Keystone Energy Efficiency Alliance

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Re: Act 129 Energy Efficiency and	:	Docket No. M-2014-2424864
Conservation Program Phase Three	:	

REPLY COMMENTS OF THE KEYSTONE ENERGY EFFICIENCY ALLIANCE TO
TENTATIVE IMPLEMENTATION ORDER REGARDING THE DESIGN AND IMPLEMENTATION OF
PHASE THREE OF ENERGY EFFICIENCY AND CONSERVATION PROGRAMS UNDER ACT 129

I. Introduction

The Keystone Energy Efficiency Alliance (KEEA) is a non-profit, tax-exempt 501(c)(6) corporation dedicated to promoting the energy efficiency and renewable energy industries in Pennsylvania. With over 50 member organizations and individuals and growing, KEEA is the premier advisory organization representing a diverse group of Pennsylvania's energy efficiency and advanced energy companies, entrepreneurs, and workers.

We appreciate the opportunity to submit reply comments to the PUC's Tentative Implementation Order for Phase III of Act 129, and we thank the Commission for this opportunity.

II. Reply Comments

1. **Large Commercial and Industrial Exemption or Opt-Out**
   KEEA respectfully disagrees with the Industrial Customer Groups' request for an exemption from participation in Phase 3. The primary goal of Act 129 underscores the need for all customers to participate in energy efficiency and conservation programs that, as the Act states, must ultimately benefit all Pennsylvanians.

As stated in the Act, the primary goal is as follows: “The health, safety and prosperity of all citizens of this Commonwealth are inherently dependent upon the availability of adequate, reliable, affordable, efficient and environmentally sustainable electric service at the least cost, taking into account any benefits of price stability, over time and the impact on the environment.

Given that commercial and industrial customers account for a significant share of state-wide electricity consumption, achieving the above-stated goals of Act 129 would not be possible without the full participation of the Commercial and Industrial sectors. Commercial and industrial customers, when taken together, far and away represent the single-largest electricity-consuming sector in the state. Since the large majority of C&I sector savings came from lighting projects in Program Year 5 portfolios, there are substantial opportunities to pursue savings from other types of projects in this sector – including projects that will deliver deeper energy savings.

The Commission should consider the impact that allowing industrial customers to opt-out of programs would have on ratepayers as a whole. Energy efficiency is a resource that benefits all users, so energy efficiency deployed anywhere in a system benefits everyone, regardless of where the actual energy efficiency investment was made. The industrial sector offers some of the most cost-effective energy efficiency available. Further, there is no way to guarantee that energy efficiency efforts will be undertaken outside of Act 129 programs. Allowing large industrial, commercial, or institutional customers to "go it alone" and not participate in Act 129 programs can eliminate a proven low-cost resource, ultimately increasing the cost of energy efficiency savings for everyone.

2. **Multifamily Stakeholder Process**

KEEA strongly supports the comments of Energy Efficiency for All and the Coalition for Affordable Utility Services and Energy Efficiency in PA’s comments that a multifamily stakeholder process is both important and urgently needed. While KEEA’s comments supported formation of the stakeholder group, we failed to underscore the need for such a process to begin immediately.

With EDC Phase 3 plans due to the Commission by November 30th, 2015 a stakeholder group can only provide useful input to the EDCs if convened in a timely manner and well in advance of completion of plans.

3. **Multifamily and Low Income Programs**

While KEEA initially included our multifamily comments jointly with low income comments, we recognize that the two program types sometimes overlap and other times do not. We also recognize that commercially metered multifamily buildings are an important and necessary target for EDCs. In the absence of a multifamily carve out, EDCs should, at minimum, separately track and report multifamily building energy savings.

4. **Unspent Budgets, Excess Savings**
   KEEA respectfully disagrees with the PA Weatherization Task Force that unspent funds from Phase 2 should be returned to ratepayers, and agrees with the comments of NEEP, Honeywell, Citizens for Pennsylvania's Future et. al. (Joint Commentators), and others that funds yet unspent should still be spent on energy efficiency – the purpose for which they were originally allocated. As we said during the development of Phase 2, those dollars, when invested in energy efficiency instead of being returned to customers, will yield $2.60 in customer value for every dollar spent, helping to deliver the types of energy reductions and cost savings explicitly intended by Act 129. And as NEEP rightly points out, Act 129 explicitly calls on EDCs to design portfolios to meet *or exceed* required reduction targets.

   We support the argument put forth by the Joint Commentators that excess budgets present an opportunity to invest in more comprehensive programs that can deliver deeper savings. For example, KEEA sees this as an opportunity to explore comprehensive energy saving programs in multifamily housing – an important sector that too often gets overlooked, yet can deliver significant energy savings. Additionally, expenditure of excess budgets should coincide with an increase in savings target levels.

   KEEA agrees with the Joint Commentators that Phase II excess savings represent "zero cost" reductions, thereby lowering average acquisition costs, and opening the door for additional cost-effective energy savings.

5. **Target Level**
   KEEA agrees with DEP that "the PUC should pursue more aggressive targets for each of the EDC service territories," and that more economically achievable efficiency exists than will be realized with the current proposed targets in place. As DEP points out, energy efficiency is the single best strategy for meeting the state's environmental policy goals. Further, KEEA agrees with DEP that the Commission should consider the historic over-performance of EDCs in setting future targets.

   To that end, KEEA respectfully disagrees with PECO that targets should be reduced to 1.43 million MWh (about 70% of the Commission's goal). KEEA also respectfully disagrees with First Energy Companies that energy consumption reduction target should be reduced to account for measures that were previously installed, have expired, and must now be replaced. First Energy Companies argues that accounting for the need to replace such measures would reduce targets to about 75% of the Commission's proposal.

6. **Incremental Annual Goals vs. Cumulative Goals**

The compliance structure used in Phase 2 of Act 129 created a perverse incentive. By only counting savings delivered in the final year of the compliance period, this structure incentivized EDCs to delay the deployment of cost-effective, shorter-lived measures until late in the phase in order to quickly gain savings in time to meet the goal. This led to a loss of cost effective energy savings in Phase 2.

Like several other parties, KEEA is concerned that maintaining this cumulative annual accounting approach in Phase 3 will have even greater adverse consequences. As the Office of the Consumer Advocate (OCA) stated in its comments, “The OCA is concerned…with the potential impact of the cumulative end of phase approach that would require full replacement of measures with a useful life that expires before the end of the phase. The OCA is concerned that this approach could result in shorter term measures being "turned on and off" during the phase, thus limiting the effectiveness of the programs.”

Further, in its comments, Duquesne asserted that “such a requirement would cause EDCs to not implement measures with lives shorter than the Phase period and hampers program planning and delivery.”

If repeated in Phase 3, the result would be an even larger loss in cost effective energy savings and associated customer bill savings that otherwise would have been delivered. This compliance structure is out of step with industry best practice as nearly every other state with an energy efficiency obligation employs annual incremental rather than cumulative annual accounting. It is also inconsistent with the intent of Act 129.

To remedy this situation, maximize cost effective savings, and create a program that is administrable and fair to utilities, KEEA recommends that the Commission adopt an annual incremental goal as the compliance target for EDCs in Phase 3. Moving to such a goal structure will allow EDCs to receive savings credit for all annual incremental savings delivered and thus will end the incentive to delay certain investments until the end of the compliance period. In addition, moving to annual incremental goal structure will:

- Ensure fair and equal treatment of all programs and measures.
- Provide EDCs credit for replenishing savings for decayed measures.
- Give EDCs the flexibility to align compliance benefits with customer benefits.
- Reduce risk for utilities, by providing greater visibility into goal progress.

Adopting the annual incremental goal is a common sense measure that will bring Pennsylvania in line with best practices for energy efficiency throughout the country. It will ensure fairness, and thereby protect ratepayers, while encouraging cost effective savings. Moreover, it will correct an error in the implementation of Phase 2.

By way of background, the incremental annual accounting methodology we recommend was the basis of Pennsylvania's Energy Efficiency Potential Study. The potential study conducted by the Statewide Evaluator (SWE) explicitly mentioned that the SWE's approach for determining goals, budgets, and acquisition costs followed the incremental annual accounting methodology:

> *For the purposes of determining statewide acquisition costs from the base achievable costs and savings data, the SWE Team concludes that it is correct to divide the sum of the incremental annual savings data across the timeframe by the sum of the annual costs.* ***This method maintains the integrity of the definition of an acquisition cost and aligns with actual EDC budgeting and planning practices.***[1]

The study defines acquisition costs as "program expense dollars spent to acquire first-year energy savings"[2] and these costs aligned with incremental annual savings to become the basis of the EDCs' budgets. Put simply, incremental annual accounting was embedded in the SWE's potential study and is the source of the current budgets.

7. **Behavioral Programs**

Utilities should be encouraged to innovate and develop new programs. Behavioral energy efficiency programs for small and medium-sized businesses and residential customers are a perfect example of the type of innovation that Act 129 (and the Commission) should encourage. Owners of small and medium-sized business, as well as residential customers, typically have much less time to spend managing their energy use. To engage these users with energy data, it must be presented in manner which is clear, easily actionable and compelling.

Key information for these customer types includes the cost of energy relative to previous time periods and other customers, simple steps that can be taken to reduce consumption, and the cost savings that are likely to result if the customer does act. As customers using these tools either grow their businesses or become more sophisticated in their energy management, they can be migrated to more advanced solutions.

8. **Plan Modification**

The Energy Association of Pennsylvania argues for elimination of plan modifications in the event that a particular measure meets its participation or savings goals, or the measure's budget is exhausted, and that EDCs should simply notify stakeholders of the measure's termination. KEEA respectfully disagrees. Successful programs should not be terminated without stakeholder input, as is the current process.

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[1] Energy Efficiency Potential Study for Pennsylvania, Statewide Evaluation Team, February 2015, p.8. Emphasis added.
[2] Energy Efficiency Potential Study for Pennsylvania, p. A-1

Allowing for successful programs to "go dark" can cause market instability and boom and bust cycles that negatively impact companies that are implementing these successful programs.

9. **Inclusion of SWE Costs**

KEEA respectfully disagrees with PPL's assertion that costs associated with the SWE analysis be accounted for under the cost cap rather than as additional cost above the cost cap. SWE activities do not fall within the scope of energy efficiency delivery, as outlined by Act 129, and thus should not be considered under the cost cap.