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File #: 140069

March 26, 2012

BY E-FILE

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 Energy Efficiency and Conservation Plan - Docket No. M-2009-2093216

Dear Secretary Chiavetta:

Enclosed please find the Reply Comments of PPL Electric Utilities Corporation for the above-referenced proceeding. Copies have been provided to the persons in the manner indicated on the certificate of service.

Respectfully Submitted,

Andrew S. Tubbs

AST/jl
Enclosures
cc: Certificate of Service

CERTIFICATE OF SERVICE

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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Date: March 26, 2012

Andrew S. Tubbs

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

REPLY COMMENTS OF
PPL ELECTRIC UTILITIES CORPORATION

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

PPL Electric Utilities Corporation ("PPL Electric" or the "Company"), by and through its attorneys, hereby submits these Reply Comments to the comments filed by the Pennsylvania Communities Organizing for Change d/b/a Action United, Inc. ("PCOC"), Pennsylvania Office of Consumer Advocate ("OCA"), PP&L Industrial Customer Alliance ("PPLICA"), Sustainable Energy Fund of Central Eastern Pennsylvania ("SEF") in the above captioned proceeding. In support thereof, PPL Electric states as follows:

I. BACKGROUND

On February 2, 2012, PPL Electric, filed in Docket No. M-2009-2093216, the "Petition of PPL Electric Utilities Corporation for Approval of Changes to Its Act 129 Energy Efficiency and Conservation Plan" ("Petition") requesting Commission approval for both minor and non-minor changes to its EE&C Plan.[1] While the Commission established a bifurcated process for approving minor and non-minor proposed changes to the EE&C Plans, PPL Electric filed a single petition which included both minor and non-minor changes, and, therefore, the Company

[1] The full procedural background of Docket No. M-2009-2093216 is contained in the Petition as in incorporated by reference into these Reply Comments. *See* Petition at Section II.

did not requested expedited review of the minor changes. *See* the June 10, 2011 Final Order at Docket No. M-2008-2069887 ("*Expedited Process Order*"); Petition at 5. Pursuant to the schedule stated in the *Expedited Process Order* parties had 30 days, from the date the Petition was filed, to file comments on the proposed modifications and all parties have 20 days to file replies. In accordance this procedural schedule PPL Electric filed these Reply Comments in response to the comments filed on March 5, 2012.

By its Petition, PPL Electric requested Commission approval for both minor and non-minor changes to its EE&C Plan. First, the Company proposed 56 minor changes to its Commission-approved EE&C Plan. The minor changes fall into at least one of three categories identified by the Commission in its *Expedited Process Order*: (1) the elimination of a measure; (2) a transfer of funds within the same customer class; or (3) the addition of a measure or a change in the conditions of a measure. Second, PPL Electric requested Commission approval for six (6) "non-minor" modifications to its EE&C Plan. As noted in the Petition, PPL Electric discussed a majority of these proposed changes to the EE&C Plan at the stakeholder meeting on October 18, 2011. Petition at 7.

II. **<u>REPLY OF PPL ELECTRIC</u>**

On March 7, 2012, PCOC, OCA, PPLICA, and SEF filed comments in response the Petition. As discussed in detail below, the vast majority of PPL Electric's proposed modifications to its EE&C Plan were unopposed by any party. Indeed, PCOC and OCA filed comments indicating that they do not object to the proposed modifications. However, PPLICA and SEF each raised objections to certain modifications contained in the Company's Petition. For the reasons detailed in these Reply Comments, PPL Electric requests that the Commission reject the comments of PPLICA and SEF, and approve the proposed modifications to the EE&C Plan without modification.

As explained by PPL Electric in its Petition, given the compressed time frame in which to achieve its Act 129 requirements time is of the essence and, therefore, the Company requested that the Commission resolve any potential issues on the basis of comments and replies to comments.[2] Specifically, to the extent no party opposed a proposed change or the comments failed to raise any legitimate issues of law or fact with regard to the proposed modifications, such changes should be approved by the Commission and not referred to an Administrative Law Judge for hearings and a recommended decision, consistent with the Commission's actions in a similar EDC EE&C Plan proceeding.[3] The vast majority of the proposed modifications are unopposed; others are opposed by PPLICA and SEF, but no legal or factual dispute exists; therefore, the Commission should approve all such changes.[4]

As discussed in detail below, PPLICA and SEF commented on a limited number of the proposed changes. However, PPLICA and SEF have failed to raise any legitimate issues of law or fact with regard to the proposed modifications, and therefore, the Commission should reject the Comments of PPLICA and SEF, approve the Company's proposed modifications not refer any of the modifications to an Administrative Law Judge for hearings and a recommended decision.[5]

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2 *See Petition of West Penn Power Company for Amendment of the Orders Approving Energy Efficiency and Conservation Plans and Petition for Approval of its Amended Energy Efficiency and Conservation Plans*, Docket No. M-2009-2093218 (Interim Order and Opinion Entered October 28, 2011) (The Commission stated that any delay in ruling on the proposed EE&C Plan changes would further limit the time the company had to implement the revisions. The Commission approved some elements of petition and referred the remaining elements to the Office of Administrative Law Judge for the issuance of a Recommended Decision on an expedited basis).

3 *Id.*

4 The unopposed changes include: Minor Change Nos. 2, 7, 8-13, 17, 20-34, and 37-54, 56; Non-Minor Change Nos. 1 and 6.

5 In the event that the Commission does refer any of the proposed EE&C Plan changes to the Office of Administrative Law Judge for hearings, the Company requests that all of the proposed changes not transferred to the Office of Administrative Law Judge be approved by the Commission.

A. PCOC

The comments of PCOC address a single modification proposed by PPL Electric. Specifically, PCOC comments on Minor Change No. 24, the addition of heat pump water heaters as an eligible measure for low-income Winter Relief Assistance Program ("WRAP") and the adjustment of WRAP's projected savings and participation level. Petition at 24. As explained in the Petition, as part of Minor Change No. 24, PPL Electric proposes to reduce the projected participant levels from approximately 23,590 to 14,590. *Id.* The updated projection is based on Program Year 1 and Program Year 2 actual participation levels. PCOC states that while it generally disfavors reducing the number of households served by Act 129 funded weatherization services, it accepts the Company's explanation for the reduction of households.

B. OCA

In its comments, the OCA states that it does not object to PPL Electric's proposed modifications to its EE&C Plan for residential customers. OCA Comments at 3. As explained in its comments, OCA has concluded that the end result of the proposed changes on the Residential sector, a projected $2.8 million cost increase and the additional energy savings for residential customers, is not unreasonable at this time. OCA Comments at 2.

C. PPLICA

The comments of PPLICA specifically address Minor Change Nos. 15, 18 and 36, and Non-Minor Change Nos. 3 and 4. In addition, PPLICA in the summary of its comments, suggests that PPL Electric's direct program costs are too high because the costs exceed the PJM average wholesale cost of power. PPLICA Comments at 5. PPLICA's assertion is inaccurate and the suggested comparison is incorrect, *i.e.,* PPLICA is comparing apples and oranges. As discussed in the Petition, in relation to the impact of the proposed changes, the direct cost per kWh/yr savings stayed the same for the portfolio (approximately $0.16 per kWh/yr); however most customer sectors improved. Petition at 9. The Company's $0.16/per kWh/yr figure is the total direct program costs divided by one year's savings. This figure does not represent the savings customers will receive over the life of the installed measure. That is, these annual savings will recur for the life of an energy efficiency measure. Therefore, although Act 129 program costs are a one-time cost, customers will realize energy savings every year the energy efficiency measure exists (typically 10 to 15 years for typical non-residential measures). For this reason, the direct cost per one year's energy savings (kWh/yr) is not an appropriate comparison to the wholesale cost of power. The appropriate comparison is the total levelized cost for the EE&C Plan, which is the Act 129 program costs ($245,000,000) divided by lifetime Act 129 savings (11,662,422 MWh),[6] which equals $21/MWh. This cost is much less than the PJM wholesale price of $61.65/MWh referred to by PPLICA. *See* PPLICA Comments at 5. If a customer does not install the efficient measure, the customer will continue to pay energy costs for the "foregone efficiency MWh," *i.e.*, the $61.65/MWh wholesale price mentioned in PPLICA's Comment, plus any retail mark-up and escalation, each year for the life of a facility.

Again, this issue was raised by PPLICA in the summary of its comments. Therefore, PPL Electric does not view this to be an objection to its Petition. However, PPL Electric wanted to clarify this issue for the Commission and the parities to this proceeding.

1. Minor Change No. 15 - Transfer Funds from the Large C&I Portion of the Efficient Equipment Incentive Program to the Large C&I Portion of the C&I Custom Incentive Program

In its Petition, PPL Electric proposes to reallocate approximately $10 million of Large C&I direct program costs from the Efficient Equipment Incentive Program to the Custom Incentive Program. Petition at 19. Although PPLICA does not oppose this change, it urges the

6 Black-line EE&C Plan at Table 112.

Commission to modify the rebate structure of the Custom Incentive Program.[7] PPLICA Comment at 6. PPLICA also states that the Company failed to disclose that Minor Change No. 15 eliminates substantially all budgeted funding for years 3 and 4 of the Efficient Equipment Incentive Program. PPLICA Comments at 6. In addition, PPLICA suggests that the Commission should consider two issues in its current proceeding at Docket No. M-2012-2289411 relative to phase two for EE&C Plans in Pennsylvania. Specifically, PPLICA request that the Commission consider whether: (1) the public interest supports continuing energy efficiency programs aimed at Large C&I Customers; and (2) it is appropriate for all members of a customer class to subsidize energy efficiency projects for the limited number of members of that customer class that received a direct benefit. PPLICA Comment at 6 and 7.

First, PPLICA is incorrect that the Company failed to disclose that Minor Change No. 15 eliminates substantially all budgeted funding for years 3 and 4 of the Efficient Equipment Incentive Program. The Company's Petition fully explains the aggregate effect (sum of all program years) of the funding changes, and requests approval of all said changes. *See, e.g.*, Petition at 8-10, and 19; Tables 5a-1, 5a-2 and 5a-3 (Appendix B). Specifically, the yearly details of the revised funding for the Efficient Equipment Incentive Program are shown, as PPLICA notes, in the Black-lined EE&C Plan. Table 79 clearly shows the elimination of funding in Program Year 4, as PPLICA cites. Table 79 also shows little change in funding for Program Year 3 (it was $35.7 million and is now proposed to be to be $32.9 million). *See* Black-line EE&C Plan Table 79. Large C&I Customers have shown a great interest in Act 129 EE&C programs and the Large C&I funding is nearly fully subscribed (based on actual plus committed projects) for the Efficient Equipment Incentive and Custom Programs, and the Company has

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[7] PPL Electric addresses PPLICA's request to modify the rebate structure in its response to PPLICA's concerns related to Minor Change No. 36.

implemented a wait list for the Large C&I portion of those programs. As a result, the Company expects to close those programs to the Large C&I sector by the end of Program Year 3 as shown in the black-lined EE&C Plan, *i.e.*, no costs in Program Year 4).[8]

Second, PPLICA's request that the Commission consider whether there should be energy efficiency programs for Large C&I customers and whether subsidization occurred within that customer class in its EE&C Plan reauthorization investigation. These two concerns are not comments on PPL Electric's Petition but instead go toward future EE&C Plans. Therefore, PPL Electric recommends that as these matters are beyond the scope of this proceeding, and, therefore, should be rejected. Indeed, by Secretarial Letter dated March 1, 2012 at Docket No. M-2012-2289411, ("March 1 Secretarial Letter"), the Commission has established a formal proceeding to investigate issues relating to implementing any future phase of EE&C Programs and has requested that interested parties submit comments to the Commission by April 17, 2012. PPL Electric asserts that PPLICA comments are not proper for consideration in this proceeding. Instead, PPLICA should be directed to raise these issues in the context of the Commission's proceeding at Docket No. M-2012-2289411.

However, it is unclear to PPL Electric how EE&C Plans could not include the Large C&I sector energy efficiency programs. Act 129 provides that Commission adopted EE&C Programs shall include "standards to ensure that each plan includes a variety of energy efficiency and conservation measures and will provide the measures equitably to <u>all classes of customers</u>." 66 Pa. C.S. § 2806.1(a)(5)(emphasis added). Furthermore, each EDC is required to demonstrate that its plan "provides a diverse cross section of alternatives for customers of <u>all rate classes</u>." 66

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[8] *See* Black-line EE&C Plan Table 79. The Large C&I portion of the Custom Program is expected to close, *i.e.*, stop accepting applications, in Program Year 3, however, some costs are shown in Program Year 4 because the projects are expected to go in-service in Program Year 4 and the rebates are expected to be paid in Program Year 4.

Pa. C.S. § 2806.1(b)(1)(i)(i) (emphasis added). Therefore, since Act 129 requires measures applicable to all classes of customers and all rate classes, it is unclear how the Company or the Commission could not include energy efficiency programs for the Large C&I sector based on the aforementioned statutory requirements. Therefore, PPLICA's comments with regard to Minor Change No. 15 should be rejected.

2. Minor Change No. 18 - Reduce the Projected Cost of the Large C&I Load Curtailment Program

The Company, with Minor Change No. 18, proposes to decrease the projected cost of the Large C&I Load Curtailment Program from approximately $15 million to approximately $11 million. Petition at 22. That cost reduction includes removing an allowance of approximately $2 million for calling additional hours of load curtailment.

In its comments PPLICA states that it is concerned about the elimination of additional hours of load curtailment. In addition, PPLICA states that PPL Electric's Black-lined EE&C Plan reflects an increase in the Large C&I projected peak load reduction. However, PPLICA states that it could not determine whether the increase is an updated calculation based upon the program efficiencies referenced in Minor Change No. 18 or represented a modified program goal. Based upon this, PPLICA requests additional information regarding the relationship between the proposed change and the increased peak load reduction projection for the Large C&I class. PPLICA Comments at 8. In addition, PPLICA further requests that the Commission investigate what it perceives as an inconsistency between the Company's Petition that notes a 61 MW decline in the system wide projected peak load reduction versus the Black-line EE&C Plan report of a 13 MW decline. PPLICA Comments at 9.

First, PPL Electric offers the following clarification in response to PPLICA's request for additional information relative to the projected peak load reductions from the Load Curtailment

Program, and why they appear to increase as compared to the current EE&C Plan. PPLICA Comments at 8. The projected peak load reductions from Load Curtailment, as well as the Direct Load Control Program and energy efficiency measures, shown in the Black-line EE&C Plan have been grossed-up to reflect transmission and distribution losses because compliance is at the generation/system level. That gross-up was not included in the data provided in the currently approved EE&C Plan. In addition, the distribution of peak load reductions between Large C&I and Institutional (government, education, and non-profit) customers changed slightly in the Load Curtailment Program. The table below clarifies the changes associated with the gross-up and the distribution between sectors for the Load Curtailment Program. Specifically, this table shows that the total projected peak load reductions for the Load Curtailment Program have not changed (on a grossed-up basis):

Sector	Projected Peak Reductions (MW) in Current EE&C Plan	Projected Peak Reductions (MW) in Revised EE&C Plan
Large C&I	125 without gross-up 132 with gross-up	140 with gross-up
Institutional	23 without gross-up 24 with gross-up	16 with gross-up
TOTAL	**148 without gross-up** **156 with gross-up**	**156 with gross-up**

Second, as noted above, PPLICA requests clarification about the Company's elimination of the allowance for additional load curtailment hours. PPLICA Comments at 8. The Company's current EE&C Plan includes approximately $2 million for that allowance of additional hours. This allowance was originally intended to replace previously called events that likely will not be in the top 100 hours due to higher loads being experienced later in the summer.

The Company's Petition proposes to delete that allowance to control costs and notes that those additional hours remain a cost exposure. Petition at 22. In its Petition, the Company did not attempt to quantify the likelihood of incurring this cost exposure (the need to call additional hours) because it is nearly impossible to predict that likelihood. The likelihood of incurring this cost exposure depends on several factors including weather conditions during the summer (normal, hotter than normal, or cooler than normal) and whether the actual peak load reductions from energy efficiency, Direct Load Control Program, and Load Curtailment Program are trending greater or less than estimated. *Id.* However, based on current projections of peak load reductions and the terms of the Company's Load Curtailment contract, the Company would classify that exposure as relatively minor at this time. Therefore, the Company believes it is appropriate to delete this $2 million "contingency" funding. As currently structured in Act 129, the actual top 100 hours are not known until after the fact. However, as the summer progresses, the Company will have a better idea if hours actually called are likely to be in the top 100 or need to be replaced by calling additional hours. If these additional hours become likely, the Company will quantify the cost exposure and notify the Commission and PPLICA as soon as possible.

PPLICA also requests that the "Commission investigate an apparent conflict between the Petition, which reports a 61 MW decline in the system-wide projected peak load reduction, and the Black-lined EE&C Plan, which reports a decline in system-wide peak load reduction of only 13 MW, from 334 MW to 321 MW. PPLICA Comments at 9. Regarding the discrepancy, page 8 of the Current EE&C Plan contained an error. It states that "[t]hese programs are the key components of an extensive electric energy-efficiency initiative designed to achieve in excess of … 334 MW of peak demand savings." However, it should have read 384 MW (not 334 MW).

The text of the EE&C Plan should have been revised when the Commission approved the increase in peak load reductions by 50 MW, in the prior phase of this proceeding. While the proper adjustment was implement in other parts of the EE&C Plan it was not reflected on page 8. The Company's current EE&C Plan does list 384 MW (not grossed-up to reflect T&D losses),[9] not 334 MW, in Table 5a. To be clear the Petition and Black-line EE&C Plan project 321 MW of peak load reduction. The difference is 384 – 321 = 63 MW. The Company's Petition discusses a decline of 62 MW and a decline of approximately 61 MW.[10] Therefore, there is no need for the Commission to investigate the apparent conflict noted by PPLICA because it was due solely to an oversight on the part of the Company when it previously revised the EE&C Plan.

3. Minor Change No. 36 - Change Rebate for C&I Custom Incentive Program Technical Studies and Add Expiration Dates to Ensure Customers Can Implement the Project by May 2013

In its Petition, PPL Electric proposes to change the rebate and eligibility requirements for C&I Custom Incentive Program technical studies. PPLICA asserts that the revised rebate structure continues to exclude recovery of a participant's (a customer participating in an energy efficiency project) internal costs and this exclusion creates a discriminatory rebate policy. PPLICA Comment at 9-10.

In short, PPLICA requests that customer's be able to recover internal staff costs through the Custom Incentive Program's rebate for technical studies. *See* PPLICA Comment at 9-10. PPLICA's assertion is without merit. The rebate for technical studies is intended to reimburse customers for a portion of the incremental cost of a technical study. When a technical study is performed by a customer's internal staff, those costs are not incremental, as they would be if the

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9 PPL Electric Utilities EE&C Plan, issued February 28, 2011 and approved by the Commission May 5, 2011, Table 5a on page 27.

10 *See* Petition at Table 5a-3 and 9. The MW discrepancy between the various representations (63 MW, 62 MW and 61 MW) is due to rounding differences.

company used an external organization to perform the study. The internal costs are "sunk costs," *i.e.*, costs that have already been incurred, that are borne by the customer regardless of whether they conduct the technical study or perform work unrelated to an Act 129 project. Therefore, the Company believes an incentive to reimburse a customer for its internal staff support on a project is inappropriate. This is similar in concept to the fact that it would be inappropriate to provide an incentive for any and all types of measures if the measure (efficient equipment) had no incremental cost. For the reasons stated above, PPLICA's comments with regard to Minor Change No. 36 should be rejected.

4. Non-Minor Change No. 3 - The Addition of a CSP for the C&I and Institutional Portions of Efficient Equipment Incentive and Custom Incentive Programs

PPL Electric proposes to add a CSP for the C&I portions of the Efficient Equipment Incentive and Custom Incentive Programs, instead of self-managing these programs. Petition at 35. A C&I CSP will be able to initiate more direct contact with Small C&I customers, Institutional customers, and trade allies about the EE&C programs and this CSP can also support Large C&I customers, particularly to help them prepare their rebate applications and supporting documentation.

PPLICA states that the program goals are designed to address lackluster participation from the Small C&I and Institutional classes and therefore, PPLICA recommends that the cost be allocated to the Small C&I and Institutional classes. PPLICA Comments at 11. PPLICA recommends the Commission investigate the effects of this proposed change and deny any portion of the Large C&I Efficient Equipment Incentive or Custom Incentive Program costs associated with the addition of the CSP. PPLICA Comments at 12.

The Company confirms that all C&I CSP costs are charged directly to a specific program and a specific customer sector based the actual work performed. For example, when the C&I

CSP supports a Large C&I customer, the CSP's costs are allocated to "Large C&I." When the C&I CSP supports a Small C&I customer, the CSP's costs are allocated to "Small C&I." Therefore, there is no cross-subsidization of the C&I CSP's costs to the Large C&I sector whenever the CSP is supporting Small C&I customers. Therefore, PPLICA's comments with regard to Non-Minor Change No. 3 should be rejected.

5. Non-Minor Change No. 4 - Adjustments to the Estimated Common Costs

In its Non-Minor Change No. 4, PPL Electric proposes to adjust estimated common costs to reflect current projections. Common costs are applicable to more than one customer class or apply system-wide. Petition at 35-37. Common costs are allocated to customer sectors based on an allocation factor equal to the percentage of the EE&C costs directly assigned to each customer class to the total of EE&C costs directly assigned to all customer sectors. *Id.*

PPLICA assets that the common costs for the Large C&I class increase significantly as a result of the Company's proposed changes. PPLICA Comment at 12-13. PPLICA recommends that the Commission investigate the cost increases for prudence and modify the allocation of common costs in proportion to any adjustments in direct costs. *Id.* at 13.

The Company believes it has clearly explained and detailed the reasons for the common cost projection increase. Petition at 35-37. As fully discussed in the Petition the revised projections include the following:

1. Increase the projected total common cost approximately 13% from approximately $38 million[11] to approximately $43 million.

[11] This amount includes approximately $4 million for PPL Electric's share of SWE costs which is not a cost component of the PPL Electric EE&C Plan and is not be subject to the two percent cap on the cost of its EE&C Plan. *October 2009 Order*, p. 41. These were not specifically shown in the common cost tables in the current EE&C Plan but are included in the Act 129 tariff rates. PPL Electric has included all costs in the black-line tables in the updated EE&C Plan.

- The projected cost for Evaluation, Measurement, and Verification ("EM&V") increased from approximately $8.5 million to approximately $9.5 million because the current EE&C Plan underestimated the complexity of EM&V, including the impact and frequency of Technical Reference Manual (TRM") changes, the Audit Plan, formal quarterly and yearly reporting requirements, and other EM&V.
- The projected cost for EE&C Plan development and revisions increased from approximately $1.5 million to approximately $3.3 million because the current EE&C Plan underestimated the frequency, formality, and complexity of formal EE&C Plan revisions.
- The projected cost for PPL Electric's tracking system (Energy Efficiency Management Information System - "EEMIS") increased from approximately $4.8 million to approximately $6 million because the Company underestimated the complexity of this system including the impact and the frequency of TRM changes, the Audit Plan, formal reporting, and implementing and changing the Company's programs.
- The projected costs for items not subject to the Act 129 cost cap increased from approximately $4 million to approximately $5 million. Notably, the projected cost of the Statewide Evaluator's ("SWE") contract increased to add the baseline study, the market potential study, and the demand response study. The Commission also directed PPL Electric to conduct NTG studies each program year and to account for those costs not subject to the Act 129 cost cap.

2. Change the projected percentage of common costs allocated to each customer sector. The percentage of total direct costs for each sector changed because of various direct cost reductions and cost changes as a result of the proposed minor changes non-minor changes.[12]

3. Change the projected yearly distribution of common costs. This includes a true-up to Program Years 1 and 2 actuals instead of the per year estimates because the actual spending rate differed from the assumptions in the current EE&C Plan.

[12] Residential increased from approximately 25.5% to approximately 27.1%; Low-income decreased from approximately 14.8% to approximately 14.5%; Small C&I is unchanged at approximately 35.3%; Large C&I increased from approximately 13.8% to approximately 14.5%; and Institutional decreased from approximately 10.8% to approximately 8.6%.

The Company further points out that the common costs levels in the current plan were originally estimated in July 2009 and were included in the original approved EE&C Plan, well before the Company implemented any of its EE&C Plan programs. The adjustments to the estimated common costs discussed in the Petition reflect a more accurate projection developed based on actual program operation during the first three program years. If the Company knew in July 2009 what it knows now, the original EE&C Plan would have included common cost estimates much closer to those in this Petition. For the reasons stated above, and further supported by the Petition, PPLICA's comments with regard to Non-Minor Change No. 4 should be rejected.

D. SEF

The comments of SEF address Minor Change Nos. 1, 3, 4, 5, 6, 14, 16, 19, 35, and 55, and Non-Minor Change Nos. 2 and 5. In its comments SEF also asserts that the Company should implement an on-bill financing program for the Small C&I sector. SEF Comments at 15-16.

1. Minor Change Nos. 1, 3, and 6 - Discontinue Rebates for Dehumidifiers, Office Equipment, Dishwashers and Clothes Washers.

PPL Electric proposed three minor modifications to discontinue the rebates for dehumidifiers, office equipment, and dishwashers and clothes washers in the Efficient Equipment Incentive Program because these measures have exceeded the estimated participation levels in the EE&C Plan. *See* Minor Changes No. 1, 3, and 6. In addition, these measures had relatively low savings and, if the Company continues these measures, the number of measures will continue to increase and that would require a reduction in another measure to prevent exceeding the budget target for the program, sector, or EE&C Plan.

In its comments, SEF maintains that these rebate programs appear to be successful and have positive cost-benefit ratios. SEF Comments at 5-7. With regard to dehumidifiers, dishwashers and clothes washers, SEF states that it is also counter-intuitive to discontinue the rebate in view of PPL Electric's request for increased funding for the residential sector Direct Load Control Program. SEF Comments at 6-7. Further, SEF challenges the Company's estimate that a site visit to verify installation of an appliance would exceed $100 each.

SEF's attempt to connect the discontinuance of certain rebates with the Direct Load Control Program is not appropriate. Dehumidifiers, office equipment, dishwashers, and clothes washers are energy efficiency measures adopted to help the Company meet its energy reduction compliance target. In contrast, the Direct Load Control Program is a demand response measure that was adopted to help the Company meet its peak load reduction compliance target. If the Company was to, as suggested by SEF, decrease funding for the Direct Load Control Program or eliminate it, the Company would not achieve its peak load reduction compliance target. Additionally, providing further rebates for additional dehumidifiers, dishwashers, clothes washers or other energy efficiency measures, as recommended by SEF, will not replace peak load reductions that would be lost by the Direct Load Control Program.

For example, the Direct Load Control Program is expected to reduce peak load by 36 MW. A dehumidifier reduces peak load by 0.0098 kW, a dishwasher reduces peak load by 0.0225 kW, and a clothes washer reduces peak load by 0.0147 kW.[13] If the Company would continue rebates for these measures and double the number of projected measures, that would reduce peak load by only 1.3 MW.[14] That reduction would be much less than the 36 MW

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[13] 2011 TRM, Table 2-41.

[14] Based on an additional 44,000 clothes washers; 25,000 dishwashers; and 5,354 dehumidifiers.

provided by Direct Load Control Program and would cause the Company to miss its peak load reduction target.

The Company has openly acknowledged that the Direct Load Control Program is not cost-effective. However, that program is necessary for the Company to achieve its peak load compliance target and to ensure all customers, especially residential customers who are not eligible for the Load Curtailment Program, are offered at least one demand response program as required by Act 129. The Company also notes that the Direct Load Control Program is not cost-effective largely because its measure life is one-year and all of the up-front costs, such as the cost to furnish and install the control devices on a heat pump or central air conditioner, are amortized over the one year. In addition, the Company notes that Act 129 does not require every measure or every program to be cost-effective, Act 129 requires the entire portfolio to be cost-effective.

Regarding the Company's estimate that a site visit to verify a customer has electrically heated water[15] would exceed $100 each, this estimate is based on a 1 hour site visit (including travel time) and the lowest hourly wage rate for the Company's independent evaluator.

Furthermore, if the Company continues these measures, the number of measures will continue to increase and that would require a reduction in another measure to prevent exceeding the budget target for the program, sector, or EE&C Plan. SEF has failed to demonstrate a feasible energy efficiency measure (not the Direct Load Control Program which is a peak load reduction measure) that can be reduced or eliminated to offset this cost increase.

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15 As stated in Minor Change No. 6 on page 17 of PPL Electric's Petition, the Company would need to verify the type of water heater for a sample of customers requesting a rebate for a dishwasher or clothes washer. This verification is prudent because dishwashers and clothes washer that use non-electrically heated water have zero electricity savings. It would not be prudent for PPL Electric to pay a rebate if there are no savings and relying on customer's self-reported information (on the rebate form) about the type of water heater is not reliable.

This same reasoning discussed above applies to the elimination of the rebate program for office equipment. Therefore, SEF's comments regarding Minor Change Nos. 1, 3, and 6 should be rejected.

2. Minor Change No. 4 - Close Residential Portion of Renewable Energy Program Earlier than Expected.

PPL Electric proposed to close the residential photovoltaic ("PV") and residential ground source heat pump ("GSHP") portions of the Renewable Energy Program earlier than expected because the programs are fully subscribed. The SEF argues that the program has been successful and that additional funds should be allocated to the solar PV portion of the program. SEF proposed that the additional funding should be reallocated from the Time of Use funds and made available to the PV program rather than the Direct Load Control Program. SEF Comments at 8. Additionally, SEF believes a detailed examination of the Company's cost-effectiveness evaluation is warranted for the Renewable Energy Program and suggests the cost-effectiveness evaluation should examine solar PV measures separately from GSHP. SEF Comments at 8-9. Furthermore, SEF requests a hearing on the cost effectiveness of the measure without the GSHP.

The Company disagrees with SEF's recommendation to determine the cost-effectiveness of PV separately from GSHP because the Total Resource Cost ("TRC") does not require benefit-cost analysis at the measure level. The Company notes that its complete TRC analysis, including the underlying data, for the Renewable Energy Program and the EE&C Plan were provided to the Commission and SWE with the Program Year 2 Annual Report. As far as the Company is aware, the Commission and SWE have not found any discrepancies or errors. The Company notes, however, that its independent evaluator did estimate the cost-effectiveness of residential PV and GSHP separately and determined that neither measure is cost-effective and PV is less cost-effective than GSHP. The GSHP benefit-cost ratio is 0.82 and PV is 0.21.

PPL Electric strongly disagrees with SEF's conclusion and recommendation that the Renewable Energy Program has been successful and should be expanded beyond its current budget. The Renewable Energy Program's cost-effectiveness was much worse than expected. The benefit-cost ratio for this program was projected to be 1.1 in the Company's current EE&C Plan. However, the actual results from the Program Year 2 Total Resource Cost Test were 0.33.[16] In addition, the Renewable Energy Program had a significantly adverse impact on the entire portfolio's cost-effectiveness because of extremely high participant costs. Even though Renewable Energy Program is a very small program in terms of savings and program costs, it had unexpectedly high total TRC costs because the actual total participant cost for renewable projects was approximately 10 times greater than assumed in the EE&C Plan.[17]

The total actual Program Year 2 TRC costs for the Renewable Energy Program, which were driven primarily by participant costs, were so high that they constituted more than 25% of Program Year 2 TRC costs for all programs in the portfolio,[18] whereas the EE&C Plan projected these to be 4% of the total cost. This factor, alone, reduced the Program Year 2 TRC of the Company's entire portfolio from 2.2 to 1.7, even though the program's expenditures and savings were on budget for this program. Finally, the Company also notes that this program has relatively high free-ridership, with a net-to-gross ratio of 37%. This suggests that customers would have installed the measure in the absence of the Company's rebate.[19]

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16 PPL Electric Program Year 2 Annual Report, Table 1.14.

17 PPL Electric Program Year 2 Annual Report, Table 3.46 shows the actual participant costs. PPL Electric's EE&C Plan Tables 43 and 118 show the projected participant costs.

18 PPL Electric Program Year 2 Annual Report, Tables 3.46 and 1.12.

19 PPL Electric Program Year 2 Annual Report, Table B-4.

The existing approved funding for this program is fully subscribed and the Company strongly believes this program should not be expanded because the program is not cost-effective, it significantly and disproportionately reduces the cost-effectiveness of the entire EE&C portfolio, the program does not contribute significant energy or peak load reductions, and the program has high free-ridership. For the reason noted above, SEF's proposal regarding Minor Change No. 4, should be rejected. Moreover, a hearing is not warranted as the Company has provided substantial support for this proposed revision to its EE&C Plan.

3. Minor Change No. 5 - Close Government, Non-Profit, Institutional Portion of Renewable Energy Program Earlier than Expected.

PPL Electric proposed to close the Institutional portion of the Renewable Energy Program earlier than expected as the program is fully subscribed and reached its budget limit, and because it had low cost-effectiveness. SEF opposes the closure of the Institutional portion of the Renewable Energy Program, and instead proposes to expand it beyond its currently approved funding and savings levels. SEF Comments at 9. SEF also questions whether the Institutional portion of this program is fully subscribed as the Company stated in its Petition. *Id.*

PPL Electric confirms that the funding for this entire program, including the residential and Institutional sectors is fully subscribed. Committed costs as of February 28, 2012 are $5,640,000, which reflects $4,913,000 in actual costs and $727,000 in rebates that are still being processed. This is slightly over the $5,582,000 in funding requested in the Black-line EE&C Plan (Table 5a). As described above for the residential portion of the Renewable Energy Program, the Company strongly believes this program, including the Institutional portion, should not be expanded because the program is not cost-effective, it significantly and disproportionately reduces the cost-effectiveness of the entire EE&C portfolio, the program does not contribute significant energy or peak load reductions, and the program has high free-ridership.

4. Minor Change No. 14 - Consolidate Cost Categories in EE&C Plan.

PPL Electric proposed to consolidate the CSP cost estimate breakdown in the EE&C Plan from two (2) items (CSP Labor; CSP Material/Supplies) to one (1) item (CSP Costs) because PPL Electric manages each CSP budget at the aggregate level, not at the labor and material component level. Petition at 19. SEF objects to this modification, because while PPL Electric may manage each CSP budget at the aggregate level, the differentiation between CSP Labor and CSP Materials/Supplies provides valuable information to stakeholders in evaluating PPL Electric's EE&C Plan. SEF Comments at 10.

The Company believes that reporting a CSP's expenses by different, detailed cost categories such as the CSP's Labor versus the CSP's Materials/Supplies would require PPL Electric to micromanage its contractors, and would have limited benefit to the Company or stakeholders. For example, if the Company initially estimated a total CSP costs of $1,000,000 comprising of $700,000 of Labor, *i.e.*, CSP employee wages, and $300,000 of CSP Materials/Supplies, then the projections are revised to reflect an increase in the projected CSP Labor costs ($800,000), and a decrease in projected CSP Materials/Supplies costs ($200,000) there would be no change in the total projected CSP costs ($1,000,000). No benefit is achieved by micromanaging and tracking the labor and supply shifts when the total cost remains the same.

The Company believes the most relevant cost details, as currently required by the Commission (by program and for the portfolio) are total costs, incentives, non-incentives (design & development, administration, management, marketing, technical assistance, and evaluation), and participant costs. As stated in the Petition, as long as the total CSP cost is within budget, the mix of costs between CSP Labor and CSP Materials/Supplies does not warrant the additional expense for reporting and requesting Commission approval every time the mix of cost categories varies, even though the total cost is within budget. In addition, the SWE and the Commission do not require this level of cost breakdown. Therefore, SEF's comments regarding Minor Change No. 14 should be rejected.

5. Minor Change No. 16 - Transfer Funds from the Small C&I Portion of the C&I Custom Incentive Program to the Small C&I Portion of the Efficient Equipment Incentive Program.

PPL Electric proposed to reallocate approximately $13 million Small C&I program costs from the C&I Custom Incentive Program to the Efficient Equipment Incentive Program. SEF opposes the reallocation of the funds requested by PPL Electric, and recommends that those funds be transferred to the Institutional portion of the Renewable Energy Program. SEF Comments at 10-11. SEF's comments on Minor Change No. 16 should be rejected.

As noted above, the Company strongly believes the Renewable Energy Program, including the Institutional portion, should not be expanded. In addition, the Company points out that reallocating funds from Small C&I to Institutional sectors, as SEF suggests, will result in cost changes across customer sectors because "Institutional" customers receive service under various rated schedules, *e.g.*, Small C&I, Large C&I, and some residential rate schedules. Finally, reallocating funds from the Small C&I portion of the Efficient Equipment Incentive Program to the Institutional portion of the Renewable Energy Program would require additional funding, or would reduce savings, because the average program cost per annual kWh saved is $0.21 for the Small C&I portion of the Efficient Equipment Incentive Program[20] and is $0.37 for the Renewable Energy Program.[21] In addition, reallocating funds from the Small C&I portion of the Efficient Equipment Incentive Program to the Institutional portion of the Renewable Energy Program would reduce Small C&I savings and, as clearly explained in the Petition, the Company is having significant difficulty achieving the desired savings from the Small C&I sector.

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[20] Black-line EE&C Plan, Table 61.

[21] *Id.*, Table 100.

6. Minor Change No. 19 - Re-forecast HVAC Tune-up and Revise Incentives.

PPL Electric proposed to adjust savings and cost assumptions between program years for the HVAC Tune-Up Program to reflect actual experience and reduce the projected total savings and costs of this program. PPL Electric has stopped payments to the program CSP, but will allow HVAC contractors to provide measures to customers and to receive rebates, although very few are expected in Program Years 3 and 4. SEF opposes the proposed modification to the HVAC Tune-Up Program and recommends that the program be eliminated. SEF Comments at 11. SEF argues that the socialization of program costs competitively disadvantages those entities that have properly maintained their HVAC equipment, suggesting that the Company is not entitled to claim savings from this type of program or the Company should not implement programs that provide incentives for proper maintenance of equipment. *Id.* Additionally, SEF argues that the benefit-cost ratio has fallen significantly. *Id.*

As explained in the Petition, the Company acknowledges that this program has not been successful and will not realize material savings. Petition at 22. As a result, the Company has stopped payments to the program CSP, but will allow HVAC contractors to provide measures to customers and to receive rebates. Very few of these are expected in Program Years 3 and 4. The proposed changes have nearly the same effect as closing the program, but will allow some participants to take advantage of rebates within the remaining approved budget, albeit only a few are expected. Regarding the benefit-cost ratio, the ratio has been reduced because this project has incurred most of its costs but very little of its expected benefits.

The Company does not agree with SEF's comment that the socialization of program costs competitively disadvantages those entities that have properly maintained their HVAC equipment, suggesting that the Company is not entitled to claim savings from this type of program or the Company should not implement programs that provide incentives for proper maintenance of equipment. First, "maintenance" type measures are included in the Technical Reference Manual[22] and the HVAC Tune-up Program is part the Company's Commission approved EE&C Plan, therefore the savings can be claimed. Second, the SWE has approved a custom savings protocol for this program that describes how savings are determined and allows the Company to claim those savings. Third, regarding socialization, Act 129 requires all customers to pay the cost of Act 129 EE&C programs regardless of whether they participate in the programs because all customers will indirectly benefit through energy prices that will be lower over time than they would have been in the absence of an EE&C Plan. Therefore, the HVAC Tune-up Program does not include any improper socialization of program costs.

7. Minor Change No. 35 - Change Projected Participation for Heat Pump Water Heaters.

PPL Electric proposed to increase the projected number of rebates for heat pump water heaters from 230 to 3,200 in the Efficient Equipment Incentive Program because actual participation has exceeded expectations. This measure contributes significant per unit savings,[23] and the market is still developing and will benefit by increasing the number of rebates. SEF recommends that the increase in funding and participation for the Heat Pump Water Heating program should not be limited to electric heat pump water heaters, but should also include other fuels, including Solar Thermal and natural gas. SEF Comments at 12. SEF proposes that the fuel source and technologies should be left to the customer and not restricted to electricity. *Id.*

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22 *See* TRM Section 2.1 for residential HVAC system tune-up and maintenance.

23 1,884 kWh/yr.

The Company disagrees with SEF's recommendation. A heat pump water heater is a very cost-effective measure, with a benefit-cost ratio of between 2.16 – 2.35 whereas a solar thermal water heater is not cost-effective, with a benefit-cost ratio of 0.62.[24] Moreover, fuel switching from electric water heaters to gas water heaters has been previously raised in this proceeding and the Commission determined that fuel switching is at the discretion of the EDC and is not a mandatory energy efficiency measure. *See Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2009-2093216 (Order Entered October 26, 2009) at 105; The Act 129 Fuel Switching Working Group Staff Report, Dated April 30, 2010 at Docket No. M-00051865. While PPL Electric does not believe the fuel switching is an appropriate issue to address in this proceeding, the Company will consider this fuel switching measure in its post-2013 EE&C Plan.

8. Minor Change No. 55 - Add a Small C&I Direct Install Option to the Efficient Equipment Incentive Program.

PPL Electric proposed to add a direct install option for customers, called Direct Discount Services, which uses PPL Electric's network of authorized contractors to market, propose, and install lighting and refrigeration measures for Small C&I customers. SEF questioned the benefit-cost ratio and cost per kW and kWh of the Direct Install option. SEF Comments at 12. SEF proposes rejection of this modification unless PPL Electric can demonstrate its cost effectiveness. *Id.* SEF claims that these costs are increasing dramatically on an overall basis, and that the costs are not broken out. *Id.* Therefore, SEF cannot determine if this proposal is cost effective or not. *Id.*

As stated in the Petition, the proposed change has no impact on the cost-effectiveness of the Efficient Equipment Incentive Program. That conclusion is implicit because the key

[24] SWE's assumptions in the draft market potential study. These results are similar to those determined by the Company's independent evaluator.

elements of the cost-effectiveness calculation are the same regardless of whether the customer uses the Direct Install option or the standard option.[25] For example, the incremental cost of the measure, such as a lighting retrofit, is the same (it is the total cost of the customer's project) regardless of whether the customer uses the Direct Install option or the standard option. Also, the total benefits are the same because the energy savings is the difference between the energy use of the existing lighting and the energy use of the efficient lighting, as determined by the Commission's Lighting Spreadsheet,[26] regardless of whether the customer uses the Direct Install option or the standard option. The only slight possible difference is if administrative costs differ between the Direct Install option and the standard option; however, as stated in the Petition, the Company does not expect an impact on cost. Petition at 31. Therefore, SEF's comments on Minor Change No. 55 should be rejected.

9. Non-Minor Change No. 2 - Elimination of the New Home Program

PPL Electric proposed, in its Petition, to eliminate the New Home Program. Petition at 33. The Company explained that the new home market was not likely to rebound quickly enough to achieve material savings in Program Years 3 and 4, that the per-home savings are very low compared to the original estimates because new building codes, *e.g.*, IECC 2009 that became effective in 2010, will reduce new home savings that could be credited to Act 129 EE&C Plans. Furthermore, PPL Electric explained that the measures in the New Home Program are also available in the Efficient Equipment Incentive Program and can be utilized by new home builders or owners. Therefore, the measures in the eliminated New Home Program would still be available, even though the formal program has been removed from the EE&C Plan. The New Home Program budget of approximately $2.7 million will be reallocated to the residential

[25] Under the standard option the customer self-implements the project, pays the entire cost of the project up front, completes the paperwork, and receives the incentive directly.

[26] 2011 TRM, Appendix C.

portion of the Efficient Equipment Incentive Program. Therefore, there is no impact on the portfolio's total cost or the residential sector budget due to the elimination of the program. Moreover, portfolio savings may increase slightly because funding will now be used more effectively in the Efficient Equipment Incentive Program because the program has a greater savings per dollar ratio than the New Home Program and implementing these measures through the Efficient Equipment Incentive Program would avoid the additional administrative costs to establish and maintain the New Home Program.

SEF opposes the elimination of the New Home Program. SEF maintains that PPL Electric has not provided any evidence showing the participation to date in the program, nor has it demonstrated any TRC presumed benefit cost results due to new building codes. SEF argues that the Company needs to establish and nurture relationships with builders and contractors long in advance of any noticeable housing boom. SEF further notes that on April 15, 2011, Governor Corbett signed Act 1 of 2011 into law which, according to SEF, removed the existing automatic implementation of new building codes and PPL Electric cannot justify the elimination of the New Home Program based on building codes that may not be put into place.

The Company believes it has provided a sufficient rationale for eliminating this program,[27] including the fact that <u>all of the same measures are available in the Efficient Equipment Incentive Program and they can be utilized by builders or owners</u>. Moreover, there is no impact on the portfolio's total cost or the residential sector budget due to the elimination of the program.

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[27] *See* the U.S. Census Bureau and the Department of Housing and Urban Development Joint Release on New Residential Construction in October 2011, issued November 17, 2011, available at http://www.census.gov/const/newresconst.pdf (builders broke ground on a seasonally adjusted annual rate of 628,000 homes in October 2011, down 0.3% from September 2011).

Additionally, SEF's argument with regard to the TRC is without merit. Pennsylvania Power Company ("Penn Power"), Metropolitan Edison Company ("Met-Ed"), and Pennsylvania Electric Company ("Penelec") (collectively, the "FirstEnergy Companies") have new home construction programs in Pennsylvania and all were not cost-effective through Program Year 2.[28] The Company's existing EE&C Plan projected a 1.4 benefit-cost ratio for a New Home Program and that was likely an over-estimate given that savings are lower than projected and costs are unchanged. SEF is incorrect in its assertion that the Company is eliminating the New Home Program based on building codes that may not be put into effect in the future. PPL Electric's analysis regarding the elimination of the New Home Program considered the current building codes (that became effective in 2010) and did not rely on the implementation of future code revisions. Based on the arguments presented in the Petition and above, the Commission should reject SEF's proposal and permit the Company to eliminate the New Home Program and reallocate the funds to the residential portion of the Efficient Equipment Incentive Program where the measures will remain available.

10. Non-Minor Change No. 5 - Increase in the Projected Cost of the Direct Load Control Program

In the Petition, PPL Electric proposed to increase the projected cost of the Direct Load Control Program from approximately $11 million to approximately $12 million. Petition at 37. In addition, the Company also proposed to revise the EE&C Plan so that the Direct Load Control Program would operate between noon and 8:00 PM during the peak summer season (instead of noon to 7:00 PM in the current EE&C Plan), from June 1st to September 30th. Black-line EE&C Plan at 118.

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[28] FirstEnergy Companies Program Year 2 Annual Reports. Penn Power = 0.9, Met-Ed = 0.7, and Penelec = 0.4.

The SEF states that it has concerns with this proposal and opposes the increase in funding for the Direct Load Control Program. Specifically, SEF states that the control period discussed in the Black-line EE&C Plan is "incongruent with the on-peak period" that PPL Electric recently proposed in its Time of Use filing in Docket No. R-2011-2264771. SEF asserts that the Company's current position with regard to the Time of Use program is to have a year round "on-peak" period of 7:00 AM to 7:00 PM. SEF Comments at 13. SEF also asserts that PPL Electric's proposal regarding the demand reduction period and the cycling units is "problematic for residential customers in the summer and should not be approved absent further investigation." SEF Comments at 13.

In addition, SEF maintains that there is a question regarding whether the Direct Load Control Program even benefits ratepayers. According to SEF, the benefit to cost ratio for residential customers with the increased funding will fall. Therefore, SEF recommends that the increased funding be denied, and that the money be directed elsewhere. SEF Comments at 14.

The primary reason the "peak hour" timeframes are different between the Company's Direct Load Control Program (noon to 8:00 PM) and its Time of Use program (7:00 AM to 7:00 PM)[29] is related to the definition of "peak hours" for Act 129 EE&C. Act 129 EE&C requires demand reductions during the EDC's 100 hours of highest demand during the Summer of 2012 (June 1, 2012 – September 30, 2012). Therefore, the Company must operate its demand response programs, such as the Direct Load Control Program, during the hours that are expected to be the 100 hours of highest demand. Based on the Company's analysis of when these top 100 hours would have occurred over the prior 10 summers, almost all of the top 100 hours occurred in the noon to 8:00 PM window. Therefore, implementing demand reductions from the Direct

[29] Notably, the 7:00 AM to 7:00 PM on peak period for the Time of Use program is only applicable to Small C&I customers.

Load Control before noon or after 8:00 PM provide no benefit to the Company for Act 129 compliance and would increase the cost of the Direct Load Control Program. The "on peak periods" and "off peak periods" for the Time of Use program are not established as part of this EE&C Plan proceeding and are established for a different purpose.

SEF's concern that the demand reduction period and the unit cycling will be problematic for residential customers is unwarranted. The Company has a turnkey contract with a Direct Load Control CSP who is responsible to deliver firm peak load reductions at a fixed price. The CSP is responsible for determining the appropriate number of participants and the cycling rate to achieve the firm peak load reductions. The CSP has significant incentives to ensure the cycling rate is appropriate and will not cause participants to drop out of the program because of issues with the demand reduction period and the unit cycling , *i.e.*, high temperature in the house when an air conditioner unit is cycled, causing the CSP to miss its firm peak load reductions.

Furthermore, as previously discussed in response to SEF's Comments on Minor Change Nos. 1, 3, and 6, the Company does not agree that Direct Load Control Program funding, full or partial, should be redirected to other programs.

As explained in the Petition, the cost of this Direct Load Control Program in the current EE&C Plan is an estimate that was prepared before PPL Electric awarded the contract for this program's turnkey CSP. Petition at 37. The contract price for the Direct Load Control Program was based on competitive bids, but was greater than estimated in the current EE&C Plan by 9%. The Company believes this deviation is well within reasonable estimating accuracy, especially considering that the number of participants, number of hours, the peak load reduction per participant, and the method for determining the savings per participant, *i.e.*, the TRM savings protocol, were not known when the estimate was formulated. Notably, the Company submitted the CSP contract to the Commission for evaluation.

11. The Commission Should Reject SEF's On-Bill Financing Proposal

SEF opposes the proposed reduction in the projected participation and savings for the Small C&I sector and recommends that the Company and the Commission consider implementing an on-bill financing pilot program in lieu of the current proposal. SEF Comment at 16. SEF notes that it advocated for the inclusion of on-bill financing in its testimony filed in the original phase of this docket.[30]

SEF's proposal should be rejected. In the previous phase of this docket SEF's witness recommended that PPL Electric add an on-bill financing program, PPL Electric objected to the proposal and the Commission did not implement SEF's recommendation. PPL Electric objected to SEF's on-bill financing proposal for several reasons. As explained by PPL Electric witness, Mr. Cleff, SEF's recommendation appeared to assume that customers would not implement energy efficiency projects in the absence of additional PPL Electric financing. PPL Electric St. 1-R, p. 3. However, PPL Electric designed its EE&C Plan to achieve its projected customer participation levels (and its reduction targets) without the additional cost and complexity of a customer financing program. Also, as the SEF admitted in its testimony, there are entities other than EDCs who currently provide financing for customers, including low-interest financing for energy efficiency projects. SEF St. 1, p. 12. SEF itself indicates that it successfully provides this type of financing. *Id.*

PPL Electric witness, Mr. Cleff, further explained that financing should continue to be provided by those companies who have that core business, focus, infrastructure, and expertise and not EDCs. PPL Electric St. 1-R, pp. 3-4. Included in the list of potential financing

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30 Direct Testimony of Mr. Costlow, SEF Statement No. 1 at 12-14.

companies is SEF itself, numerous Energy Services Companies, Keystone HELP, and banks. Moreover, Mr. Cleff explained that the Commission should not require PPL Electric to "compete" with these entities. In addition, SEF's proposal would require that PPL Electric incur additional expenditures and infrastructure to implement and manage on-bill financing, especially given the complex credit, accounting, regulatory (utility and financial) issues involved. *Id.*

When the Commission approved PPL Electric's EE&C Plan in October of 2009, it did not accept SEF's proposal and stated that consistent with its Retail Markets Order, *PPL Electric Utilities Corporation Retail Markets*, Docket No. M-2009-2104271, Opinion and Order entered August 11, 2009, any issue with respect to on-bill financing associated shall be referred to the Retail Market Working Group for discussion and reporting. *Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2009-2093216 (Order Entered October 26, 2009) at 110. Therefore, the Commission determined that on-bill financing was an issue that had implications beyond this docket which were best addressed by a broader proceeding.

While the Retail Market Working Group has yet to address on-bill financing, the Commission recently raised the issue in the March 1 Secretarial Letter regarding phase two of the Act 129 Energy Efficiency and Conservation Programs. In the March 1 Secretarial Letter the Commission requested that interested parties comment on developing EDC on-bill financing programs to assist the Government, Educational and Non-Profit Sector, or requiring EDCs to partner with lending institutions to provide low-cost financing for Government, Educational and Non-Profit Sector projects. March 1 Secretarial Letter at 5. Notably, the written comment date for the March 1 Secretarial Letter is April 17, 2012.

Because on-bill financing raises a significant range of issues which may affect all of the EDCs it is more appropriate for the Commission to decide if on-bill financing is appropriate for Act 129 programs in Docket No. M-2012-2289411, which is currently pending. Therefore, it would be premature for the Commission to address on-bill financing in the course of reviewing PPL Electric's Petition.

III. CONCLUSION

As fully discussed above, PPL Electric Utilities Corporation requests that the Commission reject the comments filed by SEF and PPLICA. Furthermore, PPL Electric requests that the Pennsylvania Public Utility Commission approve the proposed modifications to the EE&C Plan, as set forth in the Company's Petition, without modifications.

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