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January 15, 2013

VIA eFILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17120

Re: Petition of PECO Energy Company for Approval of Its Act 129 Phase II Energy Efficiency and Conservation Plan Docket No. M-2012-2333992

Dear Secretary Chiavetta:

Enclosed for filing in the above-referenced proceeding is the **Main Brief on behalf of PECO Energy Company**. As indicated by the Certificate of Service, copies of the Main Brief have been served upon all parties of record and Administrative Law Judge Buckley.

Sincerely,

TPGadsden

Thomas P. Gadsden

TPG/ap
Enclosures

c: Per Certificate of Service

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-2012-2333992**

CERTIFICATE OF SERVICE

I hereby certify that I have this date served true and correct copies of the **Main Brief on behalf of PECO Energy Company** upon the individuals listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant):

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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-2012-2333992**

MAIN BRIEF OF PECO ENERGY COMPANY

Before Administrative Law Judge
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January 15, 2013

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I. INTRODUCTION AND BACKGROUND

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 ("EE&C") plans by July 1, 2009 containing the plan elements specified in Section 2806.1(b) ("Phase I EE&C Program"). 66 Pa.C.S. § 2806.1(b). Sections 2806.1(c) and (d) specifically 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). Under the Act, EDCs are entitled to full and current cost recovery of prudent and reasonable EE&C costs, including administrative costs, but annual plan expenditures are limited to 2% of the EDC's total annual revenue as of December 31, 2006. 66 Pa.C.S. §§ 2806.1(g), (h).

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. Thus, a minimum of 10% of an EDC's consumption reductions had to be obtained from the governmental, institutional and non-profit ("GIN-P") sector. 66 Pa.C.S. § 2806.1(b)(1)(i)(B). In addition, each EDC's Phase I plan was to include energy efficiency programs for households with income at or below 150% of the Federal Poverty Income Guidelines ("FPIG") 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).

In compliance with Section 2806.1 and the Pennsylvania Public Utility Commission's ("Commission's") Order entered January 15, 2009 at Docket No. M-2008-2069887, which initially implemented the terms of that section, PECO Energy Company ("PECO" or "the Company") prepared and submitted its EE&C plan for Phase I of the 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.[1]

Act 129 also 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).

On August 3, 2012, the Commission entered an Implementation Order, tentatively adopting EDC-specific targets for reducing energy consumption for the next EE&C Program term (June 1, 2013-May 31, 2016). *See Energy Efficiency and Conservation Program,* Docket Nos. M-2008-2069887 and M-2012-2289411 (the "*Phase II Implementation Order*"). 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.[2] *Id.* at 23-24. This equates to approximately 1,125,852 MWh.

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[1] *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).

[2] 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. 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, an evidentiary hearing was held, and briefs were submitted. By Order entered December 6, 2012, the Commission reaffirmed the 2.9% consumption reduction target.

See PECO Exhibit 1, p. 8. The Commission also 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.

Through a careful and coordinated planning process, PECO developed a comprehensive Phase II EE&C Plan ("Phase II Plan" or "Plan") to achieve the consumption reductions required by Act 129 and the *Phase II Implementation Order*, while staying within applicable cost limitations. The Plan's robust portfolio of programs builds on the Company's Phase I accomplishments and is designed to provide meaningful savings opportunities for all customer classes. In addition, consistent with the Company's practice for its Phase I Plan, PECO has engaged stakeholders during the Plan development process. The Company submits this Main Brief in support of its Phase II Plan and to address the limited issues raised by other parties in this proceeding.

II. PROCEDURAL HISTORY

This proceeding was initiated on November 1, 2012, when PECO petitioned the Commission for approval of the Company's Phase II Plan to reduce energy consumption in accordance with the requirements of Act 129 and the *Phase II Implementation Order*. Specifically, PECO requested 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 GIN-P and low-income sectors; (2) approve tariff provisions to implement a Section 1307 surcharge to recover Phase II Plan costs; (3) approve Phase II treatment for certain Phase I projects; and (4) approve the conservation service provider ("CSP") contract between PECO and JACO Environmental, Inc.[3]

In support of its proposed Phase II Plan, PECO submitted the direct testimony and accompanying exhibits of three witnesses:

> **Frank J. Jiruska**, PECO's Director of Energy and Marketing Services, reviewed the Company's obligations under Act 129 and the Commission's *Phase II Implementation Order* and provided an overview of its Phase II Plan (PECO Statement No. 1).
>
> **Toben E. Galvin**, an Associate Director with Navigant Consulting, Inc., discussed the development of PECO's Phase II Plan and summarized the Company's principal findings in terms of projected energy savings, program expenditures and TRC net benefits (PECO Statement No. 2).
>
> **Richard A. Schlesinger**, PECO's Manager of Retail Rates, addressed cost recovery issues and sponsored the tariff revisions designed to implement the Company's proposed Phase II EE&C Plan Charge ("Phase II EEPC") (PECO Statement No. 3).

On November 28, 2012, the Office of Consumer Advocate ("OCA") filed a Notice of Intervention and Public Statement. On December 4, 2012, the Office of Small Business Advocate ("OSBA") filed a Notice of Intervention. In addition, the following parties were granted intervention in this proceeding: the Philadelphia Area Industrial Energy Users Group ("PAIEUG"); the City of Philadelphia (the "City"); Wal-Mart Stores East, LP and Sam's East, Inc. (collectively, "Walmart"); Citizens for Pennsylvania's Future ("PennFuture"); the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA"); and Comverge, Inc. ("Comverge").

A Prehearing Conference was held on November 30, 2012 before presiding Administrative Law Judge Dennis J. Buckley (the "ALJ") where modifications to the schedule

[3] The JACO contract was identified at Appendix B to PECO's Phase II Plan (PECO Exhibit 1) and was filed with the Commission on a confidential basis under separate cover.

initially proposed by PECO were discussed in light of the fact that a notice had not yet been published in the *Pennsylvania Bulletin.* On December 5, 2012, the parties filed a Joint Petition for Modification of Procedural Schedule. On December 14, 2012, the Commission issued an order adopting the revised schedule proposed by the parties.

PECO distributed supplemental direct testimony prepared by Mr. Jiruska on December 19, 2012. The purpose of Mr. Jiruska's supplemental testimony was to respond to the Commission's December 6, 2012 Order at Docket No. P-2012-2330334 (see Footnote 2 at page 2, *supra*), wherein the Commission invited PECO to present evidence in its pending Phase II EE&C proceeding showing that its existing direct load control ("DLC") programs were cost-effective. As Mr. Jiruska demonstrated, the Company's Residential and Commercial & Industrial DLC programs have a combined TRC score of 2.38 and are expected to generate net present value benefits of $131 million over their ten-year measured lives (Exhibit FJJ-1).

On December 20, 2012, direct testimony was submitted by the City and on December 21, 2012 by the OCA and CAUSE-PA. In addition, comments to the Phase II Plan were submitted by the OCA, the City, PAIEUG and Comverge. On January 4, 2013, PECO filed Mr. Jiruska's rebuttal testimony and related exhibits in which he responded to the testimony filed by the OCA, the City and CAUSE-PA. The Company has responded to approximately 53 interrogatories, many consisting of multiple sub-parts, issued by the OCA, the City, PAIEUG and PennFuture.

An evidentiary hearing was held at the Commonwealth Keystone Building in Harrisburg on January 9, 2013. At the hearing, the pre-filed testimony and exhibits of all parties were admitted into evidence and PECO witnesses Jiruska and Schlesinger were cross-examined. In addition, a Stipulation between PECO and CAUSE-PA was entered into the record. Finally, upon leave of the ALJ, Comverge, on January 11, 2013, resubmitted its previously-filed comments in the form of written testimony, which testimony was made part of the evidentiary record by Order issued on January 14, 2013.

III. DESCRIPTION OF PROPOSED PHASE II PLAN

PECO's Phase II Plan is a robust package of thirteen energy efficiency programs – seven tailored for residential customers, five for commercial and industrial ("C&I") customers, and one targeting both customer groups. Six of the Phase II programs are already successful components of PECO's Phase I Plan.[4] New programs, such as the PECO Smart Multi-Family Solutions Program and the PECO Smart Energy Saver Program, will create new savings and educational opportunities for important segments of the population. PECO anticipates saving a total of 1,184,442 MWh during the Phase II Plan period, and the Plan's overall TRC score of 1.36 demonstrates significant benefits to PECO's customers compared to the total costs of the proposed energy efficiency measures. *See* PECO Statement No. 2, pp. 13-14; PECO Petition, ¶ 17. Below is a summary of all thirteen programs, which are described in detail in Section 4 of PECO's Plan (PECO Exhibit 1).

1. **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 marketplace by providing safe and environmentally responsible disposal of these units. This program offers free pickup of units from residences, plus customer incentives and education about the benefits of secondary unit disposal, to encourage customer participation.

[4] Several of these successful Phase I programs have active waitlists. In order to get a "jump start" on the Phase II energy savings target, 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 during the Phase I period after being placed on a waitlist; and (2) 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. *See* PECO Petition, ¶ 27. The Company notes that, 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.

2. **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.

3. **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 coupled 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 previously discussed Smart Home Rebates Program, and they will be encouraged to participate in these measures as well.

4. **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.

5. **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 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.

6. **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.

7. **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.

8. **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.

9. **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.

10. **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.

11. **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.

12. **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.

13. **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.

The Company has budgeted expenditures for Phase II totaling $256.4 million, which equals 100% of its authorized "cap" amount. These expenditures 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, measurement and verification costs, and incentives that will be offered to customers to participate in these programs. PECO Statement No. 3, pp. 5-6.

The costs of programs that target specific rate classes will be directly assigned to those classes for purposes of cost recovery. Costs that provide benefits to more than one rate class, such as the Smart Construction Incentives Program, will be allocated among the affected rate classes using allocation factors developed on the basis of reasonable, generally-accepted cost of service principles (e.g., Small C&I class revenues to total C&I revenues). *See Phase II Implementation Order,* pp. 110-111. In addition, all administrative/common costs will be allocated according to the ratio of each program's individual spend to the total program spend, again in accordance with general cost of service principles as specified in the *Phase II Implementation Order*. PECO Statement No. 3, pp. 6-8. The allocation of costs, by program and by rate class, is shown in PECO Exhibit RAS-2.

As noted previously, PECO is proposing to implement a Phase II EEPC to recover Plan costs and the Company's Phase II Statewide Evaluator costs. This rate 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 Act 129 and the *Phase II Implementation Order*.

A separate recovery charge will be established for each customer class, corresponding to the costs assigned and allocated to that class. 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 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. Finally, Phase I and Phase II costs and revenues will be accounted for separately and tracked separately in the EEPC cost recovery mechanism. PECO Statement No. 3, pp. 4-11.

IV. ARGUMENT

A. PECO's Phase II Plan Is Consistent With Act 129 And The *Phase II Implementation Order*

The Company has demonstrated that its Phase II Plan fully addresses and satisfies Act 129 and *Phase II Implementation Order* requirements, including those regarding energy savings, spending and cost-effectiveness.

As to energy savings, the Company projects saving a total of 1,184,442 MWh[5] in Phase II, which represents approximately 105% of the overall 2.9% consumption reduction target established in the *Phase II Implementation Order*. *See* PECO Statement No. 2, pp. 13-14.

[5] This figure includes approximately 91,000 MWh of "banked" savings from Phase I.

Second, as mandated by Act 129, the Plan is designed to obtain at least 10% of the Company's required savings from the GIN-P sector. *See* PECO Statement No. 1, p. 17; PECO Exhibit 1, p. 177. Finally, as required by the *Phase II Implementation Order*, the Plan is designed to obtain at least 4.5% of required savings from the low-income sector.[6] *See* PECO Statement No. 1-R, pp. 2-3.

Regarding Plan spending, PECO expects to spend $256.4 million over the three year Plan period, which is 100% of its spending cap under Act 129. PECO Statement No. 2, pp. 16-17. Consistent with the full and current cost recovery authorized by Act 129, the Company has proposed to recover Phase II costs through a mechanism (the Phase II EEPC) which follows the same format as the mechanism approved by the Commission to recover costs associated with PECO's Phase I Plan. *See generally*, PECO Statement No. 3.

Lastly, the Company has applied the TRC test to the Phase II Plan and found it to be cost-effective. As indicated previously, the Plan has a TRC of 1.36, yielding net benefits of $165.8 million. *See* PECO Petition, ¶ 17; PECO Statement No. 2, pp. 18-19.

B. PECO Has Appropriately Addressed The Limited Issues Raised By Other Parties In Testimony

Only four parties (OCA, the City, CAUSE-PA and Comverge) submitted testimony in this proceeding. While these intervenors raised several issues, they also expressed overall support for PECO's Phase II Plan. *See* OCA Statement No. 1, p. 6 ("I find PECO's Plan to be a balanced portfolio offering programs with a variety of measures and energy saving strategies that will benefit residential customers"); City Statement No. 1, p. 10 ("The City supports the objectives of Act 129 and generally supports the energy efficiency programs in PECO's Phase II

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[6] Additional discussion of low-income savings is provided in Section IV.B.2 in response to issues raised by OCA and CAUSE-PA.

Plan"); CAUSE-PA Statement No. 1, p. 12 ("PECO has done an effective job at providing a variety of avenues through which low-income customers can participate in their Act 129 programs."); Comverge Statement No. 1, p. 2 ("Comverge generally supports the Company's Phase II Plan and specifically promotes the development of behind-the-meter cogeneration with combined heat and power ("CHP") technologies ..."). As detailed in the following sections, the Company has appropriately addressed the limited issues that arose during the course of this proceeding.

1. Initial Incentive Levels For Phase II Programs

The Phase II Plan provides a range of values for many customer incentives in order to allow the Company to make program adjustments based on market conditions, actual participation levels, and other pertinent data to ensure compliance with its Phase II savings targets. OCA witness Christina R. Mudd recommended that PECO's initial incentives be set at the middle of each incentive's range of values. OCA Statement No. 1, p. 9. However, as Mr. Jiruska explained (PECO Statement No. 1-R, p. 8), it is appropriate to set some initial incentives at the high end of their range, particularly given the substantial penalties the Company faces if it fails to meet its Phase II savings targets. Indeed, during Phase I, the Company found that higher incentive levels ensured strong customer participation. As the Phase II programs are implemented, the Company will determine whether incentives can be lowered without sacrificing necessary savings. PECO Statement No. 1-R, p. 9.

2. Low-Income Energy Efficiency Program

OCA witness Mudd and CAUSE-PA witness Mitchell Miller asserted that PECO's Phase II Plan fails to meet the 4.5% low-income savings requirement because: (1) customers with incomes up to 200% of the FPIG are eligible for LEEP, while the Commission defines low income as 150% FPIG or below; and (2) the savings projected from LEEP are slightly less than 4.5% of the Company's overall savings. OCA Statement No. 1, pp. 7-8; CAUSE-PA Statement No. 1, pp. 6-11.

In his rebuttal testimony, Mr. Jiruska addressed these concerns and, in the process, cleared up apparent misunderstandings of how the LEEP will operate. First, PECO will only count savings from customers at or below 150% of the FPIG for purposes of satisfying its 4.5% low-income savings requirement. Second, while the majority of low-income savings will be generated by LEEP, the Company will also obtain savings from low-income customer participation in other Phase II programs and from banked Phase I savings. *See* PECO Statement No. 1-R, pp. 2-3. These three components sum to the required 4.5% savings target. *Id.*[7]

CAUSE-PA witness Miller also expressed concern about a "lack of specificity" regarding the educational component of LEEP and recommended the use of certain training materials. *See* CAUSE-PA Statement No. 1, pp. 18-19. In rebuttal testimony, Mr. Jiruska described the substantial educational component of every LEEP home energy audit, which includes an in-person review of audit results, recommended program measures, and educational materials that are left with the customer. The Company has decided to continue this educational strategy during Phase II because survey evidence suggests that Phase I participants are very satisfied with PECO's educational efforts and that LEEP is supporting longer-term changes in participant behavior regarding energy usage. Nonetheless, the Company has committed to review the educational materials recommended by Mr. Miller and to consider supplementing its existing materials. *See* PECO Statement No. 1-R, p. 4.

[7] While CAUSE-PA witness Miller questioned whether low-income customers could afford to participate in other Phase II programs (CAUSE-PA Statement No. 1, p. 6), the Company notes that approximately 4,700 low-income customers participated in Phase I programs requiring them to provide financial resources. PECO Statement No. 1-R, p. 3.

Finally, to alleviate CAUSE-PA's concerns, the Company has stipulated that the Phase II Plan should include the following elements: (1) For purposes of meeting the 4.5% low-income savings requirement, PECO will only count savings generated by households at or below 150% of the FPIG; (2) PECO will separately track LEEP expenditures for customers at or below 150% of the FPIG; and (3) When a customer at or below 150% of the FPIG participates in a Phase II program other than LEEP, the Company will provide the customer's information to the Company's Low Income Usage Reduction Program ("LIURP") and/or LEEP to determine eligibility for those programs. *See* PECO/CAUSE-PA Exhibit 1; *see also* Tr. p. 58, ll. 10-14 ("We [CAUSE-PA] believe that the combination of the testimony presented by our witness, Mitchell Miller, as well as the rebuttal testimony of Mr. Jiruska and a brief stipulation that we will present to Your Honor today, addresses the concerns of CAUSE-PA . . .").

3. Smart Multi-Family Solutions Program

OCA witness Mudd asserted that the Smart Multi-Family Solutions Program placed a greater emphasis on master-metered multi-family buildings, which fall under the C&I component of the program, than individually metered multi-family buildings, which are part of the residential component, and recommended that the residential budget be reduced on that basis. OCA Statement No. 1, pp. 18, 20. In rebuttal, Mr. Jiruska explained that the Phase II Plan does not preferentially target master-metered buildings. In fact, PECO created two separate components for the Multi-Family Solutions Program so that it could target both master-metered (C&I component) and individually-metered (residential component) multi-family buildings. Finally, the budgets provided in the Plan are estimates and customers will only be responsible for program costs that are actually incurred. *See* PECO Statement No. 1-R, p. 5.

Both OCA witness Mudd and CAUSE-PA witness Miller recommended that the Smart Multi-Family Solutions Program target a narrower segment of customers. More specifically, Ms. Mudd proposed that the residential component focus on rental properties in light of "split incentive" issues, while Mr. Miller proposed a new program component focused only on low and lower-income households. OCA Statement No. 1, pp. 19-20; CAUSE-PA Statement No. 1, p. 17. In rebuttal, the Company explained that the program, as proposed by PECO, is appropriately focused. Individually-metered units, both rental and owner-occupied, are targeted under the residential component of the program and split incentive issues are effectively addressed through the use of measures that will be installed directly and without any payment by the customer. Regarding low and lower-income customers, the Company will work with the CSP responsible for the program's implementation to ensure these groups are served and also expects to work with the Pennsylvania Housing Finance Authority to identify candidate properties and to communicate program availability. As the program is implemented, the Company intends to collect data on participating properties and will consider whether revising the focus of the program is appropriate based on that experience. *See* PECO Statement No. 1-R, pp. 5-6.

4. Smart Usage Profile Program

OCA witness Mudd proposed that PECO include social networking components as part of its Smart Usage Profile Program and eliminate paper mailings to those participants who would like to receive materials electronically. *See* OCA Statement No. 1, p. 8. In his rebuttal, Mr. Jiruska agreed that having multiple methods for communicating with customers would be beneficial. To that end, the Company intends to work with its implementation CSP to review best practices and determine what methods are most appropriate. *See* PECO Statement No. 1-R, p. 7.

5. Smart Builder Rebates Program

OCA witness Mudd also recommended that PECO postpone the implementation of the Smart Builder Rebates Program until: (1) new building codes currently under consideration in Pennsylvania are adopted, and any inconsistencies with the program, as proposed, are resolved; and (2) the program is redesigned in consultation with stakeholders. OCA Statement No. 1, pp. 11-12. In rebuttal, Mr. Jiruska explained that postponing the Smart Builder Rebates Program would not be appropriate. First, if a new building code is adopted before or during Phase II, the Company will adjust its Smart Builder Rebates Program as appropriate to reflect any changes in energy consumption baselines. Second, the program already reflects stakeholder input. During the development of PECO's Phase II Plan, a variety of stakeholders, including large and small builders, expressed support for a residential construction program. In fact, the Company has already been contacted by builders interested in the Smart Builder Rebates Program. Finally, the Company believes the program is important because it expands opportunities for residential customers and contributes to a well-rounded portfolio of programs overall. *See* PECO Statement No. 1-R, pp. 7-8.

6. Smart House Call Program

OCA witness Mudd further recommended that PECO add a data collection and analysis component to its proposed Smart House Call Program that would evaluate the housing stock in the Company's service area and use that information to target lower energy efficiency homes and neighborhoods. OCA Statement No. 1, p. 15. In rebuttal, the Company committed to work with its implementation CSP to determine what data would be reasonable and beneficial to collect. The Company will use the information it gathers during program implementation to support future energy efficiency opportunities. *See* PECO Statement No. 1-R, p. 8.

7. Smart On-Site Program

City witness Paul Kohl asked PECO to clarify the incentive levels that will be applied to combined heat and power ("CHP") projects that are initiated during Phase I, but completed during Phase II. City Statement No. 1, pp. 9-10. In rebuttal, Mr. Jiruska proposed to treat Phase I CHP project applications as follows: (1) if a substantial portion of project construction is completed during Phase I (i.e., facilities have been constructed and CHP generating equipment has been received on-site) and the anticipated date of commercial operation (completion date) is prior to December 31, 2013, incentives will be paid at the Phase I incentive levels with the funds proposed for the Phase II PECO Smart On-Site Program; and (2) if project construction is initiated, but is not substantial, during Phase I (i.e., facilities have not been constructed and/or CHP generating equipment has not been received) and the anticipated date of commercial operation (completion date) of a project is after December 31, 2013, incentives will be paid at Phase II incentive levels with the funds and program rules proposed for the Phase II PECO Smart On-Site Program. *See* PECO Statement No. 1-R, pp. 9-10.

While the Company has agreed to utilize Phase I incentive levels under the limited circumstances described in (1), above, PECO believes that its proposed Phase II incentives for CHP projects are both adequate and appropriate, particularly in light of the favorable return on investment for these types of projects. *See* Comverge Statement No. 1, p. 6 ("CHP systems have a higher degree of certainty in the hours of operation, energy costs and savings over their lifetime . . . With CHP, any upfront capital investment can be recouped quicker with savings from the generation of on-site electricity.").

8. Direct Load Control Program

PECO did not propose any demand response ("DR") programs as part of the Phase II Plan. OCA witness Mudd, however, encouraged PECO to work with stakeholders to identify ways to continue the Company's existing DLC programs within its Phase II Plan budget and savings target. OCA Statement No. 1, pp. 20-21. As explained in Mr. Jiruska's supplemental direct testimony, the Commission has directed the Statewide Evaluator ("SWE") to complete a DR study to determine the cost effectiveness of current and potential future DR programs. When the SWE DR study is issued, PECO will assess whether its DLC programs can be funded in Phase II without jeopardizing its ability to meet its 2.9% energy savings target. *See* PECO Statement No. 1-S, p. 5.[8]

9. Issues Raised By Other Parties

Neither PAIEUG nor PennFuture presented any testimony in this proceeding. However, both parties cross-examined PECO witnesses at the January 9, 2013 evidentiary hearing and it therefore is likely that one or both will stake out positions and perhaps propose revisions to PECO's Phase II Plan in their Main Briefs. Should that occur, or should any other party advance arguments for the first time during the briefing stage, PECO will respond appropriately in its Reply Comments due January 24, 2013 and reserves the right to raise any due process concerns at that time.

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[8] As noted previously, Mr. Jiruska demonstrated, however, that PECO's existing DLC programs are very cost-effective (PECO Statement No. 1-S, pp. 2-5 and Exhibits FJJ-1 and FJJ-2).

V. CONCLUSION

For the reasons set forth above, the Commission should enter an order: (1) finding 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 GIN-P and low-income sectors; (2) approving tariff provisions to implement a Section 1307 surcharge to recover Phase II Plan costs; (3) approving Phase II treatment for certain Phase I projects; (4) approving the CSP contract between PECO and JACO Environmental; and (5) approving and adopting the Stipulation between PECO and CAUSE-PA (PECO/CAUSE-PA Exhibit 1).

Respectfully submitted,

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