

**PECO ENERGY COMPANY
STATEMENT NO. 1**

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

ENERGY EFFICIENCY AND CONSERVATION PROGRAM

DOCKET NO. M-2015-

DIRECT TESTIMONY
SUPPORTING PECO'S PETITION FOR APPROVAL
OF ITS PHASE III EE&C PLAN

WITNESS: KATHLEEN A. LENTINI

SUBJECT: OVERVIEW OF PECO'S PHASE III PLAN

DATED: NOVEMBER 30, 2015

TABLE OF CONTENTS

	Page
I. INTRODUCTION AND PURPOSE OF TESTIMONY	1
II. BACKGROUND OF PECO’S OBLIGATIONS TO ACHIEVE ENERGY CONSUMPTION AND PEAK DEMAND REDUCTIONS UNDER ACT 129	4
III. OVERVIEW OF PECO’S PHASE III PLAN.....	8
IV. CONCLUSION	13

1 homebuilder market. In 1997, I was promoted to Key Account Executive and worked
2 as PECO's single point-of-contact for its large hospital and healthcare customers. A
3 significant part of my responsibilities in this position was helping these customers
4 assess their energy needs and options.

5 In 1998, I joined PECO's affiliate Exelon Energy. While at Exelon Energy, I was
6 promoted through several positions with increasing responsibility, including Affinity
7 Group Business Developer, Distribution Channel Sales Manager and, ultimately,
8 Director of Sales Operations.

9 I returned to PECO in 2001 and became the Marketing Manager for PECO's natural
10 gas business. My key responsibility in this position was overseeing the gas business'
11 customer acquisition efforts. In 2005, I assumed responsibility for managing PECO's
12 natural gas and electric customer-marketing initiatives and its energy efficiency and
13 conservation programs. In August of 2013, I became the Director of Energy and
14 Marketing Services and assumed primary responsibility for overseeing the
15 development and implementation of energy efficiency ("EE") and demand response
16 ("DR") programming that not only meets Act 129 of 2008 ("Act 129") compliance
17 targets but also provides customers with meaningful opportunities for energy savings.

18 **5. Q. What is the purpose of your direct testimony?**

19 A. I provide an overview of the Company's proposed Phase III Energy Efficiency and
20 Conservation Plan (the "Phase III Plan"). First, I describe PECO's obligations to
21 achieve consumption and peak demand reductions under Act 129. I then explain in

1 detail how the Company designed the Phase III Plan to provide customers with
2 greater access to savings opportunities.

3 **6. Q. Is there a significant difference in the design of the Phase III Plan from the Phase**
4 **II Plan?**

5 A. Yes. Using the lessons learned from Phase I and Phase II, the Phase III Plan reflects
6 a transition to a more customer-centric design and implementation strategy which is
7 intended to improve overall customer experience by: (1) offering meaningful energy
8 savings solutions to reduce consumption for all electric end-uses; (2) delivering those
9 opportunities to customers through multiple “pathways” (defined as channels to the
10 market) so that customers can easily participate in, and take advantage of, the many
11 energy savings benefits available to them through PECO’s programs; and (3)
12 providing customers with the flexibility to pursue whichever savings opportunities
13 best meet their unique needs.

14 Specific to DR, the Company is expanding opportunities for residential customers,
15 maintaining its successful Direct Load Control (“DLC”) Solution for small
16 commercial and industrial (“C&I”) customers, and adding a new DR program for
17 large C&I customers. With the experience gained from managing EE and DR
18 programs over the last six years, PECO is ready to meet the challenge of being an
19 effective Plan manager that focuses not only on Act 129 compliance, but also
20 delivering comprehensive and customer-friendly solutions.

1 **7. Q. Please explain how PECO’s filing is organized.**

2 A. PECO’s filing contains the following documents and testimony:

- i PECO’s Petition for Approval of its Phase III Energy Efficiency and Conservation Plan;
- ii my Direct Testimony, providing an overview of the Plan;
- iii the Direct Testimony of Nicholas DeDominicis, PECO’s Manager of Evaluation, Measurement and Verification, providing a description of the Phase III EE and DR programs and discussing the competitive bid requirement for Phase III CSP contracts;
- iv the Direct Testimony of Toben E. Galvin, Director in the Energy Practice at Navigant Consulting, Inc., discussing the development of the Phase III Plan;
- v the Direct Testimony of Richard A. Schlesinger, PECO’s Manager of Retail Rates, discussing the Plan’s cost recovery mechanism and tariff; and
- vi PECO’s Phase III Plan, filed in the template format approved by the Commission.¹

3
4
5
6

II. BACKGROUND OF PECO’S OBLIGATIONS TO ACHIEVE ENERGY CONSUMPTION AND PEAK DEMAND REDUCTIONS UNDER ACT 129

7 **8. Q. Please describe Act 129’s consumption reduction and peak demand reduction**
8 **requirements.**

9 A. Act 129 directed electric distribution companies (“EDCs”) with greater than 100,000
10 customers to file with the Pennsylvania Public Utility Commission (the
11 “Commission”), by July 1, 2009, an energy efficiency and conservation plan (“Phase
12 I EE&C Program”).² The EE&C plans were to reduce retail energy consumption by a
13 minimum of 1% by May 31, 2011 and a minimum of 3% by May 31, 2013. These

¹ *Implementation of Act 129 of 2008 – Phase III Energy Efficiency and Conservation Plan Template*, Docket No. M-2014-2424864 (Issued September 22, 2015).

² 66 Pa.C.S. § 2806.1(b).

1 reductions were to be measured against the EDC’s forecasted customer consumption
2 for the period June 1, 2009 through May 31, 2010. For PECO, this 2009/2010
3 baseline is 39,385,000 megawatt-hours (“MWh”).

4 Act 129 further required that each EDC with at least 100,000 customers reduce the
5 average system peak demand for its retail customers in the 100 hours of highest
6 demand by a minimum of 4.5% no later than May 31, 2013. For the Phase I EE&C
7 Program, this demand reduction was to be measured against the EDC’s average peak
8 demand for the 100 hours of highest demand over the period of June 1, 2007 through
9 September 30, 2007.³

10 In addition to these overall targets, the Act mandated that energy savings be derived
11 from certain designated customer segments during Phase I. Specifically, a minimum
12 of 10% of an EDC’s consumption reduction target had to be obtained from the
13 governmental, educational and non-profit (“G/E/NP”) sector.⁴ In addition, each
14 EDC’s Phase I plan was to include specific energy efficiency programs for
15 households with income at or below 150% of the Federal Poverty Income Guidelines
16 (“low-income sector”) that are proportionate to such households’ share of the total
17 energy usage in the EDC’s service territory.⁵ Finally, an EDC’s plan had to pass a
18 “total resource cost” or “TRC” test, which is a test that establishes whether the

³ See Implementation Order, *Energy Efficiency and Conservation Program*, Docket No. M-2008-2069887, at 20-21 (Order entered January 16, 2009) (“*Phase I Implementation Order*”).

⁴ 66 Pa.C.S. § 2806.1(b)(1)(i)(B).

⁵ 66 Pa.C.S. § 2806.1(b)(1)(i)(G).

1 avoided cost of supplying electricity is greater than the cost of a plan's energy
2 efficiency and conservation measures.⁶

3 Pursuant to the Act, EDCs are entitled to full and current cost recovery of prudent and
4 reasonable costs, including administrative costs, but annual plan expenditures were
5 limited to 2% of the EDC's total annual revenue as of December 31, 2006.⁷ For
6 PECO, this annual spending cap is approximately \$85.5 million.

7 **9. Q. Did Act 129 contemplate future EE&C programs beyond the Phase I EE&C**
8 **Program?**

9 A. Yes. The Act provides that by November 30, 2013, and every five years thereafter,
10 the Commission must assess the cost-effectiveness of the EE&C Program and adopt
11 additional incremental consumption reduction targets if the EE&C Program's benefits
12 exceed its costs. With respect to peak demand reduction programs, the Act directed
13 the Commission to complete a cost benefit analysis by November 30, 2013 and, if the
14 benefits exceed the costs, establish additional incremental requirements for reduction
15 in peak demand.⁸

⁶ 66 Pa.C.S. § 2806.1(b)(1)(i)(I); 2016 Total Resource Cost (TRC) Test, Docket No. M-2015-2468992 (Order entered June 22, 2015).

⁷ 66 Pa.C.S. § 2806.1(g), (k).

⁸ 66 Pa.C.S. § 2806.1(c)(3), (d)(2).

1 **10. Q. Has the Commission determined that additional reductions in consumption and**
2 **peak demand are cost-effective?**

3 A. Yes. The Commission determined in its Phase II Implementation Order that
4 additional reductions in consumption were cost-effective and prescribed targets for a
5 three-year plan period of June 1, 2013 through May 31, 2016.⁹ The Commission did
6 not establish any Phase II peak demand reduction requirement because, at the time it
7 issued the Phase II Implementation Order, it did not have enough information to
8 determine the cost-effectiveness of peak demand reduction programs. The
9 Commission did allow EDCs to voluntarily offer cost-effective demand reduction
10 programs during Phase II.

11 In its Phase III Implementation Order, the Commission established both consumption
12 reduction and peak demand reduction targets for a five-year plan period of June 1,
13 2016 through May 31, 2021.¹⁰ For PECO, the consumption reduction target is
14 1,962,659 MWh (5.0% of the 2009/2010 forecast baseline) over the five-year term of
15 the Phase III Program. A minimum of 5.5% of each EDC's total consumption
16 reduction target must be obtained from the low-income sector¹¹ and at least 3.5% of
17 the overall target must be obtained from the G/E/NP sector. EDCs must offer at least
18 one comprehensive program for residential customers and one comprehensive

⁹ See Implementation Order, *Energy Efficiency and Conservation Program*, Docket Nos. M-2012-2289411 and M-2008-2069887 (Order entered August 3, 2012) (“*Phase II Implementation Order*”).

¹⁰ See Implementation Order, *Energy Efficiency and Conservation Program*, Docket No. M-2014-2424864 (Order entered June 19, 2015) (“*Phase III Implementation Order*”).

¹¹ Savings counted towards the 5.5% target may only come from specific low-income programs or low-income verified participants in multi-family housing programs. *Phase III Implementation Order*, p. 69.

1 program for non-residential customers. PECO's peak demand reduction target for
2 program years 2017-2020 is an average annual potential savings of 161 MW.¹²

3 **11. Q. Has PECO met its compliance obligations to date for the Phase I and Phase II**
4 **EE&C Programs?**

5 A. Yes. PECO filed a Phase I Plan in compliance with Act 129 and received
6 Commission approval, with modifications, on October 28, 2009.¹³ The Company was
7 successful in meeting its Phase I consumption reduction target, consumption
8 reduction carve-outs and peak demand reduction target. PECO's Phase II Plan was
9 approved by the Commission on February 28, 2013 and the Company's addition of a
10 voluntary DR program to the Phase II Plan was approved on May 9, 2013.¹⁴ PECO is
11 on track to meet its Phase II consumption reduction target and carve-outs by May 31,
12 2016.

13 **III. OVERVIEW OF PECO'S PHASE III PLAN**

14 **12. Q. Please provide an overview of the Company's Phase III Plan development**
15 **process.**

16 A. As will be explained in more detail by Mr. Galvin, PECO, with the assistance of
17 Navigant, conducted an extensive development process to identify and design an

¹² EDCs are not required to obtain peak demand reductions in the first program year of Phase III. *Phase III Implementation Order*, p. 35.

¹³ See *Petition of PECO Energy Company for Approval of its Act 129 Energy Efficiency and Conservation Plan and Expedited Approval of its Compact Fluorescent Lamp Program*, Docket No. M-2009-2093215 (Order entered October 28, 2009). Further revisions to PECO's Phase I Plan were adopted in various subsequent orders in the same docket.

¹⁴ See *Petition of PECO Energy Company for Approval of its Act 129 Phase II Energy Efficiency and Conservation Plan*, Docket No. M-2012-2333992. PECO was the only EDC to implement voluntary DR programming in Phase II.

1 optimal mix of EE and DR measures that will satisfy the Company's Phase III targets,
2 comply with statutory budget constraints and provide customers with comprehensive
3 savings opportunities. First, after a thorough review of the Phase III Implementation
4 Order, PECO established a set of design principles and established guidelines and
5 constraints around savings (energy and demand) and budget. Second, PECO
6 reviewed lessons learned from implementing the Company's Phase I and Phase II
7 Plans to develop strategies to enhance the customer experience with EE and DR
8 programming. Third, PECO and Navigant prepared a comprehensive list of EE and
9 DR measures and their corresponding savings and costs. Fourth, market information
10 was gathered from Phase II evaluation reports, benchmarking analyses, the Statewide
11 Evaluator's baseline and market potential studies and PECO's baseline and potential
12 studies. Finally, PECO conducted iterative portfolio modeling of possible measures,
13 participation levels and costs.

14 **13. Q. Please explain the guiding principles PECO applied to design the Phase III Plan.**

15 A. PECO developed guiding principles for the Phase III Plan to ensure that Commission
16 requirements are met through a portfolio of programs that is responsive to customer
17 needs and stakeholder input. The Phase III guiding principles are:

- a. Deliver valuable energy management and savings solutions to PECO's customers.
- b. Engage participating customers in meaningful interactions, leading to comprehensive, persistent and cost-effective energy efficiency savings.
- c. Provide customers a comprehensive portfolio of energy efficiency and demand response solutions and programs.

- d. Keep stakeholders aware and engaged as partners, to continually improve the energy efficiency and demand response solutions available to PECO's customers.

1

2

3 **14. Q. Why did PECO select Navigant to assist the Company with Phase III Plan**

4 **development?**

5 A. Navigant is PECO's current evaluation, measurement, and verification ("EM&V")

6 vendor for the Company's Phase II Plan and also served in that capacity for PECO's

7 Phase I Plan. Therefore, Navigant has already acquired substantial knowledge

8 regarding the Company's existing EE and DR programs and has a keen understanding

9 of tools such as the Technical Reference Manual. The EM&V work involves

10 verifying the impact of savings and peak load reductions for compliance reporting

11 purposes as well as conducting process evaluations and participant satisfaction

12 surveys. PECO uses this research as part of a continuous improvement process. For

13 these reasons, PECO determined that Navigant was the most appropriate partner for

14 the Phase III Plan development process.

15 **15. Q. Please provide an overview of the Phase III Plan.**

16 A. As I mentioned earlier, PECO's Phase III Plan is designed to improve customer

17 access to a broader range of energy solutions and measures. To accomplish that

18 objective, PECO has modified the Plan rebate structure to incentivize measure

19 adoption across all electric end-uses, provided multiple delivery pathways to reach all

20 customers, and created comprehensive programming to give customers the flexibility

21 to pursue the opportunities that best match their needs.

1 PECO's Phase III Plan includes five EE programs and three DR programs that will
2 not only meet Act 129 and Commission requirements, but also will provide customers
3 with a comprehensive set of solutions and measures to save energy and save money.
4 PECO's proposed EE portfolio is comprised of the following EE programs: (1)
5 Residential (excluding low-income); (2) Low-Income; (3) Small C&I; (4) Large C&I;
6 and (5) and Combined Heat and Power ("CHP"). Within each program, measures
7 will be implemented through one of four delivery pathways that reflect the various
8 ways that a customer may take advantage of energy saving opportunities: (1) retail
9 (e.g., lighting rebates at a hardware store); (2) participant-initiated (e.g., customers
10 who pursue energy savings directly and apply for rebates through PECO); (3) direct-
11 action (e.g., a conservation service provider ("CSP") picking up an appliance for
12 recycling); and (4) trade ally (e.g., a contractor implementing measures during major
13 renovations).

14 The Company is also adding two new DR opportunities for residential customers,
15 maintaining its successful DLC programming for residential and small C&I
16 customers, and adding a new DR program for large C&I customers. Mr.
17 DeDominicis provides a detailed discussion of each program and the proposed rebate
18 structure changes in his direct testimony.

19 **16. Q. Will the Company's new program structure affect how EE programs are**
20 **marketed to customers?**

21 A. No. PECO will continue to market its programs under its established "Smart Ideas"
22 brand.

1 17. Q. How will the program structure facilitate customer access to, and implementation
2 of, savings opportunities?

3 A. In Phases I and II, grouping measures for a particular customer class in several
4 smaller programs restricted the scope of measures that could be implemented by a
5 single CSP. For example, under PECO's Phase II Plan, a small C&I customer
6 participating in the Smart Business Solutions Program receives an audit from a CSP
7 and then applicable measures in the program, such as the replacement of a reach-in
8 refrigerator motor, are implemented. If the CSP encountered a walk-in refrigerator
9 during the audit, it could not perform a similar motor replacement because the
10 measure for replacement of a walk-in refrigerator motor is located in a different
11 program (Smart Equipment Incentives). Because Commission approval is required
12 before funds (or measures) are moved between programs, the Company could not
13 authorize a CSP assigned to one program to implement measures from another
14 program. Customers have lost savings opportunities and overall customer experience
15 has been negatively impacted as a result of this lack of flexibility.

16 Under the Company's Phase III Plan proposal, which includes a single
17 comprehensive program for each customer class,¹⁵ the ability to move funds within a
18 program without prior Commission approval would enable a CSP to install almost
19 any measure for which a customer is eligible. This substantial broadening of each
20 CSP's "tool belt" will improve the overall customer experience by increasing

¹⁵ As I discussed earlier, the Company is also proposing separate programs for low-income customers and CHP projects.

1 customer access to the full spectrum of comprehensive savings opportunities in the
2 Phase III Plan.¹⁶

3 **18. Q. Has PECO shared its Phase III Plan design framework with stakeholders?**

4 A. Yes. Over the past several months, PECO has shared its proposed Phase III Plan
5 design framework with a diverse group of stakeholders including the Commission's
6 Bureau of Technical Utility Services, the Office of Consumer Advocate, the Office of
7 Small Business Advocate, the Public Utility Law Project, the Keystone Energy
8 Efficiency Alliance and the Philadelphia Area Industrial Energy Users Group. The
9 stakeholder response to the proposed design changes to date has been supportive.

10 **IV. CONCLUSION**

11 **19. Q. Does this conclude your direct testimony?**

12 A. Yes, it does.

¹⁶ If a measure falls outside the expertise of a particular CSP, the CSP would alert a PECO program manager who would then take responsibility for identifying an appropriate CSP.