

**COMMONWEALTH OF PENNSYLVANIA  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

***En Banc* Hearing on Alternative Energy, Energy Conservation  
and Efficiency, and Demand Side Response - Docket No. M-00061984**

**November 19, 2008**

**Testimony of John E. Paganie  
Vice President of Energy Efficiency,  
FirstEnergy Service Company**

Good morning, Chairman Cawley, Vice-Chairman Christy and Commissioners. I'm John Paganie, Vice President of Energy Efficiency at FirstEnergy. I appreciate the opportunity to share my views on the important topic of energy efficiency and conservation on behalf of Metropolitan Edison Company, Pennsylvania Electric Company and Pennsylvania Power Company. FirstEnergy's responses to the questions posed by the Commission's Bureau of Conservation, Economics and Energy Planning are attached to copies of my testimony.

Through Act 129, the Pennsylvania Legislature addressed complex energy efficiency and demand response issues with the intent of helping customers more efficiently manage their energy use compared to current energy consumption trends.

We look forward to working with the Pennsylvania Public Utility Commission in our effort to achieve the Act's aggressive energy efficiency and demand targets in a cost-effective manner, while maintaining the financial integrity of our electric utility operating companies.

Today, I'd like to address key factors that are critical to changing the way customers use electricity and, ultimately, achieving energy savings over the long term.

First, let me give you a little background on FirstEnergy's presence in Pennsylvania.

Our Met-Ed, Penelec and Penn Power electric distribution companies serve approximately 1.3 million customers in 49 of 67 counties, covering nearly half of the Commonwealth. We employ about 4,400 people and own \$6.7 billion in assets in the Commonwealth. In addition, we purchase nearly \$340 million in goods and services annually and pay \$216 million in state and local taxes. We currently offer our customers in Pennsylvania a number of energy efficiency, conservation and demand side response programs – efforts that help them get more from their energy dollars, encourage the smart use of electricity, and provide appropriate cost recovery for our companies. However, the scope and effectiveness of these existing programs is limited because the long-standing generation rate caps at Met-Ed and Penelec act to reduce customers’ motivation to conserve and restrict the Companies’ ability to implement changes in rate designs that provide market-based price signals that will motivate customers.

The energy efficiency and peak demand targets included in Act 129 are aggressive and we must at the outset recognize the significant challenges we face in meeting these targets.

For example, the compliance date of May 31, 2011, is very ambitious – especially when you consider that the Companies’ compliance plan likely will not be approved until the third or fourth quarter of 2009, leaving only one and a half years to achieve the targets.

Also, we know that true market price signals are essential to changing customer usage habits – yet these signals will not be in effect for Met-Ed and Penelec until January 1, 2011, only five months before the reductions must be achieved.

Currently, our Pennsylvania customers pay electricity rates that are below the national average. In fact, when you adjust for inflation, customers are paying less for electricity today than they did in much of the previous decade.

With Met-Ed and Penelec customer use of electricity increasing more than 8% percent over the past four years alone, price elasticity remains a major factor. A good example of

how this concept works is at the gas pump, where consumers' buying habits didn't change dramatically until the price of gas nearly doubled to over \$4 a gallon.

While current economic and market conditions may provide some customers motivation to conserve, they will also be a significant limiting factor for many customers as they consider the capital investments needed to achieve desired efficiency improvements.

Recognizing the aggressive targets, ambitious compliance schedule and difficult challenges we face, I believe we need to focus on three key success factors that are critical to achieving the Commonwealth's goals for energy efficiency and conservation.

First and foremost is the adoption by this Commission of a timely, flexible and effective process to review and approve the energy efficiency and conservation plans proposed by electric distribution companies, along with full and current cost recovery.

Given that time is of the essence in achieving the initial targets, the process should avoid lengthy hearings and yet allow for meaningful public input. Prompt Commission action in approving proposed plans and any required compliance plan filings is necessary because the sooner programs start; the more likely the required targets will be achieved.

The process also needs to be flexible in allowing for prompt action on interim program adjustments – such as those that achieve more favorable program parameters or that substitute programs when previously approved efforts aren't achieving the expected savings.

In addition, the process should include:

- Penalty provisions in Conservation Service Provider contracts;
- Standard protocols for measuring and verifying energy savings and load reductions – building on the existing Technical Reference Manual adopted by the Commission in the Alternative Energy Portfolio Standards proceeding; and

- The option for a single approval process for the cost recovery rider, conservation service provider contracts and other plan components.

Another critical factor for success is the need to coordinate utility programs with related energy efficiency programs conducted by state agencies such as Pennsylvania's Department of Environmental Protection, the Department of Public Welfare, the Treasury Department and the Department of Community and Economic Development. Achieving greater synergies among these efforts will help make programs offered by state agencies and electric distribution companies more effective than they can be on their own. This coordination also will help utilities achieve efficiency and peak demand targets in a more cost-effective manner.

As a third and final factor for success, I would like to underscore the need for consumer education in attaining a meaningful and measurable shift in customer behavior. Over the years, our companies have actively supported education programs – such as an online energy calculator and efficiency seminars for businesses, hospitals and schools – that give customers information they need to make good energy decisions. We believe increased emphasis on a coordinated education component should be an essential part of our future efforts to help consumers better manage their electricity use and costs.

In closing, let me reiterate that FirstEnergy is committed to working with the Commission to attempt to meet the energy efficiency and conservation goals of Act 129.

Thanks again for the opportunity to speak on behalf of FirstEnergy and its Pennsylvania operating companies.



- and conservation services? If not, what energy efficiency and demand services should not be competitively bid?**
- d. Under definitions, a CSP is an unaffiliated entity providing information and technical assistance. Under 2806.1 (A), however, a CSP is said to provide conservation services. How should this Commission interpret this apparent inconsistency?**
  - e. Under 2806.2, the Commission must establish a registry of approved CSPs. What basic business elements (better business bureau rating, bonding, for example) should be required to be registered?**
  - f. What experience and qualifications should be required of registered CSPs?**

**Response:**

a. Collaboration and coordination on CSP contracts by EDCs within a common holding company may occur naturally. However, it is unlikely that systematic coordination will be possible across unaffiliated EDCs given the time constraints for the initial plan filing and the timing for establishment of a CSP registry. Additionally, due to the geographic and demographic differences across the Commonwealth, collaboration may not be practical recognizing that certain CSP's may focus their efforts in certain territories. The best coordination opportunities for initial plan filings may occur for overlapping gas and electric utility territories, for regional programs (e.g., Energy Star products) and statewide communications strategies. As EDC plans evolve and experience is gained from lessons learned from implemented programs by specific CSPs, collaboration and coordination of CSP contracts may become more appropriate. More importantly, utilities should be encouraged to collaborate/coordinate on common standards for participation in programs (e.g. minimum efficiency and process requirements for HVAC incentives, standards and process criteria for new construction, etc.).

b. Yes. It is reasonable for the Commission to expect several programs to be proposed by utilities that will be consistent enough to enable CSPs to develop service offerings that will cross utility boundaries. Examples include prescriptive rebates for commercial and

industrial technologies (e.g. lighting, motors, HVAC etc.), residential HVAC, and home efficiency upgrades.

c. The relevant provisions of Act 129 provide:

- *2806.1(A) (7) (PUC Program contents)* Procedures to require that electric distribution companies competitively bid all contracts with conservation service providers.
- *2806.1(B)(1)(E) (Duties of electric distribution companies)* The plan shall include a contract with one or more conservation service providers selected by competitive bid to implement the plan or a portion of the plan as approved by the commission.
- *2806.1(M) (Definitions)* “Conservation Service Provider.” An entity that provides information and technical assistance on measures to enable a person to increase energy efficiency or reduce energy consumption and that has no direct or indirect ownership, partnership or other affiliated interest with an electric distribution company.

The Companies expect that most, if not all, CSPs retained by electric distribution companies (“EDCs”) to provide services directly to EDC customers should be obtained through competitive bidding techniques, generally through Requests for Proposals.

However, consultants who could fit under the broad definition of CSPs in 2806.1(M) may be retained by EDCs to develop programs, conduct TRC analyses, formulate the EDC’s Plan filing to the Commission, etc. A reasonable interpretation of the above provisions of Act 129 does not require that consultants performing these types of work for an EDC be retained

through competitive bidding because such consultants are not providing conservation services to customers.

d. Although the terminology in Act 129 is not completely clear, the Companies believe that it is not inconsistent in this instance. The term, “technical assistance,” is broad enough to encompass the actual provision of conservation services to customers because these services “enable a person to increase energy efficiency or reduce energy consumption” as provided in the definition of CSP. “Technical assistance” would be the performance of an energy audit by the CSP and “information” would be the data obtained from that energy audit which the CSP provides to the customer.

e. The Companies would recommend consideration of the basic business elements of the application process used for electric generation services (EGS)

[http://www.puc.state.pa.us/general/onlineforms/pdf/EGS\\_Licen\\_App.pdf](http://www.puc.state.pa.us/general/onlineforms/pdf/EGS_Licen_App.pdf).

Referencing EGS requirements, key elements of that process that should be adapted to CSP energy efficiency services include:

- Identity and affiliations
- Present operations and experience (suggest menu of categories)
- Proposed operations (suggest menu of categories and customer segments)  
Service area
- Tax Certification Statement
- Compliance
- Standards/Billing/Terms
- Bonding
- Financial Fitness
- Technical fitness

Other requirements could include certifications as to holding applicable licenses to provide services, and that installations comport with applicable codes and standards.

The accreditation process used by the Building Performance Institute (BPI) might also serve as a model for reference. (See <http://www.bpi.org/documents/BPI%20Accreditation%20Policies%20and%20Procedures%20v.2008.03.pdf>)

f. Required experience and qualifications should depend on the program and services offered. Given the wide range of potential services, the Companies do not have specific recommendations, other than:

- 1) Certain certifications (e.g., BPI certification and/or accreditation) should suffice for services in existing homes, and Residential Energy Services Network (Resnet) certification should suffice for contractors supporting residential new construction.
- 2) Contractors working under contract with utilities will have gone through a screening process as part of a competitive bid process and should be presumed to have applicable experience for the services offered by virtue of the EDC screening process.

The application process recommended in “e” above should enable a screening process.

- 2) **Measurement of Meeting Statutory Requirements:**
  - a. **How would the addition of new load in an EDC territory (i.e. RCI new development/construction) be measured, and at what point do these additions meet the “extraordinary load” exceptions?**
  - b. **How would one distinguish between reductions in consumption as a result of customer participation in technology programs in an EDC territory, implemented as part of an EDC’s Energy Efficiency and Conservation Plan, as opposed to unrelated and independent consumer actions (i.e. manually adjust thermostat heat/cooling settings, turn lights off, etc.)?**
  - c. **How will economic activity within Pennsylvania and an EDC’s service territory be considered when measuring the performance of EE/DR**

**programs? For example, an EDC's territory that is experiencing a recession may meet their goals from decreased economic activity from plant closures, business failures and worker migration out of the service territory.**

**Response:**

Before responding to the three subsections of this question, FirstEnergy believes it is important to set the framework that underlies all three. The issues surrounding extraordinary load, independent consumer actions and economic activity are centered on the most effective and transparent way of determining whether the Act 129's required reductions are met. To accomplish this, the steps in the process of making this determination should be reviewed.

First, the amount of reductions for each EDC must be set as part of the Commission's approval of the EDCs' plans. The statutory percentages for both the energy and peak load reductions are based upon specified, discrete periods of time and any weather or extraordinary load adjustments must be made in determining the statutory percentage amounts. For example, if during the June 2007 through May 2008 peak load period, a large customer load came on line, that load should be excluded from the calculation of the 4.5% peak load reduction required in 2013. Whether the load is "extraordinary" should be determined on a case-by-case basis given the large differences in peak loads among EDCs and the types of load each EDC ordinarily experiences. The forecast of energy use for the 2009-2010 period would also be adjusted for weather and extraordinary load (added or reduced) that are reasonably forecast for the period and approved by the Commission.

In approving the EDC's plan, the Commission will also determine the amount of mWh and MW which will be attributed to each measure in the approved plan. The Technical Reference Manual ("TRM") approved by the Commission as part of its AEPS proceeding (Order entered October 3, 2005 at Docket No. M-00051865) should be the standard amount of reduction

applied to the respective measures. (Known as “Estimated savings credit” in the TRM.) If a measure is not included in the TRM, then the EDC should provide the necessary information that allows the Commission to determine the standard reduction to be attributable to that measure. For custom measures, usually for individualized reduction techniques utilized for larger commercial/industrial customer installations, the method of calculation of the amount of mWh and/or MW reduction will be set forth in the EDC plan. The method may utilize a calculated savings based on a formula, actual measurement of metered usage or a combination of both depending on the measure. Similarly, methods for assessing the impacts of new rate strategies and “smart grid” strategies would also be included as part of their deployment.

Once the required energy and peak load reduction amounts and standard/custom calculations are established in the Commission’s approval of the EDC plan, the next step will be to collect the data arising from the EDC’s implementation of the Plan. To determine whether the required reductions have been achieved, the applicable standard reductions are then merely multiplied by the number of installed measures to arrive at the mWh and MW reductions achieved by the measure and then totaled for all measures in the Plan. Any custom measures will be totaled in accordance with the prior approved calculation/measurement method.

Actual customer metered data is inappropriate for use in determining compliance for a number of reasons. First, Act 129 requires reductions in usage measured from baseline periods, not from overall future usage. Second, it is extremely difficult, if not impossible, in reviewing a customer’s metered data to distinguish between changes in usage due to a multitude of variables some of which increase usage, others that decrease usage and then determine the amount attributable to the EDC’s program. The better way is to make reasonable assumptions, as the TRM does, that a measure produces a specific amount of reduction. Third, the Commission has

already determined with substantial stakeholder input to use the TRM as the basis for calculating alternative energy credits arising from energy efficiency programs. Consistency and regulatory certainty demands that this also be the technique and basis for calculating the reductions required by Act 129. Lastly, other states, namely Vermont and California, with much greater experience in energy efficiency calculation matters, and upon which the TRM is based, have determined that the “deemed savings” approach is appropriate.

a. This question focuses on the addition of “extraordinary load” in an EDC’s territory although Act 129 does not limit the adjustment for “extraordinary load” to only additional load. There may also be reduced load of an “extraordinary” nature that may require adjustments. Adjustments for extraordinary load in either direction should be included in the EDC’s calculation of the forecast energy usage for the statutory future period and in its calculation of peak loads during the statutory historic period. The Commission will consider whether any such adjustments are appropriate and establish the level of required reductions to be achieved when it approves the EDC’s plan. Because there are so many variations to what may be “extraordinary,” the Commission’s determination is appropriately done on a case-by-case basis. Additions of extraordinary load after the required reductions are established by the Commission should not affect the amount of reduction for May 2011 or May 2013 but may be factored into any additional reductions that the Commission develops by November 30, 2013 for later periods under Section 2806.1(C)(3) and (D)(2). Such addition should not be used to increase the existing approved required reductions, because it would operate as a disincentive for EDCs to promote job creation and economic development.

b. As stated in the general answer above, the use of “deemed savings” avoids the need, and the great difficulties associated with distinguishing between reductions as a result of program measures and those arising from independent customer behavior.

c. Again, the use of deemed savings avoids the problems identified in this question. Economic activity is a variable which is commonly factored into energy usage forecasts by utilities and will no doubt be one of the factors included in each EDC’s forecast of usage for the June 2009 through May 2010 period. When determining the achieved reductions, energy reductions arising from a recession are not utilized in the “deemed savings” method – if a customer installed both a high efficiency air conditioner and energy star refrigerator under a rebate measure, the reduction for which the EDC may take credit is tied only to the “deemed savings” from the A/C and refrigerator, not from any reductions the customer took independent of the EDC’s measures due to a layoff or investment loss.

In the case of large commercial or industrial customers, adverse economic conditions may result from the loss of the load of an “extraordinary” nature. In such cases, the closed customer’s MW load would not count toward achieving the EDC’s required reductions because it would not be attributable to an energy efficiency or peak load reduction measure and calculated through “deemed savings” or a Commission-approved custom method. However, because the load was originally included as part of the load in the discrete period used to determine the required reductions, the load and usage of such extraordinary loss should be removed from that base period and the required reduction adjusted proportionately. If the extraordinary load is not available to contribute to the savings and it should no longer be included in calculating the amount of required reductions.

3. **Evaluation:**

- a. **Should the Commission establish a standardized total resource cost manual to evaluate projects? If so, is there a state or utility this Commission should use as a starting point for discussions?**
- b. **What other cost benefit tests should the Commission use to achieve reduction in consumption requirements pursuant to Section 2806.1(C) (3).**
- c. **Act 129 requires utilities to file a plan to assure quality assurance [includes evaluation, measurement and verification by independent parties to ensure quality of completed measures], and further requires an annual independent evaluation of cost effectiveness of the Plan. Given the exposure to penalties by EDCs for potential non-compliance on meeting statutory energy efficiency and conservation goals, what approaches are appropriate to ensure that such independent, third parties are free of coercion from the EDCs they evaluate?**

**Response:**

a. Yes. FirstEnergy encourages a standardized total resource cost test manual and recommends that the Commission use the TRM approved by the Commission in the process of implementing the AEPS. The Commission and stakeholders need to revise the TRM by including demand reductions associated with programs/technologies listed in the TRM. Upon approval of a revised TRM by the Commission, evaluators and/or the Commission could readily calculate the “deemed” energy savings and demand reductions for each program established under the EDC plan. This approach to program evaluation could be used across the state to review the potential consumption and peak demand reduction with the required reductions that each EDC must achieve under Sections 2806.1 (c) and (d).

b. FirstEnergy recommends that the Commission adopt a Total Resource Cost Test similar to that set forth by California in its Standard Practice Manual. The California Total Resource Cost Test can meet the Pennsylvania definition as set forth at 66 Pa.C.S. § 2806.1(m) with appropriate modifications to reconcile such standards to Pennsylvania’s unique circumstances. Most importantly, it is critical that the Commission does not make retroactive adjustments to either the agreed upon TRM or the Total Resource Cost Test during the time

EDCs have Commission approved programs in progress. Cost effectiveness assessments and regulatory approvals of utility plans should be performed on a prospective basis, without risk of retrospective review relative to the assumptions used in performing the assessment. EDCs should not be at risk for implementing programs in good faith that are approved by the Commission. See also response to part a.

c. The process of retaining an independent evaluator should be an open, competitive process by which the Commission selects the entity to perform the evaluation, much as it selects independent management auditors to perform management audits under 66 PA C.S.A. Section 516. Independence of the entity performing a quality assurance is assured by the open retention process as well as by the evaluator's professionalism and non-affiliation with the EDC. The free flow of information among the evaluator, CSPs, Commission Staff and EDCs should be sufficient to produce the desired independent evaluation which can be used as the basis to revise programs so that customers obtain the benefits of energy efficiency measures and EDC achieve the reductions established by Act 129.

4. **Cost Recovery:**

- a. **What are the appropriate time frames to expense or amortize energy efficiency and demand response expenditures?**
- b. **How should this Commission ensure recovery of only "prudent and reasonable" costs? Is this established at the time of plan approval? Is it established only after quality assurance and performance is measured, verified, and evaluated, or is it established during the annual independent analysis?**
- c. **If services are not competitively bid, how will this commission determine such costs are reasonable and prudent?**

**Response:**

a. The appropriate time frame to amortize program costs (e.g., administrative expenses and energy efficiency/demand response incentives made to third-parties) would be one year. Revenue requirements should be recoverable concurrent with costs. Any unrecovered

balance should be recovered with carrying costs. If capital expenditures are made by the EDC for equipment that it would own, those expenditures should be amortized over a reasonable period with an allowed return based on the Companies' weighted average cost of capital. As part of its plan, FirstEnergy will file a reconcilable tariff rider (Section 1307 mechanism) that will ensure recovery of program expenses, including amortization of capital expenditures with an allowed return, and administrative expenses on a customer class (i.e., residential, commercial, industrial) basis. On a quarterly basis, the Companies will perform a true-up to be certain that revenues match expenses, over collections will be credited to customers while under collections will increase the amount collected from customers.

b. The process of ensuring recovery of prudent and reasonable costs incurred is a critical component of EDC Energy Efficiency and Conservation Plans and needs to be addressed at the time of plan approval. To the extent that the EDC has executed the plan as approved by the Commission (including Commission approved CSP contracts), the costs incurred should be deemed approved. To the extent that the Commission determines that program changes should be implemented, these should be handled as part of the annual review process on a prospective basis. EDCs should not be penalized retrospectively for implementing Commission approved plans.

Issues related to quality assurance and performance (measured, verified and evaluated) should be used only in consideration of future program commitments to contractors which can be established during an annual independent analysis of the program achievements.

c. The Act in Section 2806.1 (B) (1) states:

“(D) The plan shall state the manner in which the plan will achieve the requirements of the program under subsection (a) and will

achieve or exceed the required reductions in consumption under subsections (c) and (d).

(E) The plan shall include a contract with one or more conservation service providers selected by competitive bid to implement the plan or a portion of the plan as approved by the Commission.”

While FirstEnergy believes that it is likely that most services will be competitively bid, in situations where services were not competitively bid such as adoption/extension of a successful program in place at another EDC or continuation of an existing program, the Commission can still evaluate the cost and benefit of the proposed plan and render its authorization as part of the overall plan approval process.

**5. Program Design:**

- a. How should the statutory requirement be interpreted and implemented that requires energy efficiency and conservation measures be equitably provided to all classes of customers?**
- b. Should all EDCs be required to implement the same type of EE/DR programs? Is it likely that programs will be equally cost effective in every EDC territory?**
- c. Which programs are more cost effective if implemented on a statewide basis?**

**Response:**

a. The requirement that energy efficiency and conservation measures be equitably provided to all classes of customers should be considered in the context of both the cost-effectiveness requirements of the Act, as well as the requirement that the customer class which derives the benefit from conservation measures should bear the associated costs as some guidance. (Section 2806.1(a)(11)) If the legislature intended that program measures, energy and demand reductions, or other aspects of Act 129 were to be spread across customer classes in some proportional manner, e.g., revenues, MWH, customers, it would have included language to accomplish its intent.

The Companies recommend that each EDC Plan should be evaluated as a whole, i.e., will it through the totality of its components achieve the required reductions on a cost-effective basis? There is no doubt that some measures will be more cost-effective than others and that some classes of customers may present more cost-effective opportunities than others. An “equitable” distribution of programs across classes involves the consideration of whether the overall cost-effectiveness of the measures for a specific class when combined with the overall cost-effectiveness of the measures for each of the other classes will produce the EDCs’ required total reductions. In other words, the approved portfolio of measures for each class should be based on the best combination of measures that produce the maximum benefit at the lowest cost and that in combination with the portfolios of the other classes will yield the required reductions. Sufficient flexibility must be built into the Commission’s review to allow for differences among EDCs and their customer classes.

b. While the Companies expect that there will be several similar energy efficiency and demand response programs across EDCs, we believe that a “one-size fits all” approach would not recognize certain demographic, rate level, rate design, nor consumption pattern differences between EDC territories that could influence program acceptance and cost-effectiveness. Nor would that approach recognize that certain CSPs may only operate in certain territories within the state.

Additionally, given the significant challenge we face of seeking to alter current customer behavior trends and the lack of certainty on the level of success individual programs may have, we believe that program variations among EDCs can provide valuable insights into designs of programs in the future. As long as the Commission provides ample opportunities for

EDCs to make interim modifications to their plans to add, remove or modify programs on a timely basis, each EDC can benefit from the lessons learned from other EDCs.

For the above reasons, as well as the fact that EDC's will be ultimately financially accountable for the effectiveness of their plans<sup>1</sup>, we recommend that deference and flexibility be accorded EDC's to develop and implement their own compliance plans.

c. FirstEnergy believes that the energy efficiency and demand response programs that might be more cost-effective if implemented on a statewide basis would include those that have mass appeal and could realize lower administrative and consumer education costs through a joint campaign. Examples might include a partnership effort with the federal government's Energy Star program or a statewide compact fluorescent light (CFL) program implemented with a joint advertising campaign. As an example, several Texas utilities launched a statewide Energy Star residential lighting program in July, 2008.

Additionally, FirstEnergy believes that EDCs' approved programs should be coordinated with parallel and complementary energy efficiency programs run by state agencies such as Pennsylvania's Department of Environmental Protection, Department of Public Welfare, the Treasury Department and the Department of Community and Economic Development. Such coordination will be synergistic and make both the state agency programs and electric distribution company programs more effective than they would be on their own. This coordination will help facilitate achievement of the electric distribution companies' efficiency and peak demand targets on a more cost-effective basis for their customers.

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<sup>1</sup> Section 2806.1 (F) (2) (I) provides for civil penalties up to \$20,000,000.00 for failure to achieve the required reductions.

6. **Reporting Requirements:**

- a. **What additional information should the Commission require the EDCs to report under Section (I) (1) (IV)?**

**Response:**

a. The additional information that EDCs should report for each program would include:

1. Identification of all proposed program changes, additions, deletions from the prior Commission approved compliance plan
2. Peak Load Reduction achieved

(7) **The EDCs already have some DSR Programs available to various customer classes. They have developed these programs voluntarily without any mandates\***

- a. **Please provide a brief overview of current EDCs' DSR programs.**
- b. **What has been your experience with customer interest and participation levels in current programs?**
- c. **What level of weather-normalized peak load and demand consumption reductions have been achieved under the current programs?**
- d. **What types of new programs or changes to existing programs, if any, would be needed to achieve the targets contained in Act 129?**
- e. **What is the projected level of customer interest or savings in these new programs?**
- f. **Please provide references to any market research pertaining to specific EDC programs in Pa.**

**Examples of existing EDC DSR Programs (2007):**

- a. **Duquesne, First energy, PECO, PPL and UGI have load reduction programs requiring use of an interval meter for Commercial and Industrial customers.**
- b. **Duquesne and FirstEnergy have load control programs for residential and small C & I customers.**
- c. **FirstEnergy has a distributed generation program for C & I customers.**
- d. **Penn Power has an hourly pricing program available to C & I customers.**

- e. **Most of the EDCs already have some Time of Use (TOU) or Billing Demand programs available to various customer classes.**
- f. **UGI offers to audit customer facilities as well as provide a rebate program for high-efficiency heat pumps.**
- g. **FirstEnergy offers customers a web-based calculator. FirstEnergy is also currently considering two new programs: Power Factor correction for C & I and a thermostat/Appliance Price Response Program for residential and small commercial customers.**

**Response:**

- a. The FirstEnergy companies offer the following programs at this time:
  - 1. Tariff Curtailment Programs - Rider I (Penelec) and Tariff Rider 18 (Met-Ed and Penelec) interruptible load reduction programs for commercial and industrial customers. 50 participating customers. 133 MW of average load reduction.
  - 2. Time of Use Rates – Voluntary residential time of use rates have 78,000 customers participating at Met-Ed and Penelec. Voluntary commercial and industrial time of use rates have 5,100 customers participating at Met-Ed and Penelec.
  - 3. Voluntary Load Reduction Programs – Commercial and industrial customers commit to reduce specified level of hourly load in response to pricing offer from Met-Ed and Penelec.
  - 4. Advanced Metering/Interval Metering – Installed on most industrial and large commercial customers. Met-Ed has 1,045 advanced meters. Penelec has 1,100 advanced meters and Penn Power has 233 advanced meters.
  - 5. Hourly Pricing Service – Penn Power tariff rider for commercial and industrial customers greater than 500 kW monthly. Customers are billed using MISO day-ahead locational marginal pricing.

6. Distributed Generation – The Company is entering in to discussions with commercial and industrial customers for the ability to dispatch their generation currently representing in excess of 12 MW.
7. Energy Calculator – Met-Ed, Penelec and Penn Power provide an online energy calculator to help customers better understand their energy use and to identify ways to reduce energy consumption and improve efficiency. An EnergySmart library is also available online with information about weatherization, heating, cooling, lighting, water heating and food storage.
8. Energy Conservation/Power Quality Seminars – Met-Ed and Penelec are offering seminars to help commercial and industrial customers find ways to save money and become more energy efficient. Global Energy Partners has been enlisted to help business and building managers who are involved with operation and maintenance, including budgeting, that want the tools and resources to make their facilities more energy efficient.
9. Low-Income Usage Reduction Program (LIURP) – Since 1988 Met-Ed, Penelec, and Penn Power have provided LIURP programs known as the WARM program. The program provides free home energy audits, energy saving home improvements and energy education to help low-income customers reduce their energy use. Qualified participants must meet the minimum 600 kWh monthly usage requirement and income guidelines. The FirstEnergy WARM program served more than 3,600 homes in 2007. FirstEnergy conducts an annual energy-savings analysis of program

participants and reports the results to the PUC. Data is weather-normalized when appropriate.

10. Met Ed has had a program since 2001 to operate leased diesel generators in its substations in the York, PA area for system support and peak load management. There are currently 48 generators under lease totaling 60 MW distributed among 7 substations in the area.
11. Met Ed has had a pilot program for several years with a hospital customer where we operate their emergency generators at times of system stress. This 4 MW pilot has been used to test the viability of this kind of demand response and to learn interactions with the PJM demand response programs and ancillary services.

b. To date, customer interest and participation levels have been mixed with the various programs offered, with the exception of the WARM program, where most of the customers contacted are interested in participating and are satisfied with the program benefits.

c. See response to part a.

d. Recognizing the recent adoption of Act 129 as well as the importance of the Commission's Energy Efficiency and Conservation Program rules, the Companies are not yet in a position to provide specific guidance on what types of new programs or changes to existing programs will be necessary to meet the energy consumption and peak demand targets of Act 129. While we currently offer a number of energy efficiency, conservation and "legacy" demand side response programs, the effectiveness of these existing programs is limited because the long-standing generation rate caps act to reduce customer incentives and restrict the Companies'

ability to implement changes in rate design. Recognizing the aggressiveness of the targets, the ambitious compliance schedule, and challenges we face such as the fact that true market price signals for Met-Ed and Penelec will not be in effect until January 1, 2011 and the current economic conditions, we believe that it will take a significant effort involving a portfolio of new programs, along with changes to existing programs to achieve the aggressive targets in a cost-effective manner.

e. The Companies are currently investigating what types of programs they can use in order to meet the requirements of Act 129; therefore, it is too soon to determine the projected level of customer interest or savings in programs that the Companies may propose as part of their plans.

f. The Companies do not have any market research available at this time.

**(8) In reference to question 1(e) above, the PA Treasury Department already offers the Keystone Home Energy Loan Program (Keystone HELP™). The Department refers to this as Pennsylvania's official streamlined, lower rate financing program for ENERGY STAR™ rated and other high efficiency and renewable energy improvements.**

- a. **To what extent will there be overlap and duplication between this program and Act 129 programs?**
- b. **The Treasury Department already has an application process established for customer enrollment and contractor registry. To what extent could this process be used as a model under Act 129 compliance?**
- c. **The Treasury already has a registry of certified contractors. Consumers are able to input a zip code to find certified contractors in their area. To what extent could these contractors' qualifications be used to register CSPs?**

**Response:**

a. Utility and State-managed programs should be coordinated as complementary initiatives. Keystone Help Loan program is a loan program, not a rebate program. These are

complementary programs—not a duplication or overlap. The Keystone Help Loan is an option available to those that need it, and may be more viable with support of a utility communications or education initiative, or a rebate. Even with support of those efforts, customers do not always need a loan to participate in energy conservation programs. Some prefer to obtain their own home equity loans, credit union loans or other financing.

b. The HELP application is useful, but not applicable to all Act 129 programs. Many customers will refuse to share personal information, such as social security numbers, income, mortgage payment amount, etc. We understand why that type of information is necessary to obtain a loan. It is not necessary for all energy conservation programs, i.e., to receive a rebate or request an audit of their home or business. Keystone Home Energy Loan Program application and contractor list could be used as one of several models for customer enrollment and contractor registry. The utilities have had an application process established for enrollment in the Low Income Usage Reduction Program and other energy conservation programs.

c. The Keystone Home Loan Program has a list of registered contractors for home remodeling or HVAC services and is a good starting point. However, these contractors may or may not have “professional certification” to do all the types of energy conservation work in customer homes. The current list of contractors have submitted applications and shown proof of insurance. Additional classifications of services will be needed to make the list more useful; and if the State deems it appropriate, contractor qualifications could be added. If contractors will be working in residential homes representing a State or utility program, FirstEnergy would recommend that they be tested and certified by the Building Performance Institute as a certified Building Analyst or HVAC specialist.

**IV. CONCLUSION**

Please include the following on all correspondence related to this docket as well as the undersigned:

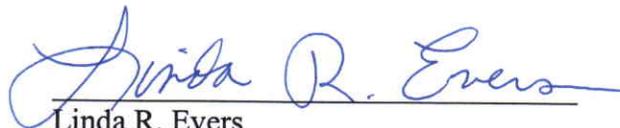
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FirstEnergy appreciates the opportunity to provide comments to the CEEP questions concerning the implementation of Act 129 of 2008. The Companies look forward to continued participation in the process.

Respectfully submitted,

Dated: November 14, 2008



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