PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of PPL Electric Utilities Corporation for Approval of Changes to its Act 129 Energy Efficiency and Conservation Plan	Docket No. M-2009-2093216

PETITION OF PPL ELECTRIC UTILITIES CORPORATION FOR APPROVAL OF CHANGES TO ITS ACT 129 ENERGY EFFICIENCY AND CONSERVATION PLAN

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

I. INTRODUCTION

PPL Electric Utilities Corporation ("PPL Electric" or the "Company"), by and through its attorneys, hereby petitions the Pennsylvania Public Utility Commission ("Commission"), pursuant to Section 5.41 of the Commission's Rules of Administrative Practice and Procedure, 52 Pa. Code § 5.41, to modify its Energy Efficiency and Conservation Plan ("EE&C Plan") previously approved by the Commission on October 26, 2009, in the above-captioned proceeding. In its Act 129 of 2008 ("Act 129") *Implementation Order*[1], the Commission established the standards and procedures for submittal, review and approval of all aspects of electric distribution company ("EDC") EE&C Plan, in accordance with Act 129. In its *Implementation Order*, the Commission requires EDCs to submit an annual report documenting the effectiveness of their EE&C Plans, the measurement and verification of energy savings, and the evaluation of cost-effectiveness of expenditures.

[1] *Energy Efficiency and Conservation Program Implementation Order*, Docket No. M-2008-2069887, entered on January 16, 2009 ("*Implementation Order*"), Reconsideration Order entered May 2, 2009.

Although the *Implementation Order* did not clearly delineate when the annual reports were to be submitted, it did note that the Commission would address the annual report filing requirements in a subsequent order. The Commission provided additional guidance to EDCs regarding the annual reporting requirements in its June 24, 2010 Secretarial Letter ("Secretarial Letter"). The Secretarial Letter directs EDCs to submit their 2010 Act 129 annual report and any proposed EE&C Plan revisions by September 15, 2010.

Further, on September 1, 2010, the Commission issued a Secretarial Letter providing additional guidance on EDC proposals to modify their existing EE&C Plans. Specifically, the Commission stated that it expects EDCs to file and serve a complete copy of their revised plans and that the plans should include an Executive Summary describing each proposed change and how each proposed change affects other parts of the plan. As described more fully below, PPL Electric is proposing two modifications to its existing EE&C Plan. The Company has prepared an Executive Summary of the proposed modifications to its EE&C Plan (attached hereto as Appendix "A") that describes the proposed modifications. In addition, pursuant to the September 1, 2010, Secretarial Letter, PPL Electric has prepared a blackline version of its EE&C Plan that illustrates the modification proposed by this Petition as compared to the plan previously approved by the Commission (attached hereto as Appendix "B"). At the conclusion of this proceeding, PPL Electric will file a complete copy of its revised EE&C Plan reflecting all Commission-approved modifications and will serve all active parties to this proceeding.

As more fully explained below, PPL Electric requests Commission approval for two modifications to its EE&C Plan: (1) a change to its Compact Fluorescent Lighting Program ("CFL Program"); and (2) a change to the classification of direct and common costs. PPL Electric requests expedited review of this Petition by the Commission so that it may implement the proposed changes as quickly as possible. Specifically, PPL Electric requests that the Commission act upon this Petition at or before its Public Meeting scheduled for December 2, 2010. In support thereof, PPL Electric states as follows:

II. BACKGROUND

On July 1, 2009, PPL Electric filed its EE&C Plan with the Commission pursuant to Act 129 and various related Commission orders. The PPL Electric EE&C Plan proceeding was docketed by the Commission at Docket No. M-2009-2093216. The Commission approved PPL Electric's EE&C Plan, with modifications, on October 26, 2009 ("*EE&C Order*"). PPL Electric's EE&C Plan includes a broad portfolio of energy efficiency, conservation practices and peak load reductions, and energy education initiatives. PPL Electric's portfolio of programs is designed to provide customer benefits and to meet the energy saving and peak load reduction goals set forth in Act 129. The EE&C Plan includes a range of energy efficiency and demand response programs that include every customer segment in PPL Electric's service territory. These programs are the key components of a comprehensive electric energy efficiency initiative designed to achieve the 1,146,000 MWh of reduced energy consumption and 297 MW of peak demand reductions required by Act 129.

As noted by the Commission in the *EE&C Order*, "...PPL is the Party that bears the risk of penalties in the event of non-compliance with the mandates of Act 129. We will not micro-manage the Company's compliance efforts." *EE&C Order* at 88. In addition, the Commission noted that:

> With respect to changes to the plan, we find that an EDC cannot shift program funds within a customer class, or between customer classes without prior Commission approval. Doing so would constitute a modification of the EDC's approved plan. The General Assembly authorized the Commission, not the EDC, to make decisions in regard to modifying an approved Act 129 Plan.

EE&C Order at 93. Moreover, the Commission stated that as the EDC EE&C plans were approved by Commission Order, to effectuate such changes, the EDC must adhere to procedures for rescission and amendment of Commission orders. *Id.; see* 66 Pa. C.S. § 703(g).

Consistent with the Commission's *EE&C Order*, PPL Electric has identified two proposed modifications to its currently effective EE&C Plan. These modifications were identified by the Company through the operation of its EE&C Plan during the past year. PPL Electric requests expedited review of its proposed modifications, discussed in detail below, so that it may implement these modifications as quickly as possible, because these changes will assist the Company in achieving compliance with its Act 129 obligations.

III. SUMMARY OF PROPOSED MODIFICATIONS TO EE&C PLAN[2]

This section briefly summarizes PPL Electric's proposed modifications to its Commission-approved EE&C Plan. Section IV provides a more detailed discussion of each proposed modification. Collectively, these modifications do not impact the total projected cost of PPL Electric's EE&C Plan, the total projected energy savings (kWh/yr), or the total projected peak load savings (kW). There are some minor shifts (less than 2.5% compared to the original EE&C Plan) in projected savings between customer sectors and there are minor shifts in projected costs between customer sectors. As discussed below, however, based upon its implementation of its EE&C Plan, PPL Electric has identified two modifications to improve its EE&C Plan. These modifications are both reasonable and necessary for PPL Electric's EE&C Plan to successfully meet its Act 129 obligations.

[2] Although not included as part if this Petition, PPL Electric notes that it does not expect to achieve the projected participation and peak load reductions (61 MW) for its Time of Use Program ("TOU Program") as shown in its original EE&C Plan. PPL Electric's TOU Program has been the subject of a separate proceeding and the Company is currently evaluating potential modifications to this program and the resulting impact on its EE&C Plan. The Company anticipates filing a separate request to modify its current TOU Program.

A. Allocation of CFL Program Sales to Multiple Customer Sectors

All PPL Electric customer sectors are eligible to purchase discounted Compact Fluorescent Lamps ("CFLs") from retail stores under PPL Electric's CFL Program. Under the CFL Program, customers receive a discount at the point of sale and PPL Electric does not know the specific customers who purchase those discounted CFLs because there is no rebate form or application associated with the purchase. In its EE&C Plan, PPL Electric allocated approximately 17% of the projected CFL sales (kWh/yr savings and program costs) to the low-income residential sector and approximately 5% to the small commercial and industrial ("small C&I") sector. PPL Electric allocated CFL sales to the low-income residential sector because, at the time of filing its EE&C Plan, it believed that there was a low-income energy reduction compliance target (kWh). Therefore, for compliance purposes, PPL Electric believed it needed to specifically track and verify CFL Program sales and savings for low-income customers who purchased discounted CFLs from participating retailers. However, subsequent to the filing of the Company's original EE&C Plan, the Commission clarified that the low-income compliance target was based on the number of measures available to low-income customers, not on a percentage of the total kWh/yr reductions. *EE&C Order* at 25. In addition, PPL Electric does not attempt to quantify or allocate low-income customer participation in any other non low-income program. Therefore, an allocation to the low-income sector was no longer necessary for compliance purposes.

The allocation to the small C&I customer sector was an attempt, based on feedback from stakeholders during the development of PPL Electric's EE&C Plan, to properly categorize savings and costs, because some small C&I customers may purchase PPL Electric-discounted CFLs from retail stores. However, during the implementation of its energy efficiency tracking system and CFL Program, PPL Electric determined it is not feasible to allocate CFL sales (savings and costs) to multiple customer sectors for several reasons: (1) CFL savings for non-residential customers are calculated using a different method than for residential customers and it will not be possible to obtain required information to calculate or verify savings for non-residential customers; and (2) the estimated allocation percentages used for ex-ante savings estimates would be extremely difficult to estimate with reasonable accuracy and it will not be possible to verify the actual percentages for ex-post (verified) savings.

Based on the reasons summarized above and the more detailed description below, PPL Electric proposes to allocate all CFL Program sales, savings, and costs to the residential customer sector instead of allocating 5% to the small C&I sector and 17% to the low-income sector (costs to the low-income sector would be paid by all residential customers).

B. Changes to the Cost Allocation Method related to "Direct Program Costs" and "Common Costs"

"Direct program costs" are those types of expenditures that are directly associated with a specific energy efficiency program. "Common costs" are those types of expenditures that apply to many, if not all programs, and cannot be directly assigned to a specific program.

During the detailed design and implementation of its EE&C programs and program cost tracking systems and processes, PPL Electric identified several changes to the definition of "common costs" and "direct program costs" compared to the assumptions in the EE&C Plan. The net effect of these changes shifted approximately $6.5 million from the "direct program cost" category to the "common cost" category.

While shifting between "common" and "direct" costs does not change the projected cost of the EE&C Plan as a whole, it does result in minor cost changes between customer sectors. In accordance with the EE&C Plan, common costs are allocated to each customer sector using an allocation factor equal to the percentage of the EE&C costs directly assigned to each customer sector to the total of EE&C costs directly assigned to all customer sectors. These changes result in relatively minor cost shifting (less than 2.5% compared to the original EE&C Plan) between customer sectors. Those cost changes between customer sectors are well within the normal band of estimating uncertainty for the EE&C Plan. Shifting between common and direct cost categories does not impact the benefit-cost ratio of the portfolio and has a minor impact (improvement) on the benefit-cost ratio of some programs because of the lower direct cost of some programs (common costs are excluded from the cost-effectiveness test at the program level; common costs are only addressed at the portfolio level).

IV. DISCUSSION OF CHANGES

A. Allocation of CFL Program Sales to Multiple Customer Sectors

All PPL Electric customer sectors are eligible to purchase discounted CFLs from retail stores under PPL Electric's CFL Program. Under the CFL Program, customers receive a discount at the point of sale and PPL Electric does not know the specific customers who purchase those discounted CFLs because there are no rebate forms or applications like most other programs. In its EE&C Plan, PPL Electric allocated approximately 17% of projected CFL sales (kWh/yr savings and program costs) to the low-income residential sector and approximately 5% to the small C&I sector. PPL Electric proposes to eliminate the allocation of CFL Program sales, savings, and costs to multiple customer sectors. Instead, PPL Electric proposes to allocate all CFL Program sales, savings and costs to the residential customer sector since sales to residential customers (non low-income and low-income) are likely to account for more than 95% of total CFL sales under this program.

1. Allocation of CFL Sales to the Low-Income Residential Customer Sector

PPL Electric originally allocated CFLs sales to the low-income residential sector because it believed that there was a low-income energy reduction compliance target (kWh). Therefore, for compliance purposes, PPL Electric believed it needed to specifically track and verify CFL Program sales and savings for low-income customers who purchased discounted CFLs from participating retailers. However, subsequent to the filing of the Company's original EE&C Plan, the Commission clarified that the low-income compliance target was based on the number of measures available to low-income customers, not a percentage of the total kWh/yr reductions.[3] Therefore, an allocation to the low-income sector is no longer necessary for compliance purposes.

In addition, PPL Electric does not attempt to quantify or allocate low-income customer participation in any other non low-income program. Low-income customers are eligible to participate in any PPL Electric EE&C program that is open to residential customers and all costs associated with low-income and non low-income customer participation in EE&C programs are recovered from the same sector – residential customers. Those programs include Efficient Equipment, Residential Energy Assessment and Weatherization, CFL, Appliance Recycling, Direct Load Control, Renewable Energy, Time of Use, Energy Efficiency & Behavior, New Homes, and Custom. Because PPL Electric does not attempt to quantify or allocate low-income customer participation in those programs, there is no benefit to single out low-income participation in the CFL Program.

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[3] *EE&C Order* at 25.

2. Allocation of CFL Sales to the Small C&I Customer Sector

The allocation to the small C&I customer sector was an attempt, based on feedback from stakeholders during the development of the Company's EE&C Plan, to properly categorize savings and costs, because some small C&I customers may purchase PPL Electric-discounted CFLs from retail stores. However, during the implementation of its energy efficiency tracking system and CFL Program, PPL Electric determined it would not be feasible to allocate CFL sales (savings and costs) to multiple customer sectors for several reasons.

First, CFL savings for non-residential customers must be calculated using a different method than for residential customers, and it is not possible to obtain much of the information (such as the customer's baseline light fixture, the type of building and space in which the CFL is installed, what type of lighting controls exist, etc.) required to calculate C&I CFL savings for a retail discount/upstream buy-down type CFL Program because the specific customers are not known.

The Commission's Technical Reference Manual ("TRM") prescribes how savings are determined for residential CFLs and for C&I lighting (new construction and lighting retrofits). For residential CFLs, savings are determined based on the difference in wattage between the CFL and its equivalent incandescent bulb (the incandescent typically has four times the wattage) multiplied by 3 burn time hours per day (deemed value for all residential CFLs) multiplied by a fully deemed installation rate (84%). Therefore, to determine the savings for each residential CFL, PPL Electric needs to know the quantity of each bulb and its differential wattage. Both of those "open variables" are provided by the CFL Program's Conservation Service Provider ("CSP").

For C&I lighting retrofits, savings are determined based on the difference between the wattage of the new fixture (bulb) and the specific, existing fixture (bulb) that the new fixture replaces. The existing fixture is referred to as the "baseline." The wattage of each new and baseline light is determined from the PA Lighting Form (spreadsheet) and the customer must provide the bulb wattage, fixture type, type of lighting controls (switch, occupancy sensor, etc.), number of bulbs, facility/building type (education, grocery, hospital, restaurant, office, warehouse, etc.), type of heating or cooling in the facility, and other information on the PA Lighting Form. PPL Electric cannot obtain any of the baseline information required to compute savings because the specific customers in the CFL Program are not known and it is not possible to obtain that information from a customer (or to complete a PA Lighting Form) at the retail store when they purchase the CFL.

For C&I new construction lighting, savings are determined based on the difference between lighting power density ("LPD"), watts per square foot, of the new light compared to the code required LPD for the specific building and space type. To determine the LPD, the customer must provide information such as the type of building, type of space (office, hallway, auditorium, warehouse, etc.), square footage of the building and space, type of lighting controls, and other information about the location where the lights are installed. PPL Electric cannot obtain any of the information required to compute LPD savings because the specific customers in the CFL Program are not known and it is not possible to obtain that information from a customer at the retail store when they purchase a CFL.

Therefore, it is not possible to calculate or verify savings in accordance with the Commission's TRM for CFLs purchased by C&I customers as part of the retail-discount CFL Program.

Second, if PPL Electric were able to estimate the savings for each C&I CFL, PPL Electric cannot reasonably estimate the allocation percentage (the portion of CFL Program sales attributable to C&I customers). Since the specific participants in the CFL Program are not known and cannot be determined, it is not possible to estimate or verify the allocation percentages. Also, estimates of the percentage of C&I CFL sales are not available from retailers.

Third, if PPL Electric could estimate the allocation percentage, it would be technically and administratively complex, if not impossible, to properly track. To ensure consistency between formal savings reports and the underlying raw transactional data recorded in PPL Electric's tracking system, the allocation of CFL sales must be recorded at the transactional level (a unique CFL transaction would have to be designated as "residential" or "C&I") when recorded in PPL Electric's tracking system. The allocation cannot be done by an after-the-fact adjustment in reports. That transactional data is for each specific CFL bulb and includes the SKU number, quantity sold, type of base/socket, bulb style, number of bulbs per pack, wattage per bulb, wattage of equivalent incandescent bulb, manufacturer, retail store, discount, and other information. The CFL Program CSP has no feasible way to do this allocation at the transactional level.

For the reasons set forth above, PPL Electric proposes to allocate the sales, savings, and costs of the CFL Program to the residential sector. The Company's current EE&C Plan anticipated only modest participation rates (5%) by the small C&I sector. Therefore, the Company does not view this change in allocation as a significant modification. Specifically, the Company's proposed modified approach shifts approximately $800,000 of projected costs from the small C&I customer sector to the residential sector. That is approximately a 1.3% increase in total projected cost for the residential sector and a 0.9% reduction in total projected cost for the small C&I sector compared to the approved EE&C Plan. These cost changes are well within the normal band of estimating uncertainty for the EE&C Plan. There is no impact on the projected total cost or total savings of the CFL Program or the entire EE&C Plan.

B. Changes to the Cost Allocation Method Related to "Direct Program Costs" and "Common Costs"

"Direct program costs" are those types of expenditures that are directly associated with a specific energy efficiency program. Some examples of direct program costs are:

- A rebate paid to a customer for an energy efficiency measure in a program;
- A program CSP's labor and material charges to implement a program (such as the Appliance Recycling Program).

"Common costs" are those types of expenditures that apply to many, if not all, programs "across the board" and cannot be reasonably and directly assigned to a specific program. Some examples of common costs are:

- The development of the EE&C Plan
- The development, implementation, and operation of the energy efficiency tracking system
- Evaluation, measurement, and verification of savings
- Performance and progress reporting
- General management
- Legal support

Some types of expenditures are extremely difficult to categorize with reasonable accuracy because they apply to a subset of programs, but not in a way that is easily attributable to each program. Some examples are:

- The Administrative CSP who handles customer inquiries and applications for many programs

- Marketing and advertising

During the detailed design and implementation of its EE&C programs and development of program cost tracking systems and processes, PPL Electric identified several changes to the definitions of "common costs" and "direct program costs" compared to the assumptions in the EE&C Plan. The net effect of these changes shifts approximately $6.5 million from the "direct program cost" category to the "common cost" category.

While shifting between "common" and "direct" costs does not change the projected cost of the EE&C Plan as a whole, it does result in minor cost changes between customer sectors. In accordance with the EE&C Plan, common costs are allocated to each customer sector using an allocation factor equal to the percentage of the EE&C costs directly assigned to each customer sector to the total of EE&C costs directly assigned to all customer sectors. Using this approach, shifting direct and common costs results in a relatively minor cost shifting (less than 2.5% compared to the original EE&C Plan) between customer sectors. Those cost changes between customer sectors are well within the normal band of estimating uncertainty for the EE&C Plan. Shifting between common and direct cost categories does not impact the benefit-cost ratio of the portfolio and has a minor impact (improvement) on the benefit-cost ratio of some programs because of the lower direct cost of some programs (common costs are excluded from the cost-effectiveness test at the program level; common costs are only addressed at the portfolio level). The impact of the proposed changes to direct program costs and each sector's allocation of common costs are illustrated in Table 5a of PPL Electric's EE&C Plan dated September 15, 2010.

Following is a summary of the changes between "common" and "direct" cost categories:

EDC Labor, Material, and Supplies

- In the EE&C Plan, all EDC labor, material, and supplies were defined as common costs. In actuality, some EDC costs will be direct and some will be common.

- EDC labor, material, and supplies that directly support a program will be charged directly to the applicable program. For example, when the PPL Electric Program Manager for the Appliance Recycling Program is working on that program, the cost will be reflected as a direct cost to that program. EDC labor, material, and supplies that do not directly support a program will be treated as a common cost. For example, when a PPL Electric employee is performing evaluation, measurement, and evaluation or is preparing the quarterly progress report for the Commission, that cost will be reflected as a common cost to all programs. EDC labor, material, and supplies for the tracking system will similarly be considered a common cost.

- The net impact of changes in this category is a shift of $3.7 million from common costs to direct costs.

General Marketing

- PPL Electric's general marketing (excludes marketing by turnkey program CSPs) was assumed to be a direct program cost in the EE&C Plan but will now be treated as a common cost because it is not feasible to separately determine and allocate charges to each specific program.

- The net impact of changes in this category is a shift of $8.8 million from direct costs to common costs.

Administrative CSP

- The Administrative CSP was assumed to be a direct program cost in the EE&C Plan for Efficient Equipment, Energy Assessment & Weatherization, Renewable Energy, Residential New Construction, and Custom program. However, the Administrative CSP will now be a common cost because it is not feasible to specifically assign every call, task, etc., to a specific program.

- The net impact of changes in this category is a shift of $1.5 million from direct costs to common costs.

For the reasons set forth above, PPL Electric proposes to treat some EDC labor, material, and supplies as direct costs and some as common costs. PPL Electric also proposes to treat general marketing costs as a common cost. PPL Electric proposes to treat Administrative CSP costs as a common cost.

V. CONCLUSION

WHEREFORE, PPL Electric Utilities Corporation respectfully requests that the Pennsylvania Public Utility Commission approve the proposed modifications to the EE&C Plan, as set forth in this petition. PPL Electric additionally requests that the Commission enter its final order approving the proposed modifications to the EE&C Plan on or before December 2, 2010.

Respectfully submitted,

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