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May 12, 2020

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

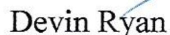
Re: Energy Efficiency and Conservation Program
Docket No. M-2020-3015228

Dear Secretary Chiavetta:

Enclosed for filing please find the Reply Comments of PPL Electric Utilities Corporation on the Tentative Implementation Order issued in the above-referenced proceeding.

Copies are being provided electronically only, as indicated on the Certificate of Service, due to the current closure of all non-life sustaining businesses in the Commonwealth upon direction of Governor Wolf.

Respectfully submitted,



Devin Ryan

DTR/jl
Enclosure

cc: Certificate of Service
Joseph Sherrick (*Via E-mail*)
Adam Young (*Via E-mail*)

CERTIFICATE OF SERVICE

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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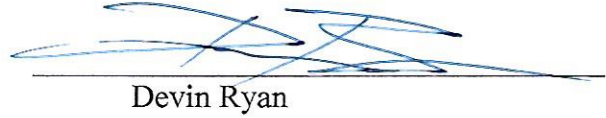

Devin Ryan

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Energy Efficiency and Conservation Program	:	Docket No. M-2020-3015228

REPLY COMMENTS OF
PPL ELECTRIC UTILITIES CORPORATION

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

PPL Electric Utilities Corporation ("PPL Electric" or the "Company"), by and through its attorneys, in accordance with the Pennsylvania Public Utility Commission's ("Commission") March 12, 2020 Tentative Implementation Order,[1] hereby submits these Reply Comments in response to the Comments filed by various parties on or about April 27, 2020.

I. BACKGROUND

In the Tentative Implementation Order, the Commission issued, for public comment, its proposals for implementing Phase IV of the Energy Efficiency and Conservation ("EE&C") Program. The Commission requested that interested parties file written Comments on the Tentative Implementation Order by April 27, 2020, after which Reply Comments would be due by May 12, 2020. In accordance with that schedule, PPL Electric filed its Comments on April 27, 2020.

[1] *See Energy Efficiency and Conservation Program*, Docket No. M-2020-3015228 (Order Entered Mar. 12, 2020) ("Tentative Implementation Order").

PPL Electric will not respond to each issue raised in the Tentative Implementation Order and the other parties' Comments. Instead, PPL Electric will focus on those issues of the utmost importance to the Company.

II. REPLY COMMENTS OF PPL ELECTRIC

In their Comments, many of the parties recommended additional mandatory requirements that would place substantial burdens on the electric distribution companies ("EDCs") in designing their EE&C programs, such as requirements for low-income multifamily savings and direct install savings. When evaluating these recommendations, the Commission must bear in mind that it is difficult for EDCs to balance often-conflicting priorities and objectives when designing and implementing their EE&C Plans. The EDCs have a statutorily-mandated budget for their EE&C Plans, which they cannot exceed. At the same time, they must achieve a series of savings targets or face the risk of significant civil penalties. Every new mandatory requirement that is added makes it exceedingly difficult to design an EE&C Plan that can achieve all of the required targets while remaining under budget.

As a result, the Commission should exercise restraint in adopting any of the commenters' proposals that would impose additional mandatory requirements on the EDCs. Indeed, if there are a lot of prescriptive requirements (such as the measures and programs that can or cannot be included or restrictions on how programs should be administered or coordinated), it is equivalent to "designing EE&C Plans" and limiting the EDCs' ability to meet compliance targets within budget. Given that EDCs are the ones who face the risk of significant civil penalties if they fail to meet the savings targets established by the Commission, EDCs must have the flexibility to design their EE&C Plans as they see fit. To the extent that parties have issues with the design of the EE&C Plans, then they can raise those issues in the individual EE&C Plan proceedings. Now is not the time, however, to impose more restrictions on the Phase IV EE&C Plans,

especially in light of the impact of the COVID-19 outbreak. Therefore, the Commission should generally refrain from imposing additional prescriptive requirements on EDCs in Phase IV, as some commenters have suggested.

A. IMPACT OF COVID-19 ON PHASE IV

1. The Commission Should Reduce PPL Electric's Overall Energy Consumption Reduction and Peak Demand Reduction Targets Due to the Impact of the COVID-19 Pandemic

Several parties observed in their Comments that the outbreak of COVID-19 needs to be considered by the Commission when establishing the requirements and targets for Phase IV of Act 129 EE&C.[2] Not only will the pandemic most likely affect the savings targets that are reasonably achievable by the EDCs, but the outbreak prevented PPL Electric and other interested stakeholders from asking the Statewide Evaluator ("SWE") questions about the SWE's assumptions underlying the EEPDR and DDR Potential Studies.[3] PPL Electric supports the Comments acknowledging this uncertainty, as the outbreak of COVID-19 may negatively affect PPL Electric's programs in significant ways.

As a preliminary matter, the residential lighting market has largely transformed across all bulb types, rendering standard upstream lighting programs no longer cost-effective or viable. Therefore, PPL Electric's residential Efficient Lighting program – traditionally a significant contributor to overall electric savings – will be phased out at the end of Phase III and will no longer apply in Phase IV.

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[2] *See, e.g.*, CAUSE-PA Comments, pp. 3-5, 10; Duquesne Light Comments, p. 9; EAP Comments, pp. 2-7; FirstEnergy Comments, pp. 15-16; IECPA Comments, pp. 2-3; KEEA Comments, pp. 2-4; OCA Comments, pp. 1-6; PA-EEFA Comments, pp. 4-5; PECO Comments, pp. 1-2, 8.

[3] In fact, the Energy Association of Pennsylvania ("EAP"), on behalf of its member EDCs including PPL Electric, propounded a Right to Know Law ("RTKL") request on the Commission asking for, among other things, the DDR Potential Study's assumptions. However, the Commission stated that after searching its records and consulting with the SWE, it could not find any records of those assumptions.

To compensate for the significant reduction in portfolio electric savings PPL Electric will experience from the loss of this program, the Company estimates that it will need to rely heavily on its non-residential programs for electric savings in Phase IV. Moreover, given the limited amount of residential demand response potential in the Company's service territory and the excessively high peak demand reduction target proposed by the Commission, PPL Electric would have to focus primarily on non-residential demand response.

However, the onset of COVID-19 in recent months creates significant uncertainty for PPL Electric's ability to achieve the level of savings anticipated given the challenges that many of its business customers are facing during the pandemic. Many businesses are currently experiencing unprecedented disruption and are facing an uncertain future. The length of this disruption and the speed at which recovery may occur are unknown. Businesses across the country are closing – some permanently – and more are likely to follow. The ability for businesses to recover is likely to vary widely across segments. Some businesses' ability to invest in non-essential capital upgrades could be hampered for years to come. The combined effects of the loss of residential lighting savings and the anticipated depressed economic conditions will, in all likelihood, negatively affect the electric savings and peak demand reduction potential in PPL Electric's territory. Thus, PPL Electric's ability to maintain historical savings and achieve its overall energy consumption reduction and peak demand reduction targets are cast into doubt.

For these reasons, because PPL Electric's assessment of potential was based on a set of economic conditions that have changed significantly in the intervening time period, the Company believes that the Commission should review and adjust these overall targets.

2. Allegations by OCA and CAUSE-PA about the Impact of COVID-19 on Phase IV

PPL Electric also would like to respond to certain claims by commenters about other potential or likely effects of the COVID-19 pandemic. In particular, both the Office of Consumer Advocate ("OCA") and the Coalition for Affordable Utility Service and Energy Efficiency in Pennsylvania ("CAUSE-PA") stated that the COVID-19 outbreak has increased the electricity being consumed by residential and low-income customers and, as a result, their bills for electric service.[4] Specifically, OCA stated on page 6 of its Comments:

> [T]he OCA believes that energy efficiency programs will be critical for residential customers as they contend with new and differing uses of their homes, increased energy usage and increased expenses as they remain at home, and possible reduced income from job loss or reduced hours.

Similarly, CAUSE-PA averred the following on pages 3 and 4 of its Comments:

> The full, long-term economic impact of these actions is not yet known or understood, though the immediate economic impact is painfully clear. Unemployment numbers have soared, and well over 1 million workers in Pennsylvania are currently unemployed. Basic living expenses – including electricity costs – have increased for families as they shelter in place at home, and Pennsylvania's economically vulnerable households are experiencing food insecurity on a level not seen or experienced in our lifetime. While utility terminations and evictions are temporarily on hold across the state, growing rent and utility arrears loom as we cautiously move toward a phased re-opening of our economy.

As seen above, both OCA and CAUSE-PA believe that residential and low-income customers are seeing and will continue to see an increase in usage from all members of the family being home all day. However, measures in the residential and low-income sectors are not estimated to produce significant amounts of peak demand reductions in Phase IV, due to the elimination of residential lighting measures. Indeed, in PY8 through PY10 of Phase III, there was a total of approximately 161 MW of peak demand reductions associated with energy

[4] OCA Comments, p. 6; CAUSE-PA, pp. 3-4.

efficiency measures. Of that 161 MW, approximately 85 MW came from residential programs, approximately 7 MW came from low-income programs, and approximately 69 MW came from non-residential programs. However, approximately 51 MW was from residential lighting measures. As a result, PPL Electric conservatively projects that approximately 30% of the peak demand reductions associated with energy efficiency measures will be eliminated in Phase IV and will not be able to contribute toward the peak demand reduction target. Thus, the Commission's proposed peak demand reduction target for PPL Electric will require a significant amount of the Phase IV EE&C Plan budget to be devoted to the non-residential sector. Thus, PPL Electric cannot allocate too much of its Phase IV budget to residential and low-income programs without being at a substantial risk of not achieving its peak demand reduction target.

In light of these concerns, PPL Electric believes that it would be much more prudent to reduce the proposed peak demand reduction target, as explained in Section II.A.1, *supra*. Such a change would allow the Company to allocate more of its Phase IV budget to residential and low-income programs and measures.[5]

Moreover, by enabling PPL Electric to devote more of its budget to residential and low-income customers, participating customers in those sectors would benefit from greater bill savings. Indeed, residential and low-income customers are billed on a kilowatt hour ("kWh") basis, rather than a kilowatt ("kW") basis like Large Commercial and Industrial ("Large C&I") customers. Consequently, energy efficiency measures will produce more direct bill savings to participating residential and low-income customers than demand response measures. Given the concerns expressed by OCA, CAUSE-PA, and others about the impact of COVID-19 on these customer sectors, it would be more appropriate to reduce the proposed peak demand reduction

[5] These concerns could further be alleviated by, as proposed in PPL Electric's Comments, allowing the Company to carry over the peak demand reductions associated with the excess Phase III electric savings.

target and enable PPL Electric to allocate more funding to energy efficiency measures for residential and low-income customers.[6]

3. SEF's Proposal to Increase the EDCs' Overall Energy Consumption Targets by 12.5%

Despite the impact of COVID-19, the Sustainable Energy Fund ("SEF") averred that overall energy consumption targets should be increased because EDCs exceeded compliance targets, were under budget, and delivered programs at a lower program acquisition cost than planned in Phase II and are trending that way in Phase III.[7] Consequently, SEF suggest that the Commission "consider increasing each EDC's target by 12.5%."[8] PPL Electric disagrees.

Prudent risk management practices require an EDC to exceed its savings targets and stay under the Act 129 funding cap. EDCs need to exceed the savings target to allow for after-the-fact evaluation adjustments to savings.[9] EDCs must stay under the funding cap because it is not possible to predict actual expenditures exactly, nor time expenditures so that the EDC hits the funding cap exactly on the last day of the phase, especially when EDCs will continue to incur costs well after the end of the final program year (for evaluation, reporting, program close-out, etc.).

PPL Electric recognizes that there are very disparate positions among the commenters about the mix of measures (and the resulting program acquisition cost and savings compliance target) and the emphasis of savings (and costs) across customer sectors (*e.g.*, low-income,

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[6] PPL Electric also notes that Small C&I customers' rates are charged on a per kWh basis, so they will have more direct bill savings by participating in energy efficiency programs instead of demand response programs.

[7] SEF Comments, p. 3.

[8] *Id.*

[9] EDCs determine reported gross savings in near real-time. However, verified gross savings (the basis of compliance) are determined by an EDC's independent evaluator in November, which is six months after the end of each program year. In addition, the SWE confirms the verified savings are acceptable the following January/February, which is approximately eight to nine months after the end of each program year.

Government, Nonprofit, and Institutional ("GNI"), Large C&I, Residential, Small C&I). PPL Electric believes there is not a single "right answer." Rather than establish a one-size-fits-all solution or constrain the EE&C portfolio to a specific mix of measures or customer sectors, PPL Electric and the other EDCs should retain flexibility in the design of their programs to achieve a reasonable overall energy consumption reduction target.

In addition, arbitrarily increasing the overall energy consumption reduction targets by 12.5%, as suggested by SEF, should be rejected. Nothing presented by SEF justifies increasing the EDCs' targets by that amount. The only explanation offered by SEF is a conclusory statement that "SEF believes, based on the Phase II and Phase III historical data, that the energy consumption targets should be increased by 12.5% for each EDC."[10] There is no actual data or analysis presented by SEF that demonstrates such a substantial increase in the overall energy consumption reduction target is achievable, especially given the very likely adverse impact of the COVID-19 outbreak on Phase IV EE&C programs.

Furthermore, as noted previously, the overall peak demand reduction target will require a substantial portion of the Company's budget to be devoted to peak demand reduction programs and measures. Yet, SEF fails to recognize the impact of its proposal on the EDCs' ability to achieve the overall peak demand reduction target. Indeed, any increase to the overall energy consumption reduction target will require additional funding to support the EE&C programs that will produce those savings, thereby reducing the funding available to demand reduction programs and measures. Thus, the Commission needs to keep these overall targets in balance and base them on prudent analysis of the reasonably achievable potential in each EDC's service territory, not an arbitrary percentage suggested by SEF.

[10] SEF Comments, p. 3.

B. LOW-INCOME COMPLIANCE TARGETS AND PROGRAMS

1. Low-Income Carve-out

Some parties recommended that the low-income savings carve-out be increased above the Tentative Implementation Order's proposed 5.8%.[11] For example, CAUSE-PA and the PA Energy Efficiency for All Coalition ("PA-EEFA") argued in their Comments that the low-income carve-out compliance target should be increased from the proposed 5.8% to 6.5%.[12] PPL Electric disagrees with these recommendations to increase the low-income savings carve-out.

As explained in PPL Electric's Comments, the Company believes that the low-income carve-out compliance target should actually be lowered from the Commission's proposed 5.8%.[13] In PPL Electric's Phase III EE&C Plan, the Company allocated approximately $47.2 million or 15% of its total budget to achieve the 5.5% low-income carve-out. Even before the COVID-19 outbreak, PPL Electric projected that it would spend most of its low-income budget to achieve the low-income savings target even with carryover savings.

However, to achieve a low-income savings carve-out of 6.5% in Phase IV, PPL Electric would have to allocate approximately 20-25% of the Company's total budget to fund low-income programs and measures. PPL Electric believes that a low-income carve-out of 6.5% would disadvantage customers in the other sectors disproportionately and make it exceedingly difficult (if not impossible) for the Company to achieve the Commission's proposed overall energy consumption and peak demand reduction targets within the maximum allowable budget.

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[11] *See* CEO Comments, pp. 1-2; CAUSE-PA Comments, pp. 8-10; PA-EEFA Comments, p. 15; *see also* OCA Comments, pp. 13-14 (suggesting that the Commission revisit the low-income sector's potential "as the low income minimum savings threshold could be increased if acquisition costs decrease."

[12] CAUSE-PA Comments, pp. 8-10.

[13] *See* PPL Electric Comments, pp. 8-10.

In fact, this recommendation would force PPL Electric to allocate almost all of the remaining dollars to the non-residential sector. Increasing the low-income carve-out to 6.5% would produce approximately 11.5 MW of peak demand reductions (*i.e.*, 4.5% of the 244 MW peak demand reduction target). However, PPL Electric would have to devote approximately 20-25% of its entire budget to the low-income programs to achieve the 6.5% low-income carve-out. Conversely, the remaining 75-80% of PPL Electric's total budget would have to, through a combination of non-low-income programs, achieve the remaining 233 MW (*i.e.*, 95% of the 244 peak demand reduction target).

This disparity will be exacerbated in Phase IV by the elimination of residential lighting. As seen in PPL Electric's PY10 annual report, the Company achieved 82 MW of peak demand reductions with approximately 51 MW coming from residential lighting. Therefore, assuming the Commission keeps PPL Electric's overall peak demand reduction target at 244 MW, PPL Electric cannot reasonably achieve both the overall peak demand reduction target and an increased low-income savings carve-out of 6.5%.

2. Low-Income Multifamily Carve-out

PA-EEFA and CAUSE-PA also recommended that 20% of the low-income carve-out savings be met through programs directed to multifamily housing.[14] PPL Electric disagrees with this recommendation.

It is inappropriate to establish a specific target for low-income multifamily savings because there are several barriers to implementing low-income measures in multifamily housing. For example, many landlords refuse to participate in low-income programs. In fact, in PPL Electric's experience, approximately 30-35% of landlords refuse to participate. This presents a

[14] PA-EEFA Comments, p. 18; CAUSE-PA Comments, p. 28.

significant obstacle to obtaining savings from low-income customers living in those multifamily buildings.

Also, despite these barriers, PPL Electric's multifamily outreach has been very successful, so a great number of multifamily buildings have already participated in the Company's EE&C programs. In total, the Company has treated approximately 41,000 low-income units with approximately 23,600 (57%) of those units being at approximately 1,360 multifamily facilities. These efforts resulted in 48% (27,400 MWh) of the Company's Phase III low-income savings carve-out (57,000 MWh) coming from multifamily jobs. Moreover, individually-metered multifamily participation has accounted for 30% of the Company's total Act 129 WRAP savings in Phase III.

PPL Electric aims to build upon its significant success with low-income multifamily customers in Phase IV. However, the Company does not believe that a specific target for low-income multifamily savings is necessary. If anything, it will unreasonably restrict PPL Electric's ability to design its Phase IV EE&C Plan. Furthermore, interested parties will have a full and fair opportunity to review PPL Electric's Phase IV EE&C Plan and propose changes to that Plan during the litigation process. Thus, if parties believe that the Company's Phase IV EE&C Plan does not adequately address low-income multifamily housing, they will have an opportunity to present evidence on that issue. At this time, however, it is not appropriate to establish a requirement that 20% of all EDCs' low-income savings carve-out must come from multifamily housing.

3. Low-Income Multifamily Reporting Requirements

PA-EEFA also recommended that the Commission establish reporting requirements for multifamily programs due to an alleged "lack of information in this sector."[15] However, PA-EEFA did not provide specific details on what these reporting requirements would involve. In the absence of such details, PPL Electric cannot analyze how costly and time-consuming these reporting requirements would be. Therefore, PPL Electric disagrees with this recommendation.

4. Low-Income Direct Install Carve-out

CAUSE-PA recommended that the Commission "require a minimum percentage of low-income residential savings be derived from direct installation measures."[16] PPL Electric disagrees with this suggestion.

As explained in the Company's Comments, PPL Electric is concerned that the savings established in the EEPDR Potential Study for the low-income sector does not adequately describe the underlying assumptions.[17] CAUSE-PA acknowledged this deficiency as well, stating, "Unfortunately, upon review of the Phase IV SWE, it appears that there is, once again, insufficient information and analysis of direct installation measures in the SWE."[18]

However, any savings target must be based on reliable data and analysis, especially since it would carry the risk of EDCs being penalized for failure to meet such a target. Therefore, without supporting cost and savings information in the EEPDR Potential Study, no specific savings target for direct installation measures should be established. Thus, PPL Electric disagrees with CAUSE-PA's proposed savings target for direct installation measures.

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[15] PA-EEFA Comments, p. 14.

[16] CAUSE-PA Comments, p. 11.

[17] *See* PPL Electric Comments, pp. 8-10.

[18] CAUSE-PA Comments, p. 12.

C. GOVERNMENT/NONPROFIT/INSTITUTIONAL (GNI) COMPLIANCE TARGET AND PROGRAMS

In its Tentative Implementation Order, the Commission proposed not to establish a GNI carve-out savings target for Phase IV.[19] However, the Commission also proposed that the EDCs reporting savings achieved for the GNI sector in Phase IV and that the EE&C Plans highlight how the GNI sector will be served.[20]

In its Comments, SEF stated that "safeguards" should be established in EE&C Plans "to protect against the discrimination of small GNI Sector customers."[21] According to SEF, in Phase III, "PPL Electric capped GNI savings once it achieved the 3.5% carve-out target," after which the Company "waitlisted all others in that customer segment seeking to participate in the company's EE&C Plan."[22] SEF also alleged that PPL Electric "reduced its goal of Small C&I," which negatively affected "waitlisted customers" who fell "under the classification of GNI and under the Small C&I Sectors such as multi-family public housing."[23]

SEF's allegations are completely without merit. In reality, PPL Electric has facilitated substantial participation in its EE&C programs by the GNI sector, well in excess of the Phase III GNI carve-out of 3.5%. Specifically, PPL Electric's Phase III EE&C Plan had approximately $20.3 million allotted for GNI energy efficiency and demand response programs. Those GNI energy efficiency programs were designed to achieve 81,000 MWh/yr or 5.6% of the overall compliance target of 1,443,035 MWh/yr, *i.e.*, well above the GNI carve-out of 3.5%.

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[19] Tentative Implementation Order, p. 21.

[20] *See id.*

[21] SEF Comments, p. 4.

[22] *Id.*

[23] *Id.* (emphasis omitted).

However, during the course of Phase III, the Company saw significant participation by the GNI sector in its programs. As a result, PPL Electric submitted a plan change in July 2018, which moved approximately $5.5 million within the GNI sector from demand response to energy efficiency. This plan change was reviewed and approved by the Commission.

To date, PPL Electric has total verified and reported savings of 180,598 MWh/yr of savings from the GNI sector, which equates to approximately 12.5% of the overall consumption reduction target. Therefore, SEF's claim that PPL Electric capped GNI savings at 3.5% is completely false. Further, although the plan change filed in July 2018 helped provide additional funding for GNI energy efficiency measures, PPL Electric needed to install a waitlist because the Company was at risk of running out of funding for the entire GNI sector before the end of Phase III. Thus, contrary to SEF's allegations, PPL Electric is not discriminating against any customers in the GNI sector. Rather, the Company clearly has been doing what it reasonably can to help this sector that has shown significant interest in PPL Electric's Phase III EE&C programs, while remaining under budget.

D. COST RECOVERY TARIFF MECHANISM

CAUSE-PA proposed that the Commission exclude CAP customers from the EDCs' EE&C riders.[24] According to CAUSE-PA, its proposal "would help avoid added costs for both CAP customers and the ratepayers that pay for CAP," even though "many low-income customers are not enrolled in CAP" and "would continue to pay the rider charges."[25] PPL Electric disagrees with this proposal.

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[24] CAUSE-PA Comments, pp. 26-27.
[25] *Id.*, p. 27.

As noted by the Commission in its Tentative Implementation Order, Section 2806.1(a)(11) of the Public Utility Code requires EE&C measures to be financed by the same customer class that will receive the direct energy conservation benefits from them.[26] Accordingly, low-income customers, including those enrolled in CAP, must contribute toward the recovery of the fairly allocated EE&C costs incurred by other residential and low-income customers and, therefore, cannot be excluded from the EE&C riders.

E. CARRYOVER OF PHASE III EXCESS SAVINGS

Commenters had different views pertaining to the treatment of carryover savings.[27] For example, SEF recommended that EDCs only be permitted to carry over 25% of the excess Phase III savings into Phase IV.[28] On the other hand, Keystone Energy Efficiency Alliance ("KEEA") suggested that EDCs should only be allowed to carry over 50% of the excess Phase III savings.[29] Meanwhile, CAUSE-PA supported the Commission's carryover savings proposal, but claimed that the Phase IV savings targets "must be adjusted to account for the carryover."[30] In other words, the excess savings from Phase III would not provide additional savings toward the Phase IV targets; they would merely increase the Phase IV target by the same amount as the excess. All of these recommendations should be rejected, and the Commission should adopt its original proposal for carrying over excess Phase III savings.

SEF and KEEA fail to recognize that PPL Electric cannot reasonably provide additional comprehensive programs and measures in Phase IV without being able to carry over its entire excess Phase III savings, especially in light of the COVID-19 outbreak. In other words, if PPL

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[26] Tentative Implementation Order, p. 74 (citing 66 Pa.C.S. § 2806.1(a)(11)).

[27] *See, e.g.*, KEEA Comments, pp. 13-14; SEF Comments, pp. 5-6; CAUSE-PA Comments, pp. 17-18.

[28] SEF Comments, pp. 5-6.

[29] KEEA Comments, pp. 13-14.

[30] CAUSE-PA Comments, pp. 17-18.

Electric is able to carry over its entire excess Phase III savings to Phase IV, the Company would be better positioned to offer more comprehensive programs and measures, which are generally more expensive but provide deeper savings to customers. Given that many commenters showed strong support for comprehensive programs and measures, EDCs should be allowed to carry over all of their excess Phase III savings into Phase IV, including, as proposed in PPL Electric's Comments, the peak demand reductions associated with the excess Phase III electric savings.

As for CAUSE-PA's recommendation about adjusting Phase IV targets by the amount of excess Phase III savings, this proposal would defeat the entire purpose of the carryover savings. The carryover savings provide no benefit to the EDCs and customers if they do not help the EDCs achieve the savings target and, by extension, free up additional funding in Phase IV to be used on other programs and measures. Therefore, so long as EDCs are allowed to carry over Phase III savings without the Phase IV compliance target increasing by the same amount, EDCs would be further encouraged to continue full implementation of programs and not allow programs to "go dark."[31] Thus, PPL Electric supports the Commission's proposal to carryover Phase III savings to Phase IV as outlined in the Tentative Implementation Order, rather than as proposed by CAUSE-PA.

F. CARRYOVER OF EXCESS PHASE III BUDGET

CAUSE-PA also proposed that EDCs carry over their excess budgets from Phase III to Phase IV to offset the cost of "health and safety measures."[32] As alleged support, CAUSE-PA claimed that "[w]hile health and safety measures often do not directly save energy, they contribute to overall savings by removing impediments to comprehensive measures that will

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[31] Tentative Implementation Order, p. 24.

[32] CAUSE-PA Comments, pp. 24-26.

allow deep and lasting savings."[33] PPL Electric disagrees with this recommendation for numerous reasons.

First, PPL Electric disputes that the Commission can allow an EDC to carry over unused funds from one phase to the next. Under Section 2806.1(g) of the Public Utility Code, "[t]he total cost of any plan required under this section shall not exceed 2% of the electric distribution company's total annual revenue as of December 31, 2006."[34] However, CAUSE-PA's proposal would effectively increase an EDC's Phase IV budget in excess of this cap. Therefore, the Company believes that CAUSE-PA's recommendation contradicts the express language of Act 129.

Second, PPL Electric disagrees that "health and safety" measures are appropriate expenditures under an EE&C Plan. Section 2806.1(m) of the Public Utility Code defines "energy efficiency and conservation measures" as follows:

> (1) Technologies, management practices or other measures employed by retail customers that reduce electricity consumption or demand if all of the following apply:
>
> > (i) The technology, practice or other measure is installed on or after the effective date of this section at the location of a retail customer.
> >
> > (ii) The technology, practice or other measure reduces consumption of energy or peak load by the retail customer.
> >
> > (iii) The cost of the acquisition or installation of the measure is directly incurred in whole or in part by the electric distribution company.
>
> (2) Energy efficiency and conservation measures shall include solar or solar photovoltaic panels, energy efficient windows and doors, energy efficient lighting, including exit sign retrofit, high bay fluorescent retrofit and pedestrian and traffic signal

[33] *Id.*, p. 25.

[34] 66 Pa.C.S. § 2806.1(g).

> conversion, geothermal heating, insulation, air sealing, reflective roof coatings, energy efficient heating and cooling equipment or systems and energy efficient appliances and other technologies, practices or measures approved by the commission.[35]

Therefore, EDCs can only use Act 129 funds for "[t]echnologies, management practices or other measures . . . that reduce electricity consumption or demand."[36]

Here, as CAUSE-PA conceded, these "health and safety" measures "often do not directly save energy."[37] But unless these measures actually do "reduce electricity consumption or demand," they are not appropriate expenditures under Act 129. Thus, CAUSE-PA's recommendation should be rejected.

G. ALLOCATION OF SPENDING TO INCENTIVES

In its Comments, PECO Energy Company ("PECO") disagreed with the Commission's proposal that EDCs be required to submit EE&C Plans that show at least 50% of all spending being allocated to incentives and less than 50% of all spending allocated to non-incentive cost categories.[38]

PPL Electric agrees with PECO's Comments on this issue and recommends that the Commission eliminate this requirement in its Final Implementation Order. The Commission's proposal would reduce portfolio cost efficiencies by: (1) placing significant restrictions on EE&C Plan design; and (2) creating a disincentive for program components that target non-financial barriers as well as measures that do not require capital investments (*e.g.*, education efforts and behavioral measures). Moreover, as explained previously, EDCs should have flexibility in designing their Phase IV EE&C Plans. If this additional requirement is imposed on

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[35] 66 Pa.C.S. § 2806.1(m).

[36] *Id.*

[37] CAUSE-PA Comments, p. 25.

[38] PECO Comments, pp. 11-12.

the EDCs, their design of the EE&C Plans will be negatively affected and may prevent the EDCs from offering non-incentive based measures and programs that provide substantial benefits to customers.

H. BIDDING PEAK DEMAND FROM ENERGY EFFICIENCY RESOURCES INTO THE PJM CAPACITY MARKET

In its Comments, Duquesne Light Company ("Duquesne Light") argued that the Commission's proposed requirement for the EDCs to nominate at least a portion of energy efficiency demand reductions into the PJM Interconnection, LLC ("PJM") forward capacity market ("FCM") is inappropriate and recommends that such EDC participation in PJM markets remains voluntary.[39]

PPL Electric agrees with Duquesne Light. In its Tentative Implementation Order, the Commission asserts that "certain measure categories like C&I lighting would be extremely well-suited to FCM bidding."[40] Yet, the Commission also acknowledges risks that resources might not be installed, be determined to be under-performing, or otherwise be subject to deficiency charges from PJM. In proposing that any such deficiency charges be borne by customers, the Commission encourages "a conservative bidding strategy."[41]

However, the alleged customer benefits of mandatory FCM participation are far from certain and are likely to be well-exceeded by the costs to comply with the Commission's proposal. PPL Electric estimates that a bid of 10-15% of its annual C&I lighting resource into the PJM market might yield approximately $135,000 to $150,000 for a savings resources that would have to be procured as much as three years before the capacity is needed.

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[39] Duquesne Light Comments, pp. 11-12.

[40] Tentative Implementation Order, p. 76.

[41] *Id.*, p. 77.

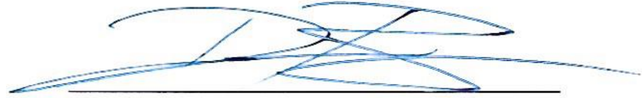
But the estimated value is obviously uncertain, as forward market prices are inherently speculative and the PJM capacity market clearing prices have indeed fluctuated widely. Allowance for price risk is only one of the many costs of market participation. Other known costs include incremental measurement and verification ("M&V") requirements, supplemental reporting requirements, costs of establishing credit, labor costs associated with bidding, and the cost of measurement risks. PPL Electric estimates that even just the fixed costs of mandatory participation in the PJM capacity markets—ultimately borne by customers—would be at least $150,000 to $200,000. The variable costs of incremental M&V and reporting would require an estimated additional cost of more than $100,000 annually for a program such as C&I lighting. Other energy efficiency resources would involve substantively higher incremental costs, primarily due to higher sampling requirements relative to basic Act 129-compliant evaluation, measurement, and verification activities already budgeted.

For these reasons, PPL Electric strongly recommends that the Commission reconsider its proposed requirement for EDCs to nominate at least a portion of their expected peak demand reductions and instead allow participation in PJM capacity markets to remain voluntary.

III. CONCLUSION

For the reasons set forth above, PPL Electric Utilities Corporation respectfully requests that the Commission take these Reply Comments into consideration in preparing its Final Implementation Order.

Respectfully submitted,



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Date: May 12, 2020

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