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VIA Electronic Filing

Ms. Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
PO Box 3265
Harrisburg, PA 17105-3265

**RE: Energy Efficiency and Conservation Program
Docket No. M-2012-2289411**

Dear Secretary Chiavetta:

Enclosed for filing are the Reply Comments of Duquesne Light in the above referenced docket.

Please feel free to contact me with any questions or comments.

Sincerely,

Tishekia Williams
Senior Counsel, Regulatory

Enclosures

cc: Megan Good via electronic mail at megood@pa.gov
Kriss Brown via electronic mail at kribrown@pa.gov
Bureau of Investigation and Enforcement (U.S. Mail)
Office of Consumer Advocate (U.S. Mail)
Office of Small Business Advocate (U.S. Mail)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

ENERGY EFFICIENCY AND CONSERVATION PROGRAM	:	**Docket Nos. M-2012-2289411**
	:	**M-2008-2069887**
	:	

REPLY COMMENTS OF DUQUESNE LIGHT COMPANY

I. INTRODUCTION

House Bill 2200 was signed into law as Act 129 of 2008 ("Act 129") with an effective date of November 14, 2008. Among other things, Act 129 requires Pennsylvania electric distribution companies ("EDCs"), including Duquesne Light Company ("Duquesne Light" or "Company"), to develop and implement Energy Efficiency, Conservation and Demand Response ("EECDR") plans. Specifically, EDCs were required to achieve electric demand reductions of a minimum of 4.5% of annual system peak demand in the 100 hours of highest demand by May 31, 2013. 66 Pa.C.S.§2806.1(d)(1). Additionally, by November 30, 2013, the Commission was required to compare the total costs of energy efficiency and conservation plans to the total savings in energy and capacity costs to retail customers in this Commonwealth or other costs determined by the commission. "If the Commission determines that the benefits of the plans exceed the costs, the Commission shall set additional incremental requirements for reduction in peak demand for the 100 hours of greatest demand or an alternative reduction approved by the Commission. ...The reductions in consumption required by the commission shall be accomplished no later than May 31, 2017." 66 Pa.C.S.§2806.1(d)(2). (Emphasis Added)

On November 14, 2013, the Commission issued a Tentative Order releasing the amended Act 129 Demand Response Study,[1] including a Preliminary Wholesale Price Suppression and Prospective Total Resource Costs ("TRC") analysis. The Act 129 Demand Response study evaluates the cost-effectiveness of the Phase I peak demand reductions implemented by the EDCs and makes recommendations. Specifically, in the Demand Response study, the Statewide Evaluator ("SWE") recommends:

- The elimination of the top 100 hour methodology;
- Adoption of the California methodology of including 75% of the incentive payment as a proxy for participant costs;
- EDCs be required to bid reductions into the PJM forward capacity auctions;
- Any future DR targets be EDC specific due to differences in the LMP;
- The decision to promulgate future DR targets be contingent on regional capacity prices;
- That the Commission consider Phase I costs as sunk costs in determining the cost-effectiveness of any future direct load control ("DLC") programs;
- That future DR targets be based on the average load reduction observed over a subset of hours during which DR is likely to be a cost-effective alternative to generation; and
- Commercial and Industrial customers enrolled in PJM ELRP be excluded from participation in future EDC DR programs.

The Tentative Order provides that interested parties may file written comments within 30 days, and written reply comments 45 days from the date the notice is published in the *Pennsylvania Bulletin*. Pursuant to the Tentative Order, joint comments were filed by the

[1] In a May 17, 2013 Secretarial Letter, the Commission issued the Act 129 Demand Response Study-Final Report in this docket. At the Commission's direction, further research regarding potential wholesale price suppression benefits was completed by the Statewide Evaluator and released with the November 14, 2013 Tentative Order.

Citizens for Pennsylvania's Future, Clean Air Council, Keystone Energy Efficiency Alliance and the Sierra Club; Comverge, Inc., EnerNOC, Inc., and Johnson Controls, Inc.; and Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company collectively (hereafter "First Energy Companies"). Additionally, comments were filed by the Electric Power Generation Association ("EPGA") , the Energy Association of Pennsylvania ("EAP")[2], the Industrial Energy Consumers of Pennsylvania ("IECPA"), the Office of Consumer Advocate ("OCA'), PECO Energy Company ("PECO"), and PPL Electric Utilities Corporation.

Duquesne Light wholly supports the comments filed by EAP on December 30, 2013. Based on the results of the Amended DR study finding that the Phase I DR programs were not costs effective, and plain language of Act 129, Duquesne Light believes that additional DR programs should not be required. By these reply comments, the Company does not seek to restate or duplicate positions advanced by EAP and others. Rather, the Company requests that the Commission consider its limited reply comments for the purpose of understanding the impact of certain proposed recommendations on Duquesne Light, specifically.

II. Responses to Comments and Recommendations

A. The Commission should refrain from allocating portions of EDCs budget to certain DR programs on a statewide uniform basis, or reducing EDC budgets based on the absence of DR requirements for certain customer classes.

As indicated in the SWE's Amended DR Study, majority of the Act 129 Phase I DR programs implemented by the EDCs were not cost effective. DR program performance was, and

[2] EAP submitted comments on behalf of its EDC members subject to Act 129, including Duquesne Light Company. Comments of EAP to the Tentative Order dated November 14, 2013 Re: ACT 129 Energy Efficiency and Conservation Program, Page 3.

will continue to be, impacted by factors that vary for each EDC. As detailed in the Amended DR Study and summarized in the Tentative Order, a major contributing factor is geographic variance in the capacity and energy prices amongst the EDC service areas. For example, EDCs in the Mid-Atlantic region typically experience higher locational marginal pricing ("LMPs") during summer peak hours than EDCs such as Duquesne Light that operate in the West region. Similarly, the Duquesne Light zone is part of PJM's western region for purposes of its capacity market. Just as EDCs in the Mid-Atlantic region typically experience higher LMPs, they also have historically experienced higher capacity prices. Indeed, for every program year past and projected,[3] the capacity price for Duquesne Light was, and is projected to be lower than the capacity pricing of EDCs in the Mid-Atlantic region. Due to capacity prices in the West region, the SWE states that it is unlikely that DR would be cost-effective in the West region, and the Commission should review the results of PJM's 2016-2017 Base Residual Auction ("BRA") prior to making a determination regarding any future DR targets.

Against this background, PECO recommends the *statewide* allocation of 14%-18% of EDC Act 129 program funds to mass market DLC DR programs. Duquesne Light opposes PECO's recommendations that it be ordered to allocate 14-18% of its Act 129 Program budgets to Mass Market DLC Programs. The recommendation is simply not supported by the facts. PECO's recommended percentages "correspond to the funds PECO will expend on its existing Commission-approved mass market DLC program. . ." PECO asserts that its programs are cost-effective and so, all EDCs should be ordered to implement them. This position disregards the fact that EDCs are not all similarly situated. Duquesne Light's Phase I Mass Market DLC program was limited to the installation of approximately 1,480 direct load control devices. The

[3] Program years 2012-2016

Company's residential Mass Market DLC program cost represents approximately 1.7% of the Company's Phase I budget. Even if Duquesne Light's Phase I investment in DLC is considered sunken costs, that alone will not make the program cost-effective. Significant additional investment, which is highly unlikely to be cost-effective, would be required to accommodate the 14-18% recommendation. Nonetheless, PECO recommends all EDCs allocate 14-18% of their Act 129 budgets to an activity without significant ratepayer benefit. If the Commission elects to mandate any additional DR program implementation, it should follow the SWE's recommendation "that, due to differences in LMPs and capacity prices across the state, any future DR targets be EDC-specific."

Additionally, Duquesne Light agrees with the comments of PECO, PPL, the First Energy Companies and EAP that large commercial and industrial ("C&I") load curtailment programs should be excluded from future Act 129 EE&C Plans. Likewise, Duquesne Light supports the SWE's recommendation that future C&I load control programs exclude participation by customers enrolled in the PJM ELRP. Existing PJM markets are better equipped to serve the needs of these customers in a more cost-effective manner.

The Company does not, however, support IECPA's recommendation to reduce large C&I customer program budgets by 50% because DR programs serving large C&I customers are discontinued. As noted by IECPA, there is no DR requirement for any customer in Act 129 Phase II programs. Yet, Phase II budgets were not specifically reduced to account for the absence of DR mandates. IECPA offers no compelling reason to do so in future phases. Duquesne Light's filed and approved Act 129 Phase II EE&C Plan reflects energy savings targets, acquisition rates and budgets reflected in the Commission adopted Energy Efficiency

Market Potential Study annunciated in its Phase II Implementation Order. As no cost was included in its Phase II EE&C Plan for any DR programs there are no associated costs to remove.

B. EDCs should not be required to bid demand reductions into the PJM Capacity Markets.

Duquesne Light agrees with PPL that EDCs should not be required to bid demand reductions into PJM capacity markets. As noted by PPL, the PJM BRA is a binding commitment, incurred more than three years in advance of delivery. DR outside a certain threshold will result in penalties from PJM.[4] It is not reasonable to expose EDCs or their ratepayers to the risk of additional penalty for programs that have not proven to be cost-effective. Given the volatility in the BRA clearing prices, it is uncertain at best, whether bidding demand reductions will make the Act 129 DR programs cost-effective. For example, in the Western Zone year 2010-2011, the BRA clearing price was $183.05/MW per day. In 2012-2013, the clearing price was $16.46/MW per day.

Additionally, Act 129 requires any future DR reduction targets to be met by May 31, 2017, which means that DR programs need to be in place by June 1, 2016.[5] Given that the BRA is due more than three years in advance, the earliest that Phase III demand reductions could be bid into the BRA for delivery is 2020-2021. For these reasons Duquesne Light believes that the Commission should adhere to its prior decisions finding that "consistent with our pronouncement

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[4] PJM Manual 18, Section 9.1.9 effective date 11/21/2013

[5] In order to achieve this objective, Duquesne Light supports the procedural schedule proposed by PECO as follows:

- August 1, 2014 – Release of SWE Demand Response Study and Phase III Tentative Implementation Order
- September 12, 2014 – Tentative Order Comments due
- September 26, 2014- Tentative Order Reply Comment due
- November 3, 2014 – Final Phase III Implementation Order
- February 3, 2014 – ECCs file Phase III Plans
- June 1, 2015- Commission ruling on Phase III Plans

on this issue within our Phase II Implementation Order, we will defer to the discretion of the EDC whether it chooses to pursue this course . . ." *Petition of Duquesne Light Company for Approval of its Energy Efficiency and Conservation Phase II Plan*, P. 47, Docket No. M-2012-2334399 (Opinion and Order, March 14, 2013).

C. DR should be treated as a capacity type resource and DR events should be called as needed for reliability.

The Tentative Order cites two possible mechanisms provided in the Amended DR Study for determining the hours during which the use of DR programs would be cost-effective. The first mechanism requires EDCs to call DR events during any hour in which the real-time LMP for that zone is above a certain dollar-per-MWh threshold. The second requires EDCs to call DR events when the day-ahead forecast is above a certain percentage threshold of the summer peak demand forecast. Interested parties filed comments supporting one methodology or the other. Duquesne Light supports a third approach that would treat DR as a capacity-type resource.

As reflected on page 36 of Amended DR Study, "The benefit/cost analyses presented in this report assumes that the Act 129 DR programs are operated to provide a surrogate for capacity. Accordingly, the primary value used in the monetization of program benefits is the avoided cost of capacity." However, the 100 Hours methodology used in Phase I, as well as the two proposed alternative mechanisms improperly treat DR primarily as an energy resource. PJM pays DR program participating customers for the *ability to curtail* if needed, by contrast, Act 129 customers were only paid for actual load curtailments. As acknowledged in the Tentative Order (page 29) and the Amended DR Study (page 42), for DLC DR programs Full Load Reduction savings calculation methodology is appropriate "*because the value of a DR program is the*

EDC's ability to have load under control when needed." Consistent treatment of Act 129 DR programs is preferable.

Should the Commission direct EDCs to implement any future C&I load curtailment programs, EDCs should be allowed to report DR resources under their control, as it is for DR programs in other states and in the ISOs examined in the Amended DR Study.[6] Also, as acknowledged in the Amended DR Study, page 54, "[hourly] predictive difficulties are less common for DR programs in other states and in the ISOs examined, where DR programs are used only when necessary based on reliability triggers . . ." Therefore, Duquesne Light recommends that if a DR target is established, EDCs be permitted to use for compliance purposes, load under its control. This is appropriate and consistent with the underlying purpose of DR, which is reliability, and would mitigate predictive difficulties associated with the 100 hour methodology and complexities of the proposed two alternatives.

Testing protocols are all that is needed to ensure availability of DR resources. As evidenced in the Amended DR Study (page 57) which states that cool summer conditions may prevent application of its two recommended mechanisms. In those situations, the SWE recommends that a test event be called to measure compliance for dispatchable resources available to reduce load. DR programs properly designed will support program participation terms that limit the amount of hours the DR resource can be called (for example, no more than 12 to 16 hours per summer season).This is a common program design parameter and the basis for Duquesne Light's initial Phase I DR Program filing, approved by the Commission. Coincidentally, per the Amended DR Study (page 26) "In 2012, the LMPs for all EDCs were elevated only during 12 to 14 hours of

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[6] Consistent with the PJM Emergency Load Response Program (ELRP), annual maximum events per year ten, between 12:00 and 8:00 PM; absent a PJM-initiated, CSP must test load management resources and provide customer specific compliance information; CSPs test is a simultaneously test of all zonal DR resources if PJM has not called an event by August 15th. If an event is called between August 16 and September 30th, no test is required. Similar protocols could be used to examine DR availability under Duquesne Light's proposal.

the summer performance period. DR resources called during these hours of high price volatility may have been the only cost-effective events of summer of 2012." This lends weight and credibility to the common practices described above. Duquesne Light recommends the Commission adopt proven industry standard practice serving other states and that will also serve Pennsylvania.

III. CONCLUSION

In closing, Duquesne Light does not support additional DR mandates for future EDC energy efficiency and conservation programs. To the extent that DR programs are mandated, Duquesne Light recommends that the Commission 1) refrain from standardizing DR budgets for EDCs, 2) refrain from reducing EEC budgets for future phases for specific customer classes based on the absence of a DR target, 3) not require EDCs to bid DR savings into PJM capacity markets, and 4) replace the 100 hour measurement methodology with one that treats DR as a capacity resource.

Respectfully Submitted:

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