

May 12, 2020

VIA EFILE

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility
Commission Commonwealth
Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

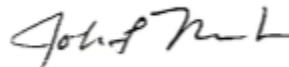
**Re: Phase IV Tentative Implementation Order;
Docket No. M-2020-3015228**

Dear Secretary Chiavetta:

Enclosed herewith for filing are the Reply Comments of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company to the Pennsylvania Public Utility Commission's March 12, 2020 Tentative Implementation Order.

Please contact me if you have any questions regarding this matter.

Very truly yours,


John L. Munsch

JLM:dml

Enclosure

cc: Joseph Sherrick, josherrick@pa.gov
Adam Young, adyoung@pa.gov

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Tentative Implementation Order: Docket No. M-2020-3015228

**REPLY COMMENTS OF METROPOLITAN EDISON
COMPANY, PENNSYLVANIA ELECTRIC
COMPANY, PENNSYLVANIA POWER COMPANY
AND WEST PENN POWER COMPANY TO THE
TENTATIVE IMPLEMENTATION ORDER**

Background

Act 129 of 2008, 66 Pa. C.S. § 2806.1 (“Act 129”), required the Commonwealth’s largest electric distribution companies (“EDCs”) to develop energy efficiency and conservation (“EE&C”) programs. From an implementation standpoint, Act 129 required the Pennsylvania Public Utility Commission (“Commission”) to evaluate the costs and benefits of: 1) the Phase I energy consumption program; and 2) the Phase I peak demand reduction program by November 30, 2013. The Commission determined in its Phase II Implementation Order that additional reductions in consumption were cost-effective and prescribed targets to be met by May 31, 2016,¹ however, the Commission did not have enough information to determine the cost-effectiveness of peak demand reduction programs and only permitted EDCs to voluntarily offer cost-effective demand reduction programs.² The Commission determined in its Phase III Implementation Order that additional reductions in the consumption and peak demand were cost-effective and therefore

¹ See *Energy Efficiency and Conservation Program Implementation Order*, p. 24 (Docket Nos. M-2012-2289411 and M-2008-2069887 (Order entered Aug. 2, 2014)).

² *Id.* at 32, 33, 42 and 43.

prescribed reductions in consumption and peak demand targets to be met by May 31, 2021.³ In accordance with Act 129’s directives, the Commission initiated several activities to determine whether additional incremental consumption and peak demand reduction targets for Phase IV, for a period of time after May 31, 2021, should be adopted and, if so, at what levels. The Commission tasked the Phase III Statewide Evaluator (“SWE”) with performing an energy efficiency and peak demand reduction (“EEPDR”) potential study, as well as a dispatchable demand response (“DDR”) potential study to determine the cost-effective consumption and peak demand reduction potential in Pennsylvania. The SWE submitted its final *Pennsylvania Act 129 Phase IV Energy Efficiency and Peak Demand Reduction Market Potential Study* and *Pennsylvania Act 129 Phase IV Demand Response Potential Study* to the Commission on February 28, 2020.⁴ The EEPDR and DDR Potential Studies were released publicly via Secretarial Letter served March 2, 2020.⁵

On March 12, 2020, the Commission entered a Tentative Implementation Order (“Tentative Order”) outlining its proposed requirements for Phase IV EE&C Programs beginning June 1, 2021 and requesting that stakeholders submit comments by April 27, 2020 and reply comments by May 12, 2020. Metropolitan Edison Company (“Met-Ed”), Pennsylvania Electric Company (“Penelec”), Pennsylvania Power Company (“Penn Power”) and West Penn Power Company (“West Penn Power”) (collectively, the “Companies”) submitted Comments on the Tentative Order on April 27, 2020. The Companies offer the following Reply Comments for Commission consideration. In addition, the Companies support the Reply Comments filed by the Energy Association of Pennsylvania in this matter.

³ See *Phase III Final Implementation Order* Docket No. M-2014-2424864, p. 12 (Order entered June 19, 2015).

⁴ See *Pennsylvania Act 129 - Phase IV Energy Efficiency and Peak Demand Reduction Market Potential Study Report*, submitted by Optimal Energy, Inc., et. al., February 28, 2020; *Pennsylvania Act 129 - Phase IV Demand Response Potential Study*, submitted by Demand Side Analytics, Inc., et. al., February 2020.

⁵ See *Release of the Act 129 Statewide Evaluator Energy Efficiency and Peak Demand Reduction Market Potential and Demand Response Potential Studies and Stakeholder Meeting Announcement* Secretarial Letter, Docket No. M-2020-3015229 served March 2, 2020.

Summary of Companies' Reply Comments

The Companies offer the following summary of their Reply Comments followed by the full Reply Comments in the same sequential order as in the summary.

1. Phase III excess budget should not be used to increase Phase IV targets.

The Companies disagree with the commenters who propose to use unspent Phase III budgets on Phase IV programs and agree with the Commission proposal that EDCs begin Phase IV using only their Phase IV budgets. Unspent Phase III budgets should not be used to increase the Phase IV EE&C budgets beyond the budget caps established in Act 129. Act 129 establishes a 2% budget or spending cap and increasing the Phase IV EE&C budgets for any reason such as those proposed by the commenters would result in exceeding the spending cap.

2. The full Phase III savings carryover should be counted toward compliance with Phase IV targets.

The Keystone Energy Efficiency Alliance (“KEEA”)⁶ recommends that only 50 percent of carryover savings be counted toward the Phase IV targets. The Companies strongly disagree. As included in the Tentative Order, full carryover of Phase III excess savings should be allowed into Phase IV to encourage the EDCs to maximize carryover savings recognizing the value of the reductions achieved by and paid for by ratepayers to both customers and the EDCs. Counting less than the full amount of carryover savings would unnecessarily increase compliance costs in Phase IV.

⁶ KEEA states that it is a Pennsylvania trade organization for the energy efficiency industry and that its membership consists of more than 70 companies ranging from small, local businesses to multinational corporations.

3. **The Companies recommend that the Commission direct the implementation of Phase IV beginning June 2021 as outlined in the Tentative Order, and further, that the Commission recognize a force majeure process for modifying targets.**

The Companies oppose delaying the start of Phase IV due to COVID-19, and instead recommend that the Commission start Phase IV as scheduled on June 1, 2021 and include a provision in its Final Phase IV Order to amend the Phase IV EDC targets and requirements to the extent that factors beyond the utilities control are the basis for under-performance. There is no benefit to a delay in the start of Phase IV and any delay would result in unnecessary time, effort and expense to redo the Phase IV planning activities already completed.

4. **Large commercial and industrial (“C&I”) customers should not be allowed to opt out without targets adjusted accordingly.**

Although certain parties recommend that large C&I customers be permitted to opt-out of participation of the Act 129 programs, no such opt-out process can be implemented without corresponding reductions in the SWE’s estimated market potential study (“MPS”) and the resulting utility energy and demand targets. Allowing large C&I customers to opt out of EE&C programs without corresponding reductions in targets will make the established targets unreasonable and likely unattainable and put the EDCs at increased risk of mandatory Act 129 penalties.

5. **It is appropriate to use coincident peak demand targets towards EDC demand reduction targets.**

The Companies concur with the Commission’s proposal to use coincident peak demand reductions from EE&C measures to establish peak demand reduction targets versus mandating DDR programs as recommended by certain parties.

6. It is unreasonable and overly burdensome to allocate PJM Interconnection, LLC (“PJM”) revenues back to individual customers.

The Companies recommend that the Commission should not adopt the recommendation to allocate PJM revenues back to individual customers, as the tracking and allocating of PJM full capacity market (“FCM”) revenues back to specific customers would be unreasonable, overly burdensome and costly to administer.

7. The Commission should not require additional program design requirements or carve-outs.

The Commission should reject recommendations to impose additional program design requirements and provide the EDCs with the necessary flexibility to design and implement programs across all customer classes to meet their targets in a cost-effective manner.

8. Phase IV acquisition costs are not inappropriately high.

The Companies disagree with the Office of Consumer Advocate (“OCA”) that the Phase IV acquisition costs are inappropriately high when compared to the historical average. As a result of standard changes and reduced market potential, it is fully expected that future acquisition costs will be significantly higher than historical averages.

9. The Commission should not adopt the Industrial Customers’⁷ recommendation to add additional conservation service provider (“CSP”) cost reporting requirements and the CSP competitive bidding process should allow contracts with CSPs to remain confidential.

The recommendation by the Industrial Customers for the Commission to require that CSP costs be reported for each measure is overly broad and administratively burdensome and would add unnecessary costs. Further, requiring disclosure of proprietary and confidential

⁷ The Industrial Customers group states that it is composed of the Pennsylvania Consumers Alliance, the Met-Ed Industrial Users Group, the Penelec Industrial Customer Alliance, the Philadelphia Area Industrial Energy Users Group, the PP&L Industrial Customer Alliance, and the West Penn Power Industrial Intervenors.

information of vendors would disrupt the competitive marketplace, may restrict vendor participation in the Act 129 programs, and has the potential to increase costs for the programs.

10. Low-income targets and requirements should not be increased for Phase IV.

The Companies oppose recommendations by certain parties to increase carve-out targets and impose additional requirements for the Act 129 low-income programs. Increasing the targets as suggested by the OCA, by the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (“CAUSE-PA”)⁸ and by the Commission on Economic Opportunity⁹ would increase the administration and acquisition costs to target greater customer participation for both the low-income sector and result in the need to reduce EE&C programs’ overall energy consumption and demand reduction targets.

11. New carve-outs are not needed for Government, Nonprofit and Institutional (“GNI”) customers.

The Companies fully support the Commission proposal to not specify a carve-out for the GNI sector, and for the same reasons recommends that the Commission not adopt a Governmental (“G”) carve-out for Phase IV of Act 129 as recommended by certain parties.

Companies’ Reply Comments

The Companies elaborate on the foregoing summary and offer the following full Reply Comments in response to Comments filed by various parties.

⁸ CAUSE-PA states that is an unincorporated association of low-income individuals that advocates on behalf of its members to enable consumers of limited economic means to obtain and maintain affordable utility services.

⁹ The Commission on Economic Opportunity states that it is a community action agency serving low-income households in Luzerne County, Pennsylvania.

1. Phase III excess budget should not be used to increase Phase IV targets.

Several parties provided comments regarding Phase III excess budgets. For example, CAUSE-PA recommends that the unspent Phase III dollars be rolled over to Phase IV and used to offset the cost of health and safety measures. The Environmental Stakeholders¹⁰ suggested that the Commission should allow EDCs to carry over excess budget funds from Phase III to Phase IV, but EDCs should be required to spend such funds on energy efficiency measures for low-income ratepayers. Additionally, the Environmental Stakeholders propose that if rollover savings credits are expected from Phase III, the credits should be treated as measures with zero additional acquisition cost in Phase IV, and Phase IV targets should be raised proportionally. The PA Energy Efficiency for All Coalition (“PA-EEFA”)¹¹ states that it disagrees with the Commission's proposal to refund any unspent Phase III budgets to customers at the beginning of Phase IV and suggests that the funding be used to increase the reach of the programs by utilizing any unspent Phase III funds in Phase IV for those affected by COVID-19. The Companies disagree as the benefits of the carryover proposed in the Tentative Order would be undermined, and targets would be raised arbitrarily.

As with earlier phases of EE&C programs, the Tentative Order appropriately allows the EDCs the full Phase IV budget, regardless of Phase III spending and consumption reduction target attainment. The Commission properly recognizes that the utilities are at risk of possible penalties should they not meet their targets. It also recognizes the importance of the EDCs’ specific programs not lapsing which could cause customer confusion, disrupt the market

¹⁰ The Environmental Stakeholders group states that it is composed of the Sierra Club, the National Resources Defense Council, Citizens for Pennsylvania’s Future, the Clean Air Council, Philadelphia Climate Works, POWER, and 350 Philadelphia.

¹¹ PA-EEFA states that it is a group composed of ACTION-Housing, Community Legal Services, The Housing Alliance of Pennsylvania, the Green & Healthy Homes Initiative, Keystone Energy Efficiency Initiative, and the National Housing Trust.

and increase transition costs between phases. Additionally, the Commission recognizes that program measures installed and commercially operable on or before May 31, 2021, as well as CSP or administrative fees related to Phase III, are considered Phase III expenses. In this instance, the Commission proposes allowing EDCs to utilize their Phase III budgets past May 31, 2021 to account for program measures installed and commercially operable on or before May 31, 2021, and to finalize CSP evaluation, measurement and verification (“EM&V”), and reporting expenditures related to Phase III.

The Companies disagree with the commenters who propose to use unspent Phase III budgets on Phase IV programs and agree with the Commission proposal that EDCs begin Phase IV using only their Phase IV budgets. The Tentative Order states: “We do not believe it to be sound policy to continue spending Phase III budgets in Phase IV on Phase IV plan implementation when those monies could be refunded back to the appropriate rate classes. To clarify, we propose that on June 1, 2021, the EDCs would only use Phase III budgets to close out program delivery, EM&V, and reporting obligations for measures installed and commercially operable on or before May 31, 2021. The EDCs would not be allowed to use Phase III funds for Phase IV plans.”¹² Further, the Companies’ position is that unspent Phase III monies should not be used as a mechanism to increase the Phase IV EE&C budgets beyond the budget caps established in Act 129. Act 129 clearly establishes a 2% budget or spending cap and increasing the Phase IV EE&C budgets for any reason such as those proposed by the commenters would result in exceeding the spending cap.

¹² Tentative Order, p. 69.

2. The full Phase III savings carryover should be counted toward compliance with Phase IV targets.

Per its Phase III Implementation Order, the Commission directed EDCs to continue their programs through the end of each phase even if consumption reduction targets have been met. As noted in their Comments, the Companies agree with continuing the process associated with carryover savings established for Phase III into Phase IV where the Tentative Order allows EDCs to count savings attained in Phase III in excess of their targets and apply them towards their Phase IV targets. KEEA recommends that only 50 percent of carryover savings be counted toward the next phase. The Companies strongly disagree with KEEA's recommendation.

Adopting an arbitrary discount on the carryover savings achieved by the Companies and paid for by customers will diminish the value of the reductions to both customers and the EDCs, as well as undermine the encouragement for EDCs to maximize Phase III savings. KEEA's recommendation would also minimize the contribution achieved savings have on reducing energy consumption and potentially increases program costs in Phase IV. KEEA asserts that allowing 50 percent of that amount would still provide an incentive to EDCs for overperformance, but in actuality would only serve to provide a disincentive for programs to continue as it would not allow counting for full compliance. As proposed in the Tentative Order, savings carryover is already limited to only those savings attained in Phase III in excess of targets.

Finally, the full implications and current uncertainty surrounding the COVID-19 pandemic and residual effects both on Phase III and into Phase IV are unclear and will not be fully understood for a very long time. This has already impacted program operations during Phase III and will restrict the opportunity for carryover savings into Phase IV, and

potentially the ability or interest of customer participation in the Phase IV programs. The Companies agree with the recommendation in the Tentative Order that full carry over of Phase III excess savings should be allowed into Phase IV to encourage the EDCs to maximize carryover savings to both customers and the EDCs.

3. The Companies recommend that the Commission direct the implementation of Phase IV beginning June 2021 as outlined in the Tentative Order, and further that the Commission recognize a force majeure process for modifying targets.

The OCA, the Industrial Customers, and Industrial Energy Consumers of Pennsylvania (“IECPA”)¹³ recommend extending Phase III and delaying the start of Phase IV due to the current COVID-19 pandemic. The Companies do not agree with recommendations to delay the start of Phase IV by any amount of time and encourage the Commission to implement Phase IV on June 1, 2021.

Extending Phase III and postponing Phase IV would be a complex and burdensome exercise. EDCs, the Commission and parties, and ultimately the public, have expended significant effort and costs into Phase IV planning to date, including the Market Baseline Study, Market Potential Studies, Technical Reference Manual, Total Resource Cost Test, and the Tentative Implementation Order. An extension of Phase III would pose unique challenges and considerations. Phase III EE&C targets, requirements and funding could require revision, as could EE&C program plans to address the extension. There would also be incremental administrative activities and costs associated with amending existing contracts

¹³ IECPA states that its membership consists of Air Products & Chemicals, Inc.; AK Steel Corporation; ArcelorMittal USA LLC; Arconic, Inc.; Benton Foundry, Inc.; Carpenter Technology Corporation; Domtar Paper Company, LLC; East Penn Manufacturing Company; Keystone Cement; Knouse Foods Cooperative, Inc.; Marathon Petroleum Corporation; Praxair, Inc.; Proctor & Gamble Paper Products Company; and United States Gypsum Company.

or procuring services with conservation service providers to support implementation of the Phase III programs beyond May 31, 2021. For example, there may not be sufficient budget remaining for certain programs to continue, and absent expansion of utility program budgets, such as through filing time-intensive Plan changes with the Commission to transfer or increase program budgets, some programs may lapse, resulting in customer confusion, loss of market continuity, and in increase in costs between phases. Given that there is neither a precedent nor a timeframe to understand all the impacts of the COVID-19 pandemic, any delay is arbitrary and will only introduce highly speculative assumptions into the planning process for Phase IV. The Companies recommend, therefore, that demand targets for the final year of Phase III be voluntary. This recommendation mitigates the concerns of all parties suggesting that Phase III be extended or Phase IV be delayed, while leveraging all of the effort, time and funding to date for Phase IV planning activities and avoiding the additional and unnecessary effort, time and funding that would be required to extend Phase III or delay Phase IV.

The Companies' position with respect to making the demand targets for the final year of Phase III voluntary is expressed in the Petition of the Energy Association of Pennsylvania filed on behalf of the major Pennsylvania EDCs on May 1, 2020 at Commission Docket No. M-2014-2424864.

The Companies further recommend that the Commission include a provision and process in its Final Phase IV Order to allow amendment of the Phase IV EDC targets and requirements to ensure that targets may be modified upon request of an EDC when the EDC faces issues beyond its control which may lead to program under-performance. The additional process for Phase IV would allow the Commission to revise targets due to "force majeure" events, outside the reasonable control of EDCs, such as the COVID-19 pandemic, that may render energy

or demand reduction targets impractical. Such a procedure could be similar to the process established in the Alternative Energy Portfolio Standards Act,¹⁴ and Commission regulations promulgated thereunder,¹⁵ whereby EDCs could initiate process for a Commission determination that targets are no longer achievable. Such a process would be appropriate in the light of current conditions, given that EDC targets are set for a full five-year period up to six-years into the future that may entail unforeseeable, unavoidable difficulties. To emphasize: the Companies oppose any delay to the start of Phase IV and encourage the Commission to implement Phase IV on June 1, 2021 as provided in the Tentative Order.

4. Large C&I customers should not be allowed to opt out without targets adjusted accordingly.

Both IECPA and the Industrial Customers propose that large C&I customers should be permitted to opt out of Act 129 EE&C programs since some of these customers have chosen to make investments in energy efficiency in pursuit of energy or demand savings. The Companies oppose the proposal of the Industrial Customers on grounds that customer opt-outs are a drastic departure from both Act 129 and the SWE's MPS upon which the targets are based. Customer opt-outs will negatively impact the ability of each EDC to meet energy savings and demand reduction targets and substantially increase the risk of mandatory penalties. Furthermore, the proposal conflicts with the intent of Act 129 that provides "each plan includes a variety of energy efficiency and conservation measures and will provide the measures equitably to all classes of customers."¹⁶

¹⁴ 73 P.S. § 1648.1, *et seq.*

¹⁵ 52 Pa. Code § 75.66.

¹⁶ 66 Pa. C.S. § 2806.1(a)(5).

Act 129 and the Commission's Tentative Order are constructed in a manner that balances many requirements including the reduction of energy demand and consumption, providing programs to all classes of customers, achieving reductions within specific sectors and ultimately the cost-effectiveness of the plans and cost to customers. All these considerations were included in the MPS upon which the targets and other requirements are based. Allowing large C&I customers to opt out of the EE&C programs without having targets adjusted accordingly significantly disrupts the balance provided under Act 129 and the Tentative Order and will shift costs to other classes of customers. The Companies recommend that the Commission not allow large C&I customers to opt out of the EE&C programs.

5. It is appropriate to use coincident peak demand targets towards EDC demand reduction targets.

The Companies concur with the Commission's proposal to use coincident peak demand reductions from energy efficiency ("EE") measures to establish peak demand reduction targets versus utilizing DDR programs. The SWE's analysis of the reduced DDR avoided cost benefits, the risks and complexities of PJM's peak shaving adjustment program, and the Commission's preference for lasting peak demand reductions from EE measures versus single-year reductions from DDR programs justify such an approach for Phase IV. However, the Companies do not oppose the OCA recommendation that, to the extent an EDC is able to cost-effectively meet its potential consumption reduction, along with a demand response program, the EDC should be able to file a demand response program as part of its plan and include any such peak demand reduction attained toward its target.

Several commenters stated that it is imperative that utilities embrace dynamic pricing and offer time-of-use rates to customers so that they can take advantage of the lower

electricity costs that utilities enjoy during off-peak periods. The Companies believe that time-of-use rates are more appropriate for the generation portion of the customer's bill than for the distribution portion of the bill since generation costs differ based on the time of use. The Companies point out that they have already implemented Time-of-Use Default Service Riders designed to provide incentives to customers to alter their usage to take advantage of lower off-peak generation rates. However, the cost of providing distribution service is largely determined by fixed costs that do not vary with the amount of usage or the time of day when usage occurs

The Environmental Stakeholders further commented that the Commission should require that the targets set for peak demand reduction be enforced annually subject to penalty under 66 Pa. C.S. § 2806.1(f). The Companies respond that the Tentative Order proposes that the EE&C plans are designed to achieve at least 15 percent of goals in each of the program years; however, it does not subject the EDCs to annual compliance targets or penalty provisions in each of the program years. This is entirely consistent with the Commission's determination of the Phase IV consumption reduction targets. The Companies recommend that the Commission should determine compliance with both the consumption and demand reduction targets based on the sum of the incremental annual savings over the term of Phase IV, and not annually. Many factors can impact the performance of the programs on an annual basis including business and economic conditions and customer attitudes and preferences that all change over time for various reasons. Recognizing this, determining compliance based on the sum of incremental annual savings over the term of Phase IV provides the EDCs with a degree of flexibility to react to changing conditions to meet reduction targets.

6. It is unreasonable and overly burdensome to allocate PJM revenues back to individual customers.

In its comments, IECPA proposes that PJM FCM revenues should be allocated back to the individual customers who provided the energy efficiency resource. The Companies recommend that the Commission not adopt this approach, as the tracking and allocating of PJM FCM revenues back to specific customers would be unreasonable, overly burdensome and costly to administer. The Companies anticipate having a large number of customers participating in its programs. Compounding the volume of participating customers is that PJM FCM revenues are received monthly, energy efficiency resources can receive PJM FCM revenues up to four years in the future, some of which would be beyond the term of Phase IV, and with continued or potentially increased annual site EM&V activities. Instead, the Commission should uphold its determination in the Tentative Order to allocate the revenues back to the customer classes from which the savings were acquired. Doing so appropriately balances the necessary administration associated with participating in the PJM markets and tracking the revenues with providing the revenues back to customers within the specific customer classes.

7. The Commission should not require additional program design requirements or carve-outs.

Two parties, CAUSE-PA and KEEA, commented that the Commission should direct EDCs to install types of measures such as those with a certain useful life or long-term measures. KEEA also proposes that the Commission require EDCs to devote an amount of their budgets to multifamily housing. These incremental program design requirements are both unnecessary and potentially restrict the ability of the Companies to design and implement their plans and meet their targets and will increase the cost of compliance. In designing their EE&C plans, the Companies consider more than 100 different measures including comprehensive

measures and measures with a long useful life. The Companies select the measures for each program and finalize program designs and budgets based on many factors including input from stakeholders, CSPs and vendors, and on the Companies' experience, historical program results, industry benchmarking, the overall EE&C budget and program costs, the MPS, and balance among customer classes and cost effectiveness results. Furthermore, many factors impact the ratio of administrative versus incentive costs including type of program, measures incented, delivery channel, marketing and customer participation across the mix of measures. The Companies provide stakeholders with opportunity to provide input to proposed EE&C programs prior to submission to the Commission for approval. The Commission should recognize the inherent uncertainty in the MPS, that there is no perfect mix of measures for each EDC, and that the actual measures implemented by customers will vary from the MPS for many reasons. The Commission should therefore provide the EDCs with the necessary flexibility to design and implement programs across all customer classes to meet Phase IV reduction targets in a cost-effective manner.

8. Phase IV acquisition costs are not inappropriately high.

Table 6 of the Tentative Order provides the proposed consumption reduction targets and underlying acquisition cost for all EDCs. The OCA comments that the acquisition costs developed by the MPS and subsequently adopted in the Tentative Order are significantly higher than current acquisition costs achieved in Phase III. The Companies agree with the conclusion from the SWE that the acquisition costs for Phase IV will be higher than what has been the historical average; however, the Companies disagree that costs in the Tentative Order are arbitrarily high and require further analysis by the SWE.

The MPS followed baseline changes including the significant reduction in residential lighting savings associated with the federal Energy Independence and Security Act.¹⁷ Residential lighting savings prior to the Energy Independence and Security Act accounted for a significant amount of savings at a very low acquisition cost. For this reason alone, it is illogical to compare historical Phase III average acquisition costs, where measures were assumed to count for significantly more savings, to the acquisition costs generated for Phase IV and expect them to be comparable and used for setting Phase IV targets and budgets. The OCA acknowledges that as programs mature and the utilities offer more comprehensive portfolios, it is anticipated that acquisition costs will increase, which in turn will decrease the level of savings that can be achieved based upon the budget limitations of Act 129. The Companies believe that acquisition costs should reflect that reality. Finally, with respect to the acquisition costs of West Penn Power, which are substantially lower than other Pennsylvania EDCs, the Companies recommend that the Commission also consider the level of uncertainty and amount of assumptions included in the MPS, especially given the study timeframe, as well as customer rates and the Commission's desire for EDCs to have a greater focus on comprehensive programs and measures, in setting the targets and acquisition costs for West Penn Power more in line with the other EDCs.

9. The Commission should not adopt the Industrial Customers' recommendation to add additional CSP cost reporting requirements and the CSP competitive bidding process should allow contracts with CSPs to remain confidential.

The Industrial Customers recommend that CSP costs for each EE&C measure be reported by the EDCs in their annual reports and be separately stated from any compensation that is provided to the customers of the CSP service. The Companies disagree with the Industrial

¹⁷ Energy Independence and Security Act of 2007, 42 U.S.C. § 17001 *et seq.*

Customers' proposal for various reasons. First, adding a requirement that CSP costs be reported for each measure is overly broad and administratively burdensome. Further, CSP costs including incentives paid to customers and administrative costs are already reported at the program level in the EDC reports. The Companies' current EE&C plans include over 150 measures and adopting this proposal would require significant changes to the tracking and reporting processes and systems by both the EDCs and CSPs, causing incremental and unnecessary administration cost by all parties involved. The Industrial Customers also recommend that the Companies' CSP contract review process be public and transparent. This recommendation is contrary to generally accepted competitive bidding practices and potentially would disclose proprietary and confidential information of CSPs disrupting the competitive marketplace, restricting CSP participation and increasing costs for the programs. For these reasons, the Companies recommend that the Commission not adopt the Industrial Customers' recommendations.

10. Low-income targets and requirements should not be increased for Phase IV.

The Tentative Order requires each EDC to obtain a minimum of 5.8% of its total consumption reduction target from programs solely directed at low-income customers or low-income participants in multifamily housing programs. Comments submitted by the OCA, by CAUSE-PA and by the Commission on Economic Opportunity suggest that the low-income savings targets are understated. The Companies disagree and state that low-income targets established in the Tentative Order are based on the MPS and the SWE analysis of a set budget carve-out. Setting the targets at a portion of the potential is fully appropriate in that doing so recognizes the inherent uncertainty in the MPS as well as recognition that there is no perfect mix of measures for each EDC and that the actual measures implemented by customers will vary from the MPS for many reasons. Furthermore, programs for low-income have been in place for a long

time, and many customers are already served through these programs reducing the availability of customers to serve. Increasing the targets as suggested by the OCA, CAUSE-PA and Commission on Economic Opportunity would increase the administration and acquisition costs to identify and target greater customer participation for both the low-income sector and the EDC's portfolio of programs for Phase IV, and would reduce the EE&C programs' overall energy consumption and demand reduction targets.

The Companies also believe that CAUSE-PA's suggestion to add a requirement that a percentage of the low-income target come from direct installation measures is overly aggressive and unnecessary and will also cause significant budget increases to the low-income programs. The Companies' current Act 129 low-income programs include direct installation programs and the Companies fully anticipate these will continue in Phase IV to help meet the low-income carve-out and portfolio targets. Suggesting additional requirements for direct installation measures fails to recognize the existing programs as well as the robust and comprehensive direct-install low income usage reduction programs ("LIURP") and would unnecessarily increase program administration efforts and budgets for low-income programs.

Similarly, the Companies believe the suggestion by CAUSE-PA to include a 20% carve-out for multifamily programs is also overly aggressive and unnecessary and will also cause significant budget increases to the EDCs. The Companies currently have multifamily programs that include direct installation measures targeted to the low-income sector and works diligently with the Pennsylvania Housing Finance Agency in promoting and targeting programs for multifamily housing. The Companies also note that the type and number of multifamily buildings varies among service territories and, as such, the EDCs should be given the flexibility to design their programs based on their unique service territories.

Lastly, the Companies do not agree that additional requirements are necessary to make a greater and more explicit effort to coordinate the Act 129 low-income programs with financial assistance programs. The Companies already combine the Act 129 low-income program enrollment and application process with their customer assistance programs and LIURP application processes.

In designing their EE&C plans, the Companies consider measures and programs for all customer classes, including direct install, multifamily and comprehensive measures, and programs for low-income customers. The Companies select the measures for each program and finalize program designs and budgets based on many factors such as input from stakeholders, CSPs and vendors, and such as the Companies' experience, historical program results, industry benchmarking, the overall EE&C budget, and cost effectiveness results. The Companies provide stakeholders with opportunity to provide input to the EE&C programs and measures prior to submission to the Commission for approval. The Companies recommend that the Commission reject the recommendations by the OCA, CAUSE-PA, the Commission on Economic Opportunity and PA-EEFA to increase the low-income targets and requirements as the recommendations are unnecessary and would unnecessarily increase the administration and acquisition costs of the Act 129 low-income programs.

11. New carve-outs are not needed for GNI customers.

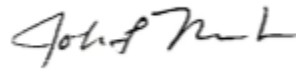
The Environmental Stakeholders suggest a "G" carve-out that sets savings targets for government buildings to be met by each EDC. The Companies fully support the Commission proposal not to specify a carve-out for the GNI sector and for the same reasons recommend that the Commission not adopt a "G" carve-out for Phase IV. Based on the Companies' experience in providing programs to GNI customers to date, the GNI sector can produce a significant share in

Phase IV consumption reductions at a comparable acquisition cost to the broader small and large commercial and industrial customer classes without a specific compliance target. The Companies' current C&I programs have been successful in achieving and supporting participation among its GNI customers including government customers in a cost-effective manner, and the SWE's findings and the Commission's proposal to not require a sector carve out fully aligns with the Companies' experience in providing programs to these customers. The Companies further comment that not having a specific compliance target or carve-out supports administrative efficiencies versus requiring duplicative, overlapping or unnecessary administrative and programmatic structures and provides the EDCs with greater flexibility to design and implement cost-effective programs to meet the needs of their customers.

Conclusion

Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company appreciate the opportunity to provide reply comments on the Commission's Tentative Order regarding the Phase IV EE&C Implementation. The Companies look forward to working with the Commission and the other parties on this matter.

Respectfully submitted,



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