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December 19, 2014

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: Act 129 Energy Efficiency and Conservation Program Phase III
Docket No. M-2014-2424864

Dear Secretary Chiavetta:

Enclosed please find the Comments of PPL Electric Utilities Corporation on a Phase III Act 129 Energy Efficiency and Conservation Program.

Respectfully submitted,

Devin Ryan

DTR/skr
Enclosure

cc: Megan Good (*via e-mail*)
Kriss E. Brown (*via e-mail*)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Act 129 Energy Efficiency and	:	
Conservation Program Phase III	:	Docket No. M-2014-2424864

COMMENTS OF
PPL ELECTRIC UTILITIES CORPORATION
<u>EE&C PROGRAM PHASE THREE</u>

I. INTRODUCTION

On October 23, 2014, the Pennsylvania Public Utility Commission ("Commission") issued a Secretarial Letter pursuant to Act 129 of 2008, P.L. 1592, 66 Pa. C.S. §§ 2806.1 and 2806.2 ("Act 129"). In its Secretarial Letter, the Commission noted that it has begun the process of evaluating the cost-effectiveness of a potential Phase III Act 129 Energy Efficiency and Conservation ("EE&C") Program and determining whether additional incremental consumption reduction targets, as well as new peak demand reduction targets, will be adopted and, if so, what those targets shall be. With the Secretarial Letter, the Commission seeks comments on a number of important topics that will be instrumental in designing and implementing a potential Phase III of the EE&C Program.

PPL Electric Utilities Corporation ("PPL Electric" or the "Company") offers the following Comments to the Commission's October 23, 2014 Secretarial Letter. In summary, PPL Electric's input on the items addressed in the Commission's Secretarial Letter is as follows:

- Supports a three-year EE&C Program;
- Does not support interim compliance targets;
- Does not support peak load reduction requirements;
- Supports continued inclusion of a government, educational, and non-profit carve-out with programmatic considerations, but has concerns about how the Commission

determines if enough market potential exists for each electric distribution company ("EDC");

- Does not support continuing the existing low income carve-out based on offering a specific proportion of measures to those customers at or below 150% of the Federal Poverty Income Guidelines, but if the Commission believes a low-income compliance target is appropriate, PPL Electric recommends establishing the low-income compliance target based on a percentage of total Act 129 funding dedicated to low-income programs;

- Believes it is not necessary for the Commission to provide direction on whether it should provide a whole-house directive in Phase III, and, if so, whether such directive should be amended to require more than one measure;

- Believes that each EDC should establish its own deadlines for submitting the rebate application following the in-service date of a measure, that customers must submit their rebate applications earlier in the final year of a phase than in other program years, and that it will be simpler and clearer for customers if there is a single "Act 129" charge on their bills instead of separate charges for each Act 129 phase;

- Supports maintaining the Technical Reference Manual ("TRM") largely unchanged for the entire EE&C phase with the exception of corrections and additions; and

- Supports maintaining the Total Resource Cost ("TRC") test methodology and assumptions consistent throughout an entire EE&C phase.

In the interest of clarity, PPL Electric has organized its responses and will explain its positions in the order presented in the Secretarial Letter.

II. BACKGROUND

PPL Electric is a public utility and an EDC as defined in Sections 102 and 2803 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 102, 2803. PPL Electric furnishes electric distribution, transmission, and default service provider electric supply services to approximately 1.4 million customers throughout its certificated service territory, which includes all or portions of 29 counties and encompasses approximately 10,000 square miles in eastern and central Pennsylvania.

PPL Electric continues to support Act 129 EE&C Programs and appreciates the opportunity to provide input to the Commission's deliberation in this matter. As an EDC operating an EE&C program, PPL Electric believes that its comments will provide the Commission with a valuable perspective in its evaluation of Phase III of the EDCs' EE&C Programs.

III. COMMENTS ON THE ISSUES IDENTIFIED BY THE COMMISSION

1. Length of Phase III EE&C Program

a. Length of Phase III

The Commission requests input on the ideal length for Phase III. PPL Electric recommends a three-year term for Phase III for several reasons. First, there are several major uncertainties that are likely to impact Act 129 EE&C Programs over the next few years. These include FERC Order 745, the Clean Power Plan, and the new Pennsylvania legislation and administration. With these in mind, a shorter Act 129 Phase III term provides more flexibility to adjust Act 129 EE&C Programs should those changes be necessary.

In addition, if major legislative changes occur mid-phase, they could lead to new targets, funding levels, and other rules that would require significant changes to the rules previously established for Phase III. This would require EDCs to revise large portions of their approved EE&C Plans and essentially create new plans mid-phase. Drastic changes to EE&C Plans create a hardship for consumers, trade allies, and conservation service providers ("CSPs") that planned, scheduled, and made assumptions about their energy efficiency plans. If any of those uncertainties occur, it would be likely that a three-year phase could be completed and a new, longer-term phase could be subsequently established that reflects any necessary changes.

b. Inclusion of an Incremental Progress Requirement

In the Secretarial Letter, the Commission seeks comments on whether it should require EDCs to submit EE&C Plans that are designed to achieve a certain percentage of the target amount each program year and, if so, what percentage should be used. PPL Electric recommends a single, cumulative compliance target at the end of the phase. PPL Electric does not recommend multiple compliance targets within a single phase, such as requiring EDCs to submit EE&C Plans that are designed to achieve at least 25% of the target amount in each program year, for the reasons described below.

Based on discussions with many of its stakeholders, PPL Electric believes that most stakeholders would like to see Phase III focus more on "comprehensive" measures and programs or, at the very least, a significant increase in measures other than lighting. Comprehensive programs strive to transform the energy efficiency market by targeting the most savings within a building (i.e., business or home) from as many end uses as possible (e.g., lighting, HVAC, water heating, plug load, appliances) rather than an individual measure that is the "low hanging fruit" (such as lighting, which comprised approximately 75% of the savings in Phases I and II).

Comprehensive measures/programs also will likely require more trained energy auditors in the industry, particularly for non-residential buildings. That will take time to implement. It will also take a relatively long time to encourage customers to get a full energy audit, perform the audit, understand the recommendations of the audit, decide what energy efficiency recommendations they will implement, and implement the recommendations. In fact, this process may take longer than a year (even longer for schools and government entities that have long budget and approval processes), during which there would be no savings from that program.

Measures other than lighting (such as HVAC, motors, water heating, building envelope, appliances, etc.) generally take longer to implement than lighting, are not "high volume" measures like lighting, and produce savings that are not as predictable as lighting. Further, the EDC cannot likely control the pace of savings (i.e., adoption rate) as closely as lighting. Lighting is relatively low cost for the customer and is quick to replace with more-efficient lighting. That encourages customers to implement lighting retrofits as an early replacement project (i.e., before the equipment fails). In contrast, HVAC and other non-lighting measures tend to be much more costly for the customer to replace. Therefore, it is difficult for the EDC (or a trade ally) to convince a customer to replace his or her HVAC system before it fails.

In addition, phases without intermediate compliance targets would encourage EDCs to focus on: more-comprehensive measures and programs; and measures and programs that may be more uncertain than those in Phases I and II. With no intermediate compliance targets, EDCs will have more time to adjust programs if savings are less than expected. If there were compliance targets within a year or two after the start of the phase, EDCs would be encouraged to focus on proven measures with fairly predictable and controllable participation and savings (such as lighting and other "low-hanging fruit") to maximize the likelihood of complying with the intermediate savings targets. However, EDCs would not focus on comprehensive and new programs and measures because of their uncertain and long lead-times and the associated compliance risk, especially in the early years of a phase.

2. Inclusion of Peak Demand Reduction Requirements

a. Initial Peak Load Reductions by May 2017 and Continued Demand Reduction Beyond May 2017

In the Secretarial Letter, the Commission seeks comments on whether the EDCs would be required to meet a May 31, 2017 peak demand reduction target if the Statewide Evaluator ("SWE") determines that there is cost-effective peak demand reduction potential available within the Act 129 framework. Further, the Commission is considering whether the EDCs should be required to continue peak demand reduction programs past the May 31, 2017 target and, if so, whether there should be annual reduction requirements or an average annual reduction requirement over the entire period.

For the reasons discussed below, if the Commission establishes a peak demand reduction compliance target for Phase III, it will not be possible for PPL Electric to meet that target by May 2017, unless the target is zero megawatts ("MW").

Presumably, any demand response program and peak demand reduction target would apply to summer months only. If that is the case, then "by May 2017" means PPL Electric would have to implement its demand response programs and achieve its peak demand reductions from June 2016 through September 2016. Since Phase III starts on June 1, 2016, the following schedule would be necessary to ensure that PPL Electric launches its demand response program(s) beginning on June 1, 2016. However, this schedule is unworkable.

- 6/1/16: Launch Phase III DR program.

- 6/1/15 – 5/31/16: Recruit DR program participants, install direct load control devices, and implement all other program infrastructure (systems, processes, staffing, call centers, marketing, etc.). This one-year lead time is based on PPL Electric's experience during Phase I, where it needed that much time to recruit all participants in its Direct Load Control ("DLC") and Load Curtailment programs and to implement the program infrastructure. It may be possible to shorten this by a few months, but not more.

- 3/1/15: Award DR program CSP contract(s): The contract with demand reduction program CSP(s) must be in place several months before the CSP starts to recruit program participants and implement program infrastructure. This date is clearly not possible because the Commission will not issue Phase III Orders by then and PPL Electric will not know its Phase III DR target or rules.

- 11/1/14: Issue the request for proposal(s) for DR program CSP(s) to ensure the DR contracts are approved by the Commission and awarded by 3/1/15. This lead time is shorter than PPL Electric's experience in Phase I. This date has passed.

- 11/1/14: Commission approval of PPL Electric's Phase III DR Program(s). Until the Commission approves the scope, budget, and implementation details of the Phase III DR program, PPL Electric cannot prepare a request for proposal to obtain firm contract pricing from DR CSPs. This date has passed.

- 8/1/14: PPL Electric submits its Phase III EE&C Plan (including DR programs) to the Commission for approval (to allow 3 months for comments, reply comments, hearings, and Commission approval). This date has passed.

The Commission also seeks comments on whether to continue peak demand reduction programs past the May 31, 2017 target and, if so, whether there should be annual reduction requirements or an average annual reduction requirement over the entire period.

PPL Electric recommends one average annual DR compliance target that applies only in the last year of the phase. As described above, there would be no peak reductions possible in the first year, so all DR would be in the last two years of a three-year phase. Annual targets are problematic, especially for DR programs that depend on hot weather, like DLC. If the summer is colder than normal, it may not be possible to obtain much DR because customers' air conditioning units will not be running on a cool day. This would put the EDC at significant risk of non-compliance. However, a cumulative target provides EDCs with the flexibility to obtain the "appropriate amount" of DR commensurate with actual weather conditions (i.e., higher DR in one summer and lower DR in another summer). It is unlikely that consecutive summers will have enough hot weather to meet the same DR target every year. In addition, there should be some kind of "trigger." For instance, DR is activated only if the day-ahead load forecast is greater than a certain percentage of the projected peak load for the year or whenever PJM's day-ahead pricing is greater than a certain price per megawatt hour ("MWh"). If the summer is much cooler than normal or there are low PJM prices, no DR is warranted and the compliance target should be waived.

b. Allocating the Budget Between Demand Response and Energy Efficiency

The Commission seeks comments on how EDCs' budgets should be split between consumption reduction and peak demand reduction initiatives if the SWE determines that peak demand reduction potential is available.

To begin, the SWE should determine the relative cost-effectiveness between peak reductions that are obtained from energy efficiency measures compared to peak reductions obtained from DR measures. The SWE also should consider how many MWs are likely from one dollar of program funding (Program Acquisition Cost) for energy efficiency versus DR. Even if the SWE determines peak reductions from DR programs are cost-effective, they may not be as cost-effective as the equivalent peak reductions from energy efficiency programs, and may not be the most productive use of program funds. In fact, peak reductions from energy efficiency measures are essentially a "free" (no cost) byproduct of those energy efficiency measures. However, it is unclear how the SWE will estimate program acquisition cost of DR, including budgets for marketing and administration of DR programs.

Furthermore, PPL Electric believes that the amount of the total budget allocated to DR versus energy efficiency should be left up to the EDCs and their stakeholders, just like the "equitable" allocation of programs and costs across customer sectors. For PPL Electric, if the Company can use the same DLC participants in Phase I (and those customers are currently under contract to a competitive market/electric generation supplier DLC program), PPL Electric would get approximately 15 MW of peak reductions from approximately 35,000 DLC participants. If PPL Electric cannot reuse those Phase I participants (since they are currently under contract with a competitive electric generation supplier), it would be significantly more costly and difficult to recruit replacements. The approximate costs are $25 upfront for a gift card when the customer enrolls plus $50 per year for participation incentives if the Company can reuse Phase I participants and $50-$75 upfront for a gift card when the customer enrolls and $50-$100 per year for participation incentives if the Company has to recruit new participants. The ranges are based on the difficulty that PPL Electric had in Phase I to attract the last set of customers.

c. Requiring Peak Demand Reduction if Use of the Majority of EDCs' Budgets Would Be Necessary

The Commission has requested comments on whether there should be a requirement for achieving peak demand reduction targets if it would be necessary to use of the majority of EDCs' budgets. However, for reasons discussed in Section III.2.b., PPL Electric believes there should be no such requirement.

d. Prescribing a Peak Demand Reduction Target if Cost-Effective Peak Demand Reduction Potential Is Only Available for a Certain Sector

The Commission requests inputs on whether it can prescribe a peak demand reduction target if there is cost-effective peak demand reduction potential available but only for a certain sector and, if so, whether it should do so.

As long as the market potential (program potential) estimate and DR budget are reasonable, PPL Electric can likely design its program and customer sector eligibility requirements accordingly. However, PPL Electric notes that most customers will not save any money from a DLC-type program, other than the nominal $32 incentive they receive from the program, unless they have time-of-use or critical peak pricing. With "fixed" prices, those participants generally use the same amount of energy, but some of it is shifted from on-peak times to off-peak times.

e. Prescribing a Peak Demand Reduction Target if Cost-Effective Peak Demand Reduction Potential Is Only Available for a Certain EDC's Service Territory

The Commission seeks comments on whether it can prescribe a peak demand reduction target if cost-effective peak demand reduction potential is only available for one EDC's service territory (i.e., prescribe a target for only one of the EDCs) and, if so, whether it should do so.

PPL Electric believes that all EDCs should have a consistent framework for compliance, and it is not equitable for some EDCs to have more compliance risk (such as DR targets) than other EDCs (with no DR targets).

f. Utilizing All Budgets for Consumption Reduction if No Cost-Effective Peak Demand Reduction Potential Exists and Including Voluntary Peak Demand Reduction Programs

The Commission requests input on whether it should allow EDCs to utilize all of their budgets for consumption reduction if the SWE determines that there is no cost-effective peak demand reduction potential. Furthermore, the Commission seeks comments as to whether EDCs should be allowed, as in Phase II, to include voluntary peak demand reduction programs in their EE&C Plans as long as those programs are cost-effective and the EDCs can still meet their consumption reduction requirements.

PPL Electric has no comment as to whether EDCs should be allowed to utilize their entire budgets for consumption reduction programs if the SWE determines there is no cost-effective peak demand potential. However, PPL Electric supports allowing EDCs to include voluntary DR programs within their existing funding cap, as long as they meet their energy reduction targets and justify the DR program with the Commission and stakeholders. If offered, the DR program does not necessarily have to pass TRC cost-effectiveness because that requirement does not apply to individual programs.

3. <u>Inclusion of a Reduction Target Carve-out for the Government, Educational and Non-Profit Sector</u>

The Commission has requested feedback on several questions in advance of the SWE's determinations regarding Government, Educational, and Non-Profit ("G/E/NP") potential. First, the Commission is considering whether it should include a carve-out for reductions in a G/E/NP sector if the SWE determines that there is cost-effective consumption or peak demand reduction potential in that sector. If it should include such a carve-out, the Commission has sought comments on whether the G/E/NP target should be: (1) the same 10% carve-out used in Phases I and II; (2) a percentage of the overall savings as in Phase I and II; (3) a sector cave-out based on that sector's potential in each EDC's service territory; or (4) some other methodology.

PPL Electric believes the Commission does not have the discretion to address this issue because Act 129 mandates that 10% of the required reductions (compliance targets) must be from G/E/NP. *See* 66 Pa. C.S. § 2806.1(b)(1)(i)(B). Notwithstanding, if the Commission believes it has the authority to establish no set-aside compliance target for the G/E/NP sector, PPL Electric would recommend no set-aside for that sector. In PPL Electric's opinion, the SWE's DR potential study and the SWE's energy market potential study are not statistically valid for G/E/NP at the EDC level. Therefore, there is no way to ensure that 10% of the market potential (program potential) exists for G/E/NP. Thus, it is not appropriate to establish a carve-out compliance target for G/E/NP.

In addition, if there is a G/E/NP carve-out, the Commission has requested comments on whether it should encourage EDCs to give special emphasis and consideration to multifamily housing and to reach out to the Pennsylvania Housing Finance Agency ("PHFA") for assistance, which the Commission did in Phase II. If so, the Commission also seeks comments on whether it should continue what it did in Phase II and require the properties to be financed under a federal or state affordable housing program and have long-term use restrictions in place, or whether it should require multifamily properties to be owned by a non-profit or governmental entity.

PPL Electric believes that direction from the Commission regarding this issue is not necessary. There are differences in demographics, building stock, customers, and stakeholder preferences across the Pennsylvania EDCs. Therefore, EDCs should have the flexibility to design their programs, allocate funding and savings projections across programs, and establish program eligibility details for their EE&C Plans, with input from those EDCs' trade allies and stakeholders.

Furthermore, PPL Electric does not believe it is necessary for the Commission to define the G/E/NP qualification requirements for a multifamily building, or any other type of building, because those requirements are clearly set forth in Act 129. To meet the G/E/NP eligibility requirement set forth in Act 129, the customer must be a federal, state, or local government; a non-profit entity; or an educational entity (e.g., school district, school, college, university). *See* 66 Pa. C.S. § 2806.1(b)(1)(i)(B). Therefore, to comply with the statute, a multifamily property must be one of those entities to qualify for the G/E/NP customer sector. If the multifamily property does not meet those G/E/NP qualifications, it would qualify for the EDC's rebates available to the rate class of that multifamily account (i.e., Residential, Small Commercial and Industrial ("Small C&I"), or Large Commercial and Industrial ("Large C&I")).

4. <u>Inclusion of a Reduction Target Carve-Out for the Low-Income Sector</u>

In the Secretarial Letter, the Commission notes that it has directed the SWE to determine, in both its energy efficiency and demand response potential studies, the potential for consumption and peak demand reductions in the low-income sector. The Commission requests feedback on several questions in advance of the SWE's determinations regarding low-income potential. First, the Commission has requested comments on whether it should include a carve-out for reductions in the low-income sector if the SWE determines that there is cost-effective consumption or peak demand reduction potential in that sector. The Commission also seeks comments on whether such a carve-out should be: (1) the proportionate number of measures requirement as prescribe in Phase I; (2) the 4.5% savings carve-out used in Phase II; (3) a different percentage of the overall savings; (4) a sector carve-out based on that sector's potential in each EDC's service territory; or (5) some other methodology.

PPL Electric does not believe that the SWE's DR potential study and the SWE's energy market potential study are statistically valid for the low-income sector at the EDC level. Therefore, there is no way to properly estimate the market potential for each EDC's low-income sector. Thus, it is not appropriate to establish a carve-out compliance target for the low-income sector.

However, if the Commission believes a low-income compliance target is appropriate, PPL Electric recommends establishing the low-income compliance target based on a percentage of total Act 129 funding dedicated to low-income programs, not a compliance target based on a proportion of the measures or a proportion of the savings. A savings-based low-income compliance target will encourage EDCs to focus on low-income programs and measures that produce the most electric savings per EDC program expenditures, placing much less emphasis on safety, comfort, non-electric, and quality-of-life measures that are desired by low-income customers and stakeholders. Examples include repairing a defective gas furnace that poses a carbon monoxide hazard and installing carbon monoxide detectors. A savings-based low-income compliance target would also discourage EDCs from fixing or replacing a non-operational electric heater (such as a heat pump) because restoring it to service or replacing it with a more-efficient model will increase electric usage for that customer.

Furthermore, assuming there is a low-income carve-out, the Commission seeks comments on whether it should allow EDCs to include savings from multifamily housing, up to the percentage of customers living in the multifamily housing with incomes at or below 150% of the Federal Poverty Income Guidelines, toward the goal.

To ensure proper allocation of costs to the customer class that receives the benefit (i.e., savings), PPL Electric believes savings should accrue to the rate class of the customer's meter. If the multifamily building is a residential rate class, and the occupants are low-income, then the savings would be for the "low income" sector. If the multifamily building is a residential rate class, and the occupants are not low-income, then the savings would be for the "residential" sector. If the multifamily building is a non-residential rate class, then the savings would be for a non-residential sector (i.e., Small C&I sector, Large C&I sector, or the G/E/NP sector if the customer meets the G/E/NP qualifications).

5. **Inclusion of Whole-House Measures**

In its Phase II Implementation Order, the Commission recognized the benefits of more comprehensive measures, including whole house treatments, and, therefore, required the EDCs to develop EE&C Plans that contained at least one comprehensive measure for residential and small commercial rate classes. The Commission seeks input on whether it should provide such a directive in Phase III, and, if so, whether it should be amended to require more than one measure.

PPL Electric believes that direction from the Commission regarding this issue is not necessary. There are differences in demographics, building stock, customers, and stakeholder preferences across the Pennsylvania EDCs. Therefore, EDCs should have the flexibility to design their programs, allocate funding and savings projections across programs, and establish program eligibility details for their EE&C Plans, with input from those EDCs' trade allies and stakeholders.

PPL Electric also believes it is critical for the Commission to seek each EDC's input about the definition of "comprehensive" and the level of "comprehensiveness" before finalizing the market potential study and issuing its Preliminary Order for Phase III compliance targets. This input is needed because the program acquisition cost (i.e., EDC expenditures divided by annual energy savings) for a program and the portfolio can vary significantly depending on the level of "comprehensiveness."

As comprehensiveness increases, the program acquisition cost increases. Since EDCs have a fixed cost budget established by Act 129 (e.g., PPL Electric's budget is $61.5 million per year), portfolios with higher program acquisition costs will have lower program potential and, therefore, lower compliance targets. For example, if PPL Electric and its stakeholders desire a portfolio with measures and programs similar to PPL Electric's Phase II EE&C Plan (i.e., mostly lighting, with relatively little comprehensive measures/programs), the program acquisition cost would be $0.30 per annual kilowatt hour ("kWh") saved (the same as PPL Electric's current approved EE&C Plan), and the program potential would be 205,000,000 kWh/yr for each year of a phase or 205,000 MWh/yr ($61.5 million divided by $0.30 per annual kWh saved). If PPL Electric and its stakeholders prefer a more "comprehensive" portfolio that has a program acquisition cost of $0.45 per annual kWh saved, PPL Electric's program potential would be 136,666 MWh/yr for each year of a phase, which is 33% lower than the existing Phase II EE&C Plan.

Further, PPL Electric does not believe that the SWE can estimate program potential for an EDC (during the SWE's Market Potential Study) without the EDC's input for the design of programs, the allocation of costs across sectors (especially the amount of funding for the low-income sector, which has a very high program acquisition cost), the level of "comprehensive" measures/programs, etc. Without this input from the EDC (who has input from its stakeholders), the SWE is essentially designing (or constraining) the programs on behalf of the EDC.

In addition, if the Commission prescribes specific requirements for EE&C programs, such as types of measures, mix of measures, types of programs, allocation of measures and programs across customer segments, etc., it decreases the flexibility of the EDC to design the EE&C programs and increases the EDC's compliance risk.

6. EDCs' Phase III Budgets

a. Accumulated Savings in Excess of Reduction Requirements

No comments.

b. Finalizing Phase II Spending

In its Secretarial Letter, the Commission observes that it encountered an issue where a measure may have been installed and operable prior to the end of Phase I, but the rebate application was not submitted to the EDC until after a significant amount of time had passed. Accordingly, the Commission has requested comments on whether it should prescribe a deadline for the submission of rebate applications after the in-service date of the measure. Moreover, the Commission seeks comments on whether it should prescribe a deadline for submitting rebate applications for measures that are installed at the end of a phase. If so, the Commission is considering whether it should be the same deadline that is imposed on measures installed in the beginning or middle of a phase, or whether EDCs should be required to develop their own program-specific deadlines.

PPL Electric believes that each EDC should establish its own deadlines for submitting the rebate application following the in-service date of a measure. Those deadlines may vary between programs depending on the status of each program's budget, how long the EDC needs to process the transaction, and how long the EDC's evaluation CSP needs to evaluate that program. For example, if a program's budget is nearly exhausted or if the evaluation CSP needs a long time to conduct that program's evaluation, then the EDC may close that program well before May 31, 2016. Programs that take longer to evaluate (site visits, post-metering, etc.) may need to close earlier than May 2016 to process the application and rebate, establish the evaluation sample, and provide the evaluation CSP with enough time to finish the evaluation for that program in time for the Final Annual Report due November 2016.

For the final year of a phase (or any program year that has a compliance target), PPL Electric believes customers must submit their applications earlier than other program years. Longer submittal deadlines will increase the risk of an unexpected surge in program costs and savings, and will not allow the EDC enough time to "close the books" and to know the final costs in time for the November Final Annual Report.[1] Also, it critical to close programs quickly, collect all paperwork, pay the rebate, and record the transaction in the tracking system as quickly as possible to allow the EDC's evaluation CSP to select the evaluation sample and complete the evaluation well before the Final Annual Report is due (November 2016) for the end of the phase.

Accordingly, PPL Electric will likely require that all measures be operational by May 31, 2016 (or earlier if programs budgets are nearing their limit) and that customers submit their rebate applications by mid-June 2016. Allowing customers to wait 180 days (as late as November 2016) to submit their applications for measures installed by May 2016 would not allow enough time to evaluate those projects. It would also create an unacceptable risk that programs go over budget. The EDC's schedule should also be designed to minimize the likelihood of an unexpected surge in transactions (and the resultant increase in savings and costs)

[1] Some EDC costs will be incurred after it submits the Final Annual Report in November 2016. These costs include evaluation (incurred in November but paid thereafter), answering the questions of the SWE and Commission, and supporting and reviewing the SWE's annual report (first quarter 2017).

that can occur near the end of a phase, when customers realize the deadline is near or are uncertain that rebates will exists in the future.

Furthermore, the Commission notes in the Secretarial Letter that issues arose regarding the recovery or refund of residual Phase I expenses or revenues. The Commission has requested comments as to the appropriate length of time for EDCs to true-up their costs/budgets for Phase II and whether the Commission should consider allowing EDCs to roll all Phase II residuals into their Phase III surcharges for true-up purposes only, instead of keeping a Phase II surcharge in place while the Phase III rate is effective.

As described previously, EDCs will continue to incur Phase II costs beyond November 2016. However, EDCs should be in a position to conduct a reasonably final "true-up" (i.e., reconcile actual costs incurred for each customer sector to the actual Act 129 revenues collected from each customer sector) by late December 2016, after the evaluation CSP completes the Phase II evaluation and submits its invoice.

PPL Electric believes it will be simpler and clearer for customers if there is a single "Act 129" charge on their bills instead of separate charges for each Act 129 phase. Accordingly, PPL Electric recommends that EDCs should be permitted to combine the Phase II reconciliation adjustment into the customer's Phase III charge as long as the EDC tracks the actual costs for each phase separately and properly allocates actual costs to the applicable phase.

7. Updating of the Technical Reference Manual

With regard to the updating of the TRM, the Commission seeks comments on whether it should continue an annual TRM updating process for Phase III, as was used in Phase I and II, and, if not, how often the TRM should be updated. The Commission also has requested comments as to whether the TRM updating schedule depends on the length of Phase III.

For the reasons described below, PPL Electric believes it is more appropriate for a TRM to be maintained, largely unchanged, for an entire EE&C Phase. Mid-phase TRM changes are costly, are disruptive to the EDC's programs and to the market (trade allies and customers), and can negatively impact compliance/savings (based on the history of TRM changes from 2010 to 2014). First, revisions to EE&C Plan are time consuming and costly, as each revision to the EE&C Plan costs more than $100,000. Further, when the TRM changes, EDCs must modify their tracking system, rebate forms, marketing materials, websites, etc. to reflect the changes in the savings calculation algorithm, open variables, deemed variables, measure eligibility requirements, and data and documentation requirements, or may have to delete the measure altogether.

In addition to the increased costs, the TRM changes are confusing and disruptive to trade allies and customers. The TRM changes often cause the EDC to revise its EE&C Plan to change savings estimates, delete the measure, modify measure eligibility requirements, add measures/costs to counter the effect of the lower savings, etc. Trade allies and customers generally prefer EE&C programs that are fairly consistent from year to year. Mid-phase TRM changes also often change the savings for a measure, usually reducing the savings based on history.

Moreover, the TRM changes should be limited to additions (i.e., new measures or additions to existing TRM protocols). If there are known changes that will impact TRM protocols during the phase (e.g., changes to code baselines), those changes should be identified in the 2016 TRM, reflected in the savings assumptions in the market potential study, and reflected in the savings assumptions in each EDC's Phase III EE&C Plan. In fact, the existing TRM (2014) already includes changes to some baselines in the future. For example, T8 lighting becomes the linear fluorescent baseline in 2016, and compact fluorescent lamp ("CFL") light bulbs become the residential light bulb baseline in 2019.

Additionally, the 2015 TRM should be the basis for the savings estimates and program design for an EDC's Phase III EE&C Plan because the 2015 TRM is the basis of the SWE's Phase III market potential study (savings estimates), and the SWE's market potential study will significantly influence the Commission's Phase III compliance targets for each EDC.[2] It is logical and important for all three of these assumptions to align—the market potential study, the compliance target, and the EE&C Plan. Once the Commission establishes a compliance target and approves an EDC's EE&C Plan, any changes to the TRM thereafter will impact the EDC's actual savings and likelihood of compliance (i.e., increases the likelihood of compliance if TRM changes increase savings; decreases the likelihood of compliance if TRM changes decrease savings).

Nevertheless, if the Commission determines TRM changes are warranted during a phase, then PPL Electric recommends limiting TRM changes to a single, mid-phase update, such as updating the TRM in year two of a five-year phase, updating it in year two of a four-year phase, and not updating it in a three-year phase.

8. <u>Updating the Total Resource Cost Test</u>

The Commission seeks comments regarding several questions related to the updating of the TRC test methodology. Specifically, the Commission has requested comments on: (1) whether it should establish a periodic review and updating process for the TRC test methodology in Phase III; (2) how often the TRC test methodology should be reviewed; (3) whether the schedule for a periodic review and updating of the TRC test methodology should be dependent

[2] The Commission will likely issue the 2016 TRM in time for EDCs to use it as the basis for Phase III EE&C Plan. PPL Electric does not expect significant differences between the 2015 TRM (used in the SWE's market potential study) and the 2016 TRM.

on the length of Phase III; and (4) whether societal benefits should be included in the TRC equation and analysis, provided that there are new data, theories, or arguments available.

For reasons very similar to those explained for the TRM in Section III.7. above, PPL Electric believes it is critical to maintain the TRC test methodology and assumptions consistent throughout an entire EE&C phase. The TRC methodology used for the SWE's market potential study should be the basis of the Commission's compliance targets and the basis of each EDC's Phase III EE&C Plan. Further, changing the TRC methodology, avoided costs, or other parameters can significantly impact the cost-effectiveness of measures, programs, or the portfolio, forcing an EDC to change its EE&C Plan.

PPL Electric also believes that the Commission will determine if an EDC's EE&C Plan meets the "cost-effectiveness" requirement based on its review and approval of the EE&C Plan submitted at the beginning of the phase (or as subsequently revised). Yearly impact evaluations determine the cost-effectiveness of the portfolio based on actual costs, actual verified savings, and the estimated avoided costs (and other TRC parameters) in the approved EE&C Plan. Those yearly cost-effectiveness determinations may differ from those in the approved EE&C Plan and are not the basis of compliance because the approved EE&C Plan is the basis. However, if the yearly cost-effectiveness evaluation determines the portfolio is not cost-effective, the EDC would be expected to revise its EE&C Plan prospectively to cease offering a portfolio that is not cost-effective.

IV. CONCLUSION

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

Respectfully submitted,

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