Keystone Energy Efficiency Alliance
1501 Cherry Street Philadelphia, Pa. 19102 Tel. 267-519-5314 www.keealliance.org

March 19, 2014

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Petition of PECO Energy Company for Approval of Its Act 129 Phase II Energy Efficiency and Conservation Program

Docket No. M-2012-2333992

Dear Secretary Chiavetta,

The Keystone Energy Efficiency Alliance ("KEEA") respectfully submits these timely filed comments in response to the Public Utility Commission's ("Commission") Secretarial Letter dated March 7, 2014 regarding the PECO Energy Company ("PECO") petition for approval of amendments to its Act 129 Phase II Energy Efficiency and Conservation Plan ("Petition"). KEEA supports PECO's initiative to include the Smart A/C Saver Program for 2014-15 Phase II period. KEEA has not reviewed the other changes requested by PECO in sufficient detail to provide comments. Below, we summarize important prior filings and information regarding demand response and outline three major reasons for our support of PECO's initiative to include the Smart A/C Saver Program among its Act 129 programs.

On August 2, 2012, the Commission adopted an Implementation Order that established the Phase II EE&C program with additional incremental consumption reduction requirements for each EDC to meet by May 31, 2016. In the aforementioned Phase II Implementation Order, the Commission stated that it did not have the information to determine if the current requirement or another peak demand reduction program design was cost-effective therefore it could not set additional peak demand reduction targets at that time. The final Phase I report with conclusive cost-effectiveness analysis is due to be released by the Commission in the very near future.

Among the commenters and stakeholders there was no debate as to the SWE finding that these programs were not cost-effective as designed. An option for alternative design was advanced in the Final Order of February 20, 2014. Among other issues to fix, the significant upfront startup costs for the Demand

Response Programs combined with a very short amortization schedule for the equipment capital costs made it difficult for any of the utilities, regardless of geographic location, to reach cost-effectiveness.

In the below referenced report, Synapse and Regulatory Assistance Project (RAP), identify several added benefits to maintaining DR programs, including enhanced market competitiveness, reduced price volatility, demand response modularity, insurance against extreme events, customer control over their bills, utility credit and collections benefits, overall productivity gains from better utilizing industry investment, non-energy benefits such as environmental benefits, and innovation in retail markets.[1] These benefits are among the reasons we support PECO's initiative to include the Smart A/C Saver Program for 2014-15 Phase II period. KEEA has not reviewed the other changes requested by PECO in sufficient detail to provide comments.

As stated, KEEA's comments are focused on the proposed Mass Market Direct Load Control program - PECO Smart A/C Saver. We support Commission approval for the following reasons:

1. PECO's analysis demonstrates an increased TRC value of its A/C Saver Program of 2.2, which makes it more cost-effective than in Phase I under the TRC. Sunk costs of $50 million invested in direct load programs represent a cost to consumers and KEEA supports the initiative to leverage existing assets. Customers should realize the benefit of these investments. As the SWE moves ahead with further analysis of models that reduce the highest hours to improve the cost-effectiveness, it is fair to posit that these programs will continue to provide value to all customers over time. Peak demand reduction can also benefit the environment. Reducing peak demand helps control capacity prices and wholesale electricity prices, and can help avert the need for costly transmission upgrades.

2. The continuation of the popular Smart A/C Saver program avoids stranding assets that were procured during Act 129 Phase I. If these assets remain stranded, much of the value will be compromised and it will result in a lost opportunity to contribute reliable demand response to the grid during the summer and winter peaking seasons of 2014-2015.

3. The Smart A/C Saver program serves as a valuable customer engagement tool that will generate reliable peak savings. KEEA recognizes that residential customers, who typically do not participate in PJM's DR programs, will have an opportunity to do so under PECO's amended filing because 100% of the residential load reductions are attributable to Act 129's DR program. Recent filings by PJM indicate that a recent FERC ruling will limit DR by at least 6,000 MW in future years making PECO's inclusion of DR in Phase II, leading up to Phase III, particularly valuable for increasing electricity reliability and wholesale price suppression impacts.

[1] "A Framework for Evaluating the Cost-Effectiveness of Demand Response" Woolf, Malone, Schwartz, and Shenot. February, 2013. p. 53-54.

Accordingly, KEEA recommends that the Commission expeditiously approve PECO's Smart A/C Saver program for the 2014-2015 Plan Year.

Respectfully submitted,

Maureen Mulligan
KEEA Policy Director