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Via Federal Express

July 9, 2012

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

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

Re: Comments of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company to the Tentative Order Regarding the 2012 Phase II of Act 129 Total Resource Cost Test – Docket No. M-2012-2300653

Dear Secretary Chiavetta:

Enclosed for filing are an original and three (3) copies of Comments of Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company to the Tentative Order Regarding the 2012 Phase II of Act 129 Total Resource Cost Test.

Please date stamp the copy and return to me in the enclosed, postage-prepaid envelope. Should you have any questions regarding this matter, please do not hesitate to contact me.

Very truly yours,

Kathy J Kolich

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Enclosures

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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PA PUBLIC UTILITY COMMISSION
SECRETARY'S BUREAU

Implementation of Act 129 of 2008-Total Resource Cost (TRC) Test-2012 Phase II of Act 129	:	**Docket No. M-2012-2300653**

COMMENTS OF METROPOLITAN EDISON COMPANY, PENNSYLVANIA ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN POWER COMPANY TO THE TENTATIVE ORDER REGARDING THE 2012 PHASE II OF ACT 129 TOTAL RESOURCE COST TEST

I. INTRODUCTION

On June 29, 2012, pursuant to the Commission's directive in its Tentative Order entered on May 24, 2012, interested parties submitted comments on various issues involving the Total Resource Cost ("TRC") test adopted in Pennsylvania. Pursuant to that same Order, Metropolitan Edison Company ("Met-Ed"), Pennsylvania Electric Company ("Penelec"), Pennsylvania Power Company ("Penn Power") and West Penn Power Company ("West Penn") (collectively "the Companies") now submit reply comments to the same. These comments are based on the assumption that the Commission will find in Docket No. M-2012-2289411 that a Phase II of Act 129 is necessary and that it will develop additional energy efficiency related targets.[1] Without such a finding, the need for a TRC test is moot.

The Companies generally agree with the comments submitted by the Energy Association of Pennsylvania, PECO Energy Company and PPL Electric Utilities Corporation and join in each of these parties' comments. The Companies oppose the suggestions made jointly by Citizens for Pennsylvania's Future ("PennFuture")/Keystone Energy Efficiency Alliance ("KEEA") (collectively "PFKEEA") and

[1] Unless otherwise expressly stated, the Companies are assuming for purposes of these comments that no peak demand reduction targets will be required at this time through Docket No. M-2012-2289411.

jointly by Northeast Energy Efficiency Partnerships ("NEEP") and Pace Energy and Climate Center ("Pace") (collectively, "NEEP/PACE") to the degree they desire non-energy related benefits to be incorporated into the TRC test. For reasons discussed below, the Companies also oppose PFKEEA's suggestions to remove the 15 year measure cap[2], and NEEP/PACE's suggestion to supplement the TRC results with the Utility Cost ("UTC") test.[3] NEEP/PACE also suggests that Pennsylvania subscribe to the NEEP Regional Evaluation, Measurement and Verification ("EM&V") Forum.[4] While the Companies are not necessarily opposed to this suggestion, the Companies believe that resources – limited as they seem to be for everyone – should focus on Pennsylvania specific issues through existing and future working groups, rather than devote those same limited resources to organizations that address issues on a broader scale that may or may not impact Pennsylvania.

II. INCLUSION OF NON-ENERGY RELATED BENEFITS IN THE TRC TEST

The TRC test has been used to determine the cost effectiveness of energy efficiency and conservation programs and measures included in the Act 129 Phase I process. Assuming a Phase II is ordered by the Commission, the Companies believe that the TRC test, as currently proposed by the Commission, is sufficient and achieves the goals for which it was intended. Electric Distribution Companies ("EDCs") in Pennsylvania currently are required to achieve certain energy efficiency reduction targets within a set spending cap. It is assumed that this will be the same approach to be used should the Commission conclude that a Phase II of Act 129 is necessary. Therefore, EDCs must develop enough programs and measures to achieve the new targets within the spending cap, while still passing the TRC test on a portfolio level. Both PFKEEA and NEEP/PACE suggest that the TRC should be modified by adding non-energy related benefits. Their rationale is based on an assumption that if more benefits are included, more programs would qualify for inclusion in the portfolio.[5] Their analysis is flawed for several

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2 PFKEEA Comments, p. 10.
3 NEEP/PACE Comments, p. 5.
4 Id. at 5-6.
5 PFKEEA Comments, p. 2; NEEP/PACE Comments, p. 4.

reasons.[6] First, assuming there are more benefits, there more than likely would be more costs required to support these benefits. Each of the potential benefits would have to be analyzed to ensure that any corresponding costs were also factored into any assessment, including costs incurred to support the validity and accuracy of both the costs and benefits. Second, as more fully discussed below, there are a number of issues that must be addressed before these purported additional benefits should be considered for inclusion in any cost-benefit analysis, most of which will require additional, time, money and resources to resolve and, if the measures are implemented, to track and accumulate results. Any administrative and EM&V costs associated with these activities do nothing to produce savings but must also be factored into the assessment, especially if these costs must be included within the 2% spending cap. Third, there is nothing to indicate that there are insufficient cost effective measures and programs currently available that would achieve potential targets and pass the TRC test. Given the suggested Phase II target levels, it is likely most, if not all, EDCs will spend most of that cap in an effort to achieve their targets. Therefore, the end result will be the same whether or not these additional benefits are incorporated: EDCs will achieve their energy savings targets by spending up to their capped funds. This, when coupled with the potential problems discussed below, weighs in favor of leaving the TRC test as proposed.

PFKEEA urges the Commission "to include non-energy impacts (NEIs) in the TRC Test,"[7] while NEEP/PACE suggests that the Commission "incorporate additional benefits to the TRC test, namely including a broader range of energy and avoided environmental cost benefits."[8] PFKEEA defines NEIs as those impacts experienced by (i) utilities (such as reduced customer arrearages, reduced terminations and reconnections, and other customer service benefits); (ii) efficiency program participants (such as improved health, increased safety, reduced tenant turnover and improved worker productivity); and

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[6] NEEP/PACE also suggests that an additional cost-benefit test be incorporated into the process. The Companies oppose this suggestion for all of the same reasons they oppose the suggestion to include non-energy related benefits in the current TRC test.

[7] PFKEEA Comments, p. 2.

[8] NEEP/PACE Comments, p. 2.

(iii) society (such as reduced environmental impacts, reduced health care costs and economic impacts).[9] NEEP/PACE suggest including "non-electric benefits" such as fuel and water savings and avoided environmental compliance costs.[10] In essence, both PFKEEA and NEEP/PACE are asking the Commission to develop a new cost effectiveness test that would be a hybrid between a true TRC test and other tests that incorporate societal benefits. While the inclusion of NEIs may not be inconsistent with some of the other cost-benefit tests, such an action is not consistent with a TRC test. In light of this, and for reasons discussed below, the Companies oppose PFKEEA and NEEP/PACE's recommendation to include non-energy related benefits in the TRC test.

The Companies have several concerns with including non-energy related benefits in a TRC test. First, from a practical standpoint, many of the suggested modifications by both PFKEEA and NEEP/PACE are extremely technical and raise numerous questions that must be vetted and resolved before incorporating them into the TRC test. For example, NEEP/PACE suggests the inclusion of "wholesale price suppression benefits" arising from the reduction of energy consumption and downward pressure on the wholesale clearing price.[11] As a preliminary matter, it is unclear as to how these benefits are to be identified or supported. And with regard to capacity costs, the specific shape of the PJM supply and demand curves generally are not released. If the impacts caused by the reduction in demand for energy consumption fall on a flat part of the supply and demand curves, there could be little or no impact on wholesale prices as a result of this energy reduction. Therefore, any projected impacts on wholesale prices would be speculative at best. Moreover, environmental related cost impacts generally are reflected in forecasted wholesale prices that are generally used to calculate avoided costs. To include these cost impacts as a benefit in the TRC test could result in a double counting of the benefits.

Second, many of these suggested benefits could be affected by more than simply a reduction in energy consumption and would require sophisticated EM&V procedures and socio-economic metrics to

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9 PFKEEA Comments, pp. 2-3.
10 NEEP/PACE Comments, p. 3.
11 NEEP/PACE Comments, p. 3.

be put in place in order to properly track the portion of any benefit that pertains to reduced energy consumption. Fewer disconnections/reconnections or customer arrearages are a function of more than simply energy consumption reductions. How should this single factor be weighted against other potential contributing factors, such as unemployment rates and the economy as a whole? Similarly, how should reduced energy consumption be weighted against the numerous factors that could account for safety improvements, reduced health care costs and an improved environment?

Third, it would be difficult, if not impossible for an EDC to track most, if not all, of these benefits. It is not even certain if an EDC's customer would track improved worker productivity or reduced tenant turnover, let alone share such information with its utility. And even if these customers would be willing to share such information, how should an EDC go about determining which customers to contact? The administrative costs of such a process alone would outweigh any perceived benefits of a supposedly more accurate TRC test.

Finally, the suggestions of PFKEEA and NEEP/PACE present a false sense of accuracy where none exists. Since the EE&C programs and plans would have to be designed and approved before the programs could be implemented, and the benefits, such as fuel savings, reduced disconnections (assuming this would actually occur), and economic and environmental impacts would only be known after the fact, inclusion of these types of benefits into a TRC calculation would be speculative, based on assumptions built on top of estimates. Energy efficiency is not an exact science and including these additional factors into an already complicated analysis unnecessarily creates additional confusion and potential disagreement that could and should be avoided.

The above highlights a small number of the issues that should be addressed before non-energy related benefits are included in a TRC test. Even PFKEEA acknowledges this, suggesting that "Pennsylvania":

> (a) identify all of the NEIs that are relevant for the energy efficiency programs offered in the state; (b) develop quantitative estimates for all NEIs that can be readily quantified; (c) develop some methodology for addressing those NEIs that are not

quantified; and (d) pay particular attention to the NEIs that are unique to low-income customers.[12]

Under the proposed timeline set forth in Docket No. M-2012-2289411, any Phase II Act 129 EE&C portfolio will need to be filed by November 1, 2012.[13] While the Companies do not necessarily agree that the above captures all of the steps that must be taken before revamping the TRC, or that either PFKEEA or NEEP/PACE have identified all of the issues that would need to be addressed, given the remaining time before the next set of EE&C Plans must be filed, it would be virtually impossible to accomplish even those few steps outlined above prior to these filings – especially when you factor in the time it will take to design the programs and balance the portfolio. In order to design such a portfolio, the TRC formulas must be known *at the beginning of the deign process*, not at the end.

In light of the above, the Companies believe that the effort required to incorporate the non-energy benefits and the NEIs suggested by PFKEEA and NEEP/PACE in time to be useful during an Act 129 Phase II process would far outweigh any benefits of including them, especially when there is no indication that there are insufficient programs and measures already available for EDCs to achieve any Phase II targets within the statutory spending caps. While the Companies see no need to further expand the benefits incorporated into a TRC test, should the Commission desire to investigate this issue, the Companies recommend the creation of technical working groups so that the issues can be properly addressed and resolved in the event they are contemplated for future use. The Companies welcome the opportunity to participate.

III. OTHER MODIFICATIONS TO THE TRC TEST

As previously mentioned, PFKEEA suggests that the 15 year measure cap be removed. As a preliminary matter, making this change is contrary to the definition of the TRC test included in Section 2806.1(M) of Title 66, which requires the test to be met "over the effective life of each plan *not to*

[12] PFKEEA Comments, p. 4.

[13] Plans must be filed and approved in time to be implemented by June 1, 2013. Even if the November 1, 2012 deadline were to be extended, the Companies' concern remains the same. There simply is not enough time to address all of the issues that must be vetted before making such sweeping modifications to the TRC test.

exceed 15 years." (emphasis added.) However, even if we assume that such a change could lawfully be made, the Companies oppose this recommendation for all of the reasons they rejected the other suggested modifications discussed above. Finally, before this change could be adopted, new measure lives would have to be developed. This would require a thorough vetting that afforded all interested parties their due process rights. The time allotted before EDCs must submit their Phase II EE&C portfolios make such a task virtually impossible for this next phase of Act 129.

Citizen Power, Inc. recommends that a distinction be made "between the early replacement of functioning devices and a pure retrofit of functioning devices"[14] in order to "recognize the remaining value of the device to be replaced."[15] While this approach may provide a more accurate cost benefit analysis, the Companies believe that, like the inclusion of purported non-energy benefits, the efforts needed to revise the models used to design programs would far outweigh the potential incremental accuracy of the TRC test. Again, unless there are not enough cost effective programs available from which an EDC can choose, a more accurate TRC result changes nothing. EDCs will achieve the same amount of energy reduction required within their spending caps.

EnerNOC focuses most of its comments on suggested changes that affect the cost effectiveness of demand response programs. Inasmuch as the Commission is recommending that it defer judgment on whether a Phase II peak demand reduction target for EDCs be mandated, the Companies recommend that any modifications to the TRC test surrounding peak demand reduction ("PDR") programs also be deferred. Moreover, the State-wide Evaluator ("SWE") is in the process of evaluating the benefits of a PDR mandate and the Companies recommend that the SWE factor in EnerNOCs comments as it deems appropriate, with interested parties having an opportunity much like they did in Docket No. M-2012-2289411 to comment on the SWE's findings at a later date. When factoring in EnerNOC's comments, the Companies urge the Commission and the SWE to keep in mind the following.

[14] Citizen Power Comments, p. 3.
[15] Id.

First, EnerNOC believes that EDCs did not "appropriately consider[] the benefits associated with avoided T&D investments for their TRC assessments of [demand response] and [energy efficiency] program cost-effectiveness."[16] While EnerNOC may believe that the EDCs' approach "was an incorrect interpretation of the PUC's direction regarding the treatment of T&D costs for the TRC test,"[17] the Companies' (as well as other EDCs') calculations of T&D costs for purposes of the TRC test were part of a litigated case in which the Commission approved each EDC's EE&C plan.

EnerNOC also raises issues regarding a requirement that EDCs treat 100% of the demand response implementation costs as program marketing or participant enablement costs.[18] The Companies believe that any program costs associated with EDC intervention into an already robust, functioning, competitive PJM market are incremental implementation costs, and not transfer payments, that may or may not be cost effective. Nevertheless, the Companies acknowledge that EnerNOC's suggestions related to this issue are extremely technical, unique to demand response programs and worthy of consideration through a process that allows them to be thoroughly vetted with all interested parties -- a process such as the PDR cost effectiveness assessment currently being performed by the SWE.

Finally, EnerNOC suggests that demand response programs also become more cost effective "if the additional benefits associated with reductions in prices to non-participants and savings on transmission and distribution infrastructure costs are considered."[19] As previously discussed, transmission and distribution impacts are already included in the avoided costs as defined (and reviewed during the evidentiary process) by the Commission. Similarly, for reasons also already discussed, impacts on PJM pricing are speculative at best, particularly for PDR related programs. Capacity markets fluctuate from auction to auction and it is unclear exactly how capacity prices may be affected, given the unknown shape of the supply and demand curves. Therefore, it is virtually impossible to evaluate the impact demand reduction may have on future prices, especially given the fact that the PJM auctions are

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[16] EnerNOC comments, p. 8.
[17] Id.
[18] Id. at 10.
[19] Id. at 11-12.

for delivery years three years into the future. EDC PDR programs to date under Act 129 have a nearer term focus. *In light of this, any future impacts on capacity pricing as a result of Act 129 PDR programs* are negligible for purposes of discussing the application of the TRC test *today*.

In sum, there is a separate process to evaluate the cost-effectiveness of PDR programs through Act 129 already in progress. The Companies support this process and suggest that issues raised by EnerNOC are better addressed through that process.

V. CONCLUSION

The Companies commend the Commission's efforts to provide clear direction relative to the TRC Test for Phase II of Act 129 if implemented and thank the Commission for the opportunity to provide reply comments on issues raised by other interested parties.

Respectfully submitted,

Dated: July 9, 2012

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Implementation of Act 129 of 2008-Total Resource Cost (TRC) Test-2012 Phase II of Act 129	:	**Docket No. M-2012-2300653**

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and correct copy of the foregoing document upon the individuals listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

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