Duquesne Light

411 Seventh Avenue
16th Floor
Pittsburgh, PA 15219

Tel 412-393-6505
Fax 412-393-5897
kkubiak@duqlight.com

Krysia M. Kubiak
Assistant General Counsel

April 17, 2012

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VIA OVERNIGHT MAIL

Rosemary A. Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building, 2nd Floor
400 North Street
Harrisburg, PA 17120

Re: **Act 129 Energy Efficiency and Conservation Program Phase Two**
Docket No. M-2012-2289411

Dear Secretary Chiavetta:

Enclosed for filing please find an original and three (3) copies of the comments of Duquesne Light Company in the above-referenced proceeding.

Sincerely yours,

Krysia Kubiak

Krysia Kubiak
Assistant General Counsel

Enclosures

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Act 129 Energy Efficiency and	:	
Conservation Program Phase Two	:	Docket No. M-2012-2289411

DUQUESNE LIGHT COMPANY
EE&C PLAN PHASE TWO COMMENTS

I. INTRODUCTION

On March 1, 2012, the Pennsylvania Public Utility Commission ("Commission") issued a Secretarial Letter pursuant to Act 129 of 2008 ("Act 129"), P.L. 1592, 66 Pa. C.S. §§ 2806.1 and 2806.2. By its Secretarial Letter, the Commission stated that Act 129 requires that the Commission evaluate the costs and benefits of the Energy Efficiency & Conservation ("EE&C") programs currently being operated by Pennsylvania's electric distribution companies ("EDCs") by November 31, 2013. In addition, the Commission stated that Act 129 directs that the Commission must set new incremental consumption and peak demand reductions, if the Commission determines that the EE&C program benefits exceed the costs ("Phase Two"). 66 Pa. C.S. §§ 2806.1(c) and (d). Therefore, by its Secretarial Letter, the Commission initiated its required evaluation.

In addition, the Commission's Secretarial Letter stated that advance planning and input from interested parties would serve to assist it in coordinating the transition to the possible second phase of EE&C programs. To that end, the Commission requested comments on a number of topics required to design and implement future EE&C programs including, (1) planning timeline; (2) determining the length of second EE&C Programs; (3) including demand response curtailment ("DR") programs; (4) aligning EDC targets and funding using dollars per MWh of expected reductions; (5) including a reduction target carve-out for the governmental, educational and non-profit sector; (6) including a low-income sector carve-out; (7) addressing various transition issues; and (8) addressing other Act 129 design issues. Duquesne Light Company ("Duquesne Light" or the "Company") offers the following Comments to the Commission's March 1, 2012 Secretarial Letter.

II. BACKGROUND

Duquesne Light is a public utility and an electric distribution company ("EDC") as defined in Sections 102 and 2803 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 102, 2803. Duquesne Light furnishes electric distribution and provider of last resort ("POLR") electric supply services to approximately 579,000 customers throughout its certificated service territory, which includes the City of Pittsburgh and the majority of Allegheny and Beaver Counties, Pennsylvania.

On June 30, 2009, Duquesne Light filed its Energy Efficiency and Conservation Plan ("EE&C Plan") with the Commission, pursuant to Act 129 and various related Commission orders. The Commission approved Duquesne Light's EE&C Plan, with modifications, on October 27, 2009, in *Petition of Duquesne Light Company for Approval of its Energy Efficiency and Conservation and Demand Response Plan*, Docket No. M-2009-2093217 (Order Entered October 27, 2009) ("*EE&C Order*").[1]

Duquesne Light's EE&C Plan includes a broad portfolio of energy efficiency, conservation practices and DR, as well as energy education initiatives. Duquesne Light's portfolio of programs is designed to provide customer benefits and to meet the energy saving and DR goals set forth in Act 129. The EE&C Plan includes a range of energy efficiency and DR programs that include every customer segment in Duquesne Light's service territory. These

[1] The EE&C Plan was further revised by *Petition of Duquesne Light Company for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2009-2093217 (Order Entered January 28, 2011).

programs are the key components of a comprehensive electric energy efficiency initiative designed to achieve the 422,565 megawatt hours ("MWh") of reduced energy consumption and 113 megawatts ("MW") of peak demand reductions required by Act 129.

Duquesne Light's portfolio of programs has made significant progress towards cost-effectively meeting the Act 129 goals, experienced very high realization rates (ratio of verified to reported savings) with high customer satisfaction. This performance is indicative of the effective program designs, program ramp-up activities, and on-going program marketing and management. Indeed, Duquesne Light is on target to meet its May 31, 2013 consumption and peak demand reduction targets.

Duquesne Light has and continues to be an active supporter of the Act 129 EE&C programs and appreciates the opportunity to participate in this investigation. As an EDC operating an EE&C program, Duquesne Light believes that its comments will provide the Commission with a valuable perspective in its evaluation of Phase Two of the EDCs' EE&C programs.

III. COMMENTS ON THE ISSUES IDENTIFIED BY THE COMMISSION

A. Planning Timeline

The Commission proposed the following planning timeline for its evaluation of the need for a second phase of EE&C programs and potential Phase Two filings:

May 10, 2012	Tentative Implementation Order
June 25, 2012	Tentative Order Comments
July 6, 2012	Tentative Order Reply Comments
August 2, 2012	Final Implementation Order
November 1, 2012	EDCs files EE&C Plans

February 28, 2013	Commission rules on EE&C Plans
June 1, 2013	EE&C Plans begin

Duquesne Light does not object to the Commission's proposed timeline as it presents a workable schedule for evaluating and implementing Phase Two EDC EE&C Plans. However, Duquesne Light believes that the Commission could shorten the timeframe for filing comments to the Commission's Tentative Implementation Order. By reducing the number of days to file comments to the Tentative Order, the Commission could advance the dates for filing reply comments and potentially the date by which the Commission could adopt its Final Implementation Order. If the Commission is able to adopt a Final Implementation Order in July, rather than in August, EDCs would have additional time to prepare their Phase Two EE&C Plans. In addition, an earlier release of the Commission's Final Implementation Order will provide EDCs with additional time to solicit input from interested stakeholders.

In addition, Duquesne Light believes that the Commission should address the timing for the release of the 2013 Technical Resource Cost test ("TRC"), and the 2013 Technical Reference Manual ("TRM"). Specifically, Duquesne Light recommends that the Commission coordinate the release of its Final Implementation Order with the 2013 TRC and 2013 TRM. Such coordination will enable the EDCs to have important information, including deemed savings for specific measures and how to evaluate cost effectiveness. This information is critical to planning and implementing the Phase Two EE&C Plans. Therefore, Duquesne Light recommends that the Commission issue its 2013 TRC and the 2013 TRM simultaneously with the Phase Two Final Implementation Order.

Further, Duquesne Light recommends that the Commission address both the timing and the applicability of future revisions to the 2013 TRM during the course of this proceeding. The addition of new measures to the Commission's TRM is valuable to both EDCs and consumers, as it provides new programs and measures for achieving additional savings. However, once an EDC's EE&C Plan is approved, revisions to previously approved TRM deemed savings values may negatively impact an EDC's Commission-approved EE&C Plan by reducing estimates for projected savings to be achieved by existing measures. A mid-course reduction to the deemed savings for a measure in an EDC's Commission-approved Phase Two EE&C Plan may jeopardize the EDC's ability to meet the reduction targets set by the Commission.

B. Length of Second EE&C Program

In its Secretarial Letter, the Commission requested comment on whether the Phase Two EE&C Plans should be 3, 4 or 5 years in duration. Duquesne Light supports a 4-year program for several reasons. First, a 4 year program is consistent with the duration of the EDCs' Phase One EE&C Plans. Second, a 4 year program provides sufficient time for EDCs to efficiently respond to the evolving energy efficiency market place. Specifically, EDCs must continuously evaluate and update EE&C Plan forecasts, react to consumer responses to offered energy efficiency measures, and adapt to changing Federal legislation and regulations impacting minimum efficiency standards. The need for the EDCs to react to these changes must be done within in the approved budgets for the Commission-approved EE&C Plans and to ensure compliance with reduction targets approved by the Commission. EE&C programs that are shorter than 4 years will inhibit the EDCs' ability to respond to the changing energy efficiency market place. Third, a shorter EE&C Plan period could limit an EDC's ability to modify, if necessary, its plan once approved by the Commission in time to produce meaningful effects on required reductions.[2]

C. Inclusion of a Demand Response Curtailment Program

As noted by the Commission in its Secretarial Letter, the EDC's current DR program(s) are slated to be implemented this summer. Therefore, the Commission is not yet in position to determine whether the EDC's DR programs can be implemented in a cost-effective manner. Indeed, the Commission's Statewide Evaluator's ("SWE") analysis of the current EDC DR programs is not expected until November 2012. Therefore, neither the Commission nor the EDCs will likely be in a position to evaluate the cost effectiveness of the DR programs until after the EDCs file their Phase Two EE&C Plans.

Duquesne Light recommends that DR programs should not be included in EDC Phase Two EE&C Plans. Instead, DR programs are more appropriately left to the competitive, market-based DR programs operated by PJM. Duquesne Light believes that EDC DR programs are duplicative with competitive market products, such as PJM's DR programs provided by curtailment service providers. Duquesne Light recommends that EDC DR programs should not compete against the existing competitive market DR programs.

As noted above, the Commission's SWE will study the results of current EDC DR programs after these programs are completed in September 2012. The SWE will then recommend to the Commission whether the current or future DR programs can be implemented cost-effectively. Duquesne Light recommends that the determination as to the cost effectiveness consider the existing PJM programs and what incremental savings are achieved from EDC DR

[2] At present the Commission requires EDCs to seek prior Commission approval to implement all changes to its EE&C Plan. The timing to receive Commission approval is contingent upon that nature of the proposed modifications and stakeholder response to the proposed changes. A shorter EE&C Plan could impair an EDC's ability to modify its EE&C Plan and to implement these changes.

programs. If the SWE determines that EDC DR programs are not cost effective, then such programs should not be included in EDC EE&C Plans.

However, if the Commission determines to set peak demand reduction targets, Duquesne Light recommends that the Commission eliminate the "100 hours of highest demand" requirement in place for EDC's current EE&C Plans and identify "an alternative reduction" as permitted by Act 129. 66 Pa. C.S. § 2806.1(d)(1). Presently, EDCs have established DR programs based upon the "100 hours of highest demand" to meet their demand reduction targets but are unable to forecast which hours in the summer of 2012 will be the "100 hours of highest demand" until after the summer has concluded. For example, the temperature for June 15th is predicted to be 81 degrees. In a typical summer, this would not fall within Duquesne Light's typical 100 hours of highest demand. The EDC must decide whether that will be an event or not. If it is an unusually mild summer and the EDC failed to designate June 15th as an event, the EDC would have missed the opportunity to register an event that would be within the 100 hours. However, if it is unexpectedly warm that summer, then that decision would have been the correct one. In essence the EDC is being called upon to make predictions about the weather. Therefore, during the summer of 2012, EDCs may call and pay for customer demand reductions in hours that fall outside the "100 hours of highest demand." However, despite incurring these costs, any savings achieved outside the top 100 hours cannot be used by an EDC to meet its Act 129 peak load reduction target.

D. Aligning EDC Targets and Funding Using Dollars per MWh of Expected Reductions

Act 129 restricts the total cost of any EDC plan to no more than 2% of the EDC's 2006 total annual revenue. 66 Pa.C.S. §2806.1(g). In addition, the current EE&C Plans were established to achieve the uniform state-wide percentage reduction targets to be achieved under that 2% revenue cap. 66 Pa.C.S. §2806.1(c) and (d). Due to the varying funding levels for each of the Pennsylvania EDCs, some EDCs have significantly more dollars to expend to achieve the per megawatt hours (MWh) of expected reductions than others. The Commission has requested comments on whether the Commission should address this funding imbalance in the Phase Two EE&C Plans.

Duquesne Light supports the Commission setting individual EDC reduction targets to be consistent with the amount of funding available under each EDC's 2% revenue cap. As noted in the Commission's Secretarial Letter, the SWE is scheduled to release the Pennsylvania Electricity Market Potential Study results in May 2012. The SWE's Market Potential Study will provide each EDC with specific information on the market potential for energy efficiency measures and programs for its service territory. This information will then be used to estimate the potential savings for each EDC that can be achieved in Phase Two under each EDC's 2% revenue cap.[3] This approach is appropriate as each EDC's targets will be based upon the SWE's Market Potential Study and takes into consideration the different energy efficiency opportunities that exist in each EDC service territory.

E. Inclusion of a Reduction Target Carve-Out for the Government, Educational and Non-Profit Sector

Consistent with Act 129, presently each EDC's EE&C Plan has been established to obtain at least 10% of the required reductions in consumption from units of Federal, State and local government, including municipalities, school districts, institutions of higher education and non-profit entities. 66 Pa. C.S. § 2806.1(b)(1)(i)(B). In its Secretarial Letter, the Commission

[3] Duquesne Light's 2% revenue cap for its Phase One EE&C Plan includes its 2006 total annual revenues and the 2006 generation revenues collected by Duquesne Light for electric generation suppliers using consolidated billing. *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. If the Commission sets individual EDC targets based upon the SWE's Market Potential Study, Duquesne Light's Phase Two EE&C Plan budget could be set a level below its Phase One 2% revenue cap.

identified potential alternatives to the existing carve-out for the government, educational and non-profit sector including, increasing or decreasing the 10% requirement, eliminating the 10% savings requirement for the sector and replacing it with a minimum budget requirement for the sector, and setting the sector carve-out based upon the energy saving potential in each EDC's service territory. In addition, the Commission requested comments on the potential for developing EDC on-bill financing programs to assist customers in this sector.

Duquesne Light supports the existing 10% carve-out for the government, educational and non-profit sector and believes that it should remain in place. However, Duquesne Light is opposed to EDC on-bill financing programs.

Section 2806.1(b)(1)(i)(B) of Act 129 provides that, "[a] minimum of 10% of the required reductions in consumption...be obtained from units of the Federal, State and local government, including municipalities, school districts, institutions of higher education and nonprofit entities." 66 Pa. C.S. 2806.1(b)(1)(i)(B). It is Duquesne Light's position that the existing 10% carve-out for the government, educational and non-profit sector is consistent with the statutory requirement. Moreover, Duquesne Light's programs for this sector are working well for both Duquesne Light and its customers. Duquesne Light has designed programs to help these market segments, and these programs have had high levels of participation. In addition, the Company has created a private-public partnership where all levels of government have participated. These programs have worked very well for our customers in our service territory.

Duquesne Light does not support requiring EDCs to establish and operate on-bill financing programs. It is Duquesne Light's position that companies that offer financing as part of their core business should provide these services, as these companies have the infrastructure and expertise to provide these services to customers. EDCs do not. Moreover, there are numerous entities that presently offer these services including, sustainable energy funds, numerous Energy Services Companies, Keystone HELP, and banks. Duquesne Light does not want to compete with these entities. Further, implementing EDC on-bill financing would require that EDCs incur additional expenditures to implement and manage on-bill financing, especially given the complex credit, accounting, regulatory (utility and financial) issues involved.

Also, EDC EE&C Programs have been designed to encourage customer participation. To achieve this, EDCs have attempted to minimize both the cost and the complexity for customers. Requiring EDCs to offer on-bill financing would increase both the cost and the complexity of the EE&C Program. Finally, Duquesne Light is concerned that requiring EDCs to offer on-bill financing would alter the existing relationship with its customers. Currently, EDCs encourage customer participation via rebates and potential savings to be achieved. However, on-bill financing could result in the EDC and its ratepayers becoming the lender and assuming the risks and responsibilities associated with this role. For these reasons, Duquesne Light does not support EDC on-bill financing.

F. Inclusion of a Low-Income Sector Carve-Out

Presently, EDCs' Phase One EE&C Plans include specific energy efficiency measures for households at or below 150% of the Federal Poverty Income Guidelines in proportion to that sector's share of the total energy usage in the EDC's service territory. In its Secretarial Letter, the Commission requests comments as to whether: (1) the existing low income carve-out should be expanded to include low-income households at or below 250% of the Federal Poverty Income Guidelines; (2) the structure of the low-income carve-out should be set as a percentage of the overall EE&C Plan budget; and (3) the low-income carve-out would set as a designated percentage of energy savings to be achieved from this sector. For the reasons set forth below, Duquesne Light recommends that the Commission maintain the existing low-income carve out and that it continue to be based upon a "proportion of measures available."

Section 2806.1(b)(1)(i)(G) of Act 129 provides that each EE&C Plan include specific energy efficiency measures for households at or below 150% of the Federal Poverty Income Guidelines in proportion to that sector's share of the total energy usage in the EDC's service territory. See 66 Pa.C.S. § 2806.1(b)(1)(i)(G). Therefore, the present low income carve-out for customers at or below 150% of Federal Poverty Income Guidelines and the "proportion of measures available" structure contained in the EDC's current EE&C Plan is consistent with Act 129's statutory requirements. Moreover, Duquesne Light's current EE&C Plan is working well for its low-income customers and that this customer sector will benefit from continuing the program without the potential changes identified in the Commission's Secretarial Letter.

G. Transition Issues

In its Secretarial Letter, the Commission requested comments on whether: (1) an EDC that exceeds the consumption reduction targets in Phase One should receive a credit toward achieving its incremental target set in Phase Two and, if so, whether the EDC's Phase Two budget should be reduced to account for the portion of the target that it achieved in Phase One; (2) an EDC that has met its Phase One consumption reduction target but has remaining Phase One funds should continue operating its Phase One EE&C Plan until its Phase One funds are exhausted or immediately reconcile the remainder of its Phase One budget to ratepayers; and (3) the Commission should maintain the same baseline 2009-2010 energy year forecast and have the next percentage reduction targets be applied in addition to the Phase One percentage reduction targets.

Duquesne Light supports use of Phase One reductions in excess of Phase One targets as a credit toward achieving its incremental target in Phase Two. Such a credit would properly recognize the costs expended by the EDC and recovered from customers to achieve these savings. In addition, Duquesne Light supports that each EDC should be permitted to use the full amount of funding available to it under the Act 129 limitation on costs. In addition, Duquesne Light recommends that if an EDC achieves its Phase One targets prior to May 31, 2013, that the EDC should be permitted to continue operating its EE&C Program and account for any additional savings and costs as part of the EDC's Phase Two EE&C Program. This would avoid EDC EE&C Programs from going dark, which would negatively impact an EDC's Phase Two compliance.

Duquesne Light recommends that the Commission establish a means to achieve a seamless transition from Phase One to Phase Two. That is, Duquesne Light does not support permitting the existing EDC EE&C Plans to "go dark." To permit the existing EE&C Plans to cease operating prior to the start of the Phase Two plans would result in the loss in customer interest in the existing EE&C Plan programs and measures, cause customer confusion and necessitate the EDCs incurring new start-up costs for its existing EE&C Plan programs and measures. Duquesne Light supports the Commission's use of the same baseline 2009-2010 energy year forecasts. Phase Two percentage reduction targets should be added to the Phase One percentage reduction targets.

H. Other Act 129 Program Design Issues

Under the current EDC EE&C Plans, program costs and revenues are reconciled without any interest collected or charged. The Commission has requested comments on whether Phase Two EE&C Plan should continue to reconcile costs without interest or to amend reconciliation procedures to charge or collect interest are requested. Duquesne Light recommends that the Commission not change the existing reconciliation process in place.

In addition, the Commission invited comments on other issues not identified by the Commission. Duquesne Light recommends that the Commission permit EDCs, at its discretion, to continue their currently approved contracts with CSPs in its Phase Two EE&C Program because it may be beneficial to maintain established relationships with CSPs and existing systems, processes and control and requiring EDCs to engage new CSPs for Phase One programs/measures that will remain a part of Phase Two could be impractical. For the reasons set forth above, the Commission should permit an EDC to continue its currently approved contracts with CSPs in its Phase Two EE&C Program if the EDC chooses.

IV. CONCLUSION

For the reasons set forth above, Duquesne Light Company respectfully requests that the Commission take these Comments into consideration in preparing its Tentative Implementation Order.

Respectfully submitted,

Frederick J. Eichenmiller

Frederick J. Eichenmiller P. E.
Director of External Affairs
Duquesne Light Company
411 Seventh Avenue, 16th Floor
Pittsburgh, PA 15219
Phone: (412) 393-6220
E-Mail: feichenmiller@duqlight.com

David T. Fisfis
Vice President, General Counsel
and Corporate Secretary
Duquesne Light Company
411 Seventh Avenue
Pittsburgh, PA 15219
Phone: (412) 393-6924
E-Mail: DFisfis@duqlight.com

Krysia Kubiak
Assistant General Counsel
Duquesne Light Company
411 Seventh Avenue
Pittsburgh, PA 15219
Phone: (412) 393-6505
E-Mail: KKubiak@duqlight.com

Date: April 17, 2012

Attorneys for Duquesne Light Company

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DUQUESNE LIGHT
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PITTSBURGH PA 15219

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