April 24th, 2015

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

Re: Docket No. M-2014-2424864

Dear Secretary Chiavetta:

The Home Performance Coalition and the Keystone Energy Efficiency Alliance are pleased to submit the attached comments regarding the above-referenced proceeding.

We appreciate the opportunity to comment on this important issue.

Sincerely,

Brian Castelli	Maureen Mulligan
President and CEO	Policy Director
Home Performance Coalition	Keystone Energy Efficiency Alliance

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Docket No. M-2014-2424864 Phase III of Act 129

JOINT COMMENTS OF

<u>THE HOME PERFORMANCE COALITION AND THE KEYSTONE ENERGY EFFICIENCY ALLIANCE</u>

on the Tentative Implementation Order Regarding the Design and Implementation of Phase III of Act 129 Energy Efficiency and Conservation Programs

The Home Performance Coalition (HPC) and the Keystone Energy Efficiency Alliance (KEEA) applaud the Commission for its continued support of energy efficiency through the proposed implementation of Phase III of the Act 129 Energy Efficiency and Conservation Program. HPC and KEEA appreciate the opportunity to submit comments regarding the Commission's Tentative Implementation Order, Docket No. M-2014-2424864, and specifically regarding the Total Resource Cost test (TRC) to evaluate the cost-effectiveness of the Energy Efficiency and Conservation Program.

The Commission has considered comments regarding the TRC in the previous phases of Act 129, and has stated an intention not to consider the issues of societal benefits and non-energy impacts, except to the extent that "new data, theories, or arguments are available." Accordingly, HPC and KEEA will suggest a new approach to addressing an ongoing problem with the existing TRC methodology that will enable the Commission both to remain consistent with statutory requirements, and to ensure that it has the most accurate information available regarding the benefits of the EE&C programs.

The Home Performance Coalition (HPC) is a national non-profit organization creates energy-efficient, healthy, sustainable homes through education, training, advocacy, and outreach. Created in 2014 through the merger of Affordable Comfort, Inc. (ACI) and the National Home Performance Council (NHPC), the Home Performance Coalition is committed to a robust industry that makes all of America's homes more resource efficient, healthy, durable, resilient, and affordable.

The Keystone Energy Efficiency Alliance (KEEA) advocates on behalf of energy efficiency and renewable energy professionals on the local, state, and federal levels. By representing the interests of the clean energy industry in Pennsylvania, KEEA is growing the market for energy efficiency and helping the Keystone State secure a prosperous, sustainable tomorrow.

Over the past two years, HPC has coordinated the National Efficiency Screening Project (NESP) a national group of stakeholders dedicated to promoting best practices in cost-effectiveness screening. NESP has developed a comprehensive new approach, called the Resource Value Framework (RVF) for developing and implementing cost-effectiveness tests that builds off the framework outlined in the California Standard Practice Manual (CSPM). The RVF provides guidance regarding issues that are not adequately detailed in the CSPM and advances methods for addressing practical implementation issues that have emerged since the CSPM was published and revised. HPC and KEEA's comments regarding Docket M-2014-2424864 are based on the RVF recommendations, which can be found at http://www.homeperformance.org/sites/default/files/nhpc_nesp-recommendations_20140816.pdf

The TRC test by definition does not include "societal" benefits, (e.g. the "externality costs of power generation not captured by the market system"[1]) Although it could be argued that ratepayers would benefit from consideration of the full range of benefits provided through the EE&C programs, the commission's continued decision to exclude societal benefits is consistent with the definition and underlying rationale of the TRC test. (It should be noted, however, that as per best practice recommendations issued by the Regulatory Assistance Project, HPC and others, the avoided costs of complying with forthcoming environmental regulations, i.e. avoided costs that are not yet embedded costs, but can be reasonably forecast as becoming embedded costs in the near future, *should* be taken into consideration in the TRC as a utility-system cost.[2]

The issue of non-energy impacts however, deserves further consideration and new methodological approaches. Following statute, the Commission has determined that "non-monetary" benefits should not be included in the TRC. Although we respect and appreciate the Commission's concern regarding the challenges involved in quantifying non-energy impacts, the decision to exclude them entirely from the TRC results in a test that is not consistent with the rationale or structure of the TRC as outlined in the CSPM.

For a TRC test to provide accurate information, as per the CSPM, the full range of benefits to ratepayers, both participants and non-participants, must be accounted for through some method. If they are not accounted for, the NPV and benefit cost ratios will be inaccurate, with the result that the Commission will not have appropriate information for making decisions regarding the EE&C programs and may inadvertently leave on the table cost effective options that can benefit Pennsylvania consumers and assist utilities in reaching their goals.

---

[1] California Standard Practice Manual, October 2001, p. 19

[2] See for example T. Woolf, E. Malone, K. Takahashi, and W. Steinhurst. 2012. *Best Practices in Energy Efficiency Screening: How to Ensure that the Value of Energy Efficiency is Properly Accounted For*. Prepared for the National Home Performance Council. Washington, D.C. and T. Woolf, W. Steinhurst, E. Malone, and K. Takahashi. 2012. *Energy Efficiency Cost-Effectiveness Screening: How to Properly Account for 'Other Program Impacts' and Environmental Compliance Costs.* Prepared for the Regulatory Assistance Project. Montpelier, Vermont.

Exclusion of non-energy impacts is a problem in practice primarily because the evidence overwhelmingly indicates that in transactions in which a program participant pays for part of an energy conservation measure, energy is only one of the considerations that motivates his or her purchase. In other words, if the TRC includes the full amount of the consumer payment, it is including costs that are not energy-related. The inclusion of non-energy benefits is designed to address this imbalance by quantifying the benefits that the program participant is paying for when purchasing energy efficiency equipment.

Because statute prevents the Commission from considering non-monetary benefits in the TRC, HPC and KEEA recommend that the Commission consider reducing consideration of the total consumer payment, such that the test accounts only for the proportion of the participant's total payment that is relevant specifically to *energy* benefits.

This method addresses the statutory concern while recalibrating the consumer cost more accurately to reflect the proportion of consumer cost dedicated specifically to energy-related benefits. The Commission's concerns about the difficulty and expense of research to incorporate such a change should be taken into consideration. However, a large and sophisticated body of research on these issues currently exists and could be leveraged by the Commission such that a reasonable estimate of the proportion of the participant cost related to energy benefits might be developed without excessive expense. Research commissioned by nearby states, including Maryland, New York, and Massachusetts, could prove particularly relevant.

It should be noted that since the 2012 TRC docket a number of states have recognized that omission of non-energy impacts from the TRC creates a fundamental flaw in the test and have addressed the problem in a range of ways. These include:

- In 2012 Massachusetts completed an extensive study of the full range of non-energy impacts, which are not incorporated into the cost-effectiveness tests in both Massachusetts and Rhode Island;

- During 2014 Maryland and Arkansas have conducted extensive stakeholder-driven processes designed in part to identify appropriate non-energy benefits;

- In 2014 Oregon exempted programs from the requirement to pass the TRC on the grounds that significant non-energy benefits were probably present;

- In 2014 New York decided to conduct a fundamental redesign of its cost-effectiveness test methods, and is considering quantification of the full range of non-energy impacts;

- Several Washington State gas efficiency programs decided to use the Utility Cost Test rather than the TRC on the grounds that the TRC was not accurate unless non-energy impacts were accounted for.

Although the Commission has stated a determination not to review TRC-related issues discussed in previous dockets, we wish to briefly make mention of two issues that deserve the Commission's reconsideration.

First, there is a strong rationale for inclusion of non-electric energy benefits in the test. These benefits are clearly energy-related, can be easily monetized, and are consistent with the rationale and structure of the TRC as outlined in the CSPM. A TRC that does not consider these benefits is not providing an accurate comparison of the full set of benefits against the full set of costs to ratepayers.

Second, the 15-year limit on energy efficiency benefits deserves reconsideration, given that use of the best estimate of actual measure lives is a best practice approach. We recognize the concerns raised by the Commission and stakeholders regarding the expense of quantifying the lifetime individual measures, as well as statutory limitations. However, as with the other issues above, failure to consider the full life of energy conservation measures reduces the accuracy of the TRC. HPC and KEEA recommend leveraging studies by other states with similar climate conditions and housing stock to develop appropriate measure lives for at least the most significant energy conservation measures.

Finally, HPC and KEEA propose an approach similar to other stakeholders regarding the Commission's request for comments on the issue of the frequency of TRC review. In order to provide stakeholders with a reasonable assurance of stability, we support establishment of a general TRC framework and guidelines that would last for the full length of Phase III of Act 129. However, some mechanism for reviewing and making changes and modifications to the TRC would be valuable, both because a significant body of new research and findings related to cost-effectiveness testing has taken place over the past few years and is still underway, and because the U.S. Environmental Protection Agency's Final Rule on the Clean Air Act may have a major impact on the Act 129 program generally and utility Phase III plans specifically. Accordingly, we recommend that the Commission support the creation of standing technical committee that could review TRC implementation and provide advice and guidance as appropriate.

HPC and KEEA make the above recommendations with the goal of supporting the Commission in conducting an accurate cost-effectiveness screening process at a reasonable cost. Improved accuracy achieved through application of best practices will provide the Commission with better information about the benefit-cost ratios of EE&C programs, and will enable it to ensure that ratepayers are provided the full range of cost-effective energy efficiency services.

Thank you again for the opportunity to comment on this important proceeding.