McNees
Wallace & Nurick LLC

100 Pine Street • PO Box 1166 • Harrisburg, PA 17108-1166
Tel: 717.232.8000 • Fax: 717.237.5300

Adeolu A. Bakare
Direct Dial: 717.237.5290
Direct Fax: 717.260.1744
abakare@mwn.com

January 28, 2013

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

VIA ELECTRONIC FILING

RE: Petition of PPL Electric Utilities Corporation for Approval of its Act 129 Phase II Energy Efficiency and Conservation Plan; Docket No. M-2012-2334388

Dear Secretary Chiavetta:

Please find enclosed for filing with the Pennsylvania Public Utility Commission ("PUC" or "Commission") the Main Brief of the PP&L Industrial Customer Alliance ("PPLICA") in the above-referenced proceeding.

As evidenced by the attached Certificate of Service, all parties to this proceeding are being duly served with a copy of this document.

Sincerely,

McNEES WALLACE & NURICK LLC

By

Adeolu A. Bakare

Counsel to the PP&L Industrial Customer Alliance

c: Administrative Law Judge Dennis J. Buckley (via First Class Mail and E-Mail)
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that I am this day serving a true copy of the foregoing document upon the participants listed below in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant).

VIA E-MAIL AND FIRST-CLASS MAIL

Dianne E. Dusman
Amy Hirakis
Office of Consumer Advocate
555 Walnut Street, 5th Floor
Harrisburg, PA 17101
ddusman@paoca.org
ahirakis@paoca.org

Elizabeth Rose Triscari
Office of Small Business Advocate
300 North Second Street, Suite 1102
Harrisburg, PA 17101
etriscari@pa.gov

Paul E. Russell
Associate General Counsel
PPL Services Corporation
Office of General Counsel
2 North Ninth Street, GENTW3
Allentown, PA 18106
perussell@pplweb.com

David B. MacGregor
Post & Schell, P.C.
Four Penn Center
1600 John F. Kennedy Boulevard
Philadelphia, PA 19103
dmacgregor@postschell.com

Andrew S. Tubbs
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101
atubbs@postschell.com

Patrick M. Cicero
Pennsylvania Utility Law Project
118 Locust Street
Harrisburg, PA 17101
pulp@palegalaid.net
Counsel for CAUSE-PA

Joseph L. Vullo
1460 Wyoming Avenue
Forty Fort, PA 18704
jlvullo@aol.com
Counsel to Commission on Economic Opportunity

Heather M. Langeland
PennFuture
200 First Avenue, Suite 200
Pittsburgh, PA 15222
langeland@pennfuture.org

Craig R. Burgraff
Hawke McKeon & Sniscak, LLP
100 North Tenth Street
P.O. Box 1778
Harrisburg, PA 17105
crburgraff@hmslegal.com
Counsel to Sustainable Energy Fund

Kevin J. McKeon
Julia A. Conover
Christopher M. Arfaa
Hawke McKeon & Sniscak LLP
100 North Tenth Street
P.O. Box 1778
Harrisburg, PA 17105
kjmckeon@hmslegal.com
jaconover@hmslegal.com
cmarfaa@hmslegal.com
Counsel for UGI Distribution Companies

Mark C. Morrow
Chief Regulatory Counsel
UGI Corporation
460 North Gulph Road
King of Prussia, PA 19406
morrowm@ugicorp.com

Geoffrey Crandall
MSB Energy Associates, Inc.
1800 Parmenter Street, Suite 204
Middletown, WI 53562
crandall@msbnrg.com
Expert Witness for OCA

Derrick Price Williamson
Barry A. Naum
Spilman, Thomas & Battle, PLLC
1100 Bent Creek Boulevard, Suite 101
Mechanicsburg, PA 17050
dwilliamson@spilmanlaw.com
bnaum@spilmanlaw.com
Counsel for Wal-Mart

Jeffrey J. Norton, Esq.
Eckert Seamans Cherin & Mellott, LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101
jnorton@eckertseamans.com
Counsel for Comverge, Inc.

Adeolu A. Bakare

Counsel to the PP&L Industrial Customer Alliance

Dated this 28th day of January, 2013, at Harrisburg, Pennsylvania

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PPL ELECTRIC UTILITIES	:	
CORPORATION FOR APPROVAL OF ITS	:	**DOCKET NO. M-2012-2334388**
ACT 129 PHASE II ENERGY EFFICIENCY	:	
AND CONSERVATION PLAN	:	

MAIN BRIEF OF THE PP&L INDUSTRIAL CUSTOMER ALLIANCE

Air Products and Chemicals, Inc.
Armstrong World Industries, Inc.
General Dynamics-OTS Scranton
Hercules Cement Company
SAPA Extrusions, Inc.
The Hershey Company
TIMET North America
Wegmans Food Markets, Inc.

Pamela C. Polacek (I.D. No. 78276)
Adeolu A. Bakare (I.D. No. 208541)
100 Pine Street
P.O. Box 1166
Harrisburg, PA 17108-1166
Phone: (717) 232-8000
Fax: (717) 237-5300
ppolacek@mwn.com
abakare@mwn.com

Counsel to the PP&L Industrial Customer Alliance

Dated: January 28, 2013

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I. INTRODUCTION

A. Procedural History

On October 15, 2008, Governor Rendell signed into law House Bill 2200, or Act 129 of 2008 ("Act 129" or "Act"). Among other effects, Act 129 expanded the Pennsylvania Public Utility Commission's ("PUC" or "Commission") oversight responsibilities and set forth new requirements for electric distribution companies ("EDCs")[1] with respect to energy conservation, default service procurements, and the expansion of alternative energy sources.

Specifically, with regard to energy efficiency and conservation ("EE&C"), Act 129 required EDCs to adopt a plan, approved by the Commission, to reduce electric consumption by at least 1% by May 1, 2011, and by at least 3% by May 31, 2013, adjusted for weather and extraordinary loads. 66 Pa. C.S. § 2806.1(c). In addition, by May 31, 2013, peak demand was to be reduced by a minimum of 4.5% of the EDC's annual system peak in the 100 hours of highest demand measured against the EDC's peak demand during the period of June 1, 2007, through May 31, 2008. See id. § 2806.1(d). By November 30, 2013, the Commission is required to evaluate the cost-effectiveness of the aforementioned EE&C programs. See id. § 2806.1(c)(3). If the benefits of the programs exceeded the costs, then the Commission would impose additional reductions on the eligible EDCs. See id.

Consistent with the Act's requirements, all Pennsylvania EDCs, including PPL Electric Utilities Corporation ("PPL" or "Company"), filed with the Commission proposed EE&C plans ("Phase I EE&C Plans"). PPL's Phase I EE&C Plan was adopted on October 26, 2009, with

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[1] As articulated in the Act, only EDCs with at least 100,000 customers are required to submit energy efficiency and conservation programs. See 66 Pa. C.S. § 2806.1, et seq.

modifications and further revisions occurring in subsequent Orders.[2] PPL's Phase I EE&C Plan remains in effect through May 31, 2013.

On August 2, 2012, the Commission issued an Implementation Order establishing the procedural and substantive requirements for Phase II of all EDCs' EE&C programs. Energy Efficiency and Conservation Program; Docket Nos. M-2012-2289411, et al., Order (Aug. 2, 2012) (hereinafter, "Implementation Order"). Importantly, the Commission held that energy efficiency programs should be continued during Phase II based on the Statewide Evaluator's ("SWE") Market Potential Study, which indicated that energy efficiency programs were cost-effective for consumers during Phase I. Implementation Order, p. 12. Mandatory demand reduction programs, however, were not to be included in Phase II Plans, because the cost-effectiveness of Phase I demand reduction programs could not be evaluated before Phase II implementation. Implementation Order, p. 40. In addition, the Commission stressed the importance of developing balanced Phase II EE&C Plans (i.e., plans that do not disproportionately impact specific customer classes). Implementation Order, p. 87. Finally, the Commission outlined the following procedural process in its Implementation Order:

> The Commission will publish a notice of each proposed plan in the *Pennsylvania Bulletin* within 20 days of its filing. In addition, the Commission will post each proposed plan on its website. An answer along with comments and recommendations are to be filed within 20 days of the publication of the notice in the *Pennsylvania Bulletin*. Each plan will be referred to an Administrative Law Judge (ALJ), who will establish a discovery schedule and hold a public input hearing(s) in the EDC's service territory upon request

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[2] See, e.g., Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan; Docket No. M-2009-2093216, Opinion and Order (Oct. 26, 2009); Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan; Docket No. M-2009-2093216, Opinion and Order (Feb. 17, 2010); Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan; Docket No. M-2009-2093216, Opinion and Order (Jan. 28, 2011); Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan; Docket No. M-2009-2093216, Opinion and Order (May 6, 2011); Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan; Docket No. M-2009-2093216, Opinion and Order (May 25, 2012).

> of any party, as well as an evidentiary hearing(s) on issues related to the EE&C plan. Such hearings are to be completed on or before the 65th day after a plan is filed, after which, the parties will have 10 days to file briefs. The EDC will then have 10 days to submit a revised plan or reply comments or both. The ALJ will then certify the record to the Commission.

Id. at 62.

On November 15, 2012, PPL filed with the PUC a Petition for Approval of the Company's Act 129 Phase II Energy Efficiency and Conservation Plan ("Phase II EE&C Plan"). Petition of PPL Electric Utilities Corporation for Approval of its Act 129 Phase II Energy Efficiency and Conservation Plan; Docket No. M-2012-2334388 (hereinafter, "Petition"). On December 6, 2012, the PP&L Industrial Customer Alliance ("PPLICA") filed a Petition to Intervene in this proceeding.[3] A Prehearing Conference was held on December 10, 2012, before Administrative Law Judge ("ALJ") Dennis J. Buckley.

PPLICA received the Company's Direct Testimony on December 4, 2012. Pursuant to the Implementation Order, on December 21, 2012, PPLICA filed Comments addressing various concerns with PPL's proposed Phase II EE&C Plan.[4] Specifically, PPLICA: (1) requested that PPL's proposed class budget allocations for Phase II approximate class revenue levels; (2) recommended that PPL's Phase II program portfolio incorporate all relevant findings from the Commission's pending evaluation of PPL's Phase I EE&C Plan; and (3) further recommended that PPL minimize non-incentive costs in order to maximize direct customer benefits.

On December 28, 2012, PPLICA received Direct Testimony from the following parties: the Office of Consumer Advocate ("OCA"); the Coalition for Affordable Utility Services &

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[3] PPLICA's compilation is listed on the cover page of this Main Brief.

[4] At the December 10, 2012, prehearing conference, ALJ Buckley ruled that Comments filed with the Commission would not be admitted on the record. Therefore, in addition to filing Comments, PPLICA developed a record through PPL's Phase II Plan, testimony filed by other parties, and cross-examination on the issues addressed in this Main Brief.

Energy Efficiency in PA ("CAUSE-PA"); the UGI Distribution Companies ("UGI"); the Commission on Economic Opportunity ("CEO"); and the Sustainable Energy Fund ("SEF"). On January 11, 2013, PPLICA received Rebuttal Testimony from the Company.

An evidentiary hearing was held in this proceeding on January 16, 2013, for the purposes of presenting testimony and performing cross-examination. During this hearing, PPLICA entered one Cross-Examination Exhibit into the record, and the parties confirmed the process for submitting Briefs. Pursuant to the modified procedural schedule, PPLICA submits this Main Brief.

B. Overview of PPL's Phase II EE&C Plan

For purposes of Phase I, PPL was required to reduce electric consumption by at least 3% by May 31, 2013, while peak demand was to be reduced by a minimum of 4.5%. In order to achieve these goals, PPL initially sought approval of a Plan that would cost approximately $246 million; however, through Program Year ("PY") 3, PPL has spent only $151 million. See Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan, Docket No. M-2009-2093216, Phase I EE&C Plan (Dec. 15 2009), p. 20 (hereinafter "Phase I EE&C Plan"); see also PPLICA Cross-Examination Exhibit No. 1, p. 4 (hereinafter "PPLICA Ex. 1").

Unlike Phase I, the Phase II Implementation Order does not require PPL to achieve any demand reduction goals, and the Company's electric consumption goal has been reduced from 3.0% over four years to 2.1% over three years. See Implementation Order, p. 24. To that end, PPL proposes to fulfill the requirements of Act 129 through the implementation of 17 energy efficiency programs for the Company's Residential, Small Commercial and Industrial ("C&I"), and Large C&I customer classes, plus additional programs specifically targeting

Governmental/Non-Profit/Institutional ("GNI") entities.[5] See Petition, p. 2. Although PPL's benchmarks for Phase II include a lower annual consumption requirement and no demand response goals modified in comparison to Phase I, PPL expects to spend maximum annual budget available under Act 129, thereby projecting the same $61.5 annual expense as the Phase I Plan. See PPL Statement No. 3, pp. 4-5. However, PPL's performance throughout the Phase I Plan indicates that the originally projected budgets for Phase I were significantly overstated.

For ease of comparison, Table I, set forth below, provides a summary of PPL's proposed Phase I costs; actual Phase I costs through PY 3; proposed Phase II costs; and a breakdown of these costs by customer class.

Table I: PPL EE&C Plans – Total Cost Allocation by Customer Class

	Residential*	Small C&I	Large C&I	TOTAL
Phase I: Originally Approved Costs (Total)**	$97,802,000	$101,746,500	$46,457,500	$246,007,000
Phase I: Originally Approved Costs (PY1-PY3)**	$68,040,000	$67,338,312	$31,508,312	$166,886,624
Phase I: Actual Costs (PY1- PY3)	$81,297,542	$57,129,978	$25,572,111	$163,999,631
Phase II: As-Filed Proposed Costs (Total)**	$76,541,597	$57,646,764	$52,539,296	$186,727,657

*Including Low-Income program costs
**Large C&I and Small C&I costs include a 50% allocation of GNI program costs

See PPLICA Ex. 1, pp. 5-6 (Phase I Actual Costs); Phase I EE&C Plan, p. 20; PPL Phase II EE&C Plan, p. 17. As indicated in Table I, PPL is proposing to allocate approximately $52 million to Large C&I customers over the three year Phase II EE&C Plan. With regards to Large C&I program expenses, this amount exceeds both the total initial projections for PPL's Phase I Plan and the actual expenses through the first three years of Phase I. As indicated below, PPL's

[5] Large C&I customers are defined by PPL as "those customers served at primary and transmission voltage levels through Rate Schedules LP-4, LP-5, LP-6, IS-P, IS-T, LPEP, ISA, PR-1 and PR-2." Petition, p. 11.

initial projections appear generally reasonable, but the increase from Phase I budget allocations suggests that close monitoring of the actual costs and customer impacts must be monitored throughout PPL's Phase II Plan.

C. Summary of Argument

PPLICA is an ad hoc group of energy-intensive customers receiving electric service from PPL primarily under Rate Schedules LP-4 and LP-5.[6] PPLICA members consume substantial amounts of electricity in their manufacturing and operational processes, and these electric costs are a significant element of their respective costs of operation. Any modification to PPL's electric rates, including any changes to EE&C charges recovered through PPL's Act 129 Compliance Rider ("ACR"), can impact PPLICA members' costs of operations. For these reasons, PPLICA was an active participant in PPL's Phase I EE&C proceeding, and PPLICA has taken an active role in PPL's Phase II EE&C proceeding. To that end, PPLICA submits this Main Brief to address several overarching issues of concern that the Commission should consider when reviewing PPL's Phase II EE&C Plan.

First, the Commission must ensure that PPL's proposed Phase II EE&C Plan costs are reasonably prudent and appropriately allocated to the individual customer classes directly benefitting from the proposed energy efficiency measures. Fundamentally, individual customer classes should neither receive a disproportionate share of EE&C Plan benefits nor bear a disproportionate burden of the costs in relation to the overall Plan. To achieve this objective, the Commission should review the Company's Phase II EE&C Plan to ensure that PPL's proposed costs are reasonable and prudent, as well as to determine whether these costs reflect an

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[6] Some PPLICA members also have accounts on Rate Schedule GS-3.

appropriate parity between the overall revenues received by PPL from a customer class and the Phase II EE&C Plan budget allocated to the same customer class. See Section II(A), infra.

Second, the Commission should consider whether PPL's ratio of incentive to non-incentive costs results in the appropriate amount of benefits from energy conservation measures flowing directly back to customers or whether the dollars from these programs are actually providing greater benefit to third-party providers. As set forth, the non-incentive costs in PPL's Phase II EE&C Plan are greater than the incentive costs. Because Act 129 and Section 1301 of the Public Utility Code mandate consideration of customer benefits realized through EE&C Plans, the Commission should consider whether additional modifications are required to PPL's Plan to increase the overall dollars flowing to incentive costs. See Section II(B), infra.

Third, it is imperative that the transition between Phase I and Phase II remain as seamless as possible, while also ensuring customer equality in terms of obtaining any such funding. To that end, the Commission should require PPL to engage in timely notification and direct communication with customers to ensure a smooth transition from Phase I to Phase II of the EE&C Plan. Specifically, PPL should begin the notification process as soon as possible to ensure those customers who may be unaware of funding opportunities have the opportunity to take advantage of the Phase II EE&C Plan programs at the outset of Phase II. See Section II(C), infra.

II. ARGUMENT

A. PPL's Phase II EE&C Costs Should Be Reasonable, Prudent, and Appropriately Allocated To Each Customer Class.

1. Pursuant To The Requirements of Act 129, PPL's Phase II EE&C Measures, and Resulting Costs, Must Be Provided Equitably To All Customer Classes.

In reviewing PPL's Phase II Plan, Act 129's requirement that measures be provided equitably to all customer classes must be taken into careful consideration. One of the means by which to ensure this bar is met is to compare a customer class' revenue contribution with the proposed allocation of EE&C costs to this class. In this instance, PPL's proposed Phase II EE&C Plan allocates approximately $52.5 million to Large C&I customers over a three-year period. See Table 1, supra. Although this amount greatly exceeds the $25.5 million actually spent actually spent on Large C&I programs through the initial three years of Phase I, PPL's Phase II budget allocations appear reasonably proportionate to the percentage of revenues received from each class.

Act 129 requires the Commission to establish "[s]tandards to ensure that each plan includes a variety of energy efficiency and conservation measures and will provide the measures equitably to all classes of customers." 66 Pa. C.S. § 2806.1(a)(5). In the Implementation Order, the Commission made clear that all Phase II EE&C Plans must specifically tie costs to the benefited class to "ensure that offerings are not skewed toward or away from any particular class." Implementation Order, p. 87. In other words, it is important that classes neither receive a disproportionate share of EE&C Plan benefits nor bear a disproportionate burden of the costs in relation to the overall plan.

In determining whether this objective has been achieved, comparing the parity between the overall revenues received by an EDC from a customer class and the Phase II EE&C Plan budget allocated to the same customer class provides a useful metric. PPL proposes to allocate approximately 27.5% of its Phase II costs to the Large C&I customer class.[7] As reported by PPL, Large C&I customers comprise 23% of the Company's revenues. PPL Phase II EE&C Plan, p. 26. This proposed cost allocation results in Large C&I customers being responsible for 4.5% ($8.3 million) more costs under the Phase II Plan than their percentage of annual revenue. See id.

In comparison, the Residential class is allocated 41% of the Phase II EE&C Plan costs, while contributing 45% of PPL's 2008 revenue. See id. Small C&I customers are allocated 30% of Phase II costs, while contributing 32% of customer revenues.[8] While some disparity exists between the Large C&I and Residential projections, PPL's overall budget allocation reflects a reasonable effort to achieve parity among the customer classes.

2. PPL's Phase II EE&C Plan Costs Must Be Reasonable, Prudent, and Directly Related To Development and Implementation of the Plan.

While PPL's projected class budgets appear reasonable, the Commission must monitor the actual acquisition costs and program benefits achieved through the Phase II Plan to protect customers from unjust and unreasonable rates. As an initial observation, PPL's projected class-average acquisition cost for Phase II reflects the findings and assumptions from the SWE's Market Potential Study. However, considering the lower actual acquisition cost observed for Large C&I programs throughout PPL's Phase I Plan, PPLICA remains concerned that the

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[7] Table 2.3 in PPL's Phase II Plan ostensibly indicates that Large C&I customers comprise 20% of PPL's Phase II budget. See PPL Phase II Plan, p. 26. However, as noted by PPL, the Large C&I and Small C&I customer classes are each allocated 50% of PPL's GNI program costs. Tr. at 65-66. Therefore, the total Large C&I budget includes half of the GNI allocation, bringing the total Large C&I percentage of PPL's total EDC budget to 27.5%. See PPL Phase II Plan, p. 26. Similarly, the Small C&I budget, reported as 23%, is actually 30% inclusive of GNI costs. See id.

[8] See note 7, *supra*.

Phase II Plan may nevertheless generate overcollections beyond PPL's actually incurred costs. Similarly, PPLICA is concerned that PPL's Phase II portfolio does not reflect a final cost/benefit analysis of the Phase I programs. To ensure that PPL's EE&C charges are reasonable, prudent, and directly related to the development and implementation of programs for Large C&I customers, the Commission must be prepared to modify PPL's Phase II cost allocation based on the actual acquisition costs experienced throughout Phase II Plan any relevant findings from the Commission's final cost/benefit analysis of PPL's Phase I Plan.

Act 129 allows EDCs to recover all prudent and reasonable costs incurred in the provision and management of EE&C Plans, subject to a cap of 2% of each EDC's total annual revenue. 66 Pa. C.S. § 2806.1(g). All costs submitted for recovery under Phase II EE&C Plans, however, are "subject to review by the Commission to determine whether the costs are prudent and reasonable, and are directly related to the development and implementation of the plan." Implementation Order, p. 103. In this instance, the Commission must review PPL's Phase II Plan to determine whether PPL has provided adequate evidence to meet this standard.

As noted previously, for purposes of Phase I, PPL had to reduce its electricity consumption by 3% over a 4-year period, as well as reduce its peak demand by 4.5%. 66 Pa. C.S. § 2806.1. Although PPL originally proposed to allocate approximately $47.2 million to the Large C&I customer class for purposes of Phase I, PPL has been able to achieve these goals at significantly lower costs, with actual Phase I costs for the Large C&I class totaling $25.6 million through PY 3. See Table 1, supra. Conversely, for purposes of Phase II, PPL must reduce its electricity consumption by 2.1% without any corresponding peak demand reduction. Unfortunately, PPL is proposing to increase the cost allocation to the Large C&I class to $52.5 million. See PPLICA Ex. 1.

The increased budget allocation to the Large C&I class appears at least partially related to expectations for increased acquisition costs throughout Phase II. The Commission's Implementation Order adopted findings initially reported in the SWE's Market Potential Study. The SWE analyzed current and projected market developments and concluded that Phase II Plans should reflect a 25% increase in acquisition costs. Implementation Order, p. 24 For PPL, the SWE estimated a Phase II class average acquisition cost of $0.224/kWh. Id. PPL projects a substantially similar class average acquisition cost of $0.222/kWh for the Phase II Plan. PPLICA Ex. No. 1, p. 8. Therefore, PPL's Phase II Plan reflects an ostensibly reasonable projection of the class average acquisition cost.

Regardless of the reasonable assumptions underlying PPL's projections, the Commission should strongly consider the necessity to monitor PPL's actual acquisition costs due to the trends observed through PPL's Phase I Plan. PPL's originally filed Phase I EE&C Plan projected an average acquisition cost of $0.245/kWh for the Large C&I class. PPLICA Ex., p. 1. However, as of May 29, 2012, PPL reported actual acquisition cost for the Large C&I class of $0.119/kWh, a reduction of over 50% from the originally projected $0.245/kWh acquisition cost. Id. at 5. Despite the reduced acquisition cost experienced through May 31, 2012, PPL projects that the average Large C&I acquisitions cost will increase to $0.153/kWh by completion of Phase I on May, 31, 2013. Id. at 3. Assuming PPL's projected increase to be accurate, the $0.153/kWh figure still represents an approximately 40% decrease from the originally projected Large C&I acquisition cost.

However, for reasons discussed above, PPL projects that average Large C&I program acquisition cost will increase to $0.199/kWh for the Phase II Plan, which exceeds the actual Phase I acquisition cost ($0.119/kWh as of May 31, 2012) by 40% and projected Phase I acquisition costs ($0.153/kWh as of May 31, 2013) by 23%. See Id. at 3, 5, 7. While the increase is consistent with the the SWE's findings for class average acquisition costs, the Commission must address the possibility that actual acquisition costs for Large C&I programs may again outperform expectations.

To that end, PPLICA respectfully requests that the Commission monitor PPL's actual acquisition costs and impose mid-stream adjustments to minimize significant under or overcollections. As recounted by PPL Witness Pete Cleff, the decline in actual acquisition costs observed throughout Phase I was due to unexpectedly high performance from Large C&I programs. See Tr. at 67-68. While the overcollections resulting from minimal acquisition costs can be used to fund additional reductions beyond PPL's mandated benchmarks, PPLICA questions whether the framers of Act 129 intended to encourage exhaustion of available budgets beyond amounts necessary to achieve established benchmarks. Notably, PPLICA observes that the Act established "minimum" reduction levels for Phase I proceedings, but left the nature of consumption reductions established beyond Phase I, *i.e.* after May 31, 2013, solely within the Commission's discretion. See 66 Pa. C.S. § 2806.1(c)(3). Therefore, under the Act, the Commission is not compelled to mandate collection of fully budgeted EE&C revenues during the Phase II Plan.

As such, the Commission should remain cognizant of the rate impact to customers and closely monitor PPL's actual acquisition costs throughout Phase II, particularly with regards to Large C&I customers. As filed, the Phase II Plan proposes an additional $61.5 million in annual costs to traditional EDC rates. To place the annual $61.5 million expense in the proper context, it is useful to reference PPL's most recent base rate case, which resulted in an approximately $71 million increase in annual revenues.[9] As the impact on customers is comparable, the Commission should review PPL's Phase II Plan expenses with the same degree of scrutiny applied in base rate proceedings. Accordingly, the Commission should not allow PPL to continually recover revenues based on original projections if actual acquisition costs fall materially below such projections.

Finally, for Phase II, PPL has proposed effectively the same programs as those offered in Phase I. Because Phase I remains on-going, a final Total Resource Cost ("TRC") test has not yet been performed with respect to each of these programs.[10] Tr. at 62. In other words, PPL is currently proposing an increase in budget for Phase II programs even though a final review of Phase I performance cannot be completed at this time. If a final determination is made that some or all of these programs do not provide adequate value in light of costs being allocated, then the Commission must retain the ability to require PPL to modify its proposed cost allocation. To that end, PPLICA reserves the right to address and comment on the effectiveness and appropriateness of these programs upon receipt of the final TRC.

In reviewing PPL's Phase II plan, Act 129 requires the PUC to consider whether the costs allocated therein are prudent and reasonable. In this instance, PPL has proposed an initial allocation reflecting market assumptions proposed by the SWE and adopted by the Commission. Although PPLICA accepts the Company's initial projections as reasonable, the Commission must monitor PPL's actual acquisition costs and require that PPL's Phase II EE&C charges more closely reflect actual program costs to minimize material under or overcollections. Similarly, the

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[9] Pa. Public Utility Comm'n v. PPL. Electric Utilities Corp., Docket No. R-2012-2290597, Opinion and Order, (Dec. 28, 2012), p. 157.

[10] At the June 16, 2013 evidentiary hearing, PPL Witness Pete Cleff observed that "[PPL] cannot conduct, nor can the Commission conduct, a final evaluation until all the programs are complete and all the final actual information is available, which is November of 2013." Tr. at 62.

Commission must impose modifications to PPL's portfolio as necessary to reflect findings from the final review of PPL's Phase I Plan.

B. PPL'S Non-Incentive Costs Should Be Reviewed To Ensure That The Majority Of Act 129 Benefits Flow To Customers Rather Than To Third-Party Providers.

Although some administrative costs are necessity to implement Act 129, the Company's proposed Phase II administrative costs (i.e., non-incentive costs) exceed the "direct costs" of programs benefitting customers (i.e., incentive costs). Because PPL's proposed ratio of incentive to non-incentive costs tilts towards the entities benefitting from non-incentive costs (i.e., third-party providers), further and ongoing evaluation of PPL's Plan should occur in an attempt to reduce PPL's non-incentive costs so that implementation of Phase II achieves the most efficient benefits for PPL customers.

Act 129 includes various protections collectively designed to deliver customer benefits, including a requirement that each EE&C Plan include an analysis of its administrative costs. 66 Pa. C.S. § 2806.1(b)(1)(i)((H). Although the Commission has adopted the TRC Test as the cost-benefit metric for EE&C Plans, the TRC test may not accurately reflect the Act's goal of achieving maximum energy and conservation benefits. The distinction between cost-effectiveness (as measured by the TRC) and efficiency is evidenced by the Act itself, which first states that EDCs shall demonstrate cost-effectiveness of an EE&C Plan through the TRC test and separately establishes that "the Plan shall include an analysis of administrative costs." See 66 Pa. C.S. § 2806.1(b)(1)(i)(I); cf. 66 Pa. C.S. § 2806.1(b)(1)(i)(K). As such, the Commission should additionally consider the ratio of customer incentive expenses to administrative (or third-party) expenses in order to ensure that the maximum amount of Act 129 "incentives" flow to customers.

Under the Phase II EE&C Plan, PPL divides its costs per customer class on an "incentive" v. "non-incentive" basis. PPL Phase II EE&C Plan, p. 173. Incentive costs, according to PPL, are costs directly paid to customers that assist PPL in achieving its energy savings target. See Tr. at 63. Non-incentive costs, by contrast, are those EE&C Plan costs that are not directly paid to customers. See id. These costs are used to implement the EE&C programs and include mostly contractor or Conservation Service Provider ("CSP") labor, materials, and supplies costs, with EDC costs and common costs included as well.[11] Id.; PPL Phase II EE&C Plan, p. 174.

In the case of PPL's Phase II EE&C Plan, non-incentive costs comprise a significant percentage of PPL's program expenditures. Specifically, PPL anticipates providing customer incentives totaling $91.8 million while spending $95.0 million on non-incentive costs. Tr. at 63. On a percentage basis, the customer incentives amount to 49% of PPL's Phase II expenditures. Id. Of the remaining 51% of EE&C dollars collected from customers, the majority of non-incentive costs are paid to CSPs. Id. While CSPs provide services for implementation and administration of PPL's Phase II Plan, PPLICA questions whether this ratio of incentive costs to non-incentive costs is consistent with the intent of Act 129.

The issue of relative incentive payment levels is especially pertinent for Large C&I customers as the class also contributes extensive participant costs. As defined by PPL, participant costs are cost incurred directly by the customer outside of Act 129 revenues. See PPL Statement No. 1, p. 11. Data furnished by PPL clearly shows that the ratio of participant

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[11] The non-incentive costs reported in Table 6A of PPL's Phase II Plan are understated due to the exclusion of common costs. See PPL Phase II EE&C Plan, p. 174. As confirmed by PPL, common costs are properly categorized as non-incentive costs. Tr. 63-64. Therefore the total common costs ($33.4 million) must be added to the non-incentive costs reported in Table 6A ($61.6 million) to accurately reflect PPL's total non-incentive costs of $95.0 million. Id.; cf. PPL Phase II EE&C Plan, p. 174.

costs to incentive costs for Large C&I customers is 3:1. In other words, for every $1 of program incentives paid to Large C&I customers, the customers invest $3 of their own resources into efficiency measures. As evidenced by the data below excerpted from Table 6A of PPL's Phase II Plan, the Large C&I participant contribution greatly exceeds the equivalent investment from other rate classes.

Table II: PPL Phase II EE&C Plan – Incentive Payment and Participant Cost Comparison

	Incentive Payments from PPL's Phase II EE&C Plan	**Participant Contribution**	**Ratio of Participant Contribution to Incentive Payments**
	$ Millions		
Residential	25.6	29.6	116%
Small C&I	27.4	29.3	107%
Large C&I	21.1	**59.4**	**282%**

See PPL Phase II EE&C Plan, p. 173. The importance of efficient application of EE&C program funds is further underscored by PPL's affirmation that the ratio of incentive payments to non-incentive costs is expected to decline over time. Tr. at 68. This expected trend arises from expectations of relatively stable administrative costs, but continued declines in incentive payments due to higher efficiency standards and increasing acquisition costs. Id.

The specific factors to PPL's lower incentive to non-incentive cost ratio were described by PPL Witness Pete Cleff as follows:

> Incentives will be a lower percentage of the total costs in Phase II than Phase I for a couple of reasons. One is the incremental costs of measure, the difference between total costs of measures, whether that cost is borne by the customer or utility, and the more efficient measure have become smaller in the marketplace. Codes and standards are more stringent. Lighting codes in particular have increased what's called the baseline. So the difference in cost

> between the efficient measure that we're rebating and the standard decision a customer would have made is a lower number in Phase II. Our rebates are designed to reimburse customers for a percentage of that incremental cost, so because the incremental cost is smaller, our rebates are going to be smaller.
>
> Other costs to deliver programs haven't changed that much, our administrative costs are roughly the same as what they are in Phase I, so disproportionately to the incentives, the incentives are dropping but those other program delivery costs stay the same, and that's why you're seeing a change in that ratio.

Tr. at 68-69. As explained by Mr. Cleff, market forces and fixed administrative cost limit PPL's ability to offer robust incentive payments to customers and necessitate increasingly high levels of non-incentive costs. The prospect of declining incentive payments raises important questions about the overall customer benefits realized through PPL's Phase II EE&C Plan.

While the PPL's Phase II Plan may achieve the mandated reductions and perform adequately under the TRC test, these metrics do not fully measure the cost impact to customers. As described above, PPL's Phase II Plan will impose substantial non-incentive costs upon all customers and require significant participant costs on behalf of Large C&I customers. Although not the sole purpose of Act 129, the General Assembly indicated that program efficiency should be considered as a separate analysis from cost-effectiveness. See 66 Pa. C.S. § 2806.1(b)(1)(i)(I); cf. 66 Pa. C.S. § 2806.1(b)(1)(i)(K). Additionally, Act 129 programs should be reviewed within the context of the Commission's overall duty to ensure that all rates charged by jurisdictional utilities are just and reasonable. 66 Pa. C.S. § 1301. For the above reasons, the Commission should closely monitor the customer benefits and efficiency of PPL's Phase II Plan rather than relying on the TRC analysis.

In addition, the SWE should consider both aspects in future audits of PPL's and other EDC's Phase II EE&C Plans and strive for best practices that maximize the portion of the resources that are returning to customers.

C. The Commission Must Ensure That PPL Provides a Smooth Transition for Customers From Phase I to Phase II of the Company's EE&C Plan.

As Phase I ends and Phase II begins, it is imperative that the Commission ensure that EDCs provide a smooth transition for customers. In its Phase II EE&C Plan, PPL proposes to make certain that customers experience a "smooth and quick transition from Phase I to Phase II." PPL Phase II EE&C Plan, p. 10.

In order to ensure that customers are aware of the funding opportunities available through Phase II, it is imperative that PPL alert customers to the extended EE&C Plan as soon as possible, as well as provide a streamlined process by which customers can apply for such funds. Although PPL's portfolio remains substantially similar to the Phase I Plan, particularly with regards to Large C&I programs, information regarding the continued availability of EE&C programs must be comprehensively distributed so customers can readily claim available incentives.

III. CONCLUSION

WHEREFORE, the PP&L Industrial Customer Alliance respectfully requests that the Pennsylvania Public Utility Commission:

(1) review PPL's actual acquisition costs incurred throughout the Phase II EE&C Plan, particularly for the Large C&I Class, and impose adjustments to PPL's projected class budget allocations as necessary to minimize under and overcollections;

(2) require that PPL adjust the Phase II EE&C Plan program portfolio in conformance with any relevant cost/benefit findings from the Commission's final review of PPL's Phase I EE&C Plan;

(3) evaluate PPL's ratio of incentive to non-incentive costs to ensure the maximum available energy and conservation benefits of the Phase II EE&C Plan flow back to customers rather than third-party providers;

(4) require PPL to implement the necessary processes, including appropriate customer notification, to ensure a smooth transition from Phase I to Phase II; and

(5) provide any other relief deemed necessary and reasonable.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

By______________________________

Pamela C. Polacek (Pa. I.D. No. 78276)
Adeolu A. Bakare (Pa. I.D. No. 208541)
100 Pine Street
P. O. Box 1166
Harrisburg, PA 17108-1166
Phone: (717) 232-8000
Fax: (717) 237-5300
ppolacek@mwn.com
abakare@mwn.com

Counsel to the PP&L Industrial Customer Alliance

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