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December 19, 2014

VIA EFILING

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

Re: Act 129 Energy Efficiency and Conservation Program Phase III Secretarial Letter Dated October 23, 2014; M-2014-2424864

Dear Secretary Chiavetta:

Pursuant to the Commission's Secretarial Letter dated October 23, 2014, enclosed for filing are the Comments of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company in the above-captioned matter.

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

Very truly yours,

John L. Munsch

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Enclosure

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Act 129 Energy Efficiency and Conservation Program Phase III Secretarial Letter Dated October 23, 2014	: : :	**M-2014-2424864**

COMMENTS OF METROPOLITAN EDISON COMPANY, PENNSYLVANIA ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN POWER COMPANY TO THE OCTOBER 23, 2014 SECRETARIAL LETTER ON ACT 129 PHASE III

I. Introduction

On October 15, 2008, House Bill 2200 was signed into law as Act 129 with an effective date of November 14, 2008. Act 129 required an Energy Efficiency & Conservation ("EE&C") program ("Program" or "EE&C program") for the Commonwealth's largest electric distribution companies ("EDCs") and required that the Pennsylvania Public Utility Commission ("Commission") evaluate the costs and benefits of the EE&C program by November 30, 2013, and every five years thereafter, and Act 129 directs the Commission to set new incremental consumption reductions if the benefits of the Program exceed the costs. Act 129 further required the Commission to set additional incremental requirements for reduction in peak demand if the benefits of the programs exceed the cost as determined by an evaluation completed by November 30, 2013, with such reductions to be accomplished no later than May 31, 2017.[1] In accordance with these directives, the Commission, in its August 2, 2012 Implementation Order[2] prescribed a Phase II of Act 129 with additional energy consumption reduction targets for the EDCs, to be accomplished by May 31, 2016. The Commission has begun the process of evaluating the cost-

[1] 66 Pa.C.S. §§ 2806.1(c) and (d)
[2] Energy Efficiency and Conservation Program Implementation Order, Docket Nos. M-2012-2289411 and M-2008-2069887 entered August 3, 2012

effectiveness of a potential Phase III for EE&C Programs and determining whether additional incremental consumption reduction and peak demand targets will be adopted. The Commission issued a Secretarial Letter dated October 23, 2014, seeking comments on a number of topics that will be considered by the Commission in designing a potential Phase III of the EE&C Program. In addition, the Commission held a stakeholder meeting on December 2, 2014, where interested parties had the opportunity to identify additional issues and concerns regarding the design of a potential Phase III of the EE&C Program and to address any questions regarding the topics presented in the Secretarial Letter. Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company ("Companies") appreciate the opportunity to comment on these topics.

II. Comments

1. Length of Phase III EE&C Program

a. Length of Phase III

The Commission must determine the number of years that a third phase of the EE&C Program should run. Several factors to consider when evaluating the length of an EE&C Program term are: the accuracy of forecast data; the evolving energy efficiency and DR marketplace; consumers' tendencies to adopt efficiency measures; changes in Federal legislation and regulations that set minimum efficiency standards; and the administrative costs incurred by all parties in designing, filing, litigating and implementing the EE&C Program

Phase II is running three years to accommodate a contingency for dealing with a potential peak demand reduction target that must be accomplished by May 31, 2017, if the Commission determines that a DR program is cost-effective. The Commission requests comments on whether the optimal length of a Phase III should be a three-, four-, five- or six-year length.

Response:

If the Commission determines that future EE&C Programs are appropriate, the Companies recommend that Phase III should be a four-year period for several reasons. First, a four-year period (instead of the current three-year cycle) will allow for more time and attention to the implementation, promotion and administration of the approved programs. Second, a four-year term EE&C Program will allow program managers, customers and allies to promote and pursue larger and more comprehensive customer projects that may not be practical or possible within a shorter term EE&C cycle. Similarly, a four-year EE&C Program cycle provides more certainty on the availability of program incentives, which will encourage customers to invest in more capital-intensive and longer-term projects. Conversely, the Companies do not recommend a term longer than four years, as a longer term will most likely require EDCs to develop and file amended Plans during the Plan period in order to react to changing industry or market conditions for the EDCs to remain on course to meet their Phase III targets. Given that much of the basic energy efficiency opportunities (commonly referred to as the "low-hanging fruit") have been achieved, Phase III programs may also require more adjustments over the program period. Any need for such adjustments both limits certainty associated with program offerings associated with a longer Plan period and creates administrative and cost inefficiencies for all parties given the resources required to support out-of-cycle development, filing, consideration and possible litigation associated with amended EE&C Plans. Even if the Commission approves a TRM that is applicable to the entirety of Phase III (based on adequate incorporation of projected changes to federal baselines, efficient conditions and savings protocols) that the EE&C Plans will rely upon in their *designs to meet EE&C targets, not all changes will be addressed or contemplated for that matter. As an example, the Energy Independence and Security Act of 2008*[3] *established a 2020 backstop for lighting where federal baselines for general service lighting measures are changing. This causes significant uncertainty in the opportunity for lighting savings beginning in 2020. Lighting is a key component of energy efficiency plans and Phase III should be a four-year period to allow the federal baseline change to be factored into any future Plans in an orderly and systematic fashion. Also, technology is rapidly changing, as evidenced by the constant development of mobile phones and other mobile devices used by more and more consumers. Further, advances in smart technologies are expected over the next several to underpin new consumer offerings. Therefore, the Companies recommend a four-year period for Phase III as this length of time best balances increased program certainty to customers, more comprehensive projects and increased EE&C Program administrative and cost efficiencies.*

b. Inclusion of an Incremental Progress Requirement

In its Phase II Implementation Order, the Commission required the EDCs to submit EE&C Plans that were designed to achieve at least 25% of the target amount in each program year. Should the Commission provide such a directive in Phase III? If so, the attainment of what percentage of the target amount should be required annually?

Response:

The Companies recommend that the Commission continue the requirement it established for Phase II and require EDCs to submit Phase III EE&C Plans designed to achieve a portion of the target amount in each program year to demonstrate a reasonable planned trajectory to meet the Phase III compliance target. The Companies believe that this requirement was successful in

[3] 42 U.S.C. § 17001 *et. seq.*

achieving sufficient incremental progress towards the Phase II targets as desired by the Commission in its Phase II Implementation Order at Docket No. M-2012-2289411 and the Companies recommend that this continue for Phase III. The Companies recommend the Commission require Plans designed to achieve an annual amount of energy savings that is 75% of the annual amount required based on the length of Phase III (i.e. 75% x Phase III target MWh / Phase III length in years, or in the case of a 4-year length = 75% x Phase III target MWh / 4 years = 19%). This is consistent with the Commission's requirement for Phase II. It would not be reasonable to require plans to be designed to deliver equal savings annually given transition and start-up issues associated with any change of Phase as well as the typical ramp-up or on-going projections associated with programs that varies based on program maturity.

The Companies do not recommend mid-term targets or any increase in the incremental progress requirements for Phase III as this directly impacts the design of the EE&C Plans and restricts the flexibility of the EDCs to provide programs that best meet the needs of their customers and stakeholders. Requiring incremental targets or an increase in the incremental progress requirement will require the EDCs to design programs that attempt to align with the timing of any such requirements given the risk of penalty to the EDCs for failure to meet any such requirements. This directly contradicts the desire of some stakeholders for the EDCs to provide expanded or new comprehensive programs and services to customers as these programs tend to be more costly and take more time to implement and ramp up. Simply put, interim targets or progress requirements do not align with implementation of comprehensive programs. More incremental Commission requirements that the EDCs have in the design and implementation of their EE&C Plans reduces the flexibility EDCs have in designing and implementing programs to meet the needs of their customers and stakeholders.

2. Inclusion of Peak Demand Reduction Requirements

The Commission directed the SWE to perform a Demand Response Potential Study using the proposed residential direct load control and commercial and industrial load curtailment models outlined within the order.[4]

The Commission is soliciting comments on the following:

a) If the SWE determines that there is cost-effective peak demand reduction potential available within the Act 129 framework, the EDCs would be required to meet a May 31, 2017 peak demand reduction target. Should the EDCs be required to continue peak demand reduction programs past the May 31, 2017 target? If so, should there be annual reduction requirements or an average annual reduction requirement over the entire period?

Response:

No. The Companies recommend that no peak demand reduction ("PDR") targets be included in Phase III as it is not practical or manageable for the EDCs to meet a May 31, 2017 target, based on a summer of 2016 performance period, given that the Phase III Plans are tentatively scheduled for a Commission Order in March 2016. There is not sufficient time for the EDCs to implement demand response ("DR") programs to achieve any peak demand reduction target by May 31, 2017 (i.e., to hire a Conservation Service Provider, contract, market and enroll customers, procure and install the required equipment, etc., and be prepared to start programs by June 1, 2016).

The Companies recommend that the Commission not establish mandated peak demand reduction targets past May 31, 2017 as this is not supported by Act 129. It is the Companies' view

[4] Docket Nos. M-2012-2289411 and M-2008-2069887; Final Order entered February 20, 2014

that while the Commission could encourage continuation, it lacks the statutory authority under Act 129 to extend peak demand requirements beyond May 31, 2017.[5]

EDC subsidies for demand response programs, as are required under Act 129, would undermine and interfere with competitive curtailment service providers' decisions to participate in PJM markets and would further complicate markets for DR. PJM markets and operating processes are going through a review with revisions to address numerous issues. Furthermore, operating Act 129 DR programs independent of PJM would further disrupt PJM market operations as was the case with the summer 2012 coordination issues with PJM. If left to competitive markets, it is expected that DR participation will continue to grow as needed by the market, thus realizing the objectives of achieving peak demand management without the additional cost to Pennsylvania electric customers through EE&C program subsidies.

Furthermore, the SWE noted the following in their report (submitted May 13, 2013 with addendum November 1, 2014) which makes establishing a DR target a difficult proposition across the Commonwealth:

1) *The value of DR is not consistent across the state. Energy and capacity prices in the eastern part of the state have historically been higher than those in the western part of the state. If this trend persists, DR is likely to be more cost-effective for the eastern EDCs compared to the western EDCs and may warrant different goals.*
2) *There is significant variation in energy prices within the top 100 hours summer performance period for each EDC. During certain hours, the grid is not constrained and dispatching DR will not have a significant impact on wholesale*

[5] 66 Pa.C.S. § 2806.1(d)(2)

energy prices. Valuing load reductions from each hour equally does not address this variation.

3) *The value of DR is highly correlated with weather patterns and will be much lower in a cool summer than a hot summer for a given performance period. An EDC may experience conditions that promote cost-effective DR for five hours during a cool summer and 35 hours during a hot summer.*

In addition to the SWE's comments regarding the difficulty in establishing a DR target, there are many additional difficulties associated with meeting mandated DR targets. As evidenced in Phase I of Act 129, it is virtually impossible to forecast peak hours and also to forecast pricing with any level of certainty. So while a program design may be considered to be cost-effective, the results are highly variable and uncertain, and only truly known after the fact. Based on the difficulties associated with achieving any DR target, as well as the uncertainty associated with any program's cost-effectiveness, it is inappropriate to mandate any targets in Phase III. If the Commission supports DR program offerings in Phase III, the programs should not be mandated and should be voluntary offerings by the EDCs based on their unique circumstances.

b) If the SWE determines that there is cost-effective peak demand reduction potential available within the Act 129 framework, the EDCs' budgets would need to be split between consumption reduction and peak demand reduction initiatives. How should the budget be split between the two initiatives?

Response:

As stated above, the Companies believe there should not be any mandated PDR targets in Phase III. If the Commission determines that there is cost-effective DR potential within the Act 129 framework, the Companies believe that the amount of budget split between consumption reduction and peak demand reduction initiatives should be informed by plans from each EDC *based on the results of the market potential studies, with any DR programs being voluntarily included in the EDC's Plan.*

This process unfortunately raises practical and timing problems associated with setting energy savings targets in the Preliminary Order for Phase III. Should DR prove cost effective, the Companies recommend a two-stage process for setting targets for EE while considering any proposed DR programs. In other words, it is impossible to set EE targets without a complete understanding of the attributes of both EE and DR (such as comprehensiveness of programs, MWh reductions, MW reductions, budget, etc.)

c) If the SWE determines that there is cost-effective peak demand reduction potential available within the Act 129 framework but would require the majority (*e.g.*, 75%; 80%; 90%, etc.) of the EDCs' budgets, should the EDCs still be required to achieve peak demand reduction targets?

Response:

As stated above, the Companies believe there should not be any mandated PDR targets in Phase III and that, if the Commission determines that there is cost-effective DR potential within the Act 129 framework, the Commission should allow EDCs to develop plans for both EE and DR with any DR program being voluntary by the EDC, and recognize that any EE target should be adjusted accordingly to account for the budgets allocated to any voluntary DR programs proposed by the EDCs. The Commission will need to authorize adequate funding to achieve the EE targets it establishes. Efficiency targets must be set based on the amount of funds remaining after any voluntary DR programs are proposed by EDCs.

d) If the SWE determines that there is cost-effective peak demand reduction potential available within the Act 129 framework but only for a certain sector (*e.g.*, through residential direct load control programs), can the

Commission prescribe a peak demand reduction target? In other words, can the Commission prescribe a target if it can only be met through measures offered to certain rate classes instead of across all rate classes? If so, should the Commission do so?

Response:

As stated above, the Companies believe there should not be any mandated PDR targets in Phase III and that, in the event the Commission determines that there is cost-effective DR potential within the Act 129 framework, the Commission should allow the EDCs to voluntarily propose any DR programs included in their Plans. The Commission should also not prescribe a DR target if it can only be met through measures offered to a certain rate class rather than all rate classes. Act 129 provides that the Commission's EE&C Program must include "[s]tandards to ensure that each plan includes a variety of energy efficiency and conservation measures and will provide the measures equitably to all classes of customers."[6] Each EDC is required to demonstrate that its plan "provides a diverse cross section of alternatives for customers of all rate classes."[7] Per the Commission's Phase I Implementation Order, each EE&C plan is to include at least one energy efficiency program and one demand response program for each customer class. Furthermore, each EDC plan is to provide a "reasonable mix" of energy efficiency and demand response programs for all customers. Therefore, the Commission should not prescribe a DR target under Subsection (d) of Act 129 if it only applies to a certain rate class. However, this should not preclude an EDC from voluntarily offering a PDR program for a specific customer class.

e) If the SWE determines that there is cost-effective peak demand reduction potential available within the Act 129 framework but only for a certain EDC service territory, can the Commission prescribe a peak demand reduction

[6] *66 Pa. C.S. § 2806.1(a)(5)*
[7] *66 Pa. C.S. § 2806.1(b)(1)(i)(I)*

target? In other words, can the Commission prescribe a target for only one of the EDCs? If so, should the Commission do so?

Response:

As stated above, the Companies believe there should not be mandated PDR targets in Phase III and that, in the event the Commission determines that there is cost-effective DR potential within the Act 129 framework, the Commission should allow the EDCs to voluntarily propose any DR programs included in their Plans. The Commission should not prescribe a DR target under Subsection (d) only for a certain EDC service territories. To do so would unfairly increase the exposure to penalties among the EDCs.

f) If the SWE determines that there is *no* cost-effective peak demand reduction potential within the Act 129 framework, should the Commission again, as in Phase II, allow the EDCs to utilize all of their budgets for consumption reduction programs? Should the EDCs again, as in Phase II, be allowed to include voluntary peak demand reduction programs within their EE&C plans, so long as those programs are cost-effective and the EDCs can still meet their consumption reduction requirements?

Response:

Yes. If there is no cost-effective PDR potential with the Act 129 framework, the Commission should allow EDCs to use all of their budgets for consumption reduction programs. There will be a time when more of the highly cost-effective measures such as lighting become saturated in certain customer sectors so measures and programs will become more costly; thus, EDCs will need the entirety of their budgets for energy savings. Also, EDCs should be permitted to include voluntary PDR programs within their EE&C plans as long as those programs are determined to be cost-effective, with their consumption reduction requirements adjusted based on the remaining available funding.

Note that EDC budgets should include funding to support Commission evaluation requirements (i.e., costs associated with the Statewide Evaluator reporting to the Commission) within the 2% funding cap. Such funding should be pre-specified by the Commission and factored into Commission and EDC planning for Phase III. This is an appropriate revision to historic funding of SWE costs outside the 2% spending cap under Act 129.

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

In Phase I and Phase II the Commission required EDCs to obtain a minimum of 10% of all consumption reduction requirements from the government/educational/non-profit sector. The Commission also encouraged the EDCs to give special emphasis and consideration to multifamily housing and to reach out to the Pennsylvania Housing Finance Agency for assistance and coordination in these efforts. The Commission has directed the SWE to determine, in both the energy efficiency and the demand response potential studies, the potential for consumption and peak demand reductions in the G/E/NP sector. The Commission requests feedback on the following questions:

a) If the SWE determines that there is cost-effective consumption and/or peak demand reduction potential in the G/E/NP sector within the Act 129 framework, should the Commission include a carve-out for reductions in that sector?

***Response*:**

The Companies recommend that the Commission should not establish a Phase III government/educational/non-profit sector "carve-out," for several reasons. First, the market potential study being completed will not be statistically valid to support any "carve out" for this *sector at the EDC level. Second, any such requirement causes programs that are redundant with the programs and measures already offered to commercial and industrial customers, which causes unnecessary cost by requiring additional plan design, marketing, administration and implementation to specifically target these sectors. The Companies' programs for Commercial and Industrial customers are directly applicable to, and essentially the same as, programs for their government, municipalities, school districts, institutions of higher education and nonprofit entities. As such, there is no reason to require a "carve-out" when doing so does not provide any different program services. Third, the EDCs need the flexibility to design programs based on their unique circumstances. If the Commission prescribes this and other requirements, the EDCs would not be in a position to address the needs of their customers and stakeholders. Although the Companies anticipate meeting this goal for Phase II, the task has been extremely difficult due to the differences from EDC to EDC as well as other barriers associated with this sector. To the extent the Commission decides to require any G/E/NP sector carve outs, the Commission should carve out a budget based on funding per kWh saved that will need to be significantly greater recognizing the increased costs of dedicated programs and rebates to target this sector.*

b) If so, should it be:
  - i) The same 10% carve-out as prescribed in Phases I and II?
  - ii) A percentage of the overall savings, as in Phases I and II?
  - iii) A sector carve-out based on that sector's potential in each EDC's service territory? This option may result in different savings carve-outs for each EDC.
  - iv) Some other methodology?

***Response*:**

As mentioned above, the Companies oppose a Phase III G/E/NP sector "carve-out" as any carve out will not be supported by the market potential studies pending completion, the redundancy *in nature of the programs targeting this sector with the programs that target commercial and industrial customers (and the increased costs of this) and the need for the EDCs to design programs based on their customers and stakeholders. In addition, the Companies liken the 10% carve out, or any fixed carve out, to be similar to the budget and target inequities that existed in Phase I of Act 129, as EDCs that cover large metropolitan areas are likely to have more load and potential available for the G/E/NP sector whereas more rural service territories have less potential, due to the nature of these customers in urban and rural settings. If the Commission requires a carve-out for the G/E/NP sector, it should be based on each EDC's unique opportunity and not the same savings target for all EDCs. The carve-out should be factored into the EDCs remaining*

> c) If there is a G/E/NP carve-out, should the Commission again, as in Phase II, encourage the EDCs to give special emphasis and consideration to multifamily housing and to reach out to PHFA for assistance and coordination in these efforts? If so, should the Commission require multifamily properties to be owned by a non-profit or government entity to qualify under the G/E/NP sector, or should we simply require, as in Phase II, that the properties be financed under a Federal or State affordable housing program and have long-term use restrictions in place?

***Response*:**

If the Commission requires a carve-out for this sector, the Commission should continue to allow multifamily properties that are financed under a Federal or State affordable housing program with long-term use restrictions to qualify under the G/E/NP sector. Requiring these properties to be owned by the non-profit or government entity would unnecessarily reduce the EDCs' ability to meet the sector carve out.

4. Inclusion of a Reduction Target Carve-out for the Low-Income Sector

In Phase II the Commission required EDCs to obtain a minimum of four-and-a-half percent (4.5%) of consumption reductions from the low-income sector. Additionally, the Commission permitted the 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 FPIG, towards the 4.5% goal.

The Commission 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 the following questions:

a) If the SWE determines that there is cost-effective consumption and/or peak demand reduction potential in the low-income sector within the Act 129 framework, should the Commission include a carve-out for reductions in that sector?

b) If so, should it be:
   i) The proportionate number of measures requirement as prescribed in Phase I?
   ii) The same 4.5% savings carve-out as prescribed in Phase II?
   iii) A different percentage of the overall savings?
   iv) A sector carve-out based on that sector's potential in each EDC's service territory? This option may result in different sector savings carve-outs for each EDC.
   v) Some other methodology?

Response:

No. Similar to the comments above for the G/E/NP sector, the Companies also oppose a Phase III low-income "carve-out" as any carve out will not be supported by the market potential studies pending completion and the need for the EDCs to design programs based on their customers and stakeholders. In addition, the Companies again liken the current 4.5% carve out, or any fixed carve out, to be similar to the budget and target inequities that existed in Phase I of

Act 129, as the potential for low-income savings varies materially from EDC to EDC. Also, the Companies believe that a carve-out for low-income customers is not necessary given that Act 129 solely requires a percentage of measures target; however, if the Commission decides a low-income carve-out is necessary, it should create a budget carve-out rather than a percent of energy savings carve-out. A budget carve out is more appropriate than other forms of carve outs given the diversity in program services and the cost of serving this sector, recognizing its unique needs and stakeholder interests. Establishing a budget for this sector would be similar to how the LIURP programs are handled. A budget carve-out also permits EDCs to use more of a holistic/needs based approach for low-income customers and would allow the EDCs to address health and safety issues as well as more comprehensive measures. The Commission should also adjust the overall EDC's savings target to account for any low-income carve-out, to recognize the increased cost associated with the programs designed for this sector. Costs to serve these customers continues to rise while the potential for savings continues to decrease as Act 129 and other Universal Service low-income programs are utilized. Additionally, the opportunity for low-cost savings is expected to continue to decline over time as standards and baselines change and as low-cost EE&C programs are implemented. Furthermore, the Companies continue to struggle to identify a sufficient number of low-income customers at or below 150% of the FPIG that are willing to participate in programs in certain service areas. In some areas the low-income customer market has been saturated and finding new low-income events to reach low-income customers continues to be a challenge. For all of these reasons, the Companies recommend that the Commission not establish the 4.5% or other reduction target because only a percent-of-measures target is supported in the Act. If the Commission decides to establish a carve-out it should be a budget carve out not a percent-of-energy savings carve out.

c) If there is a low-income carve-out, should the Commission again, as in Phase II, allow the 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 FPIG, toward the goal?

Response:

If the Commission establishes a savings carve out, the Companies agree multifamily housing savings up to 150% of FPIG should be included as well as savings resulting from low-income customers participating in other residential programs, consistent with Phase II.

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. Should the Commission provide such a directive in Phase III? If so, should it be amended to require more than one measure?

Response:

First and foremost, the Companies currently provide comprehensive programs and services to customers. For Phase III the Companies recommend that the Commission should not provide a directive and, instead, provide the EDCs with the flexibility to develop their Plans. The more incremental requirements that the EDCs have in the design and implementation of their EE&C Plans, the less flexibility that the EDCs have in designing and implementing programs that best meet the needs of their customers and stakeholders. Furthermore, the largest obstacles to comprehensive programs are: 1) including them within the EE&C Plans while meeting the Plan savings and other requirements and within the available budgets; 2) the programs are costly so it is more difficult to pass cost-effectiveness testing; and 3) customer participation is generally more *limited since customers are typically required to pay part of the cost of the higher cost program. As such, the Companies recommend that inclusion of comprehensive measures in Phase III should be at the EDCs' discretion based on their unique circumstances as well as stakeholder input.*

6. EDCs' Phase III Budgets

a. Accumulated Savings in Excess of Reduction Requirements

In implementing Phase II the Commission recognized that many of the EDCs had surpassed their Phase I consumption reduction requirement of 3% before the end of the Phase, while still having budget available for the continued provision of measures. The Commission allowed the EDCs to continue spending their budgets to provide Phase I measures until the expiration of Phase I. The Commission allowed those consumption reductions in excess of the 3% goal to be applied to the EDCs' Phase II targets. The Commission requests comments on such procedures going into Phase III. Specifically:

a) Should the Commission allow for the continued spending of Phase II budgets after targets are met?

Response:

Yes. The Commission allowed EDCs to continue spending beyond their 3% MWh target during Phase I and to use those savings towards any Phase II consumption reduction targets. Similarly, the Commission should permit the EDCs to continue spending with any savings beyond their Phase II targets to count toward their Phase III targets. The Companies support a carry-over credit because it supports continuation of the successful EE&C programs after the Phase II targets are met, thus maintaining the momentum gained since implementation, while the momentum may be lost through a suspension of programs between phases. Moreover, without *carry-over credit, there would be no incentive for an EDC to continue programs. EDCs should be permitted to use their discretion in whether to continue Phase II programs after targets are met in order to balance customer rate impact, program continuity and other market considerations. For example, when targets are met, EDCs should have the opportunity among other reasons to suspend or discontinue certain measures or programs if measures or programs are no longer effective or are planned to be modified or discontinued in future phases. Finally, EE&C savings are becoming more difficult to achieve with such achievement coming at a higher cost. Allowing the EDCs discretion to continue spending on certain programs and measures, such as leveraging successful programs and measures and to achieve savings beyond the Phase II targets supports effective program implementation and increases the ability of the EDCs to meet their Phase III targets while keeping compliance costs and costs to customers in check.*

b) Should we allow the EDCs to apply any excess consumption reductions from Phase II towards their Phase III consumption reduction requirements?

Response:

Yes. See response to Question 6 (a) above.

b. Finalizing Phase II Spending

The Commission encountered an issue in which a measure may have been installed and commercially operable before the end of Phase I, but a rebate application had not been submitted to the EDC until a significant amount of time afterwards, affecting the timing with regard to the EDCs closing their Phase I books. The Commission solicits feedback on the following:

a) Should the Commission prescribe a deadline for the submission of rebate applications following the in-service date of the measure? For example, rebate applications would need to be submitted within 180 days from the in-service date of the measure to qualify for a rebate.

   i) Or, should an EDC be required to develop application deadlines specific to its programs?

Response:

EDCs should have the discretion to establish the appropriate application deadlines for their specific programs and measures based on program implementation processes.

b) Should the Commission prescribe a deadline for the submission of rebate applications for measures installed at the end of a Phase? For example, rebate applications would need to be submitted within 90 days of the end of a Phase in order for the EDC to finalize its spending from that Phase.

   i) If so, should it be the same deadline as utilized for measures installed in the beginning or middle of a Phase?

   ii) Or, should the EDCs be required to develop their own program-specific deadlines within their plans?

Response:

No. EDCs should have the discretion to determine the most appropriate deadlines for Phase II rebate applications based on its program implementation processes.

c) What is an appropriate length of time for the EDCs to "true-up" their costs/budgets for Phase II? Should the Commission consider allowing the EDCs to roll all residuals of Phase II 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?

Response:

The Companies recommend that the Commission allow the EDCs to finalize their costs/budgets for Phase II based on all Phase II costs incurred through August 31, 2016, with any residual costs after August 31, 2016 to be rolled into Phase III. This supports the costs to be *reported in the final Phase II report to be filed by November 15, 2016 as well as simplifies the accounting of Phase II and Phase III expenses. Furthermore, the Companies recommend that the Phase II and Phase III surcharges be combined to reduce customer confusion surrounding multiple Act 129 surcharges.*

7. Updating of the Technical Reference Manual

In Phase I and II the Commission deemed it appropriate to implement an annual updating process for the Technical Reference Manual (TRM). The Commission seeks feedback on the following:

a) Should the Commission maintain an annual TRM updating process for Phase III?
b) If not, how often should the TRM be updated?
c) Is the updating schedule dependent on the length of Phase III? For example, if the Commission implements a three-year phase vs. a six-year phase, would that affect how often we should update the TRM?

Response:

Consistent with comments on the 2015 TRM, the Companies recommend that the 2016 TRM apply for the duration of Phase III, that annual updates not be planned, and that any mid-phase updates to the TRM should be limited to administrative corrections or the addition of measures. The framework established in the current TRM appropriately anticipates and specifies changing parameters responsive to scheduled changes in federal standards and baselines, and limits reliance on "deemed" savings through references to use of evaluation results and site specific inputs. As such, annual or mid-course updates are no longer necessary.

Annual updates were deemed necessary in the Phase I era given the novelty of the TRM and learning curve in Pennsylvania associated with M&V. The TRM has been extensively updated *and reworked over the past five years and such is fully developed and mature and an interim Plan period update is no longer warranted or prudent. The TRM is the product of millions of dollars spent for evaluation. Resources supporting interim updates (e.g., for research, development, review and comment processes, and tracking/reporting changes) are better focused on implementation. TRM changes also inevitably require resources and costs to support change management to minimize customer and trade ally confusion.*

The TRM is the yardstick used for assessment of savings, and experience has proven that changes in the TRM over time add uncertainty as to the level of savings a program can deliver for a given level of investment. Plans are developed, reviewed and approved based on such TRM guidance and changing the guidance mid-phase causes risks, uncertainty, shift of focus and costs from effective implementation to planning and regulatory administrative processes. Given the risk of penalties under Act 129, as well as the extensive updates that have occurred over the past five years, the TRM process should not add uncertainty to EDC compliance processes and should align with the Plan cycle going forward.

8. Updating the Total Resource Cost Test

In Phase I and II, the Commission established and subsequently reviewed the Total Resource Cost Test (TRC Test) methodology. We seek feedback on the following:

a) Should the Commission establish a periodic review and updating process for the TRC Test methodology in Phase III?
b) How often should the TRC Test methodology be reviewed?
c) Should a periodic review and updating of the TRC Test methodology process schedule be dependent on the length of Phase III? For example, if the Commission implements a three-year phase vs. a five-year phase, would that affect how often we should review the TRC Test methodology and consider updates?

d) In our Phase I and Phase II Implementation Orders, we declined, among other things, the requests from certain stakeholders to require inclusion of societal benefits in the TRC equation and analysis. We have seen no reasons emerge during the span of the two phases to change such a determination and do not intend to revisit those issues again in this process of addressing Phase III issues based on any theories or arguments that have heretofore already been made. If, however, there are new data, theories, or arguments are available, they may be presented in comments along with other relevant comments.

Response:

No. The Companies recommend that TRC guidance be limited to each Phase of Act 129 and should not support mid-phase updates to TRC guidance. Plans are developed, reviewed and approved based on such guidance and changing the guidance mid-phase would cause risks, uncertainty, and shift of focus and costs from effective implementation to planning and regulatory administrative processes. The Companies also agree with the Commission that no reasons have emerged during Phase I or Phase II of Act 129 to warrant mid-phase updates, or to revisit the Commission's position on the inclusion of societal benefits in the TRC equation and analysis. Societal benefits have a high degree of variability and reliable quantification is extremely difficult. Adding consideration of societal benefits would be a fundamental change in the definition of the TRC test, and will unnecessarily increase the uncertainty associated with the cost-effectiveness analysis that is relied upon to justify program expenditures. This recommendation is also independent of the duration of each phase.

III. Conclusion

Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company respectfully request that the Commission consider their comments in preparing for the design and implementation of a potential Phase III of the EE&C Program. The Companies appreciate the opportunity to comment and look forward to future continued collaboration on energy efficiency with the Commission and other stakeholders.

Respectfully submitted,

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