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File #: 163427

October 17, 2016

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

Re: Petition of PPL Electric Utilities Corporation for Approval of its Act 129 Phase III Energy Efficiency and Conservation Plan - Docket No. M-2015-2515642

Dear Secretary Chiavetta:

Enclosed for filing, please find the Reply Comments of PPL Electric Utilities Corporation concerning its Petition for a Minor Change to Its Act 129 Phase III Energy Efficiency and Conservation Plan, in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,



Devin Ryan

DTR/jl
Enclosures

cc: Honorable Susan D. Colwell
Certificate of Service

**CERTIFICATE OF SERVICE
(Docket No. M-2015-2515642)**

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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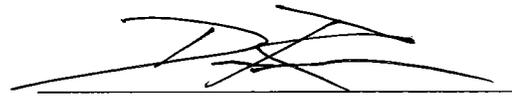
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Date: October 17, 2016



Devin T. Ryan

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities :
Corporation for Approval of its Act 129 :
Phase III Energy Efficiency and : Docket No. M-2015-2515642
Conservation Plan :

**REPLY COMMENTS OF
PPL ELECTRIC UTILITIES CORPORATION**

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

PPL Electric Utilities Corporation (“PPL Electric” or the “Company”) hereby submits these Reply Comments, which respond to the comments filed by: (1) PP&L Industrial Customer Alliance (“PPLICA”); (2) the Office of Small Business Advocate (“OSBA”); and (3) the Sustainable Energy Fund of Central Eastern Pennsylvania (“SEF”) concerning PPL Electric’s Petition for Approval of a Minor Change to Its Act 129 Phase III Energy Efficiency and Conservation Plan (“Petition”). In support thereof, PPL Electric states as follows:

I. INTRODUCTION

By way of background, the Commission approved PPL Electric’s initial Phase III EE&C Plan, with modifications, on March 17, 2016. *See Petition of PPL Electric Utilities Corp. for Approval of its Act 129 Phase III Energy Efficiency and Conservation Plan*, Docket No. M-2015-2515642, at pp. 57-61 (Order Entered Mar. 17, 2016) (“*March 2016 Order*”). Pursuant to the *March 2016 Order*, PPL Electric submitted a compliance filing on April 22, 2016. The Company subsequently filed an Errata to its compliance filing on May 24, 2016. The

Commission approved PPL Electric's compliance filing, as amended, on June 27, 2016. *See* Secretarial Letter, Docket No. M-2015-2515642 (June 27, 2016).

On September 21, 2016, PPL Electric filed a Petition requesting that the Pennsylvania Public Utility Commission ("Commission") approve one minor change to its Phase III Energy Efficiency & Conservation Plan ("EE&C Plan").

Since the Petition only asked for a "minor" change to the EE&C Plan, PPL Electric requested that the Commission approve the Petition pursuant to the expedited review process outlined in the *Minor Plan Change Order*. (Petition ¶ 8); *see Energy Efficiency and Conservation Program*, Docket No. M-2008-2069887, at p. 19 (Order Entered June 10, 2011) ("*Minor Plan Change Order*"). Pursuant to the schedule established in the *Minor Plan Change Order*, parties had 15 days to file comments on the proposed change and then 10 days to file reply comments. In accordance with this procedural schedule, PPL Electric files these Reply Comments.

II. REPLY COMMENTS

PPL Electric's Petition seeks to make one "minor" change to the Company's EE&C Plan. Currently, the Phase III EE&C Plan requires all custom projects to undergo a cost-effectiveness screening process to qualify for an incentive payment.¹

In the Petition, PPL Electric proposes to replace the Custom Program's cost-effectiveness eligibility requirement with the following:

PPL Electric may implement a minimum TRC requirement for projects if necessary to ensure the program or portfolio TRC is

¹ Under the current Phase III EE&C Plan, Combined Heat and Power ("CHP") projects must have a TRC benefit-cost ratio in excess of 1.25, and all other Custom Program projects must have a TRC benefit-cost ratio in excess of 1.10.

greater than 1.0. PPL Electric will notify customers, trade allies, and stakeholders at least 30 days before the effective date of this TRC requirement or a subsequent change in the TRC requirement. Any TRC requirement would be in effect for new applications submitted after the effective date. PPL Electric will contact any customer whose Phase 3 application was previously rejected because of the TRC requirement in the original EE&C Plan (> 1.25 for CHP; > 1.1 for other types of projects) to give each customer an opportunity to continue its Custom Program application.

(Petition ¶ 4)

Comments were timely filed by PPLICA, OSBA, and SEF on the proposed minor change.² None of the parties dispute that the Petition should proceed under the Commission's expedited review process for minor EE&C Plan changes. However, the parties raised some concerns with the proposed minor change and generally asserted that the current cost-effectiveness screening requirement should remain in place. (See PPLICA Comments, pp. 3-4; OSBA Comments, pp. 1-7; SEF Comments, pp. 2-6).

For the reasons explained below, the Commission should approve the minor EE&C Plan change detailed in these Reply Comments and the Petition.

A. THE PROPOSED MINOR CHANGE IS NECESSARY AND JUSTIFIED

The parties contend that PPL Electric has not sufficiently justified the need for the minor EE&C Plan change and argue that the proposed change, as written, should be rejected. (See PPLICA Comments, pp. 3-4; OSBA Comments, pp. 1-2, 4-7; SEF Comments, pp. 2-6) As an alternative, however, PPLICA and SEF have argued that PPL Electric's proposal should be changed to prescribe new TRC thresholds. (See PPLICA Comments, p. 4; SEF Comments, pp. 4-5) Specifically, PPLICA recommends that all custom projects (CHP and non-CHP) meet a TRC benefit-cost ratio of at least 1.0, and SEF proposes that PPL Electric be permitted to

² Also on October 6, 2016, the Office of Consumer Advocate ("OCA") filed a letter stating that it was not filing comments.

establish minimum TRC thresholds within the ranges of 1.0 to 1.7 for non-CHP custom projects and 1.0 to 1.4 for CHP custom projects. (See PPLICA Comments, p. 4; SEF Comments, p. 5)

PPL Electric disagrees with the parties. It is important to remember that PPL Electric has the ultimate responsibility to design its programs, measures, incentive levels, measure eligibility requirements, and other elements of its EE&C Plan to ensure that the Plan is cost-effective and achieves all compliance targets within budget. If the Company fails to meet its overall savings and peak demand reduction targets, PPL Electric (not the other parties) faces the potential for penalties. Therefore, the Company should have reasonable discretion to adjust its EE&C plan to ensure that it meets its compliance targets.

In addition, failure to modify the cost-effectiveness screening requirement could have a significant impact on PPL Electric's ability to meet its overall savings compliance target. There are currently eight CHP projects proposed by customers that are estimated to produce approximately 136,000 MWh/yr of savings, which is approximately 9.4% of PPL Electric's total compliance target of 1,443,035 MWh/yr and approximately 34% of the total estimated savings for the Custom Program.³ As currently proposed, PPL Electric does not anticipate any of these CHP projects will pass the current TRC threshold (>1.25). Indeed, the Company expects that all of these projects will have a TRC benefit-cost ratio below 1.0. Consequently, absent a change to the Custom Program, none of these projects will qualify for incentives or produce savings that are countable toward the EE&C Plan. Considering the Commission's interest in encouraging

³ PPL Electric also has received an application for one non-CHP custom project with a TRC benefit-cost ratio slightly below 1.1 that would produce savings of approximately 1,300 MWh/yr. Under the current TRC threshold for non-CHP projects, this project would be ineligible to participate in the Custom Program.

CHP projects throughout Pennsylvania,⁴ as well as PPL Electric's duty to meet its savings targets, the Company should be permitted to implement the proposed minor change.

Further, as explained in more detail below, the proposed minor change will make PPL Electric's EE&C Plan more consistent with the other electric distribution companies' ("EDCs") EE&C Plans, which have no cost-effectiveness screening requirement for custom projects. Customers also will not be treated inequitably under the proposed change because they will receive 90 days' notice⁵ if any minimum TRC threshold is established or modified. Moreover, even if some individual projects are not cost-effective, the Commission only requires that the overall EE&C Plan be cost-effective, not individual programs and measures. Finally, the proposed minor change also will not negatively affect the savings or budgets for the Custom Program.

For these reasons, the Company maintains that its proposed minor change to the Custom Program's eligibility requirement is necessary and justified. However, if the Commission believes that the Company should establish a minimum TRC threshold, the Company recommends that it be permitted to establish a minimum TRC threshold within a range of 0.5 to 1.25 for all CHP and non-CHP custom projects.

B. THE MINOR CHANGE WILL MAKE PPL ELECTRIC'S EE&C PLAN MORE CONSISTENT WITH THE OTHER EDCS' EE&C PLANS

OSBA concedes that no other EDCs have minimum TRC thresholds for custom projects. (OSBA Comments, p. 6) However, OSBA believes that PPL Electric's current cost-

⁴ See *Proposed Policy Statement on Combined Heat and Power*, Docket No. M-2016-2530484, at pp. 1-8 (Order Entered Mar. 9, 2016).

⁵ As explained in Section II,C, *infra*, PPL Electric agrees with SEF's proposal that the originally proposed 30-day notice period be expanded to a 90-day notice period.

effectiveness requirement should “serve as a model for other EDCs” in their “next round of EE&C Plans.” (OSBA Comments, p. 6)

PPL Electric disagrees that it should be forced to keep the current cost-effectiveness requirement. As it stated in its Petition, the Company is the only EDC in Pennsylvania that has a minimum TRC threshold for custom projects. (Petition ¶ 5) Therefore, removing the threshold will make the EE&C Plan more similar to all other EDCs’ EE&C Plans. This will help reduce customer and contractor confusion and ensure more consistent treatment of customers throughout Pennsylvania. Moreover, to the extent that the EDCs’ “next round of EE&C Plans” should include minimum TRC thresholds for custom projects, PPL Electric maintains that such issues can be adequately addressed in the EDCs’ Phase IV EE&C Plan proceedings.

Based on the foregoing, the proposed minor change should be approved, because it will make PPL Electric’s EE&C Plan more consistent with the other EDCs’ EE&C Plans.

C. CUSTOMERS WILL RECEIVE SUFFICIENT NOTICE IF A MINIMUM TRC THRESHOLD IS ESTABLISHED OR MODIFIED

OSBA and SEF raised concerns about customers being treated inequitably if, under the proposed minor change, a minimum TRC threshold is implemented or modified after the customers submit their projects to PPL Electric. (OSBA Comments, pp. 6-7; SEF Comments, pp. 5-6) Specifically, OSBA is concerned that customers could be subject to different minimum TRC thresholds depending on when they submit their custom projects to PPL Electric for review, and SEF believes a 30-day notice period could be a disincentive to customer participation. (OSBA Comments, pp. 6-7; SEF Comments, pp. 5-6) To address this concern, SEF recommends that the proposed 30-day notice period be expanded to a 90-day notice period. (SEF Comments, pp. 5-6)

PPL Electric disagrees that customers will be treated inequitably due to the proposed minor change. Under the current EE&C Plan, there already is an inherent risk that customers will be subject to different eligibility requirements or incentive levels depending on when they implement their projects or submit their applications. In fact, several of the programs prescribe ranges for incentives paid to customers and for the eligibility requirements. *See* PPL Electric Phase III EE&C Plan, pp. 41, 46, 52, 58, 86, 95, 112, 121, 136, 145 (Apr. 22, 2016). The Company also could not offer incentives for certain measures or the programs could be fully subscribed. *See id.* at pp. 41, 46, 53, 71, 78, 89, 95, 115, 121, 139, 145. Therefore, to the extent that there is an advantage or disadvantage to a customer submitting a custom project for review at a given time, such inherent risk is no different than several of the other programs and measures in the EE&C Plan.

Further, the Company recognizes that customer confusion and frustration can result from the eligibility requirements changing frequently and without sufficient notice. As a result, PPL Electric has proposed that if it implements or changes a minimum TRC threshold for the Custom Program, that new threshold would only be effective on 30 days' notice.

However, after reviewing SEF's Comments, PPL Electric believes that more advanced notice to customers (*i.e.*, 90 days' notice) would be beneficial. This additional time will better enable customers to know what the minimum TRC threshold, if any, will be in effect when they submit their custom projects to PPL Electric. Moreover, it will reduce the likelihood that customers will be subject to different minimum TRC thresholds, because the threshold cannot change more often than every 90 days.⁶

⁶ Although it would be theoretically possible to change the minimum TRC threshold every 90 days under this proposal, the Company's intent is to try to keep a relatively stable minimum TRC threshold, if it implements one.

Thus, PPL Electric avers that its proposed minor change (as modified to provide 90 days' notice to customers) will provide sufficient notice to customers and alleviate the parties' concerns with customers being treated differently.

D. INDIVIDUAL PROGRAMS AND MEASURES ARE NOT REQUIRED TO BE COST-EFFECTIVE

PPLICA also contends that eliminating the Total Resource Cost ("TRC") threshold for custom projects would: (1) force customers to subsidize non-cost-effective projects; and (2) place the program's ability to be cost-effective at risk. (PPLICA Comments, p. 4)

PPL Electric disagrees with PPLICA's implication that individual projects and programs must be cost-effective. It is well-established that the cost-effectiveness compliance requirement of Act 129 applies at the EE&C Plan level, not to individual programs and measures. *See 2016 Total Resource Cost (TRC) Test*, Docket No. M-2015-2468992, at p. 17 (Order Entered June 22, 2015); *see also Petition of PPL Electric Utilities Corporation for Approval of its Act 129 Phase II Energy Efficiency and Conservation Plan*, Docket No. M-2012-2334388, at p. 26 (Order Entered Mar. 6, 2014) (citing *2012 PA Total Resource Cost (TRC) Test*, Docket No. M-2012-2300653, at p. 11 (Order Entered Aug. 30, 2012)). Stated otherwise, to comply with the Act 129 cost-effectiveness requirements, the benefit-cost ratio of the entire EE&C Plan must be greater than 1.0.

Here, PPL Electric estimates that the entire EE&C Plan will continue to be cost-effective, even if the Custom Program's per-project TRC threshold is eliminated or reduced below 1.0. Nothing requires each of PPL Electric's individual programs and measures to be cost-effective. Indeed, no other program in the EE&C Plan has a cost-effectiveness threshold for any of its measures. Further, to the extent that PPLICA has a concern with subsidizing non-cost-effective

projects, the EE&C Plan already offers programs and measures that are not cost-effective. *See, e.g., PPL Electric Phase III EE&C Plan, at p. 29 (Apr. 22, 2016).*

In addition, the proposed minor change will provide flexibility for the Company to establish a minimum TRC requirement for custom projects “if necessary to ensure the program or portfolio TRC is greater than 1.0.” The Company will monitor the progress of all EE&C programs, including the Custom Program, throughout Phase III. However, if the lack of a minimum TRC threshold is affecting PPL Electric’s ability to have a cost-effective EE&C Plan or Custom Program, the proposed minor change would enable the Company to respond accordingly.

Moreover, even if the cost-effectiveness screening requirement is eliminated, PPL Electric will still evaluate the cost-effectiveness of the customers’ proposed projects and provide them with the results of that evaluation.⁷

Based on the foregoing, PPLICA’s concerns about proposed minor change’s effect on the cost-effectiveness of the Custom Program and custom projects lack merit.

E. THE MINOR CHANGE WILL NOT NEGATIVELY AFFECT BUDGETS OR SAVINGS

OSBA argues that permitting projects with “lower than originally expected TRC benefit-cost ratios” will “necessarily impact all of the quantitative aspects to the Phase III EE&C Plan,” such as budgets, TRC benefit-cost ratios, savings, etc. (OSBA Comments, p. 5) Moreover, if the proposed minor change will have “zero or even a *de minimis* impact,” OSBA submits that “the change is obviously unnecessary.” (OSBA Comments, p. 5)

⁷ The Company notes, however, that the TRC method used for determining cost-effectiveness of energy efficiency measures is not the same method used by a customer to evaluate the viability of their projects.

PPL Electric disagrees with OSBA's assertion that the proposed minor change will affect budgets. The Company is not proposing any changes to the budget for the Custom Program or the costs for any customer sector as a result of the proposed minor change. Nor will the proposed minor change shift any costs between customer sectors. Changing or eliminating the TRC threshold simply may allow more CHP projects to receive incentives and contribute savings to the program. However, the proposed change will neither change the total budget for the Custom Program's incentives nor the administrative costs for the Custom Program or any customer sector.

In fact, the proposed minor change could potentially produce additional savings under the current program budget. If more CHP projects are able to participate in the Custom Program, the program acquisition cost (*i.e.*, program costs divided by annual kWh saved) could be lowered. CHP projects usually have a much lower program acquisition cost than most measures, because they have a high amount of savings and their incentives are capped (\$250,000 to \$500,000 per project). For example, CHP has an estimated program acquisition cost of approximately \$0.02-0.05 per annual kWh saved, whereas the Custom Program as a whole has an average program acquisition cost of \$0.12 per kWh and the entire EE&C Plan's program acquisition cost is \$0.19 per kWh. Therefore, if more CHP projects participate by eliminating or reducing the minimum TRC threshold, the Company will have more funding for non-CHP projects and could increase the total savings for the Custom Program without increasing the program's budget.

At the time of filing its Petition, however, the Company proposed no changes to the estimated savings or TRC benefit-cost ratios of the Custom Program or the EE&C Plan. PPL Electric did not request such changes because Phase III only recently began, the Company is still in the process of fully evaluating data on the Custom Program's performance thus far, and the

Company believes that the proposed minor change will, at the very least, enable it to achieve the current savings targets set forth in the EE&C Plan within the same budget.

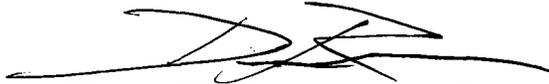
Nevertheless, PPL Electric recognizes that the participation of more CHP projects could potentially affect estimated savings and TRC benefit-cost ratios. Indeed, all savings figures and benefit-cost ratios set forth in the EE&C Plan are estimates, and actual results may vary depending on actual customer participation. As a result, PPL Electric will continually monitor the Custom Program's progress throughout Phase III and will propose changes to its estimated savings and TRC benefit-cost ratios if, in the Company's determination, actual results warrant such changes.

For these reasons, the proposed minor change will not negatively affect the budget or savings for the Custom Program or the EE&C Plan and, therefore, should be approved.

III. CONCLUSION

WHEREFORE, PPL Electric Utilities Corporation respectfully requests that the Pennsylvania Public Utility Commission approve the proposed minor change to the EE&C Plan, as set forth in the Company's Petition and these Reply Comments.

Respectfully submitted,



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