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November 28, 2016

***VIA ELECTRONIC FILING***

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor North  
P.O. Box 3265  
Harrisburg, PA 17105-3265

**Re: Petition of PPL Electric Utilities Corporation for Approval of its Act 129 Phase III Energy Efficiency and Conservation Plan - Docket No. M-2015-2515642**

Dear Secretary Chiavetta:

Enclosed for filing, please find the Answer of PPL Electric Utilities Corporation to the PP&L Industrial Customer Alliance's Petition for Appeal of Staff Action, in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,



Devin Ryan

DTR/jl  
Enclosures

cc: Certificate of Service

**CERTIFICATE OF SERVICE  
(Docket No. M-2015-2515642)**

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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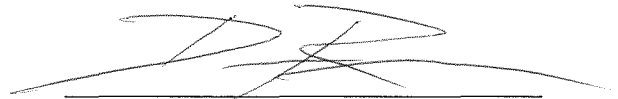
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Date: November 28, 2016



Devin T. Ryan

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities :  
Corporation for Approval of its Act 129 :  
Phase III Energy Efficiency and : Docket No. M-2015-2515642  
Conservation Plan :

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**ANSWER OF PPL ELECTRIC UTILITIES CORPORATION TO  
THE PP&L INDUSTRIAL CUSTOMER ALLIANCE'S  
PETITION FOR APPEAL OF STAFF ACTION**

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PPL Electric Utilities Corporation (“PPL Electric” or the “Company”), pursuant to 52 Pa. Code §§ 5.61 and 5.572(e), hereby respectfully submits this Answer to the Petition for Appeal of Staff Action filed by the PP&L Industrial Customer Alliance (“PPLICA”) on November 14, 2016. In its Petition, PPLICA seeks reconsideration of the Pennsylvania Public Utility Commission’s (“Commission”) Bureau of Technical Utility Services’ Staff’s (“Staff”) decision granting PPL Electric’s Petition for a Minor Plan Change to its Energy Efficiency and Conservation (“EE&C”) Plan.

For the reasons explained below, PPL Electric respectfully requests that the Commission deny PPLICA’s Petition.

**I. INTRODUCTION**

1. The Commission approved PPL Electric’s initial Phase III EE&C Plan, with modifications, on March 17, 2016. *See Petition of PPL Electric Utilities Corp. for Approval of its Act 129 Phase III Energy Efficiency and Conservation Plan*, Docket No. M-2015-2515642, pp. 57-61 (Order Entered Mar. 17, 2016) (“*March 2016 Order*”). Pursuant to the *March 2016 Order*, PPL Electric submitted a compliance filing on April 22, 2016. The Company subsequently filed an Errata to its compliance filing on May 24, 2016. The Commission

approved PPL Electric's compliance filing, as amended, on June 27, 2016. *See* Secretarial Letter, Docket No. M-2015-2515642 (June 27, 2016).

2. PPL Electric's Phase III EE&C Plan includes a Custom Program available to Small Commercial and Industrial ("Small C&I"), Large Commercial and Industrial ("Large C&I"), and Government/Nonprofit/Educational ("GNE") customers. The Custom Program provides financial incentives to customers who install measures that are not offered in other EE&C programs, including Combined Heat and Power ("CHP") projects and other measures that are not listed in the Technical Reference Manual ("TRM"). *See* PPL Electric Phase III EE&C Plan, Docket No. M-2015-2515642, pp. 92-97, 118-23, 142-48 (Apr. 22, 2016).

3. For projects to qualify for incentives under the current Custom Program, CHP projects must have a Total Resource Cost ("TRC") benefit-cost ratio in excess of 1.25, and all other Custom Program projects must have a TRC benefit-cost ratio in excess of 1.10. PPL Electric is the only Pennsylvania electric distribution company ("EDC") subject to Act 129 of 2008 ("Act 129") with a minimum TRC requirement for any custom projects, CHP or non-CHP. (PPL Petition ¶ 5)

4. On September 21, 2016, PPL Electric filed a Petition requesting that the Commission approve one minor change to its Phase III EE&C Plan that would replace the minimum TRC requirement with the following:

PPL Electric may implement a minimum TRC requirement for projects if necessary to ensure the program or portfolio TRC is greater than 1.0. PPL Electric will notify customers, trade allies, and stakeholders at least 30 days before the effective date of this TRC requirement or a subsequent change in the TRC requirement. Any TRC requirement would be in effect for new applications submitted after the effective date. PPL Electric will contact any customer whose Phase 3 application was previously rejected because of the TRC requirement in the original EE&C Plan (> 1.25

for CHP; > 1.1 for other types of projects) to give each customer an opportunity to continue its Custom Program application.

(PPL Petition ¶ 4)

5. Comments were filed by the Office of Small Business Advocate (“OSBA”), the Sustainable Energy Fund of Central Eastern Pennsylvania (“SEF”), and PPLICA.

6. PPL Electric filed Reply Comments on October 17, 2016, in support of the minor change. In its Reply Comments, the Company also accepted SEF’s proposed 90-day notice period instead of the originally proposed 30-day notice period.

7. By Secretarial Letter dated November 4, 2016, the Staff approved PPL Electric’s minor plan change, as modified by the Company in its Reply Comments. *See* Secretarial Letter, Docket No. M-2015-2515642 (Nov. 4, 2016) (“Staff Action”).

8. On November 14, 2016, PPLICA filed its Petition for Appeal of Staff Action. In its Petition, PPLICA avers that the Commission should reverse the Staff Action and deny PPL Electric’s minor plan change.

9. For the reasons explained below, as well as those detailed in the Staff Action, PPLICA’s Petition should be denied.

## **II. ARGUMENT**

10. In its Petition, PPLICA makes several arguments against the proposed minor plan change. Before addressing PPLICA’s arguments, however, it is important to remember that PPL Electric has a duty to meet its overall energy savings and peak demand reduction targets under Act 129. *See* 66 Pa. C.S. § 2806.1(c)-(d). Therefore, PPL Electric has the ultimate responsibility to design its programs, measures, incentive levels, eligibility requirements, and other elements of its EE&C Plan to ensure that the Plan is cost-effective and achieves all compliance targets within budget. If the Company fails to meet its overall compliance targets, PPL Electric (not

customers) is at risk of paying a \$1 million to \$20 million civil penalty. 66 Pa. C.S. § 2806.1(f)(2). Therefore, as the sole bearer of this risk, PPL Electric should have the discretion to design, implement, and adjust its programs to meet the compliance targets set forth in Act 129 and the Commission's orders. (PPL Reply Comments, p. 4); *see* Staff Action, p. 3.

11. Nevertheless, PPLICA maintains that that the proposed minor change should be rejected, primarily on the grounds that individual custom projects must be cost-effective on a stand-alone basis under Act 129.

12. For the reasons explained in more detail below, PPLICA's arguments are without merit, and the Commission should adopt the well-reasoned decision of its Staff.

**A. THE PROPOSED MINOR PLAN CHANGE IS NECESSARY AND JUSTIFIED**

**1. Failure to Approve the Minor Plan Change Will Significantly Impact PPL Electric's Ability to Meet Its Overall Savings Compliance Target**

13. The minor plan change should be approved because failure to modify the cost-effectiveness screening requirement could have a significant impact on PPL Electric's ability to meet the overall savings compliance target. (PPL Reply Comments, p. 4) At present, customers have proposed eight CHP projects that are estimated to produce approximately 136,000 MWh/yr of savings. (PPL Reply Comments, p. 4) This equals approximately 9.4% of PPL Electric's total compliance target of 1,443,035 MWh/yr.<sup>1</sup> (PPL Reply Comments, p. 4) The Company anticipates that all of these projects will fail to meet the current TRC threshold, meaning that none of these projects would qualify for incentives or produce savings that are countable toward PPL Electric's savings compliance target. (PPL Reply Comments, p. 4) Therefore, PPL Electric

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<sup>1</sup> PPL Electric also has received an application for one non-CHP custom project with a TRC benefit-cost ratio slightly below 1.1 that would produce savings of approximately 1,300 MWh/yr. Under the current TRC threshold for non-CHP projects, this project would be ineligible to participate in the Custom Program. (PPL Reply Comments, p. 4)

proposed the minor plan change so that it could remedy this significant impact on its ability to meet its savings compliance target. Certainly, the Company should be afforded the ability to ensure that it complies with its duty to meet its compliance target and is not at risk of paying a \$1 million to \$20 million penalty.

14. Notably, PPLICA never disputes that failure to approve the minor plan change will significantly affect PPL Electric's ability to meet its overall savings compliance target. Even still, PPLICA avers that the current TRC threshold should remain in place.

15. However, PPLICA ignores that the proposed minor plan change would not foreclose PPL Electric from implementing a new minimum TRC requirement if it deems necessary. Under the proposed change, "PPL Electric may implement a minimum TRC requirement for projects if necessary to ensure the program or portfolio TRC is greater than 1.0." (PPL Petition ¶ 4) (emphasis added). As explained in PPL Electric's Reply Comments, the Company will monitor the progress of all EE&C programs, including the Custom Program, throughout Phase III. (PPL Reply Comments, p. 9) Therefore, if the lack of a minimum TRC requirement is affecting PPL Electric's ability to have a cost-effective EE&C Plan or Custom Program, the proposed minor change would enable the Company to respond accordingly. (PPL Reply Comments, p. 9)

**2. The Minor Plan Change Will Not Negatively Affect the Large C&I Customers' Projected Costs or Savings<sup>2</sup>**

16. PPL Electric also observes that the proposed change will not negatively affect Large C&I customers' projected costs or savings. (PPL Reply Comments, p. 10) PPL Electric has not proposed any changes to the Custom Program's budget or any customer sector's costs.

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<sup>2</sup> In its Petition, PPLICA argues the Staff overlooked the impact of the proposed change on Large C&I customers, specifically their expectation that funds are only used to subsidize cost-effective projects. (PPLICA Petition, p. 6) As explained in this section, Large C&I customers will not be negatively affected by the proposed change.



(PPL Reply Comments, p. 10) In fact, the proposed change will neither change the total budget for the Custom Program's incentives nor the administrative costs for the Custom Program or any customer sector. (PPL Reply Comments, p. 10) Moreover, the Custom Program already helps protect against high-cost custom projects by capping incentives for all custom projects (CHP and non-CHP) at \$250,000 to \$500,000 per customer site (not to exceed 50% of the total project cost excluding internal labor). PPL Electric Phase III EE&C Plan, pp. 95, 121, 145.

17. Furthermore, the proposed minor change could potentially produce additional savings under the current program budget, thereby benefiting customers further by increasing savings without additional funding and increasing the likelihood of compliance for PPL Electric.<sup>3</sup> (PPL Reply Comments, p. 10) In general, CHP projects have a much lower program acquisition cost (*i.e.*, program costs divided by annual kWh saved) than most measures, because they have a high amount of savings and their incentives are capped.<sup>4</sup> Therefore, if more CHP projects are able to participate in the Custom Program, the program's acquisition cost could be lowered. (PPL Reply Comments, p. 10) As a result, the Custom Program's savings and available funding for non-CHP projects could increase without any related increase to the program's budget.

### **3. PPL Electric's Minor Plan Change Will Make Its EE&C Plan More Consistent with the Other EDCs' EE&C Plans**

18. The minor plan change also will make PPL Electric's Phase III EE&C Plan more consistent with the other EDCs' EE&C Plans, which have no minimum TRC requirement for

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<sup>3</sup> Although PPL Electric has not proposed any changes to its projected savings and TRC benefit-cost ratios at this time, PPL Electric will continually monitor the Custom Program's progress throughout Phase III and will propose changes to its estimated savings and TRC benefit-cost ratios if, in the Company's determination, actual results warrant such changes. (PPL Reply Comments, p. 11)

<sup>4</sup> CHP has an estimated program acquisition cost of approximately \$0.02-0.05 per annual kWh saved, whereas the Custom Program as a whole has an average program acquisition cost of \$0.12 per kWh, and the entire EE&C Plan's program acquisition cost is \$0.19 per kWh. (PPL Reply Comments, p. 10)

custom projects. (PPL Reply Comments, p. 6) However, PPLICA contends that the Staff gave “undue weight” to this fact in the Staff Action and avers that the proposed minor plan change should not be granted simply because other EDCs do not have a minimum TRC requirement. (PPLICA Petition, p. 5) PPLICA’s argument lacks merit.

19. PPLICA overlooks that consistency across all of the EDCs’ EE&C Plans brings substantial benefits. As PPL Electric noted in its Reply Comments, removing the threshold will help reduce customer and contractor confusion and ensure more consistent treatment of customers throughout Pennsylvania. (PPL Reply Comments, p. 6) Importantly, PPLICA never disputes these facts in its Petition. PPLICA instead asserts that PPL Electric’s proposed minor plan change should be assessed on its merits. (PPLICA Petition, p. 5) However, for the reasons detailed in this Answer, PPL Electric’s proposed minor plan change is necessary, justified, and permissible under Act 129.

20. Based on the foregoing, PPL Electric’s proposed minor plan change is necessary and justified and, therefore, should be approved.

**B. THE PROPOSED MINOR PLAN CHANGE IS CONSISTENT WITH ACT 129 AND COMMISSION PRECEDENT**

**1. Individual Programs and Measures Are Not Required to Be Cost-Effective on a Stand-Alone Basis**

21. PPLICA avers that the proposed minor plan change should be rejected because Section 2806.1(b)(2) of the Public Utility Code requires individual measures (*i.e.*, custom projects) to be cost-effective. (PPLICA Petition, pp. 6-7)<sup>5</sup> Moreover, PPLICA argues that the current minimum TRC requirement helps ensure that the Custom Program is cost-effective and “mitigates the risk of failed projects.” (PPLICA Petition, pp. 5-7) As a result, PPLICA contends

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<sup>5</sup> PPL Electric notes in PPLICA’s Comments on the proposed minor plan change, PPLICA did not argue that Section 2806.1(b)(2) requires the rejection of the Company’s proposal.

that the Commission should “terminate the measure or modify the goals assigned to this measure.” (PPLICA Petition, p. 7) (emphasis omitted). PPLICA’s arguments are without merit for several reasons.

22. First, PPLICA mischaracterizes Section 2806.1(b)(2). In full, Section 2806.1(b)(2) provides:

The commission shall direct an electric distribution company to modify or terminate any part of a plan approved under this section if, after an adequate period for implementation, the commission determines that an energy efficiency or conservation measure included in the plan will not achieve the required reductions in consumption in a cost-effective manner under subsections (c) and (d).

66 Pa. C.S. § 2806.1(b)(2) (emphasis added). As seen above, the Commission must determine that the EE&C measure at issue “will not achieve the required reductions in consumption in a cost-effective manner under subsection[] (c).” *Id.* (emphasis added). The “required reductions in consumption” set forth in “subsection (c)” are the overall energy consumption savings requirements for EDCs. *See id.* § 2806.1(c). Therefore, under Section 2806.1(b)(2), the Commission need only modify or terminate a measure when it will prevent the EDC from achieving its overall savings target in a cost-effective manner. Here, PPL Electric still projects that its EE&C Plan will achieve the overall savings target in a cost-effective manner, even if the Custom Program’s per-project TRC threshold is eliminated. (PPL Reply Comments, p. 8) Indeed, PPL Electric proposed no changes to the TRC benefit-cost ratio for either its Phase III EE&C Plan or the Custom Program, and PPLICA fails to dispute the Company’s conclusion that its EE&C Plan will remain cost-effective. Thus, the Commission need not modify or terminate the Custom Program’s CHP and non-CHP measures.

23. Second, the Commission shall only direct an EDC to modify or terminate a part of its EE&C Plan “after an adequate period of implementation.” *Id.* § 2806.1(b)(2). Here, no CHP

projects have even been implemented yet under PPL Electric's Phase III Custom Program, and the five-year long Phase III only began about six months ago. Therefore, there has not been an adequate period of implementation for the Commission to modify or terminate the Custom Program's measures.

24. Third, the definition of "Total Resource Cost Test," which must be used to evaluate cost-effectiveness under Act 129, demonstrates that the cost-effectiveness requirement does not apply to individual programs and measures.<sup>6</sup> See 66 Pa. C.S. § 2806.1(a)(3), (b)(1)(i)(I), (m). Specifically, the term 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." *Id.* § 2806.1(m) (emphasis added). Therefore, Act 129 intends for the TRC Test to be applied at the EE&C Plan level for compliance purposes.

25. Fourth, PPLICA's argument contravenes Commission precedent. The Commission has consistently held that individual programs and measures are not required to be cost-effective under Act 129. See *2016 Total Resource Cost (TRC) Test*, Docket No. M-2015-2468992, p. 17 (Order Entered June 22, 2015); see also *Petition of PPL Electric Utilities Corporation for Approval of its Act 129 Phase II Energy Efficiency and Conservation Plan*, Docket No. M-2012-2334388, p. 26 (Order Entered Mar. 6, 2014) ("*Revision P*") (citing *2012 PA Total Resource Cost (TRC) Test*, Docket No. M-2012-2300653, p. 11 (Order Entered Aug. 30,

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<sup>6</sup> Section 2806.1's other references to cost-effectiveness further demonstrate that Act 129's cost-effectiveness requirement applies to the EDCs' overall EE&C Plans, not individual programs or measures. See 66 Pa. C.S. § 2806.1(a)(3) (stating that the Commission's EE&C program must include "[a]n analysis of the cost and benefit of each plan submitted under subsection (b) in accordance with a total resource cost test approved by the commission") (emphasis added); *id.* § 2806.1(b)(1)(i)(I) ("The electric distribution company shall demonstrate that the plan is cost effective using a total resource cost test approved by the commission and provides a diverse cross section of alternatives for customers of all rate classes.") (emphasis added); *id.* § 2806.1(b)(1)(i)(J) ("The plan shall require an annual independent evaluation of its cost-effectiveness and a full review of the results of each five-year plan required under subsection (c)(3) and, to the extent practical, how the plan will be adjusted on a going-forward basis as a result of the evaluation.") (emphasis added).

2012)); *Petition of PPL Electric Utilities Corporation for Approval of its Act 129 Phase II Energy Efficiency and Conservation Plan*, Docket No. M-2012-2334388, pp. 27, 37 (Order Entered May 19, 2015) (“*Revision IP*”) (citation omitted).

26. In fact, the Commission previously rejected PPLICA’s repeated arguments regarding PPL Electric’s Phase II EE&C Plan that the Commission must terminate measures that are not cost-effective. *See Revision I*, pp. 25-26; *Revision II*, pp. 35-37. In both *Revision I* and *Revision II*, the Commission found that Act 129’s cost-effectiveness requirement applies to the entire EE&C portfolio, not to individual programs or measures. *See Revision I*, p. 26 (stating that the Commission’s “intent is to apply the TRC mainly at the plan level”); *Revision II*, p. 37 (“[T]he cost-effectiveness requirement of Act 129 applies to the EE&C portfolio as a whole, not to individual programs or measures.”). Therefore, as in *Revision I* and *Revision II*, the Commission should reject PPLICA’s latest attempt to argue that individual measures must be cost-effective.

27. For these reasons, PPLICA’s argument that individual custom projects must be cost-effective under Section 2806.1(b)(2) is without merit.

**2. PPLICA Incorrectly Asserts that Program Costs Associated with Non-Cost-Effective Measures Are Unreasonable and Imprudent**

28. PPLICA also contends that the current minimum TRC requirement for individual CHP and non-CHP projects is needed to ensure that program costs are “reasonable and prudent” pursuant to Section 2806.1(k)(1) of the Public Utility Code. In PPLICA’s view, “[c]osts to subsidize projects with a TRC below 1.0 are, by definition, neither reasonable nor prudent.” (PPLICA Petition, p. 4)<sup>7</sup> PPLICA’s argument lacks merit.

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<sup>7</sup> PPL Electric observes that in PPLICA’s Comments on the proposed minor plan change, PPLICA did not contend that costs associated with non-cost-effective projects are *per se* unreasonable and imprudent under Section 2806.1(k)(1).

29. First, as explained previously, neither Act 129 nor the Commission requires individual programs or measures to be cost-effective. Indeed, PPL Electric's current Phase III EE&C Plan, which was approved by the Commission, already includes programs and measures that are not cost-effective. *See* PPL Electric Phase III EE&C Plan, p. 29 (Apr. 22, 2016). Moreover, all Pennsylvania EDCs have programs in their EE&C Plans that are not cost-effective on a TRC Test basis.<sup>8</sup> Under PPLICA's logic, any costs associated with those programs and measures, including low-income programs, would be not be reasonable and prudent and, therefore, not recoverable by the EDCs. Such a result would force EDCs to exclude any non-cost-effective programs and measures from their EE&C Plans, thereby preventing their customers from realizing the substantive benefits that those programs and measures produce. *See Revision II*, pp. 26-27, 37 (observing that there are benefits to encouraging customer participation in non-cost-effective measures, such as non-lighting and whole-building measures, as they will result in increased energy savings).

30. Second, although certain measures may not be cost-effective on a strict TRC Test basis, they may still confer lasting and substantial benefits to customers, especially because customers likely evaluate the viability of projects using methods other than the TRC Test (such as Return on Investment, Simple Payback Period, etc.). Indeed, the Staff noted that CHP projects would be cost-effective if evaluated using a TRC calculation that accounts for the useful life of the projects, "thereby supporting the consideration of providing incentives to worthy projects even beyond those having TRC values greater than 1.0." Staff Action, p. 2, n.8.

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<sup>8</sup> *See* Duquesne Light Co. Phase III EE&C Plan, Docket No. M-2015-2515375, pp. 135-36, 146 (Feb. 9, 2016); Metropolitan Edison Co. Phase III EE&C Plan, Docket No. M-2015-2514767, Tables 1A, 7B-Gross, 7A-Net, 7B-Net (Nov. 23, 2015); Pennsylvania Electric Co. Phase III EE&C Plan, Docket No. M-2015-2514768, Tables 1A, 7B-Gross, 7A-Net, 7B-Net (Nov. 23, 2015); Pennsylvania Power Co. Phase III EE&C Plan, Docket No. M-2015-2514769, Tables 1A, 7B-Gross, 7A-Net, 7B-Net (Nov. 23, 2015); West Penn Power Co. Phase III EE&C Plan, Docket No. M-2015-2514772, Tables 1A, 7B-Gross, 7A-Net, 7B-Net (Nov. 23, 2015); PECO Energy Co. Phase III EE&C Plan, Docket No. M-2015-2515691, pp. 19, 139-40 (March 31, 2016).

Further, the Commission has expressed an interest in encouraging CHP projects throughout Pennsylvania, noting their potential for substantial energy savings. *See Proposed Policy Statement on Combined Heat and Power*, Docket No. M-2016-2530484, pp. 1-8 (Order Entered Mar. 9, 2016). Therefore, even though the customers' projects may not be cost-effective under the Commission's current TRC Test, their inability to meet the TRC Test should not automatically exclude them from participating in the Custom Program.

31. Based on the foregoing, PPLICA's argument that costs associated with non-cost-effective programs and measures are unreasonable and imprudent should be rejected.

**IV. CONCLUSION**

WHEREFORE, for all the foregoing reasons, as well as those more fully explained in the Staff Action, PPL Electric Utilities Corporation respectfully requests that the Pennsylvania Public Utility Commission deny the Petition for Appeal of Staff Action filed by the PP&L Industrial Customer Alliance and adopt the Staff Action without modification.

Respectfully submitted,



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Date: November 28, 2016

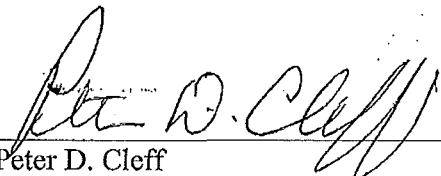
Attorneys for PPL Electric Utilities Corporation



**VERIFICATION**  
**(Docket No. M-2015-2515642)**

I, Peter D. Cleff, being the Manager-Energy Efficiency Programs and Evaluation at PPL Electric Utilities Corporation, hereby state that the facts set forth are true and correct to the best of my knowledge, information and belief and that I expect that PPL Electric Utilities Corporation to be able to prove the same at a hearing held in this matter. I understand that the statements herein are made subject to the penalties of 18 Pa.C.S. § 4904 relating to unsworn falsification to authorities.

Date: November 28, 2016

  
\_\_\_\_\_  
Peter D. Cleff