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December 19, 2014

VIA E-FILING

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

**Re: Act 129 Energy Efficiency and Conservation Program Phase III,
Docket No. M-2014-2424864**

Dear Secretary Chiavetta:

Enclosed for filing please find the comments of the UGI Distribution Companies, comprised for the purposes of this submission of UGI Utilities, Inc. – Gas Division, UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc.

Very truly yours,

A handwritten signature in black ink, appearing to read "Mark C. Morrow", written over a horizontal line.

Mark C. Morrow

Counsel for the UGI Distribution Companies

cc: M. Good (via e-mail at megagood@pa.gov)
K. Brown (via e-mail at kribrown@pa.gov)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Act 129 Energy Efficiency and Conservation :
Program, Phase III : Docket No. M-2014-2424864

**COMMENTS OF THE
UGI DISTRIBUTION COMPANIES**

The UGI Distribution Companies (“UGI”), comprised for purposes of this submission of UGI Utilities, Inc. – Gas Division, UGI Penn Natural Gas, Inc. and UGI Central Penn Gas, Inc., appreciate this opportunity to submit comments in response to the Commission’s October 23, 2014 Secretarial Letter issued in the above docket seeking:

comments on a number of important topics that will be instrumental in designing and implementing a potential Phase III of the EE&C Program. Recognizing that the Statewide Evaluator (SWE) will be providing various analyses and recommendations to assist the Commission in making determinations regarding a potential Phase III, we also welcome stakeholder comments on the relevant issues related to a potential Phase III.

UGI provides natural gas distribution service to over 600,000 customers in portions of 46 eastern and central Pennsylvania counties through a distribution system incorporating approximately 12,000 miles of gas mains, and, as discussed in more detail below, has been an active participant, along with other Pennsylvania natural gas distribution companies, in past Act 129 proceedings.

NATURAL GAS AND ENERGY EFFICIENCY

Pennsylvania and the nation have been blessed with abundant supplies of natural gas, including ever increasing supplies from Marcellus and Utica shale formations located in

Pennsylvania, that are providing policy makers with many options for enhancing the Commonwealth's environment, economy, finances, security and energy efficiency that could scarcely be imagined at the time Act 129 was adopted in 2008, but which are becoming increasingly clear and are influencing the energy policies, including those at the national and international level.

On a national basis, natural gas is three times more efficient than electricity in providing energy for end-use applications. While 92 percent of the energy content of natural gas is delivered to customers as useful energy, less than a third of the energy used in the production of electricity reaches homes and businesses because of extraction, conversion and line losses.¹ Indeed, according to the U.S. Energy Information Administration, energy losses associated with electric consumption represent the largest share of energy consumption in the residential and commercial sectors. For example, in 2010, electricity sales represented 22 percent of residential energy use, while associated electric system losses amounted to 47 percent of total residential energy use. *Id.*

Within the Commonwealth, there is great potential for increasing energy efficiency and reducing long-term costs to consumers through (1) the direct end use of gas for water and space heating in lieu of less efficient fuels, and (2) the increased use of cogeneration equipment² at customer locations where both the power and heat produced by the cogeneration equipment can be used to meet the customer's heating requirements. The greatest barriers to achieving this potential are the sometimes large up-front costs of extending gas mains to areas not currently served by gas, and the increased first cost for natural gas equipment compared to electric

¹ Detailed information and supporting sources are set forth in the 2012 report "*Squeezing Every BTU – Natural Gas Direct Use Opportunities and Challenges*" which can be accessed on the American Gas Association's website at www.aga.org.

² Also referred to as combined heat and power or CHP equipment.

equipment. Such up-front costs can dissuade builders or end users from installing higher cost, but much more efficient, natural gas equipment which would deliver large energy and cost savings over time. Moreover, builders and consumers may choose overall less efficient energy sources because of sub-optimal energy programs which incent them to choose higher efficiency equipment using energy sources which, from a source to end-use perspective, are far less efficient than natural gas.

UGI proposed and is now successfully implementing its innovative GET Gas pilot program to reduce the first-cost barrier for the use of natural gas by enabling customers to pay for the costs of line extensions over time through a surcharge applied to a service location(s).³ UGI Utilities, Inc. – Electric Division, although not subject to the provisions of Act 129, has also implemented an electric conservation program which includes fuel substitution as an available option to enable its electric customers to manage their electric energy use.⁴

ACT 129

Act 129 was adopted at a time when generation rate caps at several large electric distribution companies were coming to an end and it was widely believed that consumers would face significant increases in electric generation costs because of then-existing conditions in the electric wholesale market. It seeks to empower customers to manage their electric energy usage and costs by enabling EDCs, subject to Commission oversight and approval, to collect funds through surcharges on customer bills, which are then used to provide energy efficiency measures to program recipients. Initial energy savings targets were set in the act, and the Commission was authorized to establish future goals. EDCs are subject to fines if established goals are not met.

³ Docket No. P-2014-2356232 (Order entered February 20, 2014).

⁴ UGI-ED's plan was approved in Commission Orders entered on October 19, 2011 and March 16, 2012 at Docket No. M-2010-2210316 and was implemented in 2012.

In the first round Act 129 filings UGI and other NGDCs (1) presented evidence to support the inclusion of cost-effective natural gas programs to enable EDCs to meet their energy efficiency goals and (2) encourage program changes to minimize the unintended effect of encouraging the less-efficient use of electricity for heating purposes in lieu of gas. The Commission subsequently (1) approved gas measures voluntarily proposed by EDCs, (2) in certain instances established reporting requirements to track the potential disincentives to the use of natural gas resulting from Act 129 programs and (3) referred issues of fuel substitution to a collaborative for further investigation. UGI actively participated in the subsequent collaborative where models were developed to confirm the efficiency gains that could be achieved through the use of natural gas program measures in Act 129 programs, and in a Secretarial Letter dated May 21, 2010 at Docket No. M-00051865, the Commission released and adopted a staff report which concluded, amongst other things, that “*Cost-effective fuel switching measures should be available to EDCs and their stakeholders when considering the best means of achieving EE&C plan goals. However, fuel switching programs should not be mandated.*” The Secretarial Letter also provided:

the Commission directs the Bureau of Conservation, Economics and Energy Planning, in conjunction with the Statewide Evaluator, to develop deemed evaluation, measurement and verification protocols for specific energy efficiency measures that involve switching from electricity to another fuel source, to be considered for inclusion in future updates to the Technical Reference Manual.

In addition, the Commission directs the Bureau of Conservation, Economics and Energy Planning to develop, in conjunction with the Statewide Evaluator and the Total Resource Cost Test Working Group, recommended changes to the Total Resource Cost Test needed to appropriately analyze the costs and benefits of energy efficiency measures that involve switching from electricity to another fuel source.

As the Commission is adopting the recommendations contained in the Staff Report, cost-effective fuel switching measures can now be proposed for Commission approval in accordance with the normal Act 129 EE&C plan updating process outlined in pages 23

*and 24 of this Commission's Energy Efficiency and Conservation Program
Implementation Order at Docket No. M-2008-2069887, entered January 16, 2009.*

The total resource test review and changes to the Technical Reference manual subsequently occurred and fuel substitution efficiency measures and the associated rules for inclusion in Act 129 programs are now complete.

In performing the energy efficiency potential study for developing goals for the second round Act 129 programs, potential savings from natural gas measures were not considered. As the second round Act 129 programs of EDCs were developed, UGI participated in the stakeholder processes of certain EDCs, and presented evidence to support the inclusion of cost-effective natural gas program measures as second round programs were developed and filed. Concerns about the unintended effects discouraging more efficient natural gas usage were also raised. In its final orders approving the second round Act 129 programs of these EDCs, the Commission decided to not mandate the adoption of natural gas measures and to instead permit EDCs to select the program measures they thought were appropriate for meeting Phase II goals.

PHASE III

The abundance and ever increasing production of natural gas in Pennsylvania, along with the Commonwealth's and the nation's abundant proven reserves, means that natural gas can and should be a significant and important component of the Commonwealth's energy future. In establishing parameters for Phase III Act 129 programs, the Commission should carefully consider the tremendous opportunities the Commonwealth's abundance of natural gas can play in meeting Act 129 electric energy conservation targets. The Commission should also ensure Act 129 programs do not unintentionally discourage energy efficiency by promoting the adoption and use of less efficient electric heating systems where more efficient gas systems are available and

could more cost-effectively empower electric consumers to save money and control their energy usage.

UGI believes that Act 129 could be improved by providing EDCs with incentives to promote energy efficiency and by abandoning punitive sanctions. Absent such legislative changes, however, UGI believes the Commission should consider the following recommendations in establishing Phase III goals and program rules:

- * Emphasis should be placed on non-heating measures such as lighting and electric motor programs, where higher efficiency natural gas substitutes are generally not viable, to decrease the possibility of unintended efficiency losses.
- * The Commission should ensure that proposed cogeneration installations are treated in a non-discriminatory manner in qualifying for Act 129 incentives, particularly if an Act 129 program permits EDCs to evaluate and select custom measures.
- * If home audits are provided, program recipients should be informed of available natural gas measures which may meet their needs in a more efficient and cost effective manner.
- * The Commission should re-consider or refine its position of permitting EDCs alone to select available Act 129 measures by, for example, requiring the submission of calculations of the cost-effectiveness of selected natural gas measures, using the models developed in the Commission's fuel substitution collaborative (including the use of any EDC proprietary information used to analyze other program measures), so that the Commission has sufficient time and information to judge if Act 129 funds will be used in the most cost-effective manner.

- * EDCs should track and report the locations of electric space or water heating installations that are the recipients of program funds so that natural gas distribution companies can more easily determine the extent Act 129 program measures may be discouraging more efficient natural gas installations.

CONCLUSION

UGI appreciates this opportunity to submit comments and offer suggestions to the Commission as it develops its Phase III goals and prepares to review Phase III filings.

Respectfully submitted,



Mark C. Morrow

December 19, 2014