

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Energy Efficiency and Conservation :
Program and EDC Plans : Docket No. M-2008-2069887
:

Reply Comments of PPL Electric Utilities Corporation

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

I. Introduction

On October 15, 2008, Governor Rendell signed HB 2200 into law as Act 129 of 2008 ("Act 129" or the "Act") with an effective date of November 14, 2008. The Act expands the oversight responsibilities of the Public Utility Commission ("PUC" or the "Commission") and imposes new requirements on Electric Distribution Companies ("EDCs") with the overall goal of reducing energy consumption and demand, enhancing procurement of generation supply for default service, and expanding alternative energy sources. In particular, the Act adds several new sections to and amends several existing sections of the Public Utility Code. The Act contains numerous time frames and deadlines, the earliest of which occurs in January 2009.

PPL Electric Utilities Corporation ("PPL Electric" or the "Company") has been an active participant in the Commission's proceedings to develop an Act 129 implementation plan. The Company filed comments on November 3,

2008 at this docket; it filed responses on November 14, 2008 to CEEP's Questions for the November 19, 2008 HB 2200 *En Banc* Hearing; and it filed responses on November 26, 2008 at Docket No. M-2008-2074154. In addition, Company representatives participated in the November 14, 2008 meeting of the Retail Markets Working Group and the November 19, 2008 HB 2200 *En Banc* Hearing.

By letter dated November 26, 2008, in the above-captioned docket, the Commission circulated a Working Group Draft Implementation Order ("WG Draft") and additional questions related to the first phase of implementing Act 129. The Company filed comments on the WG Draft and the Commission's questions on December 8, 2008. In addition, the Company participated in a meeting of the Act 129 Working Group ("WG") on December 10, 2008. The November 14, 2008 secretarial letter announcing the WG meeting established the opportunity for interested parties to file replies to comments filed on the WG Draft and matters discussed at the WG meeting no later than December 19, 2008.

PPL Electric is an EDC serving 1.4 million customers in central eastern Pennsylvania. PPL Electric appreciates the opportunity to continue its participation in these important initiatives by the Commission to ensure comprehensive implementation of Act 129. In the interest of administrative efficiency, the comments that follow are organized under headings that coincide with the numbered subsections of Section 2806.1(a).

II. Comments relative to Sections 2806.1(a)(1)-(11)

(1) Procedures for the approval of plans submitted under Subsection (b).

- **The establishment of a load forecast is a critical activity from the perspectives of timing, plan content, and exposure of EDCs to non-compliance. PPL Electric supports a collaborative approach leading up to plan submittal.**

During the WG meeting on December 10, there was significant discussion concerning the load forecast that is required under the Act as the baseline from which sales reductions goals and compliance will be measured. In particular, the representative from the Office of Consumer Advocate ("OCA") recommended that EDCs be required to provide their load forecast to the Commission by February 1, 2009. The OCA is seeking to ensure that interested parties have sufficient time to review those forecasts and provide input such that the forecast required as part of each EDC's July 1, 2009 plan would be a final forecast from which measures and plans can be evaluated. Concern was expressed by the representative for PPL Electric that a February 1 forecast would introduce five additional months of uncertainty into a forecast which, under a narrow interpretation of the language of the Act, would not have to be provided until July 1. The PPL Electric representative noted that this is particularly important now when economic conditions are extremely uncertain and econometric models, which are important drivers of electric sales forecasts, are unlikely to predict future impacts very well. For example, an EDC might file a plan relying on a significant amount of reduction from large industrial customers (based on a February forecast) only to find later that the impact of the economy on these customers was understated and a significant number of the anticipated reductions are not available. As a result, the EDC would be at risk of non-compliance.

To address this issue, PPL Electric believes that it may be appropriate for parties to work collaboratively, starting with a preliminary load forecast developed as early as February 1. However, the EDCs must retain the right to make changes to that forecast up until the July 1 filing. The Company anticipates that any changes that must be made to the preliminary forecast would be worked through the collaborative process with the objective that the forecast filed on July 1 would reflect a consensus of the collaborative effort. To facilitate such an approach, the Commission may need to establish dockets for individual EDC plans

earlier than might otherwise have been anticipated, and procedures may need to be established for the review of preliminary forecasts.

- (2) **An evaluation process, including a process to monitor and verify data collection, quality assurance and results of each plan and the program.**
- **PPL Electric reiterates its support of a Technical Reference Manual and endorses the comments made at the December 10, 2008 WG meeting by the representative of the National Association of Energy Services Companies.**

In its comments filed November 3, 2008, the Company recommended that a Technical Reference Manual ("TRM") should be developed to establish the sales and demand reductions available from the implementation of standard measures such as compact fluorescent light bulbs, EnergyStar appliances, and efficient motors. On pages 9 and 10 of the WG Draft, the staff proposed the development and use of a TRM, and the Company endorsed that view in its comments filed December 8, 2008. During the December 10, 2008 WG meeting, the representative for the National Association of Energy Service Companies ("NAESC") also endorsed this view. The NAESC representative stated that the vast majority of savings achieved in California are determined using a TRM approach. The representative also noted that a TRM can be updated to reflect new information, but that such updates should not disrupt measures already approved and underway. PPL Electric agrees with this approach and believes that the insights of an entity actually participating in functioning sales and demand reduction markets is a powerful endorsement of this approach.

(3) An analysis of the cost and benefit of each plan submitted under Subsection (b) in accordance with a Total Resource Cost Test approved by the Commission.

- **PPL Electric believes that careful consideration must be given to the issue of including customer's internal production costs in the Total Resource Cost test.**

During the December 10 WG meeting, representatives for industrial customers and for the Office of the Small Business Advocate ("OSBA") both commented that the Total Resource Cost ("TRC") test should include as a cost component the internal production costs or business costs that a measure would have on the participant. For example, it was suggested that the costs that a customer experiences in shifting production should be reflected in the evaluation of an interruptible program. The representative for NAESC commented that he is not aware of such costs being reflected in the evaluations done in other jurisdictions.

PPL Electric believes, fundamentally, that the TRC test must be defined, conducted, and used in the approval and evaluation of measures in a fair and consistent way. In that regard, the Company believes that such internal costs could either be included or not included as long as there is a clear definition and it is applied consistently. However, the Company is sensitive to the concerns raised by the industrial customers and the OSBA to the extent that the TRC may indicate an acceptable economic outcome that would be of no interest to customers if all of their costs were included. For this reason, PPL Electric believes that the Commission should recognize in its rules that the TRC test is simply a measure of the relative merits of projects under a specific set of assumptions. However, the TRC test should not become a decision-making tool under which an EDC would be forced, because of a TRC analysis, to offer programs in which customers would have no interest.

(4) An analysis of how the program and individual plans will enable each Electric Distribution Company to achieve or exceed the requirements for reduction in consumption under Subsections (c) and (d).

- **PPL Electric reiterates its support for the “savings” approach to analyzing plan effectiveness.**

During the December 10 WG meeting, a consensus appeared to have been reached in support of the “savings” approach (as opposed to an absolute sales or demand achieved approach) as the proper way to analyze plans and evaluate the outcome of those plans. The representative for PennFuture advocated this approach as being more accountable to the ratepayers who are ultimately paying for the reductions, and PPL Electric strongly endorses that view.

- **PPL Electric recommends that the Commission permit measures to count as both sales and demand reduction benefits where appropriate.**

In its written comments filed on December 8, 2008, the Department of Environmental Protection (“DEP”) states, on page 3, that “measures should be identified as either energy conservation or peak demand – but not both.” PPL Electric believes that it may be true, as DEP asserts, that some demand reduction programs simply shift use and produce no sales reductions. However it is also true that some programs, such as a time-of-use rate for residential customers, are likely to have both sales and demand benefits as consumers place timers on appliances that either do not need to run all the time or do not have a large “catch up” use when they are turned back on. In PPL Electric’s summertime pilot, it appears that there is about a 6% demand reduction, but also about a 3% conservation benefit. Similarly, a compact fluorescent bulb will use less electricity over all of the hours that it operates and, to the extent that any of those hours are among the highest 100 hours of demand, will impose a lower demand in those hours. To fail to recognize that a particular

measure can have a dual benefit deprives EDCs and ratepayers of a significant efficiency that should permit targets to be achieved at an overall lower cost.

- **PPL Electric recommends that the Commission permit EDCs to take credit in their plans for the full benefit of the measures in which they invest ratepayer funds.**

In its written comments filed on December 8, 2008, the DEP recommends, on page 5, that “EDC’s portion of investment relative to the overall measure cost be used to define the percentage of savings to the EDC.” PPL Electric disagrees with this recommendation, and asserts that there will be many measures where a rebate or grant from an EDC will be the determining factor in a saving or reduction being achieved. For example, a customer may be encouraged to buy a compact fluorescent light bulb instead of an incandescent bulb because of an EDC-provided rebate. In that instance, the entire saving is a result of the rebate, even though the rebate may only be for a fraction of the cost, and the EDC should receive full credit for the associated energy saving. PPL Electric believes that the DEP’s recommended approach deprives EDCs and ratepayers of a significant efficiency that should permit targets to be achieved at a lower overall cost, and introduces significant uncertainty, compliance risk, and administrative burden.

(6) Procedures to make recommendations as to additional measures that will enable an electric distribution company to improve its plan and exceed the required reductions in consumption under Subsections (c) and (d).

- **PPL Electric supports the comments made at the December 10, 2008 WG meeting by the representative of the NAESC regarding the need for on-going “steering” of plans that is not disruptive.**

During the December 10 WG meeting, the representative for NAESC recommended formation of an on-going stakeholder group to share ideas and new opportunities. PPL Electric believes that such an approach could help to facilitate updates to the TRM, review issues related to the application of the TRC test, and potentially lessen the disruption that might be an unintended result of the requirement in Act 129 that plans be reviewed annually.

(7) Procedures to require that Electric Distribution Companies competitively bid all contracts with conservation service providers.

- **PPL Electric believes that the Commission's rules should not preclude the solicitation of unspecified sales or demand reductions as advocated by several energy services companies in comments made at the December 10, 2008 WG meeting.**

During the December 10 WG meeting, the representatives of a number of energy services companies recommended that the Commission's rules permit EDC plans to include solicitations for amounts of reductions without specifying the exact nature of the reduction. As an example, these entities would propose an RFP for "100,000 kWh of reduction" as opposed to asking for bids on "a compact fluorescent program". The energy service companies argue that such a non-prescriptive approach will produce more creative and cost-effective reductions. PPL Electric agrees that such an approach could provide more cost-effective reductions than a prescriptive approach. However, the Company also acknowledges that the Act's focus on plans consisting of individual measures that are reviewed, evaluated, and subject to the TRC test could be construed to suggest a more prescriptive approach. Nevertheless, on balance, the Company recommends that the Commission's rules not preclude the possibility that some portion of an EDC's plan could include a more non-specific solicitation, as advocated by the energy services company representatives.

(9) Procedures to ensure compliance with requirements for reduction in consumption under Subsections (c) and (d).

- **PPL Electric reiterates its view that the 100 hours of system peak demand should be summer hours only.**

As stated in the Company's comments filed on December 8, PPL Electric believes that the 100 highest peak hours should not be taken from the entire year, but, rather, only from the summer. The Company recommends using the traditional PJM summer months of June through September. During the December 10 WG meeting, this appeared to be a view shared by most in attendance, however, not by all.

In its December 8 comments, the Company stated its belief that the demand reduction targets of Act 129 are intended to address supply and demand in those periods when energy prices are at their highest in order to cause those prices, on an average basis, to be lower. Those periods would be the highest demand hours in the summer. However, about 40% of PPL Electric's highest demand hours occur outside of the summer, and a year-round approach would require the Company, and any other EDC similarly situated, to focus some of its programs on those non-summer hours even though those are not likely to be periods when energy prices are high. As a result, high prices might not be reduced to the extent they otherwise could be. Furthermore, PPL Electric, and other similarly situated EDCs, might face a higher risk of non-compliance by having to split their available resources between summer and winter programs.

PPL Electric has reviewed the language of the Act regarding demand reductions and acknowledges that the language does not specify that the 100 hours should be summer hours. However, the Company notes that the stated objective is to reduce demand "by a minimum of 4.5% of annual system peak demand in the 100 highest hours of demand." The Company believes that the term "system" means the

demand in the Regional Transmission Organization in which the EDC is situated; i.e., either PJM or MISO. Those 100 hours will be more likely to be summertime hours. The language then says “the reduction will be measured against the Electric Distribution Company’s peak demand for the June 1, 2007 through May 31, 2008.” PPL Electric believes that the correct process is to first identify the highest 100 hours during the June 1, 2007 through May 31, 2008 period on a system basis, and then identify the demands on the EDC’s system during those same hours. The benchmark for the EDC would then be the sum of the 100 EDC demands divided by 100 and the 4.5% reduction target would be calculated from that figure. PPL Electric believes, if a summer-only approach cannot be implemented, that the approach described above can significantly address the Company’s concerns.

- **PPL Electric supports the comments made at the December 10, 2008 WG meeting by the representative of the NAESC supporting the capability to affect reductions as being the appropriate metric for demonstrating compliance.**

During the December 10 WG meeting, the representative for NAESC recommended that, in evaluating the performance of measures, individually, and plans, as a whole, the Commission should focus on the capability to achieve reductions and not necessarily on the exercise of that capability and actual achievement. For example, CSPs should not be required to deliver interruptible load reductions if such reductions are not actually warranted. The NAESC indicated that the exercise of the capability when not required by system conditions will actually have a negative impact on participation; i.e., participants will not be retained and new participants will not be attracted. There was general agreement among participants at the December 10 WG meeting that the PJM market already understands reduction capabilities and prices are lower than they would otherwise be as a result of the simple existence of this capability;

thereby, achieving what PPL Electric believes to be one of the primary objectives of the Act.

(11) Cost recovery to ensure that measures approved are financed by the same customer class that will receive the direct energy and conservation benefits.

- **PPL Electric reiterates its view that 2% of revenues cap on expenditures means 2% of annual revenues in each year of the plan and not 2% of annual revenues for the entire plan.**

In its comments filed November 3, 2008, the Company stated its belief that the cap on plan spending should be an annual amount, and not a total amount for the five year term of the plan. On page 26 of the WG Draft, the staff also stated that the 2% limitation established by the Act “should be interpreted as an annual amount, rather than an amount for the full 5-year period” and the Company endorsed that view in its comments filed December 8, 2008. During the December 10, 2008 WG meeting, the representative for the OSBA raised the possibility that the language of Act 129 could be interpreted to establish a limitation on the total amount of spending rather than on annual spending.

PPL Electric believes that interpreting the 2% spending limitation to apply to the entire five-year plan would produce a limit on spending so low that it will be impossible for EDCs to comply with the reduction requirements. During the WG meeting, the representative for Duquesne Light Company (“Duquesne”) provided compelling information in this regard. The Duquesne representative reported that a study by ACEEE of Vermont’s energy efficiency program found that a 1% sales reduction had been achieved at an average cost of \$46/customer. Duquesne also performed a calculation for Pennsylvania, and determined that a 2% annual spending cap would translate into an average expenditure of \$47/customer. PPL Electric has done its own calculation, and determined that under the annual spending cap approach, its

expenditures would be capped at about \$43/customer whereas on a "plan" basis, the amount would be only about \$8 per customer. PPL Electric believes, based on the size of the difference in the two results and the evidence from Vermont, that an interpretation that would establish the spending cap as a total amount leads to a completely illogical result.

III. Conclusion

For all of the reasons stated above, PPL Electric Utilities Corporation recommends that the Public Utility Commission proceed with implementation of Act 129 consistent with PPL Electric Utilities Corporation's comments and reply comments.

Respectfully submitted,



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at Allentown, Pennsylvania