Met-Ed/Penelec/Penn Power/West Penn Statement No. 1

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

METROPOLITAN EDISON COMPANY
Docket No. M- ______________

PENNSYLVANIA ELECTRIC COMPANY
Docket No. M- _____________

PENNSYLVANIA POWER COMPANY
Docket No. M- _____________

WEST PENN POWER COMPANY
Docket No. M- _____________

ENERGY EFFICIENCY AND CONSERVATION PLANS

Prepared
Direct
Testimony
of
John C. Dargie

List of Topics Addressed

Overview of the Companies, the EE&C Plans and the Energy Efficiency Team
The Companies' Stakeholder Process
The Use of Conservation Service Providers
The Companies' Competitive Bidding/Contracting Process

I. INTRODUCTION AND BACKGROUND

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is John C. Dargie and my business address is FirstEnergy Corp. ("FirstEnergy"), 76 South Main Street, Akron, Ohio 44308.

Q. MR. DARGIE, BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by FirstEnergy Service Company as Vice President, Energy Efficiency. Among other things, I am responsible for ensuring that FirstEnergy's ten electric distribution utilities plan for, and comply with, all state or Federal energy efficiency and conservation ("EE&C") and peak demand reduction ("PDR") utility program requirements. This involves the development, coordination, implementation and oversight of programs that promote EE&C, PDR, demand-side management and emerging technologies. I report to the Senior Vice President, Marketing & Branding, but work closely with the presidents of each of FirstEnergy's distribution utilities on most matters.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND AND RELEVANT EXPERIENCE.

A. I began my career in sales at S.D. Myers, Inc., an engineering and transformer company in the Akron area, where I progressed through the company's sales organization for 20 years. I joined FirstEnergy in 1997 as director of national accounts. In 1999, I was promoted to director of sales and in 2002 was again promoted to manager of customer support services. From 2006 through 2009, I was director of asset management. In 2009, I became manager of national accounts and portfolio management and was promoted to my current position in 2011.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of Metropolitan Edison Company ("Met-Ed"), Pennsylvania Electric Company ("Penelec"), Pennsylvania Power Company ("Penn Power"), and West Penn Power Company ("West Penn") (collectively, the "Companies"). Unless otherwise stated, my testimony equally applies to all four Companies. Further, rather than reiterating sections of the proposed EE&C plans into my testimony, I will simply incorporate them by reference.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony is to provide a general overview of: (i) the Companies; (ii) the Companies' Phase III EE&C plans ("Phase III Plans"); (iii) the energy efficiency team that I supervise; (iv) the Companies' stakeholder process; (v) the administration and implementation of the Phase III Plans; and (vi) the Companies' competitive bidding/contracting process.

Q. PLEASE IDENTIFY THE OTHER WITNESSES WHO WILL BE PROVIDING TESTIMONY IN THIS PROCEEDING?

A. Mr. Edward C. Miller, Manager of FirstEnergy's Compliance and Development team, (Met-Ed/Penelec/Penn Power/West Penn Statement No. 2) will discuss the details of each of the Companies' Phase III Plans, explaining how the plans were developed, how each complies with the requirements set forth in Act 129 of 2008[1] and the Commission's 2015 Implementation Order,[2] and why this Commission should approve the proposed plans.

Mr. Kevin Siedt, a State Regulatory Consultant within the FirstEnergy Pennsylvania Rates and Regulatory Affairs Department (Met-Ed/Penelec/Penn Power/West Penn Statement No. 3), will discuss the Companies' proposal to recover the costs associated with developing and implementing the Phase III EE&C Plans through new tariff riders for each of the Companies. He will also explain how the Companies will collect final Phase II EE&C costs after completion of Phase II.

II. THE COMPANIES

Q. PLEASE GENERALLY DESCRIBE THE FIRSTENERGY CORPORATE STRUCTURE.

A. FirstEnergy is a diversified energy company headquartered in Akron, Ohio. Among its many subsidiaries are ten electric utility subsidiaries – Met-Ed, Penelec, Penn Power and West Penn in Pennsylvania, three electric distribution utilities in Ohio (Ohio Edison Company, The Cleveland Electric Illuminating Company and The Toledo Edison Company), Jersey Central Power and Light Company in New Jersey, Monongahela Power Company in West Virginia and The Potomac Edison Company in both West Virginia and

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[1] Act 129 of 2008 (Act 129") was signed into law on October 15, 2008, and became effective on November 14, 2008. Among other things, the Act created an EE&C Program, codified in the Pennsylvania Public Utility Code at Sections 2806.1 and 2806.2, 66 Pa. C.S. §§ 2806.1 and 2806.2.

[2] *Energy Efficiency and Conservation Programs*, Docket No. M-2014-2424864, Implementation Order (entered June 19, 2015) ("2015 Implementation Order").

Maryland. These ten electric utility operating companies compose one of the nation's largest investor-owned electric systems, serving approximately six million customers within a nearly 65,000 square-mile area of Ohio, Pennsylvania, New Jersey, West Virginia and Maryland. FirstEnergy's goal is to develop cost effective EE&C solutions responsive to Federal or state requirements that can, when appropriate, be consistently applied not only in Pennsylvania, but also in the other states within the FirstEnergy footprint. This approach enables FirstEnergy customers to benefit from economies of scale and broader program experiences.

Q. PLEASE GENERALLY DESCRIBE THE COMPANIES.

A. Met-Ed is a wholly owned subsidiary of FirstEnergy that provides service to approximately 558,000 electric utility customers in eastern Pennsylvania. Penelec is a wholly owned subsidiary of FirstEnergy that provides service to approximately 588,000 electric utility customers in central and western Pennsylvania. Penn Power is a wholly owned subsidiary of Ohio Edison Company, which, in turn, is a wholly owned subsidiary of FirstEnergy. Penn Power provides service to approximately 163,000 electric utility customers in western Pennsylvania. West Penn is a wholly owned subsidiary of FirstEnergy that provides service to approximately 721,000 electric utility customers in western Pennsylvania.

III. THE PHASE III PLANS

Q. PLEASE BREIFLY DESCRIBE THE HISTORY OF THE COMPANIES' EE&C PLANS.

A. On October 15, 2008, then Governor Rendell signed Act 129 into law. Act 129 required the Commission to establish an energy efficiency and conservation program ("EE&C Program").[3] The EE&C Program contemplated multiple phases. Phase I was completed on May 31, 2013. The Companies met all EE&C and PDR requirements at the end of Phase I. Phase II runs from June 1, 2013 through May 31, 2016 ("Phase II Period"). The Companies' Phase II EE&C plans, which are currently in effect ("Phase II Plans"), were approved by the Commission through an Order entered in Docket Nos. M-2012-2334387 (Met-Ed), M-2012-2334392 (Penelec), M-2012-2334395 (Penn Power), and M-2012-2334398 (West Penn). In its 2015 Implementation Order, the Commission established Phase III of its EE&C Program, which runs from June 1, 2016 through May 31, 2021 ("Phase III Period"). The 2015 Implementation Order sets forth the energy efficiency targets for all of the Companies and demand reduction targets for all of the Companies except Penelec, for program years 2-5.[4] The energy efficiency targets must be met by May 31, 2021, with at least 5.5% and 3.5% of the targets being achieved through the low income and government/education/non-profit ("G/E/NP") sectors, respectively. Companies' Witness Miller discusses each of the Companies' targets and related budgets in his testimony, along with a description of how the Companies' intend to achieve each of the aforementioned requirements.

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[3] 66 Pa.C.S. §§ 2806.1 and 2806.2.

[4] 2015 Implementation Order, p. 35.

Q. WHY DOESN'T PENELEC HAVE A DEMAND REDUCTION TARGET DURING PHASE III?

A. The Commission's statewide evaluator ("SWE") performed a demand reduction market potential study and concluded that no cost-effective potential for demand reduction exists in Penelec's service territory. The Commission, however, indicated that Penelec could propose a voluntary demand reduction program if it fits within Penelec's program budget.

Q. IS PENELEC PROPOSING A VOLUNTARY DEMAND REDUCTION PROGRAM?

A. Yes. Penelec is proposing a Residential Behavioral Demand Response Program, which is identical to the residential PDR program being proposed by the other Companies.

Q. HOW IS EACH OF THE PHASE III PLANS ORGANIZED?

A. Each of the Companies' Phase III Plans, which are included as Attachments to the Joint Petition, are organized consistent with the filing format and template outlined by the Commission in its September 22, 2015 Secretarial Letter issued in Docket No. M-2014-2424864. Met-Ed's plan is labeled "Attachment A"; Penelec's, "Attachment B"; Penn Power's, "Attachment C"; and West Penn's, "Attachment D."[5] The organization of each plan is set forth in its respective Table of Contents and addresses all issues identified in the Commission's template.

[5] Only the plan corresponding to the applicable Company's individual docket is attached to the Petition being filed in said docket.

Q. WHAT WERE THE COMPANIES' OVERALL OBJECTIVES WHEN DEVELOPING THE PROPOSED PLANS?

A. When developing the Phase III Plans, the Companies strove to design plans that: (i) achieve all of the EE&C and PDR targets, including those for the low income and the G/E/NP sector carve outs; (ii) include at least one program for each of the major customer segments; (iii) include at least one comprehensive program for the residential and non-residential sectors; and (iv) balance costs with results. I believe the Phase III Plans accomplish each of these objectives.

Q. PLEASE GENERALLY DESCRIBE THE COMPANIES' PROPOSED PLANS BEING FILED IN THIS PROCEEDING.

A. Each of the Companies' respective Phase III Plans is designed in the same manner and generally includes the same programs. Further, the Phase III Plans are, in essence, extensions of the successful programs and measures included in the Companies' Phase II EE&C Plans, with the addition of new programs and measures and a revision of some existing programs and measures that Companies' Witness Miller discusses. However, there is one significant change between the Phase II and Phase III Plans – the addition of PDR programs in the Phase III Plans. Because there was no PDR requirement in Phase II, the Phase II Plans had no such programs.

Q. IS IT POSSIBLE THAT THE PROGRAMS INCLUDED IN EACH OF THE COMPANIES' PROPOSED PLANS MIGHT BE ADJUSTED DURING THE PLAN PERIOD?

A. Yes, adjustments to programs may be necessary during the Phase III Period. Given that many of these programs have been in place throughout at least Phase II, if not also throughout Phase I, I believe we have anticipated many of the potential contingencies surrounding the programs and have factored these contingencies into the Phase III Plan designs. However, the length of the Phase III period is two years longer and uncertainties in the economy, in the regulatory environment and in technology may require adjustments during Phase III. Adjustments may also be necessary as results evolve and as the Companies receive feedback from customers, trade allies, consultants, conservation service providers ("CSPs"), evaluators, interested stakeholders and program managers. If such adjustments are necessary, the Companies will seek the necessary approvals either through an amendment to the Phase III Plans or through the Commission's expedited review process established for Phase II,[6] and extended for Phase III.[7]

IV. <u>THE EE&C TEAM AND THE STAKEHOLDER PROCESS</u>

Q. PLEASE DESCRIBE THE GENERAL PROCESS UTILIZED BY THE COMPANIES WHEN DEVELOPING THE PHASE III PLANS.

A. Each of the Phase III Plans was created using the same process, which is described in more detail by Companies' Witness Miller. The primary contributors to the process were (i) FirstEnergy's Energy Efficiency Group; (ii) the Companies' energy efficiency consultant

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[6] *Energy Efficiency and Conservation Program*, Docket No. M-2008-2069887, Order at pp. 114-118 (June 10, 2011).
[7] 2015 Implementation Order, p. 118.

and Phase II Plan program evaluator, ADM Associates, Inc. (“ADM”); and (iii) interested parties who participated in the Companies’ stakeholder process.

Q. PLEASE DESCRIBE FIRSTENERGY’S ENERGY EFFICIENCY GROUP AND ITS ROLE IN THE DEVELOPMENT OF THE PLANS.

A. The FirstEnergy Energy Efficiency Group is made up of approximately 50 employees with a broad spectrum of skills. This group is responsible for ensuring compliance with all state and Federal EE&C and PDR requirements and the successful implementation of EE&C and PDR programs offered throughout the FirstEnergy footprint. They also are responsible for the evaluation, measurement and verification (“EM&V”) of program results as well as the tracking and reporting of the same to management and as required by the various state regulatory agencies. A more detailed description of this group, as well as an organization chart, is included in Section 4.2 of the Phase III Plans.

The Program Development Team is a subgroup within the Energy Efficiency Group. It is comprised of internal FirstEnergy employees and is primarily responsible for the development of not only the Phase III Plans, but also other EE&C and PDR plans offered by the Companies’ sister utilities in other states. When practical, this team designs programs consistently throughout the FirstEnergy footprint in order to avoid customer confusion and to create economies of scale in both program administration and EM&V activities. When designing EE&C and PDR programs, this group relies not only on its expertise and experience, but also on the experience and expertise brought by evaluators, program implementers and interested stakeholders.

Q. PLEASE DESCRIBE THE PROCESS USED BY THE COMPANIES DURING THE DEVELOPMENT OF THE PROPOSED PLANS TO INCORPORATE IDEAS FROM INTERESTED PARTIES.

A. Throughout the development of the Phase III Plans, the Companies, in an effort to incorporate other points of view, obtained input and insight into potential programs through stakeholder meetings and informal discussions. In addition to regular meetings with Phase II program implementers, the Companies held stakeholder meetings on different aspects of the plan design in May, August and October 2015. The Companies also participated in over 20 meetings with interested parties, including numerous potential CSPs and vendors, during the months of July, August, September and October 2015, and discussed a variety of issues with stakeholders at several conferences, including the AESP conference in Philadelphia, the KEEA conference in Harrisburg and the Pennsylvania Energy Management conference in Harrisburg. As part of the Phase II implementation, the Companies further involve stakeholders through outreach programs with both program allies and customers – a practice that the Companies intend to continue during Phase III. To the extent possible, input from this very broad group of interested parties has been factored into the various program design.

Q. WILL THE COMPANIES CONTINUE TO UTILIZE THE STAKEHOLDER PROCESS IN PHASE III?

A. Yes. During the Phase III Period the Companies intend to conduct a minimum of two stakeholder meetings per year where the Companies will review the performance, progress and operation of the programs, highlighting any significant issues encountered. Additional ad hoc meetings will be held as deemed necessary or as requested by stakeholders.

V. <u>CSPs AND THE COMPETITIVE BIDDING PROCESS</u>

Q. PLEASE EXPLAIN HOW THE PHASE III PLANS WILL BE ADMINISTERED AND IMPLEMENTED.

A. The Companies will continue overall administration and oversight of the Phase III Plans, and utilize third party CSPs to perform various program implementation and support duties. Specific activities that the Companies will oversee include: (i) the Phase III Plan implementation and performance; (ii) the execution of marketing campaigns; (iii) Quality Assurance/Quality Control activities; (iv) tracking and reporting activities; and (v) management of CSPs. The Companies will utilize CSPs to provide many program-related services, including assistance with program implementation, marketing, and EM&V results. A more detailed discussion of the responsibilities of both the Energy Efficiency Group and the CSPs is set forth in Section 4.2 and 4.3 of the Phase III Plans, respectively.

Q. HAVE THE COMPANIES SELECTED THE CSPs AND OTHER VENDORS THAT WILL BE ASSISTING WITH THE IMPLEMENTATION OF THE PHASE III PLANS?

A. The Companies have selected an EM&V CSP, whose contract is currently pending approval before the Commission. A copy of that contract has been provided to the Commission staff for review. No other CSPs have been selected. However, the Companies expect to complete the selection process during the first quarter of 2016 (conditioned on Commission approval of the CSP contract and related programs), so as to enable a timely transition and implementation of the programs and measures once the Phase III Plans are approved.

Q. PLEASE EXPLAIN HOW THE CSPs WILL BE SELECTED.

A. The Companies will adhere to the vendor selection requirements as set forth in the Commission's 2015 Implementation Order and will select through a competitive bidding process all of their CSPs that provide consultation, design, administration and management or advisory services to the Companies. All CSP contracts will be contingent upon Commission approval of both the contract and the applicable programs that are the subject of the contract. Requests for Proposal ("RFPs") have been, or will be in the near future, distributed to all qualified CSPs registered on the Commission's website and the Companies are making, and will continue to make, an effort to acquire bids from minority or other special category businesses. To date, the Companies have issued RFPs for Demand Response Programs, EM&V activities and the Tracking/Reporting system. Now that the programs included in the plans have been finalized, the Companies anticipate issuing the remaining RFPs by the end of 2015 for both residential and C&I sector program/subprogram implementation.

Q. PLEASE EXPLAIN THE COMPANIES' TIMELINE FOR SUBMITTAL OF CSP CONTRACTS TO THE COMMISSION.

A. Earlier this year, the Commission issued a Tentative Phase III Implementation Order in which the Commission indicated that, unlike Phase II, *all* CSP contracts were to be bid. Various comments and reply comments were submitted through May 15, 2015. The Commission's decision on CSP bidding was affirmed in its June 11, 2015 Implementation

Order.[8] In accordance with the 2015 Implementation Order, the Companies submitted their proposed RFP process on July 28, 2015, which was approved in a Secretarial Letter issued on August 14, 2015. The Companies issued their RFP for an EM&V contractor on August 21, 2015, which was reissued on September 24, 2015 to make the RFP available to additional potential CSPs, with responses received on or before October 14, 2015. The EE&C team evaluated these responses and selected ADM Associates, Inc. in October 2015. This contract, along with all required supporting documentation, was submitted to the Commission for approval in November 2015. The Companies issued their RFP for Demand Response programs on August 27, 2015, which was reissued on September 21, 2015 to make the RFP available to additional potential CSPs. Responses were received on or before October 7, 2015 and the EE&C Team is currently evaluating those responses. The Companies issued their RFP for a Tracking and Reporting system on October 23, 2015 with responses received on or before November 13, 2015. The EE&C team is also currently evaluating these responses. Shortly after a CSP is selected, the Companies will submit the CSP contract to the Commission for approval consistent with the Commission's 2015 Implementation Order.

VI. <u>CONCLUSION</u>

Q. IN YOUR OPINION, ARE THE PHASE III PLANS CONSISTENT WITH ACT 129 AND THE COMMISSION'S 2015 IMPLEMENTATION ORDER?

A. In my opinion, yes, they are. As Companies' Witness Miller explains, the Phase III Plans:

[8] On July 6, 2015, the Companies filed a request for clarification or, in the alternative, a request for waiver of any requirement to re-bid for a tracking and reporting system. On August 20, 2015, the Commission rejected the Companies' request for waiver and upheld its requirement to rebid the contract for such services.

- Are designed to maximize the Companies' opportunity to achieve their respective additional consumption targets, including the carve outs for both the low-income and G/E/NP sectors, within the established budgets.
- Includes specific energy efficiency measures for households at or below 150% of the federal poverty income guidelines, in proportion to that sector's share of the total energy usage in each of Companies' service territories.
- Are designed to achieve at least 15% of the additional consumption reduction target amount in each program year.
- Include PDR programs designed to meet the targets, guidance and objectives of the 2015 Implementation Order.
- Are cost effective, in accordance with the 2016 Total Resource Cost ("TRC") Test, and will provide a diverse cross-section of alternatives and reasonable mix of programs and measures that will benefit consumers of all rate classes as required by 66 Pa. C.S. 2806.1(b)(1)(i)(I).
- Are designed and will be measured based on the 2016 Technical Reference Manual and other metric resources to measure the effect of various EE&C and PDR measures.
- Include a variety of EE&C measures and will provide the measures equitably to all customer classes pursuant to 66 Pa. C.S. §2806.1(a)(5).

Further, as Companies' Witness Seidt explains, the Phase III Plans include a Section 1307 cost recovery mechanism which reflect program acquisition costs (i.e., for program administration, management and incentives) that are being reasonably allocated and recovered from the customer class receiving the direct benefit of measures supported by the programs.

Q. MR. DARGIE, DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

A. Yes, it does.