

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities :
Corporation for Approval of an Energy : Docket Nos. M-2012-_____
Efficiency and Conservation Plan :

**Petition of PPL Electric Utilities Corporation for Approval of an
Energy Efficiency and Conservation Plan**

Pursuant to Act 129 of 2008 (“Act 129”), P.L. 1592, 66 Pa. C.S. §§ 2806.1 and 2806.2, PPL Electric Utilities Corporation (“PPL Electric” or the “Company”) hereby files this Petition seeking approval of its Phase II Energy Efficiency and Conservation Plan (“Phase II EE&C Plan” or “Phase II Plan”). This filing is being made pursuant to Act 129 and the Implementation Order issued by the Pennsylvania Public Utility Commission (“Commission”) on August 3, 2012. *Energy Efficiency and Conservation Program*, Docket Nos. M-2012-2289411, M-2008-2069887, 2012 Pa. PUC LEXIS 1259 (Implementation Order entered on August 3, 2012) (“*2012 Implementation Order*”). The EE&C Plan includes a broad portfolio of energy efficiency programs, conservation practices and energy education initiatives. These integrated programs are designed to meet the goals established by Sections 2806.1 and 2806.2 of Act 129 and the Commission’s *2012 Implementation Order*. For the reasons set forth below, PPL Electric respectfully requests that the Commission approve the Phase II EE&C Plan as described herein and the appended attachments by March 14, 2013.

I. INTRODUCTION

1. PPL Electric 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. PPL Electric furnishes electric service to approximately 1.4 million customers throughout its certificated service territory, which includes all or portions of twenty-nine counties and encompasses approximately 10,000 square miles in eastern and central Pennsylvania.

2. PPL Electric's attorneys are:

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PPL Electric's attorneys are authorized to receive all notices and communications regarding this Petition.

3. Act 129, which became effective on October 15, 2008, created, *inter alia*, an energy efficiency and conservation ("EE&C") program, codified in the Pennsylvania Public Utility Code, 66 Pa.C.S. §§ 2806.1, 2806.2. This program required each EDC with at least 100,000 customers to adopt and implement a Commission-approved EE&C Plan. EE&C plans

are programs designed to achieve the Act 129 conservation and peak load reduction requirements, by specified dates, within the specified cost cap.

4. On July 1, 2009, in compliance with Section 2806.1(b)(1)(i) of Act 129, PPL Electric filed its Phase I EE&C Plan for the period of June 1, 2009 through May 31, 2013. PPL Electric's Phase I EE&C Plan was approved by the Commission on October 26, 2009.¹ The Commission thereafter approved several modifications to PPL Electric's Phase I EE&C Plan.²

5. By November 30, 2013, the Commission is required to assess the cost-effectiveness of the EDCs' EE&C Plans and set additional reductions in consumption and peak demand if the benefits of the EDCs' EE&C Plans exceed their costs. 66 Pa.C.S. §§ 2806.1(c)(3), (d)(2).

6. On August 3, 2012, the Commission issued the 2012 Implementation Order, which determined the required consumption reduction targets for each EDC and established guidelines for *implementing* Phase II (June 1, 2013 – May 31, 2016) of the EE&C program. In order to establish the EDCs' required consumption reduction targets, the Commission's Statewide Evaluator ("SWE") conducted baseline studies and prepared a Market Potential Study for the Commission that recommended each EDC's specific consumption reduction target. 2012

¹ *Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2009-2093216, 2009 Pa. PUC LEXIS 2242 (October 26, 2009).

² *See, e.g., Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2009-2093216, 2010 Pa. PUC LEXIS 392 (February 17, 2010); *Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2009-2093216, 2011 Pa. PUC LEXIS 2009 (May 6, 2011).

Implementation Order, p. 13. By May 31, 2016, PPL Electric must meet the following consumption reductions:

Act 129 Phase II Three-Year Energy Efficiency Reduction Compliance Target

EDC	Three-Year % of 2009/10 Forecast Reductions	Three-Year MWh Value of 2009/10 Forecast Reductions
PPL	2.1	821,072

2012 Implementation Order, p. 24.

7. On September 26, 2012, the Commission, by Secretarial Letter, established a template for the Phase II EE&C plans, at Docket No. M-2012-2289411.

8. PPL Electric has prepared its Phase II EE&C Plan pursuant to the Commission's *2012 Implementation Order* and for the reasons that follow, PPL Electric respectfully requests that the Commission approve its proposed Phase II EE&C Plan.³

II. LEGAL REQUIREMENTS

9. Consistent with the requirements set forth in the Act 129 and the Commission's *2012 Implementation Order*, the PPL Electric's Phase II Plan contains the following elements:

- A budget showing total planned expenditures by program and customer class;
- A description of the EDC's method for monitoring and verifying plan results;

³ On August 20, 2012, PPL Electric filed a Petition at Docket No. P-2012-2320369 requesting an evidentiary hearing pursuant to the Commission's directive in the *2012 Implementation Order* requesting that the Commission affirmatively state that its approval of the 25% adjustment factor does not restrict an EDC's right to: (1) challenge the application of future changes to the TRM, the Total Resource Cost ("TRC"), and other Commission actions to determine compliance with the Phase II consumption reduction targets; and (2) request, if necessary, modifications to its Phase II EE&C Plan, including, but not limited to, the Phase II consumption reduction target, to account for any future changes to the TRM, TRC, other Commission actions, and market conditions that are not presently known. PPL Electric's petition is currently pending before the Commission. However, PPL Electric has neither challenged the Commission's approved Phase II consumption reduction target of 2.1% nor the Commission's approved 25% adjustment. *2012 Implementation Order*, pp. 19-20, 24. Therefore, without waiving any of its arguments set forth in Docket No. P-2012-2320369, PPL Electric has prepared its Phase II EE&C Plan pursuant to the Commission's *2012 Implementation Order*.

- Includes measures to achieve or exceed the required reductions and states the manner in which the consumption reductions will be achieved or exceeded;
- Complies with the designated expenditure cap of 2% of 2006 Annual Revenues for each year of the three-year plan, which equates to an average of approximately \$61.5 million per year for three years and approximately \$184.5 million⁴ for the Phase II. The three-year Plan will start on June 1, 2013 and conclude on May 31, 2016;
- Achieves a total overall verified energy reduction of at least 821,072 MWh/yr by May 31, 2016. At least 25% of the savings compliance target must be achieved in each of the three program years.
- Achieves a minimum of ten percent (10%) of all consumption reduction requirements from units of federal, state and local governments, including municipalities, school districts, institutions of higher education and non-profit entities (“GNI”);
- Achieves a minimum of 4.5% (36,948 MWh/yr) of the total required reductions from the low-income customer sector (<= 150% of Federal Poverty Income Guidelines) by May 31, 2016. This includes savings from low-income programs and low-income participation in general residential programs;
- The proportion of measures available to the low-income sector is at least 9.95% of the total measures available to all customer sectors;
- Offers at least one energy efficiency program for each customer sector and offers a reasonable mix of energy-efficiency programs for all customer sectors. Offers at least one comprehensive measure for residential and commercial customer sectors;
- An approved contract(s) with one or more conservation service providers (“CSPs”);
- Includes a Phase II reconcilable adjustment clause tariff mechanism in accordance with 66 Pa. C.S. § 1307 cost recovery mechanism; and
- Demonstrates that the Phase II Plan is cost-effective based on the Commission’s TRC.

III. PPL ELECTRIC’S PROPOSED EE&C PLAN

A. OVERVIEW OF THE EE&C PLAN

10. PPL Electric’s Phase II EE&C Plan is attached hereto and marked as “Exhibit 1”.

PPL Electric’s Phase II Plan, as more fully described below, includes a broad portfolio of energy efficiency and energy education initiatives. PPL Electric’s portfolio of programs is designed to

⁴ This funding cap excludes \$3 million estimated cost for SWE.

meet the Company's Phase II consumption reduction target and to comply with the other requirements set forth in the Commission's *2012 Implementation Order*. The Phase II Plan includes a range of energy efficiency programs that include every customer segment in PPL Electric's service territory. These programs are the key components of a comprehensive electric energy efficiency initiative designed to achieve the required 821,072 MWh/yr. of reduced energy consumption.⁵

11. The proposed Phase II Plan follows the template provided in the September 26, 2012 Secretarial Letter at Docket No. M-2012-2289411. The Phase II Plan is divided into the following ten sections: (1) Overview of Plan; (2) Energy-Efficiency Portfolio/Program Summary Tables and Charts; (3) Program Descriptions; (4) Program Management and Implementation Strategies; (5) Reporting and Tracking Systems; (6) Quality Assurance and Evaluation, Measurement and Verification; (7) Cost-Recovery Mechanism; (8) Cost-Effectiveness; (9) Plan Compliance Information and Other Key Issues; and (10) Appendices.

12. Included as Appendix G to the Phase II EE&C Plan is the proposed *pro forma* tariff for the Act 129 Compliance Rider, which is designed to fully recover all applicable EE&C-related costs. The Act 129 Compliance Rider is fully reconcilable and will be applied on a non-bypassable basis to charges for electricity supplied to customers who receive distribution service from the Company.

B. PLAN DEVELOPMENT PROCESS

13. The requirements of Act 129 and the Commission's *2012 Implementation Order* formed the basis for development of the Phase II Plan. The Company carefully evaluated Act

⁵ PPL Electric used the measures and savings set forth in the *Implementation of the Alternative Energy Portfolio Standards Act of 2004: Standards for the Participation of Demand Side Management Resources – Technical Reference Manual 2013 Update*, Docket Nos. M-2012-2313373, M-00051865, 2012 Pa. PUC LEXIS 1511 (September 13, 2012) ("*2013 TRM Tentative Order*") to develop its Phase II EE&C Plan.

129, the *2012 Implementation Order*, and the Phase I EE&C Plan to determine the broad requirements, energy savings and allowable annual expenditures for PPL Electric. Actual amounts paid to PPL Electric for generation, transmission, distribution and surcharges by retail customers, including revenues collected by PPL Electric for an electric generation supplier for the twelve months ended December 31, 2006, were used to determine the two percent (2%) expenditure cap established by Act 129. The maximum allowable budget identified in the *2012 Implementation Order* for PPL Electric is \$184.5 million.⁶

14. The process for developing the Phase II Plan consisted of establishing a set of guiding principles, including: (1) using a top-down approach to establish possible targets based on Phase I achieved performance by sector; (2) evaluating energy-efficiency measures by potential, cost, and TRC, using the SWE Market Potential Study; (3) developing and balancing the portfolio to meet all of the requirements of Act 129; (4) providing opportunities for stakeholders to participate and contribute to plan development; and (5) making adjustments based on what is affordable, customer feedback, and the requirements set forth in the Act 129. The consumption reduction target, the 2% expenditure cap, TRC cost-effectiveness of the portfolio, and the GNI and low-income set-asides all played a role in defining the major parameters and constraints for developing the portfolio.

15. The programs included in PPL Electric's Phase II Plan were designed as a portfolio and include options for all customer sectors. The Phase II Plan is designed to provide customers a cost-effective, equitable, flexible, and wide-ranging set of programmatic choices, incentive options, information, and educational opportunities.

16. PPL Electric's development of the portfolio and subsequent revisions began by thoroughly evaluating what was achieved in Phase I for each customer sector. In addition, PPL

⁶ Funding cap excludes \$3 million estimated cost for SWE.

Electric Program Staff identified possible programs for consideration in Phase II, including, those that were successfully being offered by other utilities and those programs recommended by stakeholders, trade allies, and CSPs. Based on this review, PPL Electric developed a portfolio of programs, targeting different customer classes, designed to achieve the consumption reduction target set by the Commission. The programs were formulated in a manner to ensure that program options are available for all customer classes and market segments.

17. During the preparation of this Phase II Plan, PPL Electric pursued opportunities to solicit input from and inform stakeholders of the Company's progress. The Company maintained communications with a wide range of interested parties, including other investor-owned utilities, consumer advocates, environmental advocates, non-utility parties, governmental and non-governmental organizations, potential trade allies and CSPs.

18. Based upon the input of participating stakeholders, PPL Electric added new programs/measures and refined others contained in its Phase II Plan.⁷ PPL Electric anticipates that this collaborative process will increase the likelihood of success in implementing the portfolio. Key information about stakeholder participation, including meeting dates and topics discussed with the participants is summarized in Section 1.2.6 of the Phase II Plan. Although it was not possible to include every recommendation received through the stakeholder process, the Company carefully considered the input it received from its stakeholders. PPL Electric intends

⁷ PPL Electric's stakeholder group includes but is not limited to representatives from: registered and other potential CSPs, environmental advocacy groups, Chambers of Commerce, public and private economic development organizations, community-based organizations, trade allies, including contractors, trade associations, energy services companies, and vendors, market partners that deliver or promote energy-efficiency programs, including Keystone HELP, PHFA, SEDA-COG, Community Committee of the Lehigh Valley, Schuylkill Community Action, Community Action Program of Lancaster, other Community Action Groups, property/facilities management companies; Pennsylvania Public Utility Law Project, the Sustainable Energy Fund, statutory advocates, the PA Department of Environmental Protection, municipal and local government groups, county commissioners, township commissioners, the EFMR Monitoring Group, the Pennsylvania Department of Community & Economic Development Energy-efficiency engineers and consultants, Penn Future, PPLICA and Commission staff.

to meet with stakeholders as needed, but not less than twice annually until May 31, 2016 and use their input to help identify modifications that would improve the efficiency or cost effectiveness of the Phase II Plan (subject to regulatory approval where required). This stakeholder process should assist PPL Electric, the stakeholders' and the Commission's review of the Phase II EE&C Plan and serve to expedite its approval, thereby allowing more time to prepare for implementation and expanding the opportunities for consumer savings.

C. DESCRIPTION OF THE EE&C PLAN

19. PPL Electric's primary objective is to deliver a portfolio of cost effective programs that will meet customers' needs, fulfill the Company's Phase II Plan objectives, as defined in Section 8 of the Phase II EE&C Plan, and achieve the results required by Act 129 and the Commission's *2012 Implementation Order*.

20. PPL Electric's portfolio reflects a strategic approach that is targeted, yet flexible enough to adjust and expand, as warranted, to meet changing market conditions and progress toward the Phase II Plan goals. The portfolio builds on customer, trade ally, and stakeholder relationships through training, education, hardware, marketing strategies, and customer support. PPL Electric's proposed portfolio will capitalize on energy efficiency initiatives advanced by other organizations in the Commonwealth, as well as PPL Electric's existing programs, market knowledge, and community presence to efficiently meet program goals and target market sectors. Further, it will support the local economy by reducing customer energy costs, utilizing local labor whenever practical and by promoting the adoption and use of high quality equipment. *See* Sections 1.1.2 and 3.1 of Phase II EE&C Plan.

21. The proposed Phase II Plan, as noted above, includes a comprehensive portfolio of energy efficiency and energy education initiatives. Specifically, the proposed portfolio consists of the following 13 programs:

Continued from Phase I to Phase II:

- Appliance Recycling
- Residential Retail Program (combines residential lighting and the portion of the Residential Efficient Equipment program that includes appliances, electronics, and water heating)
- Residential Energy-Efficiency Behavior & Education
- Low-income WRAP Program (with changes)
- E-Power Wise Program
- Prescriptive Equipment Small C&I, Large C&I and GNI Program (with additions)
- Custom Incentive Small C&I, Large C&I and GNI Program

New Programs in Phase II:

- Residential Home Comfort Program (hybrid combining the Phase I Audit and Weatherization Program; the portion of Phase I Residential Efficient Equipment program that includes HVAC and insulation; pool pumps; and a new home component)
- Student and Parent Energy-Efficiency Education Program
- Low-income Energy-Efficiency Behavior & Education Program
- Master Metered Low-income Multifamily Housing Program
- Continuous Energy Improvement Program
- School Benchmarking Program

All of the Company's programs are voluntary and, subject to the budget limitations for each program, customers can elect to participate in any program for which they are eligible.

22. A full description of each of the 13 programs is set forth in Section 3.2 of the Phase II EE&C Plan. These programs include a range of energy-efficiency programs targeted to every customer segment in PPL Electric's service territory. In compliance with the Secretarial Letter dated September 26, 2012 at Docket No. M-2012-2289411, PPL Electric has differentiated its programs according to the customer classes defined in the EE&C Plan template.

Phase II EE&C Plan Section 3.2. PPL Electric defines residential customers as those customers served under Rate Schedules RS, RTS and RTD. PPL Electric defines Large commercial and industrial (“C&I”) customers as those customers served at primary and transmission voltage levels (Rate Schedules LP-4, LP-5, LP-6, IS-T, LPEP, ISA, PR-1, and PR-2). Small C&I customers include all non-residential accounts served at secondary voltage levels (Rate Schedules GS-1, GS-3, IS-1 (R), BL, GH-1 (R), and GH-2 (R)). However, PPL Electric’s programs are defined according to delivery strategies, the nature of customers’ businesses, types of facilities, and types of energy-using equipment, rather than by the PPL Electric rate schedule for that customer. In other words, where programs offer customer benefits across multiple classes, and where similar implementation, marketing, and administrative strategies may be utilized to capture functional efficiencies, those programs will be offered to all appropriate customer classes. However, PPL Electric will document, track and report on its program results and progress by the customer classes identified in its Phase II Plan.

23. PPL Electric’s portfolio of programs is designed to provide customer benefits and to meet the Company’s Phase II consumption reduction target and other program requirements set forth in Act 129 and the *2012 Implementation Order*, within the designated expenditure cap of two percent (2%) of 2006 annual revenues for each year of the three-year plan, which equates to approximately \$184.5 million.

24. In its *2012 Implementation Order*, the Commission required that each EDC’s EE&C Plan include specific energy efficiency measures for households at or below 150% of the federal poverty income guidelines. *2012 Implementation Order* at 53. In addition, the Commission directed that each EDC obtain a minimum of 4.5% of their total required consumption reduction from low-income customers by May 31, 2016. *2012 Implementation*

Order at 54. These savings may be achieved directly from low-income sector programs as well as low-income customer participation in general residential programs.

25. As required in the Commission's Implementation Order, PPL Electric has designed its Act 129 programs to achieve at least 4.5% of its required energy consumption from the low-income sector and at least 9.95% of its energy efficiency measures will be available for low-income customers. Phase II EE&C Plan Section 9.1.3. Additional multi-sector efficiency programs are available and will be promoted to low-income customers and will produce energy savings in that sector. To meet the consumption reduction set aside for the low-income sector, PPL Electric will continue to leverage its existing delivery infrastructure, implement new social marketing efforts targeted to low-income communities and community groups, reach out to new low-income market partners to develop and implement co-marketing strategies, and will continue to reach out to low-income customers offering Low-Income WRAP.

26. The Commission also requires 10% of the EDC's Phase II consumption reduction target to come from the GNI customers. *2012 Implementation Order* at 45. For PPL Electric, this carve-out is 82,107 MWh/yr from GNI customers. PPL Electric is offering a mix of programs providing GNI customers with an extensive selection of program opportunities, including savings from the Low-income Multifamily Master Metered Program, and savings achieved from the Prescriptive Incentive Program, including incentives for customer owned area and LED street lighting and a wide array of other energy-efficiency measures, and from the Custom Incentive Program. *See* Phase II EE&C Plan Sections 3.5 and 9.1.2.

27. The Commission's *2012 Implementation Order* requires that PPL Electric's Phase II Plan include at least one comprehensive measure for residential and small commercial rate classes. *2012 Implementation Order* at 20. PPL Electric has proposed to include a Home

Comfort Program in its Phase II Plan. This program is designed for new and existing homes and will include an incentive for contractors building energy-efficient new homes and customer incentives for audits and weatherization for existing homes. To meet the requirement for the Small C&I sector, as part of the Prescriptive Energy Efficiency Program, PPL Electric is offering free audits and a comprehensive choice of measures specifically for farms.

28. The Commission also encouraged EDCs to give special emphasis to multifamily housing within the GNI sector in the Phase II Plans. *2012 Implementation Order* at 49. PPL Electric has designed a program to address energy-efficiency within multifamily low-income master metered buildings. The Multifamily Master Meter Low-Income Program will use direct installation and rebates to encourage electric efficiency in multifamily buildings and will provide up to between 6,000 and 10,000 MWh/yr toward the required GNI ten percent (10%) reduction goal.

29. The proposed Phase II Plan includes procedures to measure, evaluate, and verify performance of the programs and the Plan as a whole. *See* Phase II EE&C Plan Section 6. It also outlines a process for conducting an annual cost-effectiveness evaluation of the Plan in accordance with the Commission's 2013 Total Resource Cost Test Order.

30. For each program in the Phase II Plan, cost effectiveness was estimated in accordance with the procedures for the modified California test⁸ described in the Commission's Secretarial Letter concerning the implementation of Energy-efficiency and Conservation Program (Docket No. M-2008-2069887) and subsequent refinements introduced in the Commission's August 30, 2012 Order concerning the Total Resource Cost for Phase II of Act 129. (Docket No M-2012-2300653).

⁸ See *California Standard Practice Manual for Economic Analysis of Demand-Side Management Programs and Projects*, California Energy Commission, October 2001.

31. PPL Electric's proposed Phase II Plan is cost effective, based on a TRC criterion. See EE&C Plan Section 8. Cost effectiveness of the Phase II EE&C Plan was demonstrated in data presented in Section 3.2., Program Descriptions and Tables 7- 7E. PPL Electric determined the life-cycle costs, savings, and avoided cost benefits for each measure to compute the measure's cost effectiveness from a TRC perspective. Application of the TRC identified some measures that did not meet the cost-effectiveness threshold. However, to ensure a well-balanced and comprehensive mix of measures, some measures with high-saving potentials were retained in the Phase II Plan.

32. PPL Electric's programs are designed to support residential (including low-income), commercial and industrial, and government and non-profit sector customers through a logical continuum of energy efficiency actions, starting with facility review and analysis and ending with implementation, verification, and evaluation. Marketing and education functions, customer care and quality assurance, program tracking, and evaluation, monitoring, and verification will be common features of all programs. The Phase II Plan is supported by financial incentives and a delivery approach focused on providing customers with the support they need to achieve their energy efficiency objectives. Implementation activities range from simple, common energy efficiency measures that can be installed with minimal oversight or administrative burdens to more complex measures that are vetted through a technical analysis and may (but are not required to) be part of a facility-wide energy management strategy.

D. CONSIDERING THE ROLE OF UNCERTAINTY IN THE EE&C PLAN

33. As explained in Section 1.2 of the Phase II EE&C Plan, PPL Electric has developed its Phase II Plan to exceed the its Phase II consumption reduction target by approximately 2.5% in order to provide a reasonable margin for uncertainty. In addition, PPL Electric estimates a carryover of 110,000 MWh/yr. from Phase I. The over-compliance and

carryover provides the flexibility to accommodate lower per-measure savings or to provide additional savings to customers. However, there are several uncertainties associated with PPL Electric's ability to achieve these targets within the constraints of the Act 129 requirements. As discussed in Section 1.2 of the Phase II EE&C Plan, the major uncertainties fall into the following categories: (1) the state of the economy is constraining customer's willingness to make investments in energy-efficiency measures; (2) the impact of future changes to the TRM, TRC or other market forces that reduce the savings attributable to energy efficiency measures; and (3) the limited time available to design and implement the Phase II EE&C Plan, particularly to launch new programs.

34. Although the Phase II Plan has taken these uncertainties into consideration, the ability to meet the projected targets ultimately is a function of consumers' ability and willingness to participate in specific programs. To address the state of the economy and customers' ability to make investments in energy efficiency, PPL Electric has included various incentive levels for customers and will educate customers about additional funding sources that may be available to help offset the customer's investment. Further, PPL Electric has designed its programs to rely on existing market delivery mechanisms to identify and implement energy-efficiency products and services.

35. To address the uncertainties associated with the timing of customer participation and to ensure a minimum of 25% of the savings in each plan year in the Phase II Plan, PPL Electric, CSPs, and trade allies have worked together to develop strategies that mitigate the deliver programs in a manner that levelized the pace at which savings will be accrued throughout the three year Plan. Specifically, PPL Electric has worked with trade allies to assess and

expedite, where necessary, the availability of trained and qualified personnel to deliver services, especially in the early stages of the Phase II Plan.

36. To address the likelihood of future changes to the TRM, TRC and other market forces, that have the potential to result in further downward adjustments to savings in future, PPL Electric designed its Phase II Plan to use the savings assumptions from the Commission's proposed 2013 TRM. PPL Electric will utilize savings in excess of the Phase I compliance requirement as a hedge against additional unforeseen changes to the TRM in 2014 and 2015. See Phase II EE&C Plan Section 9.1.2.

37. PPL Electric will continue to use the protocols established in Phase I to effectively monitor progress toward meeting the Phase II Plan goals, to detect problems quickly, and take corrective action, and to continually and quickly adjust the Phase II Plan prospectively over time. However, the ability of the proposed Phase II EE&C Plan to meet the projected targets is ultimately a function of consumers' ability and willingness to participate in programs.

E. COST RECOVERY MECHANISM AND FUNDING

38. Section 2806.1(g) of Act 129 requires that the total cost of any EE&C Plan may not exceed two percent (2%) of the EDC's total annual revenues as of December 31, 2006. PPL Electric's total annual revenues for calendar year 2006 were approximately \$3 billion (\$3,075,068,824). Accordingly, the designated expenditure cap of 2% of 2006 Annual Revenues for each year of the three-year plan, equates to an average of approximately \$61.5 million per year for three years and approximately \$184.5 million for the Phase II Plan. Phase II EE&C Plan Section 7.

39. PPL Electric will spend most of the \$184.5 million to implement its Phase II EE&C Plan. However, this total cost also will include the costs that PPL Electric incurred to develop its EE&C Plan. Phase II EE&C Plan Section 7.2. In the *2012 Implementation Order*,

the Commission again found that EDCs should be permitted to recover the incremental cost incurred to design, create, and obtain Commission approval of a plan. *2012 Implementation Order* at 103. In addition, the Commission directed, for accounting purposes, that EDCs defer Phase II Plan development costs incurred during Phase I as a regulatory asset until Phase II cost recovery rates become effective. *2012 Implementation Order* at 114. Consistent with this directive, PPL Electric will defer its Phase II development costs until the June 1, 2013, and proposes to amortize and recover those deferred costs ratably over the 36-month life of its Phase II Plan, *i.e.*, June 1, 2013 through May 31, 2016. The amortization of those costs will be included within the \$187.5 million spending cap.⁹

40. The Company proposes to separately calculate the applicable EE&C costs for each of the three major customer classes on its system, *i.e.*, (1) residential, (2) small commercial and industrial, and (3) large commercial and industrial. Phase II EE&C Plan Sections 1.7, 7.4. These costs will vary in each program year of the Phase II EE&C Plan. In some program years, they may be greater than the annual two percent (2%) cost cap; in other program years, they may be less than the cap. However, over the three program years, the total costs of the Phase II EE&C Plan for all customer classes will not exceed \$184.5 million. *Id.*

41. Although costs will vary year-to-year, PPL Electric proposes to recover those costs on a levelized basis. Phase II EE&C Plan Sections 1.8, 7.4. Annual budget amounts for each customer class will be developed on a levelized basis for the three years of the Company's proposed Phase II EE&C Plan. Section 2806.1(h) of Act 129 provides that the Commission can recover such program implementation costs from EDCs, and it follows that EDCs can recover those costs from customers. However, the costs for the statewide Act 129 evaluator should not

⁹ This \$187.5 million funding cap includes \$3 million in allowable costs for SWE, *i.e.*, \$184.5 million plus \$3 million.

be included under the Company's two percent (2%) cost cap. In establishing that cost cap, Section 2806.1(g) specifically characterizes the cap as a limitation on the "total costs of any plan required under this section." Because the costs of the statewide Act 129 evaluator are not the costs of PPL Electric's Phase II EE&C Plan, they are not subject to the limitation set forth in Section 2806.1(g).

42. In addition to the annual reconciliation, PPL Electric proposes to make "mid-course" corrections in the cost recovery mechanism, subject to Commission review and approval, to reflect major changes to any of its EE&C programs. Phase II EE&C Plan Sections 1.7, 7.4. Finally, at the end of the three-year Phase II Plan, the Company will reconcile, subject to Commission review and approval, total revenue collected to its total expenditures for the three-year Phase II EE&C Plan.

43. The Commission's *2012 Implementation Order* directed that each EDC to develop a Phase II reconcilable adjustment clause tariff mechanism in accordance with 66 Pa. C.S. § 1307 and include this mechanism in its Phase II Plan. *2012 Implementation Order* at 118. The Phase II recovery mechanism is to be a separate cost recovery mechanism from that used in Phase I and will be accounted for and reconciled separately from Phase I funds. *Id.* PPL Electric's Phase II cost recovery mechanism is set forth in its pro-forma supplement to Tariff-Electric Pa. PUC No. 201 and included as Appendix G to the Phase II Plan.¹⁰

¹⁰ PPL Electric notes that its current Act 129 Compliance Rider ("ACR") provides the final reconciliation procedure for the Company's Phase I Plan. Specifically, at the conclusion of the Phase I Plan, and all subsequent Plans, collections under the ACR for each customer class will be reconciled to the total cost of that EE&C Plan allowed by the Commission for that customer class. Over collections or under collections will be reflected in the E factor, and will be refunded or recovered through the ACR calculated for the first compliance year of the subsequent EE&C Plan. If the Company does not implement a subsequent EE&C Plan, the current ACR will be continued for an additional year to refund any over collections or recover any under collections. PPL Electric has not proposed to modify its reconciliation procedure.

F. IMPLEMENTATION SCHEDULE AND STRATEGY

44. The proposed Phase II EE&C Plan includes a three-year implementation schedule to achieve its Phase II consumption reduction target. EE&C Plan Section 1.5. In its *2012 Implementation Order*, the Commission declined to set annual, incremental consumption reduction targets for the Phase II EE&C Plans. *2012 Implementation Order* at 27. However, to ensure that EDCs are making incremental progress toward their Phase II consumption reduction target, the Commission required that EDCs submit EE&C Plans that are designed to achieve at least 25% of its Phase II target is achieved each program year. *2012 Implementation Order* at 28. PPL Electric has detailed its strategy to ensure at least 25% of the Company's total consumption reduction target is achieved each program year. Phase II EE&C Plan Section 1.5. The Phase II Plan also includes a detailed budget, which includes milestones and anticipated delivery dates for each program. PPL Electric's implementation strategy is based on several key features that the Company has identified as critical to achieving the objectives of the proposed Plan. Phase II EE&C Plan Section 1.6. The first feature is continuous customer support, guidance and follow up to encourage customers to choose energy efficiency and conservation options and to adopt energy efficient practices. The second feature is the flexibility to allow customers to use their own resources and combine incentives from multiple programs or from other sources to create the best solution for any facility or system. The third feature is precision marketing that blends PPL Electric's in-house resources with the external expertise of program CSPs and trade allies to match specific program outreach to the unique needs of various customer classes and market segments. The final feature is to engage trade allies, community-based organizations, and other local market participants through outreach, training, and potential co-marketing to ensure that they are aware of PPL Electric's programs, are able to articulate

program features and benefits to potential customers, and can support customers in their decision to take energy efficiency reduction actions.

45. PPL Electric's implementation strategy will rely on a broad range of contractors, partners, trade allies, community agencies, and other entities engaged in energy efficiency to promote, deliver, and support the effective deployment of the portfolio of programs. Phase II EE&C Plan Section 1.6. PPL Electric expects to utilize CSPs to deliver services in support of its EE&C programs, with some CSPs operating as turnkey program delivery contractors, and others providing specific program functions across multiple programs.

IV. CUSTOMER NOTICE

46. The Company proposes to provide notice of this filing consistent with the notice provided by the Company for its Phase I Plan. First, PPL Electric has served copies of the filing on the Pennsylvania Office of Consumer Advocate, Pennsylvania Office of Small Business Advocate, and the Commission's Bureau of Investigation and Enforcement. Second, the Company will send notice of filing to participants in the stakeholder process described above. Third, on the date of filing this petition, the Company will issue a press release to major newspapers, radio and television stations serving its service area. That notice will inform customers about this filing, explain where to obtain copies, and describe certain procedural deadlines. Fourth, the filing will be posted on PPL Electric's Act 129 web site at www.pplact129.com. Sixth, the Company understands that the Commission will publish notice of this filing in the *Pennsylvania Bulletin*. PPL Electric believes that these various communications initiatives will provide all interested parties with full notice of the Company's proposals and an opportunity to participate in the Commission proceeding addressing those proposals.

V. **THE PROPOSED EE&C PLAN IS IN THE PUBLIC INTEREST**

47. The requirements of Act 129 are consistent with PPL Electric's overall business philosophy. PPL Electric has a history of promoting energy-efficiency and striving for excellence in customer service. PPL Electric's implementation and management of its Act 129 Phase I EE&C Plan reflected this philosophy. PPL Electric believes that the proposed Phase II EE&C Plan is in the public interest and in compliance with the requirements of Act 129 and all of the Commission's applicable Act 129 Orders. The Phase II EE&C Plan includes a broad range of cost effective energy efficiency programs that are targeted to every customer segment in PPL Electric's electric service territory. Moreover, these programs are the key components of a comprehensive electric energy efficiency initiative designed to achieve energy consumption reductions required by Act 129 and the Commission's *2012 Implementation Order* within the cost cap established by Act 129. PPL Electric's energy efficiency programs provide a cohesive structure intended to support residential, low-income, commercial and industrial, and government and non-profit sector customers through a logical continuum of energy efficiency actions, starting with facility review and analysis and ending with implementation, verification, and evaluation. Marketing and education functions, customer care and quality assurance, and program tracking, evaluation, monitoring, and verification will be common features of all programs in the Phase II EE&C Plan. Furthermore, the programs are supported by financial incentives and a delivery approach focused on providing customers with the support they need to achieve their efficiency objectives.

VI. CONCLUSION

WHEREFORE, PPL Electric Utilities Corporation respectfully requests that the Pennsylvania Public Utility Commission approve the Phase II EE&C Plan, as set forth in this petition and the attachments hereto. PPL Electric additionally requests that the Commission enter its final order approving the Phase II EE&C Plan on or before March 14, 2013.

Respectfully submitted,



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Date: November 15, 2012

Attorneys for PPL Electric Utilities Corporation

VERIFICATION

I, Mary Elizabeth Thompson Grassi, being a Customer Program Specialists Representative at PPL Electric Utilities Corporation, hereby state that the facts set forth in the foregoing documents are true and correct to the best of my knowledge, information and belief and that I expect that PPL Electric Utilities Corporation to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.

Date: November 15, 2012

Mary Elizabeth Thompson Grassi
Mary Elizabeth Thompson Grassi