



June 25, 2012

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Act 129 Energy Efficiency and Conservation Program Phase Two
Docket No. M-2012-2289411

Dear Secretary Chiavetta,

Enclosed please find one original and three copies of Northeast Energy Efficiency Partnerships' comments in the above-referenced proceeding.

Please do not hesitate to contact me should you have any questions.

Sincerely,

A handwritten signature in black ink that reads "J. N. Craft".

Josh Craft
Senior Policy Associate
Northeast Energy Efficiency Partnerships

Enclosures

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION:**

Act 129 Energy Efficiency and Conservation Program Phase Two : Docket No. M-2012-2289411
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**REPLY COMMENTS OF
NORTHEAST ENERGY EFFICIENCY PARTNERSHIPS (NEEP)**

Introduction

As the regional organization working to promote energy efficiency in buildings throughout the Northeast and Mid-Atlantic, Northeast Energy Efficiency Partnerships (NEEP) welcomes the opportunity to comment on the Public Utility Commission (PUC)'s Tentative Implementation Order in Docket No. M-2012-2289411, regarding Pennsylvania's Act 129 energy efficiency programs.¹ NEEP commends the Commission for continuing the Act 129 programs for the next three years. The extension of the efficiency programs ensures that Pennsylvania ratepayers will continue to benefit from the lower energy bills, reduced peak demand and increased system reliability, and the growing energy service sector jobs throughout the state these vital programs generate. The Electric Energy Efficiency Potential for Pennsylvania report by the Statewide Evaluator (SWE) demonstrates that ample opportunities exist for significant additional cost-effective savings below the cost of new energy supplies in Phase Two and beyond.

In addition to our support for the extension of the Act 129 programs, we offer brief comments on the proposed energy savings targets recommended for Phase Two.

Proposed Savings Targets

NEEP appreciates the work at that the SWE has done to estimate the significant potential energy savings available during Phase Two of Act 129 and beyond. That said, the energy savings target of roughly 2.3 percent cumulative reductions by 2016 recommended by the SWE in Program Potential Savings Scenario #1 should be considered a conservative estimate of what the electric distribution companies (EDCs) can achieve in the next three years, even in light of the 2 percent budget cap.² There are reasons to believe that the SWE overestimates acquisition costs for EDC programs, and therefore has underestimated savings.

¹ These comments are offered by NEEP staff and do not necessarily represent the view of NEEP's Board of Directors, sponsors or underwriters.

² GDS Associates, Electric Energy Efficiency Potential for Pennsylvania, Final Report, May 2012, p. 6. Available at http://www.puc.state.pa.us/electric/pdf/Act129/Act129-PA_Market_Potential_Study051012.pdf.

- First, we request that the commission reference NEEP's Northeast Residential Lighting Strategy (RLS). It finds that even with the new lighting standards under the Energy Independence and Security Act (EISA) of 2007 that bountiful opportunities for savings with the residential lighting market exist through 2020. This seems particularly relevant for Pennsylvania as the SWE finds that compact fluorescent lighting (CFL) accounts for 17 percent of the sockets in homes in the state. Savings potential will grow, not shrink, as LED technology matures.³
- Second, the Potential Study contains a relatively high assumption of inflation of efficiency program costs of 25 percent above current levels, placing the cost between \$209/MWh and \$228/MWh for Phase Two. We note that the acquisition costs for Phase One that generated energy savings above one (1) percent of forecasted retail sales were \$139.38/MWh. Multiple states with both new and mature programs have achieved this level of savings at costs below \$200/MWh. The cost inflation rate is also higher than the level used by ISO-New England in its recent energy efficiency forecast, which places the rate between 7.5 and 10 percent.⁴

In light of these issues, we believe the Commission and its staff would gain from a comparison of lower acquisition costs and attendant potential savings with those outlined in Program Potential Saving Scenario #1 as part of its final deliberations. It could request that the SWE examine what levels of potential savings might be possible under a range of both lower and higher acquisition costs and list the assumptions behind each scenario. We emphasize that we are not asking for the SWE to revise its recommendation to the Commission regarding savings goals for Phase Two, only to provide a more full consideration of other potential outcomes given uncertainties in program costs.

In addition to this issue, we encourage the Commission to clarify the final saving targets so that they require the EDCs to set annual incremental savings goals in addition to their Phase Two cumulative goals. Most Northeast states with multi-year energy efficiency programs—including Maryland, Massachusetts, Rhode Island, and Vermont — set their goals in this fashion. Annual savings targets will provide for even investment in programs throughout Phase Two and allow the Commission and stakeholders to carefully monitor EDC progress towards their overall savings targets.

Lastly, the Potential Study shows that the two percent budget cap and the penalty provisions within Act 129 will lead the EDCs to under-invest in energy efficiency. GDS finds that

³ Northeast Energy Efficiency Partnerships (NEEP), *Northeast Residential Lighting Strategy*, March 2012. Available at http://neep.org/uploads/initiatives/NEEP_Residential_Lighting_Strategy_2012.pdf. Figures on CFL socket penetration are taken from GDS Associates, Inc., *Pennsylvania Statewide Residential End-Use and Saturation Study*, May 2012, http://www.puc.state.pa.us/electric/pdf/Act129/PA_Residential_Baseline_Report2012.pdf.

⁴ For a comparison of utility acquisition costs, see M.J. Bradley & Associates, LLC & CERES, *Benchmarking Electric Utility Energy Efficiency Portfolios in the U.S.*, November 2011, p. 19. Available at <http://www.ceres.org/resources/reports/benchmarking-electric-utilities-2011/>. For a discussion of leveled program costs over time, see Synapse Economics, *The Sustainability and Costs of Increasing Efficiency Impacts: Evidence from Experience to Date*, 2008, p. 8-371, <http://www.aceee.org/proceedings-paper/ss08/panel08/paper30>. Also see ISO-New England, *Final Energy Efficiency Forecast, 2015-2021*, April 12, 2012, p. 16. Available at http://www.iso-ne.com/committees/comm_wkgrps/othr/engy_effncy_frct/frct/2012/iso_ne_ee_forecast_2015_2021.pdf.

Pennsylvania could achieve a significantly higher level of three (3) percent of electric retail sales in Phase Two cost-effectively with only slightly higher EDC program investments.⁵ More robust program budgets, as well as modest performance incentives for utilities, would create substantial energy and economic benefits for Pennsylvania ratepayers and level the playing field between efficiency and traditional generation resources. We appreciate the Commission's efforts to balance the needs of ratepayers and utilities under statutory constraints, but we believe that it is possible to find ways to enable stronger investments in efficiency in light of the significant benefits accrued in Phase One. NEEP looks forward to discussing a path forward with the Commission, its staff, and key stakeholders in the near future.

Stakeholder Engagement Process

NEEP appreciates the Commission's efforts to take input from external groups as part of the Act 129 stakeholder meetings. This process will undoubtedly provide vital feedback on how to optimally design and operate Pennsylvania's energy efficiency programs. We hope that the Commission will support making this forum a permanent stakeholder advisory board, with representation from business interests, consumer and environmental groups, low-income communities, energy efficiency implementation vendors, as well as state officials and the EDCs. Our experience has been that stakeholder advisory boards in other states help to forge a balanced approach to energy efficiency that meets the needs of program implementers, program participants, and ratepayers as a whole.⁶ Pennsylvanians will surely gain if stakeholders can play a larger role in advising the Commission on program design, implementation, and evaluation.

Thank you for the opportunity to comment in this important matter regarding the future of Act 129 and energy efficiency in Pennsylvania. We look forward to submitting further comments shortly as part of the separate proceeding on cost-effectiveness testing.

⁵ See GDS Associates, *Electric Energy Efficiency Potential for Pennsylvania*, p. 2, 104-5 for a discussion of Program Potential Scenario #2.

⁶ Examples and recommendations are on page 34 of NEEP's report, *From Potential to Action*, <http://neep.org/publicpolicy/policy-outreach-and-analysis/potential-study>.