEING FILED IN THIS PROCEEDING.

A. Each of the four Proposed Plans was designed in the same manner and generally includes the same programs as those found in the Existing Plans. As Companies' Witness Miller describes in his testimony, the Proposed Plans are an extension of and refinement to the Existing Plans currently in effect. Many of the measures and programs included in the Existing Plans are incorporated in some fashion in the Proposed Plans. Measures have been added and programs have been consolidated and reorganized in the Proposed Plans. These changes leverage both the insights and experiences gained under the Existing Plans since June 1, 2009, as well as the lessons learned through programs offered by other FirstEnergy electric utilities in other states. We believe that the programs included in the Proposed Plans offer the Companies the best opportunity to comply with the additional consumption reduction targets, within the assumptions and cost constraints set by the Commission in its 2012 Implementation Order.

Q. PLEASE DESCRIBE THE GENERAL PROCESS UTILIZED BY THE COMPANIES WHEN DEVELOPING THE PROPOSED PLANS.

A. Each of the four Proposed Plans was created using the same process, which is described in more detail by Companies' Witness Miller. The primary contributors to the process were both the internal FirstEnergy Program Development Team and the Program Implementation Team, the Companies' energy efficiency consultant and Phase I Plan program evaluator, ADM Associates, Inc., and interested stakeholders who participated in the Companies' stakeholder process.

Q. PLEASE DESCRIBE THE DEVELOPMENT TEAM AND ITS ROLE IN THE DEVELOPMENT OF THE PLANS.

A. The FirstEnergy Energy Efficiency Group is made up of more than 50 employees with a broad spectrum of skills. This group is responsible for ensuring compliance with all state and federal EE&C and PDR requirements and the successful implementation of EE&C and PDR programs offered throughout the FirstEnergy footprint. They also are responsible for tracking and reporting EE&C and PDR results to management and as required by the various state regulatory agencies. A more detailed description of this group, as well as an organization chart, is included in Section 4.2 of the Proposed Plans.

The Development Team is a subgroup within the Energy Efficiency Group. It is comprised of internal FirstEnergy employees and is primarily responsible for the development of not only the Proposed Plans, but also other EE&C and PDR plans offered by the Companies' sister utilities in other states. When practical, this Team designs programs consistently throughout the FirstEnergy footprint in order to avoid customer confusion and create economies of scale in both program administration and measurement and verification activities. When designing EE&C plans, this group relies not only on its expertise and experience, but also on the experience and expertise brought by ADM Associates and interested stakeholders.

Q. PLEASE DESCRIBE THE STAKEHOLDER PROCESS USED BY THE COMPANIES DURING THE DEVELOPMENT OF THE PROPOSED PLANS.

A. The Companies, in an effort to incorporate other points of view, have obtained the input from various stakeholders through stakeholder meetings and informal discussions throughout the development of the Proposed Plans. In addition, the Companies continue to seek stakeholder input throughout the Phase I Period. The Companies communicated with other EDCs as they developed the Proposed Plans and intend to continue their practice of exchanging ideas and best practices with other EDCs throughout the Phase II Period. The Companies most recently hosted a stakeholder meeting on October 4, 2012 so as to provide an update on the progress of their Existing Plans and to review their preliminary design of the Proposed Plans with interested parties, providing them with an opportunity to comment and ask questions. It is the Companies' intention to utilize the stakeholder process to seek input regarding possible improvements and program implementation while the Phase II EE&C Plans are in effect.

Q. IS IT POSSIBLE THAT THE PROGRAMS INCLUDED IN EACH OF THE COMPANIES' PROPOSED PLANS MIGHT BE ADJUSTED DURING THE PLAN PERIOD?

A. Yes. Similar to the Existing Plans, the portfolio of programs included in the Proposed Plans should be viewed as the Companies' starting point. It is anticipated that timely adjustments will be made as results evolve and as the Companies receive feedback from customers, trade allies, consultants, conservation service providers ("CSPs"), evaluators, interested stakeholders and program managers. For example, program managers/vendors are likely to have strong, experience-based recommendations on particular programs. In addition, adjustments are likely to be made based on the performance of individual programs as measured by the Companies' tracking system and information gleaned from independent program evaluations.

Q. PLEASE EXPLAIN THE OUTSIDE CONSULTANTS', VENDORS' AND ADMINISTRATORS' ROLES IN THE IMPLEMENTATION OF THE PROPOSED PLANS.

A. The Companies will continue overall administration and oversight of the Proposed Plans, and utilize third party vendors to perform various program implementation and support duties. Specific activities that the Companies will oversee include: the Phase II Plan development; the execution of marketing campaigns; Quality Assurance/Quality Control activities; tracking and reporting activities; and management of CSPs. The Companies will use CSPs to provide many program implementation services, including assistance with Phase II EE&C plan design and implementation, marketing, and evaluation, measurement, and verification of results.

The Companies intend to secure CSPs in the first quarter of 2013 for the current programs so as to enable a timely program transition and implementation of the new programs and measures once the Proposed Plans are approved. Contracts with selected vendors will be procured through requests for proposals for Phase II, and their start will be contingent upon Commission approval of the CSP contracts and Phase II programs. The Companies also plan to extend through the Phase II Period their Tracking and

Reporting contract with Applied Energy Group and their Evaluation Measurement and Valuation ("EM&V") with ADM Associates Inc. While the Companies are not required to competitively bid existing contracts with the same parties according to the Commission's 2012 Implementation Order, the Companies will submit the extended contracts to the Commission for approval.

Q. ARE THE PROPOSED PLANS CONSISTENT WITH ACT 129 AND THE COMMISSION'S 2012 IMPLEMENTATION ORDER?

A. Yes, they are. The Phase II EE&C Plans:

- Are designed to maximize the Companies' opportunity to achieve the respective additional consumption reduction targets adopted by the Commission's 2012 Implementation Order, within the acquisition cost and overall budget constraints imposed on the Companies by that Order.
- Are designed to achieve at least 25% of the additional consumption reduction target amount in each program year.[8]
- Reflect program acquisition costs (i.e., for program administration, management and incentives) that are within the 2% limit imposed by Act 129, and are being reasonably allocated and recovered from the customer class receiving the direct benefit of measures supported by the programs.
- Are cost effective, in accordance with the 2013 Total Resource Cost ("TRC") Test, and will provide a diverse cross-section of alternatives and reasonable mix

[8] 2012 Implementation Order at 28.

of programs that will benefit consumers of all rate classes as required by 66 Pa. C.S. 2806.1(b)(1)(i)(I).

- Are designed to seek achievement of the required consumption reductions required by Act 129, which for Phase II are limited to energy consumption reductions. These consumption goals will be pursued based on the Technical Reference Manual ("TRM") and other metric resources to measure the effect of various EE&C measures.
- Include a variety of EE&C measures and will provide the measures equitably to all customer classes pursuant to 66 Pa. C.S. §2806.1(a)(5).
- Include a well-reasoned and balanced test of measures that are tailored to usage and to the potential for savings and reductions for each customer class.
- Are designed to provide a minimum of 10% consumption from units of federal, state and local government.
- Includes specific energy efficiency measures for households at or below 150% of the federal poverty income guidelines, in proportion to that sector's share of the total energy usage in each of Companies' service territories.
- Are designed to obtain a minimum of 4.5% of the Companies' respective total consumption reduction requirement from the low-income sector.

Q. WILL THE COMPANIES BE ABLE TO MEET THE TARGETS USING LESS THAN THE 2% SPENDING CAP UNDER ACT129?

A. No. The Companies anticipate the need to utilize the full 2% cost limit under Act 129 to meet the targets, as reflected in Phase II EE&C budgets. As indicated in the Companies' petition for evidentiary hearings, and as explained in further detail by Companies' Witness Miller, the Companies are concerned that the Commission's assumptions upon which the Proposed Plans are based, may prove to be invalid, thus making the Phase II targets more difficult, if not impossible to achieve within the cost limits imposed by the Implementation Order, especially given the further risks and uncertainties that could materialize during the Phase II Period. That is why I believe it is absolutely necessary for the Commission to allow not only the Companies, but any Pennsylvania EDC, to seek an adjustment to their Phase II goals should these risks and uncertainties materialize.

Q. WHAT OTHER COMMISSION PROCEEDINGS DID THE COMPANIES CONSIDER WHEN DEVELOPING THE PROPOSED PLANS?

A. On August 30, 2012, the Commission entered a Final Order in Docket No. M-2012-2300653, providing EDCs with its updated TRC for 2013. The savings generated and evaluated through the Phase II EE&C Plans are based upon the requirements and guidance of the above-mentioned TRC Order. The Commission will also be entering a Final Order later this year regarding updates to the TRM. The Companies' Proposed Plans incorporate values as set forth in the Commission's Tentative Order regarding the TRM.

Q. PLEASE DESCRIBE THE TIME SCHEDULE NECESSARY TO TIMELY IMPLEMENT THE PHASE II EE&C PLANS.

A. Act 129 provides a four month period for review and approval of the Phase II EE&C Plans. The Companies have not requested expedited treatment of their filing, but do suggest the following schedule, which is set forth in more detail in the Companies' Joint Petition being filed concurrent with this testimony:

- The Companies filed their Joint Petition for approval of their Phase II EE&C Plans on November 13, 2012.
- The Companies filed direct testimony in support of their Phase II EE&C plans on November 13, 2012.
- Phase II EE&C Plans published in the PA Bulletin and on Commission website within 20 days of filing (or by December 1, 2012).
- Answers of Interested Parties filed by December 21, 2012.
- Evidentiary Hearings conducted within 65 days of filing, or by January 21, 2013.[9]
- Main Briefs due within ten days of close of hearing.
- Reply Briefs due within ten days of submitting Main Briefs.
- Commission approval of EE&C Plans and related cost recovery mechanism(s) on or before March 14, 2013.
- The Companies launch portfolio of EE&C programs on June 1, 2013.
- The Companies begin billing Phase II EE&C rates effective on June 1, 2013.

Q. MR. DARGIE, DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

A. Yes, it does.

[9] In the November 1, 2012 Secretarial Letter in which the filing deadline was extended, the Commission asked EDCs to treat the filing date as November 15th for purposes of calculating the evidentiary hearing deadline if the EE&C plans were not filed on the original due date of November 1, 2012. *Secretarial Letter Re Implementation of Act 129 of 2008 – Phase II Energy Efficiency and Conservation Plan Template*, Docket No. M-2012-2289411 (November 1, 2012).