COMMONWEALTH OF PENNSYLVANIA

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January 4, 2016

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street
Harrisburg, PA 17105-3265

Re: Petition of Metropolitan Edison Company for Approval of its Act 129 Phase III Energy Efficiency and Conservation Plan
Docket No. M-2015-2514767

Dear Secretary Chiavetta:

Enclosed please find the Office of Consumer Advocate's Comments in the above-referenced proceeding.

Copies have been served as indicated on the enclosed Certificate of Service.

Sincerely,

Christy M. Appleby

Christy M. Appleby
Assistant Consumer Advocate
PA Attorney I.D. # 85824

Enclosures
cc: Honorable Elizabeth H. Barnes, ALJ
Certificate of Service
214883

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Joint Petition for Consolidation of Proceedings and Approval of Energy Efficiency and Conservation Plans Phase III Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company	: : : : : :	Docket No. M-2015-2514767

COMMENTS OF THE OFFICE OF CONSUMER ADVOCATE

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Dated: January 4, 2016

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I. INTRODUCTION

The Office of Consumer Advocate (OCA) is filing these Comments in accordance with the Notice in the *Pennsylvania Bulletin* published December 10, 2015. 45 Pa.B. 50. These Comments are in response to the Joint Petition for Consolidation of Proceedings and Approval of Energy Efficiency and Conservation Plans Phase III of Metropolitan Edison Company (Met-Ed), Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power) and West Penn Power Company (West Penn) (collectively the FirstEnergy Companies or Companies) filed with the Commission on November 23, 2015. The Prehearing Conference will be held on January 5, 2015 before Administrative Law Judges Elizabeth H. Barnes. At this time, the OCA anticipates that it will serve the written testimony of Geoffrey Crandall[1] and Roger Colton[2] in this proceeding. The OCA requests that these Comments be read and considered in conjunction with the OCA's testimony.[3]

A. Background

On November 14, 2008, Act 129 of 2008 (Act 129) became effective. Act 129 contained a requirement for the Pennsylvania Public Utility Commission (Commission) to implement an Energy Efficiency and Conservation Plan (EE&C Plan) for Electric Distribution Companies

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1 Mr. Crandall is a principal and Vice President of MSB Energy Associates of Middleton, WI. Mr. Crandall specializes in residential and low-income issues and the impact of energy efficiency and utility restructuring on customers. He has over 35 years of experience in utility regulatory issues, including energy efficiency, conservation and load management resource program design and implementation, resource planning, restructuring, mergers, purchase power, gas cost recovery, planning analysis and related issues. Mr. Crandall has provided expert testimony before more than a dozen public utility regulatory bodies throughout the United States, including this Commission and before the United States Congress on several occasions.

2 Roger D. Colton is a principal in the firm of Fisher, Sheehan & Colton, Public Finance and General Economics. Mr. Colton provides technical assistance to a variety of public utilities, state agencies and consumer organizations on rate and customer service issues for telephone, water/sewer, natural gas and electric utilities. Mr. Colton's work focuses on low-income energy issues, and he has testified and published extensively in this area.

3 The OCA's Comments here apply to Met-Ed's Plan. The OCA will file separate Comments for each of the four FirstEnergy electric distribution companies, Met-Ed, Pennsylvania Electric Company (Penelec), Pennsylvania Power Company (Penn Power), and West Penn Power Company (West Penn).

(EDCs) with more than 100,000 customers. See 66 Pa. C.S. § 2806.1 *et seq*. On January 15, 2009, the Commission adopted an Implementation Order establishing the specific standards that the EDC's Energy Efficiency and Conservation (EE&C) plans for the period June 1, 2009 through May 31, 2013 were required to meet. See Energy Efficiency and Conservation Program, Docket No. M-2008-2069887 (Order Entered Jan. 16, 2009) (Phase I). On August 2, 2012, the Commission adopted a second Implementation Order establishing the next phase of the EE&C program for the period June 1, 2013 through May 31, 2016. See Energy Efficiency and Conservation Program, Docket No. M-2012-2289411 (Order Entered Aug. 2, 2014) (Phase II). The seven largest EDCs – PECO Energy Company (PECO), PPL Electric Utilities, Inc. (PPL), the FirstEnergy Companies (Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company, West Penn Company), and Duquesne Light Company – developed and implemented plans in Phase I and II of the EEC&C programs.

On June 19, 2015, the Commission entered its Phase III Implementation Order, adopting EDC-specific targets for reducing energy consumption for the Phase III EE&C Program term (June 1, 2016- May 31, 2021). See Energy Efficiency and Conservation Program, Docket No. M-2014-2424864 (Order Entered June 19, 2015) (Phase III Implementation Order). Met-Ed's Phase III target was set at 4.2% of its expected sales for the June 1, 2016 through May 31, 2021 period.[4] Phase III Implementation Order at 51. The Commission also directed that Met-Ed's Phase III Plan: (1) achieve 3.5% of its overall consumption reductions from the Government/ Non-Profit/ Educational (GNE) sector; (2) achieve a minimum of 5.5% of its consumption reductions programs exclusively directed at low-income customers; (3) offer at least one

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[4] The Phase III Implementation Order requires that the Phase III Plans are designed to achieve at least 15% of the consumption reduction target each year of Phase III. Phase III Implementation Order at 59. For Met-Ed, this equates to 599,352 MWhs. Met-Ed's Plan was designed to achieve this yearly consumption reduction target. See Petition at ¶ 13.

comprehensive measure for residential customers and at least one comprehensive measure for nonresidential customers; and (4) achieve a total overall gross verified demand reduction of at least 49 MW. Id. at 35, 61, 68-70, 74-76. As in Phase I and II, the total resource cost (TRC) will continue to be used to evaluate each EDC's Plan. Id. at 97-98.

The Phase III Implementation Order also detailed the Plan approval process. According to the Order, the EDCs were to file their proposed Plans and the Commission was to publish those Plans in the Pennsylvania Bulletin. Phase III Implementation Order at 89-91. In compliance with the Phase III Implementation Order, Met-Ed filed its Plan with the Commission on November 23, 2015. Met-Ed's Plans were published in the *Pennsylvania Bulletin* on December 12, 2015. 45 Pa.B. 7078. The notice required that interested parties file comments to the Phase III Plan within 20 days of publication. The Commission is to approve or reject all or part of the Plan at a Public Meeting within 120 days of the filing. Phase III Implementation Order at 89-91.

The OCA provides the following preliminary Comments on Met-Ed's Plan in accordance with the Commission's Phase III Implementation Order.

B. Stakeholder Process

The FirstEnergy Companies held several meetings with stakeholders regarding the winding down of Phase II and its proposals for Phase III. The OCA participated in each of these meetings and found the FirstEnergy Companies' stakeholder process to be well attended and collaborative in nature. In the OCA's view, the stakeholder process encouraged a two-way dialogue and allowed for a better informed process for both the participants and the Company. The OCA notes that the Phase III Implementation Order requires the EDCs to continue the stakeholder process throughout the Phase III period. Phase III Implementation Order at 15.

C. Legal Standards

A number of standards are considered by the Commission in determining whether the EDC's EE&C Plan should be approved. See 66 Pa. C.S. § 2806.1(a). For example, Act 129 states that each Plan must include a variety of energy efficiency and conservation measures, and such measures must be provided equitably to all classes of customers. 66 Pa. C.S. § 2806.1(a)(5). Further, cost recovery must be structured in such a manner to ensure that approved measures are paid for by the same customer class that will receive the direct benefits of those measures. 66 Pa. C.S. § 2806.1(a)(11).

Act 129 also specifically requires each EDC to demonstrate, *inter alia*, that its Plan is both cost effective using the TRC test and provides a diverse cross section of alternatives for customers of all rate classes. See 66 Pa. C.S. § 2806.1(b)(1)(i)(I). In the Act, a TRC test is defined as:

> [a] standard test that is met if, over the effective life of each plan not to exceed 15 years, the net present value of the avoided monetary cost of supplying electricity is greater than the net present value of the monetary cost of energy efficiency conservation measures.

66 Pa. C.S. § 2806.1(m). The TRC will continue to be used to evaluate each EDC's Phase III Plan. Phase III Implementation Order at 97-98. The revised TRC test for the Phase III Plans was adopted by the Commission at its June 11, 2015 Public Meeting. 2016 Total Resource Cost (TRC) Test, Docket No. M-2015-2468992, Order (June 22, 2015)(TRC Test Order).

Finally, as was discussed above, in its Phase III Implementation Order, the Commission directed that each Company's Plan be developed to include a series of specific carve-outs. The carve-outs as follows: (1) achieve 3.5% of its overall consumption reductions from the Government/ Non-Profit/ Educational (GNE) sector; (2) achieve a minimum of 5.5% of its consumption reductions from programs exclusively directed at low-income customers; (3) offer at least one comprehensive measure for residential customers and at least one comprehensive measure for nonresidential customers; and (4) achieve a total overall gross verified demand reduction of 49 MW. Id. at 35, 61, 58-70, 74-76. Additionally, the Plans must be designed to achieve at least 15% of the EDC's consumption reduction target each year of Phase III. Phase III Implementation Order at 59.

The OCA submits that, in addition to reviewing the Company's proposed Plan for its potential to achieve the 4.2% consumption reduction target, Met-Ed's Phase III Plan must also be reviewed to ensure that it is designed to meet all of the aforementioned goals and targets in a cost-effective manner.

D. Summary of Met-Ed's Plan

On November 23, 2015, in compliance with the requirements of Act 129 and the Commission's Phase III Implementation Order, Met-Ed filed its Petition, Direct Testimony and Phase III Plan with the Commission. Met-Ed's Phase III Plan is designed to reduce total energy consumption between June 1, 2016 and May 31, 2021, by 599,352 MWhs. Petition at ¶ 13. Met-Ed's Phase III Plan must also reduce demand by 49 MW during program years two through five. Petition at ¶ 13. The five-year cost of Met-Ed's Phase III Plan is projected to be $124,334,435. See Met-Ed Plan at App. E, Table 6C.

To achieve this goal, Met-Ed proposed a Plan consisting of nine energy efficiency programs. Specifically, Met-Ed proposed the following four programs for its residential customer class: (1) Appliance Turn-In Program; (2) Home Performance Program; (3) Efficient Products Program; and (4) the Low-Income Energy Efficiency Program. Met-Ed EE&C Plan at App. E, Table 4. Within its Home Performance Program, Met-Ed also proposed a residential customer Behavioral Demand Response program. The proposed small commercial and industrial

(C&I) programs include the C&I Energy Solutions for Business Program – Small and the C&I Demand Reduction Program – Small. Id. The proposed large commercial and industrial (LC&I) programs include the C&I Energy Solutions for Business Program – Large and the C&I Demand Reduction Program – Large. Id. The Company also includes a Governmental & Institutional Tariff Program for Government/Educational/Non-Profit sector customers. Id.

Met-Ed also proposed three residential customer multi-family programs. These will include: (1) the WARM[5] Plus (Comprehensive) program for additional energy education and comprehensive weatherization services in single and multi-family homes; (2) the multi-family and Low-Income Low Usage (LILU) Single Family program for single-metered multi-family or single-family customers who do not qualify for the Company's Comprehensive WARM program which will include audits, installations of qualified major measures, and incentives for up to 100% of the cost of retrofits; and (3) the low-income new housing program to provide incentives to low-income, multi-family, single-metered homes or single-family homes. Met-Ed Plan at 49-51. The program measures are designed to provide energy efficiency and whole building measures, rebates, inefficient appliance removal, and provide energy efficiency education. The programs will also target the construction of new energy efficient low-income housing. Met-Ed Plan at 49.

Met-Ed also proposed a program for multi-family, master-metered commercial properties. The Small C&I Efficient Buildings Program would provide multi-family, master-metered programs with financial incentives towards replacement of inefficient appliances, energy efficiency audits, and energy efficiency audits with direct installation of measures. Met-Ed Plan at 63. The program would be paid for by the customers within the SC&I customer class. Met-Ed Plan at App. E, Table 6A, Page 2.

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[5] The WARM program is the FirstEnergy Companies' Low Income Usage Reduction Program (LIURP).

Met-Ed's portfolio of programs is designed to provide customer benefits while also meeting the energy savings goals set forth in the Act within the designated expenditure cap of 2% of 2006 annual revenues ($24,866,894) for each year of the five-year Plan. Petition at ¶ 17. The Plan has budgeted five-year expenditures totaling $124,332,435, which are broken down by class as follows: Residential – $74,394,423; SC&I – $22,129,069; LC&I – $26,212,972; and Government/ Educational/Non-Profit – $1,595,972. See Met-Ed Plan at App. E, Table 6C.

Met-Ed will continue to recover its costs through a Phase III Energy Efficiency and Conservation Rider (Phase III EE&C-C) that will be imposed under Section 1307 and will be both reconcilable and non-bypassable. Met-Ed St. 3 at 6. A separate recovery charge will be established for each customer class, corresponding to the costs of the programs that target that class, and will include the costs of the EE&C programs, the Statewide Evaluator (SWE) costs and administrative expenses. The EE&C-C rates for each customer class are projected to be as follows:

Class	Projected Rate*
Residential	$0.00198/kWh
Commercial	$0.0126/kWh
Industrial	$0.0023/kWh
Non-Profit	$0.01775/kWh
Street Lighting	($0.00072)/kWh

* Rate information taken from Met-Ed St. 3 at KMS-2

The FirstEnergy Companies have proposed two changes to the cost recovery mechanisms for all four companies: (1) during Phase III, rates will be computed annually using the annual projected program cost estimate rather than the total approved budget amount (2% cap) as was done during Phase II; and (2) a second reconciliation factor will be incorporated into the Phase III recovery mechanism to recover any final Phase II costs. Petition at ¶ 32. The FirstEnergy Companies propose to change the methodology by which they calculate the final costs related to the Phase II Plan. In the Phase II Plans, the Company sought to extend the Phase I recovery mechanism into the Phase II Period until December 31, 2013 to collect costs that were not known or incurred until after May 31, 2013 (the end of Phase II). According to the Companies' witness Siedt, Met-Ed will continue to accrue prior Phase II costs beyond May 31, 2016. The Companies propose to include a reconciliation factor for the remaining Phase II program costs in the Phase III EE&C-C rider. Met-Ed. St. 3 at 7.

Finally, Met-Ed also proposed to reconcile costs incurred to remove, at the customer's request, the Integrated Distributed Energy Resources (IDER) equipment used in the Company's discontinued residential direct load control program for Phase I. Petition at ¶¶ 32, fn. 39, 35; Met-Ed St. 3 at 8.[6] The Commission previously approved an increase to Met-Ed's residential customer class budget for Phase I of $3,984,171 in order to account for the estimated costs to remove, at a customer's request, the IDER equipment used in the discontinued residential direct load control program from the Company's Phase I Plan. Met-Ed St. 3 at 8.[7] According to witness Siedt, the Companies propose to utilize the IDER equipment removal budget until the earlier of (1) the end of the Phase II period or (2) the point at which Met-Ed no longer anticipates any further customer removal requests. Mr. Siedt states that the Company anticipates using the budget through May 31, 2016. Id. The Company, therefore, proposes to perform a

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6 The cost recovery proposal for the IDER equipment is only applicable to Met-Ed.

7 Petition of Metropolitan Edison Company, Pennsylvania Electric Company, and Pennsylvania Power Company to Approve Modification of the Energy Efficiency and Conservation Charge Rider to Include Final Reconciliation Costs and to Recover the Full Costs for Metropolitan Edison Company's Suspension of the Residential Direct Load Control Program Effective May 31, 2013, Docket No. M-2009-209222, M-2009-2112952, M-2009-2112956 (IDER Order) (May 23, 2013).

reconciliation of the total budget to the actual removal expenditures and include any remaining credit as part of Met-Ed's Phase II final reconciliation for the residential customer class. Id. This reconciliation will be reflected in the Phase III EE&C-C rates effective June 1, 2017. Id.

II. PRELIMINARY COMMENTS ON THE PLAN AND PROGRAMS

A. Phase III Residential Customer Programs

Met-Ed's proposed Phase III residential programs include: (1) Appliance Turn-In Program; (2) Home Performance Program; and (3) Efficient Products Program. Met-Ed Plan at App. E, Table 2. Met-Ed also has a residential Low-Income Energy Efficiency Program and a residential multi-family program which will be discussed in Section II.B. Id. The Company has also proposed a Behavioral Residential Customer demand response program. Met-Ed Plan at 45.

1. Appliance Turn-In Program

As part of its Appliance Turn-In Program, Met-Ed will remove and dispose of older, operational inefficient appliances from residential customers' homes and provide a rebate or incentive to customers for allowing such removal and disposal. Met-Ed Plan at 36. Additionally, the Company may hold periodic events so that residential customers may drop off smaller inefficient appliances at a central location for a rebate. Id. Eligible appliances include refrigerators, freezers, air conditioners and dehumidifiers. Id. at 35. Rebate/incentive levels differ per appliance type. Id. at App. D-4. The Company intends to track or survey low-income customer participation in the program to support reporting and evaluation. Id. at 35. This program is a continuation of the Phase I and Phase II Appliance Turn-In program. The OCA will review issues including, but not limited to: (1) whether the appropriate appliances have been included in the Appliance Turn In-Program; (2) whether the proposed incentive rebate levels are reasonable and appropriate; (3) whether the proposed measure is reasonably calculated to achieve the proposed savings levels; and (4) whether the proposed measure is cost-effective.

2. Energy Efficient Products Program

Met-Ed's residential Energy Efficient Products Program is designed to provide incentives to residential customers to purchase and to install energy efficient residential appliances, lighting, consumer electronics and HVAC equipment. Met-Ed Plan at 39. The program will provide rebates to residential customers that install certain qualifying energy efficient products and/or provide upstream incentives and support to manufacturers, distributors, and retailers that sell such products. Id. Program strategies include, *inter alia*, dealer incentives, give-aways, and/or special promotional events to encourage the sale of high efficiency products. Id. at 40. The program will be marketed, when practicable, in conjunction with the Company's on-line audit and residential audit programs. Id. Participation by low-income residential customers will be surveyed to support reporting and evaluation. Id. at 41. The OCA will review issues including, but not limited to, (1) whether the appropriate appliances and technologies have been included in the Energy Efficient Products Program; (2) whether the proposed incentive rebate levels are reasonable and appropriate; (3) whether the proposed measures are reasonably calculated to achieve the proposed savings; (4) whether the proposed measures are cost-effective; (5) whether the Plan reflects changing lighting baselines and strategies for transitioning to new lighting technologies and/or other strategies; and (6) whether the low-income survey proposal is reasonable and appropriate.

3. Energy Efficient Homes Program

a. Overview

Met-Ed's residential Energy Efficient Homes program will provide energy efficiency education and awareness for residential customers and will encourage residential customers to retrofit existing technologies or to implement new end use technologies and behaviors to conserve energy. Met-Ed Plan at 43. The Energy Efficient Homes program has six sub-programs: (1) Audits; (2) Energy Efficiency Kits; (3) New Homes; (4) Behavioral; (5) Behavioral- Demand Response; and (6) School Education. Met-Ed Plan at 43-44.

b. Audit Sub-Programs

The In-Home Audit program will offer residential customers a comprehensive in-home energy audit with air infiltration testing at a discounted fee, which will examine building shell integrity, appliance efficiency, lighting and HVAC systems. Met-Ed Plan at 43. At the conclusion of the audit, customers will be provided with a list of energy saving projects and receive rebates from the Company for completed projects from the list. Id. The Audits sub-program also includes the Online Home Energy Audit Tool, which can be completed by customers online or on the phone with an automated questionnaire. Id. at 44-45. The Tool converts customers' input of their energy usage into information that customers can act upon, which includes the cost of heating and cooling homes. Customers are sent an energy efficiency kit after successful completion of the Tool at no additional cost. Id. at 44.

c. Energy Efficiency Kits Sub-Program

The Energy Efficiency Kits sub-program includes a variety of items intended to introduce customers to energy efficient technologies that can easily be installed in homes. Met-Ed Plan at 44. The technologies may include, but not be limited to, educational materials, CFLs/LEDs, faucet aerators, low flow showerheads, furnace whistles, etc. Id.

d. New Homes Sub-Program

The New Homes sub-program will provide incentives to builders for achieving energy efficiency targets through a combination of building shell and installed measures, including appliance upgrades. Met-Ed Plan at 44. In order to qualify for this program, the builder must construct the home to the applicable ENERGY STAR® Standard or build at a higher efficiency level than the then current adopted building code. Id.

e. Behavioral Sub-Programs

Met-Ed has proposed two Behavioral programs – one to meet its consumption reduction target and a second program to meet its demand response target. The Behavioral sub-program for its consumption reduction target provides periodic energy usage reports, along with specific information and analysis about a customer's energy usage over time and specific tips for conserving energy. Id. This sub-program will be offered at no cost to customers. Id.

The Behavioral Demand Response sub-program for its demand response target will provide Day Ahead notification messages to motivate residential customers with smart meters to reduce usage during Act 129 demand reduction events. Met-Ed Plan at 45.[8] The sub-program will also provide post-event feedback to the customer about his/her usage performance during the event, with comparisons to other customers, and recommendations to reinforce usage reduction behaviors in future events. Id. The Company does not propose to provide any financial incentives to customers to participate in the program. Met-Ed Plan at App. C-1, Page 6. Met-Ed anticipates that the residential Behavioral Demand Response sub-program will reduce demand by 3,500 kW over the five year program. Met-Ed Plan at App. C-2, Page 1. Met-Ed proposes a total five year sub-program budget of $220,174. Met-Ed Plan at App. C-1, Page 6.

f. School Education Sub-Program

[8] Met-Ed must reduce demand by 49 MW by May 31, 2021. Met-Ed Plan at App. E, Table 2; see, Phase III Implementation Order at 35. In addition to the residential Behavioral Demand Response program, the FirstEnergy Companies also proposed a Small C&I Demand Response program and a Large C&I Demand Response program.

The School Education sub-program will provide a customized education program delivered by contracted performers and/or educators to elementary school children and teachers. Met-Ed Plan at 45. The educational materials will include handouts, homework assignments, and educational presentations. Id. Students will also receive an energy efficiency kit to introduce simple retrofit measures that the student can work with at home. Id.

g. Issues to Review

The OCA will review issues including, but not limited to, (1) whether the appropriate technologies have been included; (2) whether the proposed measures are reasonably calculated to achieve the proposed savings or demand reductions (in the case of the Behavioral-Demand Response program); (3) whether modifications to the design of the residential Behavioral-Demand response program are necessary; (4) whether the proposed measures are cost-effective; (5) whether the proposed savings can be maintained over a period of time; and (6) whether there is any potential double-counting of savings as a result of overlapping behavior modification measures.

B. Special Plan Requirements

1. Low Income Program Requirements

In its Phase III Implementation Order, the Commission required that EDCs' Phase III Plans, *inter alia*, contain a proportionate number of low-income measures and that EDCs obtain a minimum of 5.5% of their consumption reductions from the low-income sector. Phase III Implementation Order at 68-70. The Low-Income Energy Efficiency Program will include the following program measures: (1) WARM Plus (Comprehensive); WARM Extra Measures (Extra Measures); Multi-Family and Low-Income Low Usage (LILU) Single Family; Energy Efficiency kits; Low-Income New Housing; Behavioral Modification Program; Appliance

Rebates; Appliance Turn-In; and School Education. Met-Ed Plan at 49-55. The target customers for the low-income program are customers whose income is at or below 150% of the Federal Poverty Level (FPL). Met-Ed Plan at 49. Met-Ed's low-income residential programs have a TRC of 0.5 and are estimated to achieve 5.6%, or 35,484 gross MWhs savings, of the gross portfolio 627,814 MWh savings. Met-Ed Plan at App. E, Table 7B. The Company states that the objectives of the Low-Income Energy Efficiency Program are to provide "basic to comprehensive energy efficiency and whole building measures, through direct installation or direct mail to low-income households"; enhanced rebates to replace inefficient appliances; the removal of inefficient appliances by offering an incentive with pick-up and recycling at no cost; education; and construction of new energy efficient low-income housing. Met-Ed Plan at 49.

The WARM Plus (Comprehensive) and WARM Extra Measures (Extra Measures) are an expansion of the existing WARM program and would add energy education and comprehensive weatherization services in single and multi-family homes. Met-Ed Plan at 49-50. WARM Plus will continue to be coordinated with local natural gas distribution companies and the Department of Community and Economic Development (DCED) Weatherization Assistance Program (WAP), where available. Id. at 49.

The Multi-Family and Low-Income Low Usage (LILU) Single Family program contains eight sub-programs: (1) Audit- Multi-Family and Single Family; (2) Appliance Replacement; (3) Energy Efficiency Kits; (4) Low-Income New Housing; (5) Behavioral Modification program; (6) Appliance Rebates; (7) Appliance Turn-In; and (8) School Education. The LILU program targets low-income multi-family or single-family customers who otherwise do not qualify for the comprehensive WARM program. The LILU sub-program measures will include a "no-cost in-home audit/assessment with the direct installation or low cost measures at the time of the audit and installation of qualified major measures (e.g. appliance replacement) after the audit." Met-Ed Plan at 50. The audit recommended qualified measures will be incented up to 100% of the retrofit cost. Id. The sub-programs for Appliance Replacement, Energy Efficiency Kits, Behavioral Modification Program, Appliance Rebates; Appliance Turn-In; and School Education will operate similarly to the general residential customer programs, but will be targeted towards low-income customers and/or landlords for the multi-family sub-programs. Id. at 50-52.

The Company also has proposed a new low-income sub-program, Low-Income New Housing. Met-Ed Plan at 51. The Low-Income New Housing program will provide "incentives for the construction of energy efficient housing through a combination of building shell and installed measures, including appliance upgrades to multi-family or single-family homes." Met-Ed Plan at 51. In order to qualify for the program, the builder must construct the home to meet the applicable ENERGY STAR® Standard or higher. Id. The Company proposes to work with the Pennsylvania Housing Finance Agency (PHFA) or other similar entities to identify potential projects. Met-Ed Plan at 51.

The OCA will review how the Company determines that a multi-family property is qualified as a "low-income" property. Regarding the Low-Income New Housing program, the OCA will also examine whether the program is duplicative of mandatory ENERGY STAR® requirements already in place for the Low-Income Housing Tax Credit (LIHTC) program. The OCA will review whether the proposed low-income program expenditures and savings are consistent with the Phase III Implementation Order consumption reduction targets; whether the low-income customer programs are reasonably designed to be cost-effective and to meet the consumption reduction targets; and whether additional opportunities for coordination and best practices exist to improve upon the Company's proposed low-income programs.

2. Multi-Family Buildings

The Commission's Phase III Implementation Order does not direct the EDCs to meet specific consumption reduction or budget targets for the multifamily sector. See Phase III Implementation Order at 80. The Commission does note, however, that there appears to be potential in each EDC's service territory for energy savings from multifamily housing, and directs each EDC to coordinate with the SWE to track and provide any data that will be necessary for the SWE to perform an analysis on the multifamily potential at the service territory level in the future. Id.

Met-Ed proposed three low-income residential customer multi-family programs. These will include: (1) the WARM Plus (Comprehensive) program for additional energy education and comprehensive weatherization services in single and multi-family homes; (2) the multi-family and Low-Income Low Usage (LILU) Single Family program for single-metered multi-family or single-family customers who do not qualify for the Company's Comprehensive WARM program which will include audits, installations of qualified major measures, and incentives for up to 100% of the cost of retrofits; and (3) the low-income new housing program to provide incentives to low-income, multi-family, single-metered homes or single-family homes. Met-Ed Plan at 49-51. The program measures are designed to provide energy efficiency and whole building measures, rebates, inefficient appliance removal, and provide energy efficiency education. The programs will also target the construction of new energy efficient low-income housing. Met-Ed Plan at 49.

Met-Ed also proposed a program for multi-family, master-metered commercial properties. The Small C&I Efficient Buildings Program would provide multi-family, master-metered programs with financial incentives towards replacement of inefficient appliances, energy efficiency audits, and energy efficiency audits with direct installation of measures. Met-Ed Plan at 63. The program would be paid for by the customers within the SC&I customer class. Met-Ed Plan at App. E, Table 6A, Page 2.

The OCA will review Met-Ed's proposal to serve multi-family housing through low-income residential and commercial programs. The OCA will also examine the programs which are available to the multi-family segment, and if warranted, provide recommendations as to how these programs can better serve this segment of customers.

C. Cost Recovery

1. Phase III Cost Recovery

Pursuant to Act 129 and the Phase III Implementation Order, Met-Ed's total budget for its Phase III Plan is limited to 2% of the Company's total annual revenue as of December 31, 2006. See 66 Pa. C.S. § 2806.1(g); Phase III Implementation Order at 11. Each EDC must provide a careful estimate of the costs of its Phase III Plan including capital expenditures and administrative costs. Phase III Implementation Order at 132. Met-Ed proposes to collect allowable costs of its Phase III Plan through an EE&C-C Rider. Met-Ed calculated its annual Phase III budget at approximately $24,866,894 for each year of the five-year Plan. Petition at ¶ 17. The Plan has budgeted five-year expenditures totaling $124,332,435. See Met-Ed Plan at App. E, Table 6C. That figure is broken down as follows:

Customer Class	Total Phase III Budget (2016-2021)
Residential	$56,349,509
Low-Income	$18,044,914
SC&I	$22,129,069
LC&I	$26,212,972

Government/Educational/ Non-Profit	$1,595,972

Source: Met-Ed Plan at App. C-1, Program Cost by Program Year.

The Company proposed to apportion approximately 59.8% of the Phase III budget to residential programs. Met-Ed Plan at App. E, Table 5. Specifically, Phase III Plan summary of costs for residential customers is as follows:

	2016		2017		2018		2019		2020	
	Annual Budget	%	Annual Budget	%	Annual Budget	%	Annual Budget	%	Annual Budget	%
Residential Customers	$11,719,714	51%	$11,893,826	47%	$12,367,516	46%	$12,780,477	47%	$7,587,976	35%
Low-Income Customers	$3,848,438	17%	$3,649,553	15%	$3,738,821	14%	$3,759,189	14%	$3,048,912	14%

Source- Met-Ed Plan at App. E, Table 3

Act 129 requires that Phase III EE&C measures be paid for by the customer class that receives the direct benefit from the programs. 66 Pa. C.S. § 2806.1(a)(11).

The OCA will review the Company's proposed costs included within the EE&C-C Rider and whether those costs are permissible to be recovered under Act 129 and the Phase III Implementation Order. The OCA will also examine the Company's proposed cost allocation to determine whether the costs are appropriately allocated to the customer classes that will benefit from the programs.

2. Proposed Phase III Cost Recovery

The FirstEnergy Companies propose to establish the Energy Efficiency and Conservation Phase III Rider (Phase III EE&C-C Rider) to recover the costs associated with developing and implementing the Phase III Plans. Petition at ¶ 29. The Phase III EE&C-C Rider is designed to recover from customers on a full and current basis all reasonable and prudent costs, including administrative costs, incurred in the "development, provision and management of the Phase III Plans." Petition at ¶ 30, citing 66 Pa. C.S. § 2806.1(k). The FirstEnergy Companies propose to continue a similar cost recovery mechanism as was approved in the Phase II Plans with two exceptions: (1) during Phase III, the rates will be computed annually using the annual projected program cost estimate rather than the total approved budget amount as was done during Phase II; and (2) a second reconciliation factor will be incorporated into the Phase III recovery mechanism to recover final Phase II costs. Petition at ¶ 32.

The FirstEnergy Companies propose to change the manner in which rates are calculated annually. Petition at ¶ 32. Instead of calculating the rates using the total approved budget amount, *i.e.* the 2% cap, the Companies propose to compute the rates using the annual projected program cost estimate. Id. In its Phase III Implementation Order, the Commission agreed with FirstEnergy's proposal that "the EDCs should be able to utilize a projected program cost estimate instead of the total approved budget amount as it will reduce the amount of over-collection or under-recovery for the surcharge application period." Phase III Implementation Order at 149. The Commission required that EDCs include in their Phase III Plans an annual cost recovery methodology that is based on the projected program costs that the EDC anticipates will be incurred over the surcharge year in order to attain the energy reduction targets and directed that the EDC should reconcile actual expenses incurred with actual revenues received for the reconciliation period. Phase III Implementation Order at 149.

The FirstEnergy Companies propose to change the methodology by which they calculate final costs related to the Phase II Plan. The Companies propose to implement a second reconciliation mechanism within the Phase III EE&C-C Rider to recover the remaining costs of the Phase II Plans. Petition at ¶ 32. In the Phase II Plans, the Companies sought to extend the

Phase I recovery mechanism by six months into the Phase II Period until December 31, 2013 to collect costs that were not known or incurred until after May 31, 2013 (the end of Phase II). In the Phase III Plan, the Companies propose to change the methodology for collection of these costs. According to Companies' witness Siedt, as with the Phase I Plans, the Companies will continue to accrue costs for Phase II beyond the conclusion of the Phase II Plan on May 31, 2016. Met-Ed. St. 3 at 7. While in the Phase II Plans, the Companies maintained the existing Phase II EE&C-C Rider. In the Phase III Plan, the Companies propose to include a second reconciliation factor in the Phase III EE&C-C rider instead of maintaining a second rider to recover the costs. Met-Ed. St. 3 at 7.

The Commission must thoroughly review Met-Ed's proposed reconciliation for its Phase II costs in the Phase III rider to determine if the proposed cost recovery mechanism is in accordance with Act 129, the Commission Orders, the Company's tariff, and otherwise applicable law.

3. Met-Ed's IDER Cost Recovery

In its Phase III EE&C-C Rider, Met-Ed has proposed to reconcile the costs incurred to remove, at the customer's request, the Integrated Distributed Energy Resources (IDER) equipment used in the Company's discontinued residential direct load control program.[9] Petition at ¶¶ 32, fn. 39, 35; Met-Ed St. 3 at 8. The Commission previously approved an increase to Met-Ed's residential customer class budget for Phase I of $3,984,171 in order to account for the estimated costs to remove, at a customer's request, the IDER equipment used in the discontinued residential direct load control program from the Company's Phase I Plan. Met-Ed St. 3 at 8. [10]

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9 The issue only applies to Met-Ed's Phase III EE&C-C Rider.

10 See, IDER Order.

According to Companies' witness Siedt, Met-Ed proposes to utilize the IDER equipment removal budget until the earlier of (1) the end of the Phase II period or (2) the point at which Met-Ed no longer anticipates any further customer removal requests. Mr. Siedt states that the Company anticipates using the budget through May 31, 2016. Id. The Company, therefore, proposes to perform a reconciliation of the total budget to the actual removal expenditures and include any remaining credit as part of Met-Ed's Phase II final reconciliation for the residential customer class. Id. This reconciliation will be reflected in the Phase III EE&C-C rates effective June 1, 2017. Id.

The Commission must thoroughly review Met-Ed's proposed reconciliation for its IDER costs to determine if the proposed reconciliation is in accordance with Act 129, the Commission Orders, the Company's tariff, and otherwise applicable law.

III. CONCLUSION

The OCA appreciates this opportunity to provide Comments on this important topic. The OCA will also provide testimony of its expert witnesses in accordance with the schedule established in this proceeding. The OCA will seek to ensure that Met-Ed's Phase III Plan is designed to meet the requirements of the Act and that it does so in a cost-effective and balanced manner.

Respectfully Submitted,

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DATE: January 4, 2016
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CERTIFICATE OF SERVICE

Petition of Metropolitan Edison Company : Docket No. M-2015-2514767
For Approval of its Act 129 Phase III Energy :
Efficiency and Conservation Plan :

I hereby certify that I have this day served a true copy of the foregoing, the Office of Consumer Advocate's Comments, upon parties of record in this proceeding in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

Dated this 4th day of January 2016.

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