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February 20, 2015

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:

Enclosed please find for filing with the Pennsylvania Public Utility Commission the Comments of PP&L Industrial Customer Alliance ("PPLICA") in the above-referenced proceeding.

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

Very truly yours,

McNEES WALLACE & NURICK LLC

By

A handwritten signature in black ink, appearing to read 'Adeolu A. Bakare', written over a horizontal line.

Adeolu A. Bakare

Counsel to PP&L Industrial Customer Alliance

Enclosures

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

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## 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).

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Adeolu A. Bakare

Counsel to the PP&L Industrial Customer Alliance

Dated this 20<sup>th</sup> day of February, 2015, at Harrisburg, Pennsylvania

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

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**COMMENTS OF THE  
PP&L INDUSTRIAL CUSTOMER ALLIANCE**

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**I. INTRODUCTION**

On October 15, 2009, Governor Rendell signed into law House Bill 2200, otherwise known as Act 129 of 2008 ("Act 129" or "Act"). Among other things, Act 129 expanded the Pennsylvania Public Utility Commission's ("PUC" or "Commission") oversight responsibilities and imposed new requirements on Electric Distribution Companies ("EDCs") regarding the reduction of energy consumption and demand. In accordance with the Act, on November 15, 2012, PPL Electric Utilities Corporation ("PPL" or "Company") submitted a Petition for Approval of its Phase II Energy Efficiency and Conservation Plan ("Phase II Plan" or "Plan"), which was approved in part and rejected in part by Commission Order entered March 14, 2013, at Docket No M-2012-2234388 ("Phase II Plan Order").<sup>1</sup>

On January 21, 2015, PPL submitted a Petition to Amend its Phase II Plan to the Commission ("Petition"), pursuant to the Commission's procedures for amending EE&C Plans.<sup>2</sup> The Petition proposes 22 changes, including 2 major changes and 20 minor changes. Although

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<sup>1</sup> Previously, on October 26, 2009, the Commission entered an Order at Docket No. M-2009-2093216 approving PPL's Phase I EE&C Plan ("Phase I Plan").

<sup>2</sup> Previously, on June 10, 2011, the Commission entered an Order at Docket No. M-2008-2069887 ("Minor Change Order") outlining an expedited review process for minor changes to an EE&C plan. Under the Minor Change Order, minor changes are those that 1) eliminate a measure, 2) transfer funds from one measure to another, or 3) add or change the condition of a measure, provided that no such change results in allocations across customer classes. All other changes are deemed major and may be implemented only by submission of a formal Petition.

the Petition apparently proposes multiple minor changes, PPL is not requesting expedited review due to the accompanying major changes. PPLICA hereby files the foregoing Comments in response to PPL's Petition.

## **II. SUMMARY**

Overall, PPL's expected total plan energy efficiency reductions would remain relatively flat following implementation of the proposed program changes. Excluding carry over savings from Phase I, projected energy savings for the Phase II Plan would increase by 13,631 MWh/yr (2.2%). Including a proposed 495,636 MWh/yr carryover of savings from its Phase I Plan, which reflects a downward adjustment from the 551,704 MWh/yr of carryover savings reported in the current Plan, total Phase II reductions would slightly decrease by 42,437 MWh/yr (3.6%) to 1,124,964 MWh/yr. With the proposed adjustments, PPL would exceed its Phase II Compliance target of 821,072 MWh/yr by 303,892 MWh/yr.

PPL also reports revised cost per kWh/yr of program savings. The modifications reflect reduced program acquisition costs for the Large C&I and Government, Non-profit, and Institutional ("GNI") customer sectors. Program-wide, the direct cost per kWh/yr would decrease slightly from \$0.30 to \$0.29. For the Residential programs, the cost per kWh/yr would increase from \$0.26 to \$0.28. Comparatively, Large C&I program costs per kWh/yr would decrease significantly from \$0.23 to \$0.18. PPL's cost per kWh/yr for GNI programs would also decrease significantly from \$0.46 to \$0.37.

In addition to adjusting the program acquisition costs, the Petition also proposes revised customer sector budgets to accommodate a general shift of program dollars towards the Small C&I customer sector. The two major changes, Proposed Change Nos. 1 and 2, would

respectively increase the Small C&I budget and lower the remaining customer sector budgets.

Petition, pp. 8-9. The proposed budget adjustments are summarized below:

<b>Customer Sector/Class</b>	<b>Current Phase II Budget</b>	<b>PPL Proposed Change</b>	<b>Revised Phase II Budget</b>
<b>Small C&amp;I Sector (w/o GNI)</b>	\$32.5 million	+\$12.2 million	\$44.7 million
<b>Residential Sector</b>	\$66.2 million	-\$808,000	\$65.4 million
<b>GNI Sector</b>	\$40.4	-\$10.3 million	\$30.1 million
<b>Large C&amp;I Sector (w/o GNI)</b>	\$25.1 million	-\$7.0 million	\$18 million
<b>Large C&amp;I Class (w/ GNI allocation)<sup>3</sup></b>	\$42 million	-\$11.326 million	\$30.7 million
<b>Small C&amp;I Class (w/ GNI allocation)<sup>4</sup></b>	\$55.9 million	+6.2 million	\$62.1 million

The revised customer sector and customer class budgets indicate that PPL is overcoming prior challenges penetrating the Small C&I market and now endeavors to take advantage of untapped demand for efficiency reductions within the Small C&I sector. PPLICA does not oppose the revised budgets, but requests that PPL clarify whether the percentage of GNI customer sector costs allocated to Large C&I and Small C&I customer classes remains unchanged from the 42% allocation implemented through Supplement No. 140. PPLICA maintains that the usage rate of the GNI measures by each class must be monitored throughout the plan to determine whether it

<sup>3</sup> This calculation of the Large C&I customer class budget imputes the 42% allocation of GNI costs implemented through PPL's Supplement No. 140 to PPL Tariff – Electric Pa. P.U.C. No. 201, as filed at Docket No. M-2012-2334388 on October 22, 2013 ("Supplement No. 140"). PPL implemented this allocation change without adhering to the plan change process. PPLICA has a Complaint pending at Docket No. C-2013-2398442 regarding this change.

<sup>4</sup> This calculation of the Small C&I customer class budget imputes the 58% allocation of GNI costs implemented through Supplement No. 140.

remains consistent with the allocation used in establishing the surcharge levels and, if it is not substantially consistent, PPL must update the plan accordingly.<sup>5</sup>

While the proposed major changes reflect appropriate budget adjustments, some of the minor changes necessitate modifications to PPL's as-filed Petition. To that end, PPLICA's Comments address the following minor changes proposed in the Petition:

12. Increase Incentives And Estimated Savings For Non-Lighting Prescriptive (Non-Custom) Measures;
15. Add Pilots To Existing Residential And Non-Residential Programs;
19. Change The Basis Of The Rebate Cap For The Custom Incentive Program; and
22. General Text Revisions, Primarily For Clarification.

In addition to commenting on proposed changes, PPLICA will also comment on changes omitted from the Petition, but set forth in the redlined Phase II Plan attached to the Petition as Appendix A. These changes are as follows:

Excluding Labor Costs From Calculation Of Rebate Cap For The Custom Incentive Program

Modifying The Eligibility Standards For The Master Metered Multifamily Housing Program To Include LP-4 And LP-5 Accounts

Although PPLICA provides specific Comments only on the above proposed changes, PPLICA does not necessarily endorse any other proposed change not addressed in these Comments.

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<sup>5</sup> At the Stakeholders Meeting held on November 19, 2014, PPL disclosed a GNI program usage rate of 69% for Small C&I customers and 31% for Large C&I customers as of August 2014. See PPL Electric Utilities Stakeholder Meeting Presentation (Nov. 19, 2014) available at [https://www.pplelectric.com/~media/pplelectric/save%20energy%20and%20money/docs/act129\\_phase2/act129phase2stakeholderpresentation11192014.pdf?la=en](https://www.pplelectric.com/~media/pplelectric/save%20energy%20and%20money/docs/act129_phase2/act129phase2stakeholderpresentation11192014.pdf?la=en).

### III. COMMENTS

#### A. **In Considering PPL's Proposed Change No. 12, the Commission Must Weigh Any Benefit From Increasing Incentives And Estimated Savings For Non-Lighting Prescriptive (Non-Custom) Measures Against The Diminished Cost-Effectiveness.**

PPL has determined that incentive levels for certain Prescriptive measures are failing to incentivize participation. In response, PPL proposes to increase incentives with the intention of encouraging more customers to participate, but at the expense of completing less efficient installations and lowering projected program savings. While PPLICA acknowledges the challenge of incentivizing customers to participate in the Prescriptive Programs, PPLICA submits that the Commission must balance the goals of achieving energy usage reductions with the parallel goal of implementing cost-effective program measures.

Act 129 imposes numerous obligations on EDCs, including obligations to achieve energy usage reductions established by the Commission and further, to do so in a cost-effective manner. Specifically, Section 2806.1(b)(1)(i)(A) of the Public Utility Code requires EDCs to achieve the reductions established by the Commission, while 2806.1(b)(1)(i)(I) directs the EDC to demonstrate the cost-effectiveness of its plan using the Total Resource Cost ("TRC") test. *See* 66 Pa. C.S. §§ 2806.1(b)(1)(i)(A), 2806.1(b)(1)(i)(I). Importantly, Section 2806.1(b)(2) of the Public Utility Code further underscores importance of cost-effectiveness by compelling the Commission to terminate any part of an EE&C Plan upon a determination that the applicable measure will not achieve the necessary reductions in a cost-effective manner. *See* 66 Pa. C.S. § 2806.1(b)(2).

PPL proposes to increase incentives for HVAC, heat pump water heaters, and other non-lighting measures in order to increase the likelihood that customers will purchase more efficient equipment. Petition, p. 19. According to PPL, lower incentive levels fail to disrupt the typical



paradigm where customers only enter the market for equipment replacements following a failure of their existing equipment. *See id.* PPL claims that such customers are interested in purchasing the least-cost equipment rather than the most efficient equipment. *Id.* To encourage more customers to seek efficiency replacements before their existing equipment fails, PPL desires to increase certain maximum incentives by as much as 8x. *Id.*

While increasing the incentives may attract additional rebate applicants, the proposal would also erode the cost effectiveness of the Prescriptive Programs by increasing program costs. Particularly for the Large C&I programs, the increased incentives appear to be directly associated with a reduction in the TRC from 1.44 to 0.94, meaning that the Large C&I Prescriptive program would no longer be operated in a cost-effective manner. *See* Petition, Appendix A, p. 133. Consistent with the terms of Section 2806.1(b)(2), the Commission should deny or modify this proposed change in order to ensure that PPL achieves efficiency reductions in a cost-effective manner.

**B. PPL's Proposed Change No. 15, Adding Pilots To Existing Residential And Non-Residential Programs, Would Grant Unreasonably Broad Discretion To The Company.**

PPL requests authority to add pilot programs to the Phase II Plan, but places no restrictions on the cost or number of potential pilot programs. *See* Petition, pp. 20-21. If the Commission approves PPL's proposal, the implementation of pilot programs must be subject to explicit restrictions, consistent with the guidelines established by Act 129. Accordingly, the Commission should prohibit recovery of pilot program expenses in excess of 2% of each customer sector budget and require that pilot programs approved under the Custom Incentive Program meet the cost-effectiveness standards applied to other custom measures.

PPL's proposal to implement pilot programs would unreasonably authorize the Company to divert any and all available Act 129 revenues towards any conceivable pilot program. While PPL specifically identified examples of potential pilot programs, the Company also reserved discretion to implement less or more than the enumerated example pilots. *See* Petition, p. 20. This broad swath of authority would permit PPL to expend any uncommitted Act 129 revenues on all manner of pilot programs without further Commission oversight.

While some degree of program experimentation may be appropriate, such authority must be subject to reasonable limitations. Act 129 addresses limitations on "experimental" equipment or devices, stating that "[n]o more than 2% of funds available to implement a plan under this subsection shall be allocated for experimental equipment or devices." *See* 66 Pa. C.S. § 2806.1(b)(1)(iii). In consideration of the statutory constraints on funding experimental equipment or devices, the Commission should exercise its discretion to apply a 2% cap on experimental pilot program expenditures for each customer sector.<sup>6</sup> Using the revised customer sector budgets proposed in the Petition, this cap would result in the following maximum pilot program expenses:

<b>Customer Sector/Class</b>	<b>Budget</b>	<b>Pilot Program Cap</b>
<b>Residential Sector</b>	\$65.4 million	\$1.3 million
<b>Small C&amp;I Sector</b>	\$44.7 million	\$894,000
<b>GNI Sector</b>	\$30.1 million	\$600,000
<b>Large C&amp;I Sector</b>	\$18 million	\$360,000
<b>Large C&amp;I Class (w/GNI allocation)</b>	\$30.7 million	\$614,000
<b>Small C&amp;I Class (w/GNI allocation)</b>	\$62.1 million	\$1.2 million

<sup>6</sup> While not all pilot programs will necessarily incorporate experimental equipment or devices, enforcement of a cap on pilot programs is a reasonable policy measure, particularly where the specific pilot programs would not be subject to further Commission review prior to implementation.

Considering that PPL provided a cost estimate of \$300,000 for a single pilot, the above maximum caps are reasonable. That said, with regard to imposition of a pilot program cap for costs to be recovered from the Residential or Small C&I customer classes, PPLICA will defer to any comments from the respective State Advocates.

Further, PPL's request to waive cost-effectiveness screening for pilot programs administered under the Custom Incentive Program must be denied. PPL seeks authority to waive cost-effectiveness screening for new technologies considered for pilots under the Custom Incentive Program. *See* Petition, p. 21. As custom measures are not bound by technical parameters, such as the Technical Reference Manual ("TRM"), elimination of the cost-effectiveness screening would effectively eliminate objective oversight over the pilots. *See* Petition, Appendix A, p. 134 (clarifying that Custom Incentive Program exists to promote unique projects outside the constraints of the TRM). While it is reasonable for PPL to conduct pilots to confirm projected savings and assess market interest in new technologies, the cost-effectiveness screening must remain a threshold for pilots administered through the Custom Incentive Program.

**C. PPL's Proposed Change No. 19 Would Prejudice Prior Plan Participants By Drastically Changing The Basis Of The Rebate Cap For The Custom Incentive Program.**

PPL proposes to significantly modify the calculation of rebate caps for the Custom Incentive Program by calculating the cap on a total measure cost basis rather than the current incremental cost basis. Petition, p. 23. While PPLICA understands the policy objectives underlying the proposed change, the overriding unfairness and prejudice to customers that previously received rebates based on the incremental costs outweighs any benefits of modifying the rebate cap.

As discussed in the Petition, PPL has historically capped Custom Incentive Program rebates at 50% of incremental project costs, which measures the difference between the cost of an efficient measure and the baseline measure. Petition, p. 23. Citing difficulty in determining a baseline for custom measures, PPL now proposes to calculate the rebate cap based on 50% of the total project cost, which the Company represents to be more easily documented for custom projects. *See id.*

However well-meaning, this proposal invites tremendous unintended consequences for customers. The revised calculation will significantly increase the rebate caps for Custom Incentive Program measures. By way of a hypothetical example, a boiler upgrade project may consist of a standard replacement cost of \$2.8 million and an incremental cost of \$3 million to install the energy efficient equipment. Under the incremental cap methodology, the applicable rebate would be capped at \$100,000 (50% of \$200,000 difference between standard equipment and efficient equipment). Under the proposed total measure methodology, the applicable cap would be \$1,500,000 (50% of \$3 million).

Implementing this modification would unfairly prejudice the customers that have already applied for Phase I or II rebates. Act 129 directs EDCs to develop "standards 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." *See* 66 Pa. C.S. § 2086.1(a)(5). Consistent with Act 129, the Commission approved PPL's proposal to calculate Custom Incentive Program rebates based on the incremental costs. *See* Phase II Plan Order, p. 78. Authorizing PPL to modify the rebate cap calculation mid-stream would treat customers inequitably by allowing vastly different rebates for similar projects submitted under the same EE&C Plan. As there is no practical vehicle to retroactively apply the modified rebate cap, the Commission should weigh

the disparate impact on prior customers and find that equity favors application of a consistent rebate calculation.

**D. PPL's Proposed Change No. 22 Provides Insufficient Specificity To Constitute A Proposed Change And Should Be Denied.**

PPL's Proposed Change No. 22 constitutes a "catch-all" clause and should be denied for lack of specificity. Through this proposed change, PPL purports to implement "general text revisions, primarily for clarification." Petition, p. 24. Approval of this change would effectively reverse the Commission's May 6, 2011 Order at Docket No. M-2009-2093216 ("2011 Plan Change Order") establishing that all minor and major changes must be conspicuously identified to facilitate stakeholder and Commission review. *See* 2011 Plan Change Order, p. 22; *see also* Minor Change Order, pp. 6, 20. The Commission should not permit PPL to circumvent this important customer protection by using overbroad language to describe a proposed change.

**E. PPL's Proposal To Exclude Labor Costs From The Custom Incentive Program Cap Should Be Clarified To Confirm That Design And Scope Work Expenses Are Not Considered "Internal Labor" Costs.**

PPL's description of its proposal to change the basis of the rebate cap for the Custom Incentive Program fails to reference language in the redlined EE&C Plan indicating that the revised rebate cap will exclude internal labor costs. Consistent with the above discussion regarding PPL's Proposed Change No. 22, this proposal should be rejected on procedural grounds due to PPL's failure to conspicuously identify or substantiate the change in its Petition. *See* 2011 Plan Change Order, p. 22. Further, PPLICA submits that the exclusion of undefined "internal labor" costs from the Custom Incentive Program cap raises substantive concerns for PPLICA's members. As discussed in PPLICA's Comments filed on December 21, 2012, at Docket No. M-2012-2334388 ("PPLICA Phase II Comments"), many Large C&I customers rely on internal personnel to conduct preliminary design and scoping work for energy efficiency

projects.<sup>7</sup> PPLICA Phase II Comments, pp. 11-12. If PPL confines internal labor costs to the use of internal measure implementation or installation resources, then PPLICA would not oppose the proposal. To the contrary, if the definition of internal labor costs would include design and scoping costs, then the proposal should be rejected because PPL has failed to support the proposed change.

The Commission has previously clarified that all proposed EE&C Plan changes must be conspicuously identified when proposing to modify EE&C Plans. *See* 2011 Plan Change Order, p. 22. Here, PPL's Petition identifies a proposal to change the basis for calculating the Custom Incentive Program cap by abandoning the incremental cost-based cap in favor of a total measure cost-based cap. Petition, p. 23. However, in the redlined Phase II Plan, PPL adds additional language stating that internal labor costs shall be excluded from the caps calculated under the total measure-based method. *See* Petition, Appendix A, pp. 134-35, 136-37.

Depending on the applicable meaning of "internal labor" costs, the proposed exclusion of such costs could run contrary to the interests of Large C&I customers. As explained in PPLICA's Phase II Comments, Large C&I customers are far more likely to retain full-time energy management professionals on staff as compared to Residential or Small C&I customers. *See* PPLICA Phase II Comments, pp. 11-12. With qualified internal personnel already well-versed with the organization's specific operations and efficiency opportunities, it would make little sense for such Large C&I customers to rely on additional internal or Act 129 resources to retain an outside contractor to perform duplicative functions. Accordingly, Large C&I customers should be permitted to utilize internal personnel for scoping and design work. Any internal labor costs excluded from the Custom Incentive Program cap should be limited to expenses for which

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<sup>7</sup> PPLICA filed Comments in response to the Petition filed by PPL on February 2, 2012 at Docket No. M-2009-2093216 (proposing to Modify the Company's Phase I Plan).

all customers generally rely on outside contractors, such as measure implementation or installation services.

**F. PPL's Proposal To Modify Eligibility Standards For The Master Metered Multifamily Housing Program To Include LP-4 And LP-5 Accounts Should Be Denied For Failure To Identify The Change In The Petition.**

As discussed above, the Redlined EE&C Plan includes additional changes beyond those identified in the Petition. Aside from the previously referenced "internal labor" language, PPL also modified the eligibility standards for the Master Metered Multifamily Housing Program ("Multifamily Program") while offering no mention or explanation for the change in the Petition. *See* Petition, Appendix A, p. 157. As with the "internal labor" language, this change should also be rejected on procedural grounds. If the Commission finds reason to consider the merits of the proposal, the change should be denied as unnecessary in light of PPL's projections to significantly exceed its GNI reduction targets.

Currently, PPL's Multifamily Program offers direct installation, incentives and rebates to stimulate adoption of energy efficiency measures in low-income, non-profit or government multifamily housing units. *See* Petition, Appendix A, p. 157. PPL's existing EE&C Plan expressly limits program eligibility to GS-1 and GS-3 customers. *See id.* Further, none of the 22 changes proposed by PPL reference any intention to modify the Multifamily Program. *See generally* Petition. Despite the absence of any proposed change to the Multifamily Program in the Petition, the redlined Phase II Plan includes additional language expanding the scope of program-eligible accounts to include LP-4 and LP-5 customers. *See* Petition, Appendix A, p. 157.

There can be no justification for failing to discuss the modified eligibility standards in the Petition. The Commission's Minor Change Order specifically identifies a change in program

eligibility as an example of a minor change. *See* Minor Change Order, p. 20. PPL's current Phase II Plan demonstrated a clear intention to limit eligibility for the Multifamily Program by identifying both Small C&I and Large C&I rate classes as eligible for other GNI programs, but specifying GS-1 and GS-3 accounts as the only eligible accounts for the Multifamily Program.<sup>8</sup> *See* Petition, Appendix A, p. 157. Any attempt to characterize the revised eligibility standards as a "text revision" or "clarification" pursuant to Proposed Change No. 22 must be rejected. The addition of Large C&I customers as eligible participants for the Multifamily Program constitutes at least a minor change and potentially a major change if the adjustment would result in any interclass cost shifting. *See* Minor Change Order, p. 20. As such, the proposed change was improperly omitted from the Petition and should be denied as procedurally deficient.

If the Commission overlooks the procedural error, the proposed change should be denied on substantive grounds. PPL's GNI Compliance target for the Phase II Plan is 81,132 MWh/yr. *See* Petition, Appendix A, p. 220. The Company runs no risk of failing to meet this target as its verified GNI carryover from Phase I totals 92,143 MWh/yr. *See id.* Combined with the total projected savings from GNI measures installed through the Phase II Plan, the Company projects to exceed its Phase II GNI compliance target by 109%. *See id.* With the GNI Compliance target already met through Phase I carryover savings, further expansion of the Multifamily Program to additional customer classes should be rejected as unnecessary.

Accordingly, both on procedural and substantive grounds, the Commission should deny PPL's proposal to modify eligibility standards for the Multifamily Program.

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<sup>8</sup> For example, under PPL's current Phase II Plan, the GNI Custom Incentive Program is made available to "all" rate classes, meaning that the reference to specific rate classes for other program eligibility standards must be interpreted as a deliberate restriction on participation. *See* Petition, Appendix A, p. 151.




#### IV. CONCLUSION

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

1. Consider and adopt the foregoing Comments;
2. Take any other action as necessary and deemed appropriate.

Respectfully submitted,

McNEES WALLACE & NURICK LLC

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Counsel to the PP&L Industrial Customer Alliance

Dated: February 20, 2015