



17 North Second Street
12th Floor
Harrisburg, PA 17101-1601
717-731-1970 Main
717-731-1985 Main Fax
www.postschell.com

Devin T. Ryan

dryan@postschell.com
717-612-6052 Direct
717-731-1985 Direct Fax
File #: 158814

March 12, 2015

VIA ELECTRONIC FILING

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor North
P.O. Box 3265
Harrisburg, PA 17105-3265

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

Dear Secretary Chiavetta:

Enclosed for filing please find the Reply Comments of PPL Electric Utilities Corporation for the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

Devin T. Ryan

DTR/jl
Enclosures

cc: Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been served upon the following persons, in the manner indicated, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

VIA E-MAIL & FIRST CLASS MAIL

Elizabeth Rose Triscari, Esquire
Office of Small Business Advocate
Commerce Building
300 North Second Street, Suite 1102
Harrisburg, PA 17101

Dianne E. Dusman, Esquire
Amy E. Hirakis, Esquire
Office of Consumer Advocate
555 Walnut Street
Forum Place, 5th Floor
Harrisburg, PA 17101-1923

Kevin J. McKeon, Esquire
Julia A. Conover, Esquire
Christopher M. Arfaa, Esquire
Hawke McKeon & Sniscak LLP
PO Box 1778
100 North Tenth Street
Harrisburg, PA 17101
UGI Distribution Companies

Patrick M. Cicero, Esquire
Harry S. Geller, Esquire
Pennsylvania Utility Law Project
118 Locust Street
Harrisburg, PA 17102
CAUSE-PA

Heather M. Langeland, Esquire
PennFuture
200 First Avenue, Suite 200
Pittsburgh, PA 15222
PennFuture

Craig R. Burgraff, Esquire
Hawke McKeon & Sniscak LLP
Harrisburg Energy Center
100 North Tenth Street
PO Box 1778
Harrisburg, PA 17105-1778
*Sustainable Energy Fund
of Central Eastern Pennsylvania*

Derrick P. Williamson, Esquire
Barry A. Naum, Esquire
Spilman Thomas & Battle
1100 Bent Creek Boulevard, Suite 101
Mechanicsburg, PA 17050
*Wal-Mart Stores East, LP
and Sam's East, Inc.*

Joseph L. Vullo, Esquire
Burke Vullo Reilly Roberts
1460 Wyoming Avenue
Forty Fort, PA 18704
Commission on Economic Opportunity

Pamela C. Polacek, Esquire
Adeolu A. Bakare, Esquire
McNees Wallace & Nurick LLC
100 Pine Street
PO Box 1166
Harrisburg, PA 17108-1166
PP&L Industrial Customer Alliance

Geoffrey Crandall
Jerry E. Mendl
MSB Energy Associates
6907 University Avenue
Middleton, WI 53562-2767
OCA Consultants

Mark C. Morrow Esquire
Chief Regulatory Counsel
UGI Utilities, Inc.
460 North Gulph Road
King of Prussia, PA 19406
UGI Distribution Companies

Carl R. Shultz, Esquire
Eckert Seamans Cherin & Mellott, LLC
213 Market Street, 8th Floor
Harrisburg, PA 17101
Comverge, Inc.

Date: March 12, 2015



Devin T. Ryan

**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	:	

**REPLY COMMENTS OF
PPL ELECTRIC UTILITIES CORPORATION**

TO THE PENNSYLVANIA PUBLIC UTILITY COMMISSION:

PPL Electric Utilities Corporation (“PPL Electric” or the “Company”) hereby submits these Reply Comments to the comments filed by: (1) the Office of Consumer Advocate (“OCA”); (2) PP&L Industrial Customer Alliance (“PPLICA”); and (3) the Commission on Economic Opportunity and the Pennsylvania Weatherization Providers Task Force (collectively, “CEO”) concerning PPL Electric’s Petition for Approval to Change its Act 129 Phase II Energy Efficiency and Conservation Plan (“Petition”). In support thereof, PPL Electric states as follows:

I. INTRODUCTION

On January 21, 2015, PPL Electric filed the Petition requesting that the Pennsylvania Public Utility Commission (“Commission”) approve both major and minor changes to its Phase II Energy Efficiency & Conservation Plan (“EE&C Plan”). By way of background, the Company’s Phase II EE&C Plan was initially approved by the Commission on July 11, 2013. *Petition of PPL Electric Utilities Corporation for Approval of its Phase II Act 129 Energy Efficiency and Conservation Plan*, Docket No. M-2012-2334388 (Order Entered July 11, 2013) (“*Phase II EE&C Plan Order*”). The Commission also previously approved a petition to revise

the approved EE&C Plan (i.e., Revision I) on March 6, 2014. *See Petition of PPL Electric Utilities Corporation for Approval of its Act 129 Phase II Energy Efficiency and Conservation Plan*, Docket No. M-2012-2334388 (Order Entered Mar. 6, 2014).

Although the Commission established a bifurcated process for approving major and minor proposed changes to the EE&C Plans, PPL Electric filed a single petition requesting approval to modify its Phase II EE&C Plan and did not request expedited review of the minor changes. Pursuant to the schedule stated in the *Minor Plan Change Order*, parties had 30 days to file comments on the proposed modifications and then 20 days to file reply comments. *See Energy Efficiency and Conservation Program*, Docket No. M-2008-2069887, at p. 20 (Order Entered June 10, 2011) (“*Minor Plan Change Order*”). In accordance with this procedural schedule, PPL Electric files these Reply Comments.

II. REPLY COMMENTS

On February 20, 2015, OCA, PPLICA, and CEO filed comments on the Petition. Also on February 20, 2015, the Office of Small Business Advocate (“OSBA”) filed a letter stating that it was not filing comments but that it reserved the right to file reply comments.

As explained by PPL Electric in its Petition, since time is of the essence and given the compressed time frame in which to achieve its requirements under Act 129 of 2008 (“Act 129”), as well as the lead time the Company needs to implement some of the changes, the Company has respectfully requested that the Commission resolve issues, if possible, on the basis of comments and reply comments to the proposed modifications.¹ Specifically, to the extent no party has

¹ *See Petition of West Penn Power Company for Amendment of the Orders Approving Energy Efficiency and Conservation Plans and Petition for Approval of its Amended Energy Efficiency and Conservation Plans*, Docket No. M-2009-2093218 (Interim Opinion and Order Entered Oct. 28, 2011) (The Commission stated that any delay in

opposed a proposed change, or the comments failed to raise any legitimate issues of law or fact with regard to the proposed modifications, such changes should be approved by the Commission and not referred to an Administrative Law Judge for hearings and a recommended decision. This approach is fully consistent with the Commission's actions in a similar EDC EE&C Plan proceeding.²

The majority of PPL Electric's proposed modifications are unopposed³; others are opposed by OCA and PPLICA. However, as explained herein, the Commission should approve all such changes as outlined in these Reply Comments and the Petition.⁴

A. OCA COMMENTS

1. Proposed Modifications to the Residential Retail Program

OCA's comments request additional information on how PPL Electric will distribute 45,000 LED bulbs to low-income customers and how PPL Electric will ensure those LED bulbs are placed appropriately into service in high use sockets within the living quarters of low-income customers. OCA Comments, p. 4.

PPL Electric plans to mail the approximately 45,000 LED bulbs to approximately 45,000 low-income customers who are participants in the Company's Low-Income Energy-Efficiency

ruling on the proposed EE&C Plan changes would further limit the time the company had to implement the revisions. The Commission approved some elements of petition and referred the remaining elements to the Office of Administrative Law Judge for the issuance of a Recommended Decision on an expedited basis).

² *Id.*

³ The unopposed changes include: Proposed Modifications Nos. 1-2, 5, 7-12, 14, 16-17, 20-21. PPLICA's comments list Change 12 as one that it is opposing, but as discussed later in these Reply Comments, PPL Electric believes that PPLICA meant Change 13. The Company also notes that CEO specifically stated that it is "supportive of the requested changes." CEO Comments, p. 1. CEO filed its comments seeking to make certain points and request clarification on a few of the proposed modifications. *Id.*

⁴ In the event that the Commission does refer any of the proposed Phase II EE&C Plan changes to the Office of Administrative Law Judge for hearings, the Company requests that all of the proposed changes not transferred to the Office of Administrative Law Judge be approved by the Commission.

Behavior & Education Program and have average annual electric usage higher than other participants in that program. The LED bulbs will be 60 watt equivalent A-line bulbs, and PPL Electric will provide customers with general information about the benefits of LEDs and estimated energy savings per bulb⁵ and will recommend that customers install the LEDs in high use sockets.

OCA's comments also suggest that PPL Electric should consider updating the eligibility requirements for heat pump water heaters from an energy factor of 2.3 to an "energy factor of 3.0 or higher (or a minimum [of] 2.75)." OCA Comments, p. 4. OCA states, "It is likely that for a similar amount of customer rebate levels and program expense a program change requiring heat pump water heaters to have an energy factor of 3.0 or higher (or a minimum 2.75) could deliver much higher savings values even with reduced participation. This no-program-cost eligibility change would most likely generate greater savings for no additional amount of customer incentive program costs and should be considered along with the reduction in the participation rate." OCA Comments, p. 4.

PPL Electric considered increasing the energy factor of heat pump water heaters from 2.3 to 2.75 but does not believe that such a change would materially increase savings for this program. Moreover, such a change would significantly limit the number of qualifying heat pump water heaters available to customers and would require higher incentives (and higher program costs) to offset the higher incremental cost of the more-efficient heat pump water heater. ENERGY STAR's® list of heat pump water heaters shows that a total of 77 models have an energy factor greater than or equal to 2.3; 51 of those models have an energy factor of 2.3 to

⁵ Additional LEDs would be available at no cost to the low-income customer through the Company's WRAP and E-Power Wise programs if the customer has not previously participated in those programs.

2.74, and only 26 models have an energy factor of greater than or equal to 2.75. Restricting the rebate to only those models with an energy factor of 2.75 or higher would limit the number of eligible models by approximately two-thirds.

Additionally, 85% of the heat pump water heaters rebated during Program Year 6 had an energy factor less than 2.75. This demonstrates that customers prefer models with an energy factor less than 2.75 at the existing rebate and that a higher rebate is likely required to encourage customers to select models with an energy factor greater than 2.75, as recommended by OCA. Consequently, PPL Electric would be willing to offer a tiered rebate to offset the approximately \$200 higher incremental price between a heat pump water heater with an energy factor of 2.3 to 2.74 and one with an energy factor greater than 2.75.⁶ Models with an energy factor between 2.3 and 2.74 would receive a rebate for \$300 (same as the existing rebate), and models with an energy factor greater than or equal to 2.75 would be rebated at \$400. PPL Electric believes this tiered rebate is a reasonable compromise between the Company's existing rebate and OCA's proposal. The tiered rebate would provide multiple options to customers, provide higher incentives to encourage customers to select a more-efficient model, and will allow PPL Electric to better evaluate consumer preferences in preparation for Phase III.

2. Proposed Modifications to the Home Comfort Program

In its comments, OCA raises several arguments regarding the Company's proposed modifications to the Home Comfort Program. First, OCA states that it does not support the proposed higher incentives for air source heat pumps and ductless heat pumps because: (1) the benefit-cost ratio of the program is less than 1.0 (the benefit-cost ratio of this program in the currently approved EE&C Plan is 0.49, and the proposed changes to this program are expected to

⁶ This change, if approved by the Commission, would be reflected in PPL Electric's Compliance Filing EE&C Plan.

increase the benefit-cost ratio to 0.63); and (2) this change “more closely resembles a load growth program more than an energy efficiency program.” OCA Comments, p. 5.

PPL Electric disagrees for several reasons. To begin, the cost-effectiveness compliance requirement of Act 129 applies only to the EE&C Portfolio as a whole, not to individual programs or measures. *2012 PA Total Resource Cost (TRC) Test*, Docket No. M-2012-2300653, at p. 11 (Order Entered Aug. 30, 2012) (“*2012 TRC Test Order*”). To comply with the Act 129 cost-effectiveness requirements, the benefit-cost ratio of the entire EE&C Portfolio must be greater than 1.0 as determined by the Commission’s Total Resource Cost Test Order. *Id.* at pp. 4-5, 10-11. Here, the benefit-cost ratio of the proposed EE&C Portfolio is 1.49, which complies with Act 129 requirements. *See* Petition, Appendix A, Black-Line EE&C Plan, p. 16. Excluding measures and programs with a benefit-cost ratio less than 1.0 from the EE&C Portfolio would result in a portfolio that excludes low-income programs and most non-lighting measures, such as HVAC and weatherization. Further, the Company believes it is important to include these types of programs and measures to help increase participation in non-lighting programs, particularly to emphasize opportunities for a “whole building approach” to energy efficiency. With the higher incentives, consumers will be more likely to participate in non-lighting programs and to select more high-efficiency equipment than they would without the higher incentives. The benefit-cost ratio of this program in PPL Electric’s currently approved EE&C Plan is 0.49. Therefore, these proposed modifications to the program should not be denied because the program’s benefit-cost ratio would increase to 0.63.

Furthermore, this program is an energy efficiency program, not a load growth program as alleged by OCA. Encouraging customers to install high-efficiency air source heat pumps instead of less-efficient (code baseline) units definitely saves energy. The energy savings are clearly

defined in the PA Technical Reference Manual protocols for this equipment⁷ and are confirmed annually through PPL Electric's independent evaluation. These savings (relative to a standard efficiency device) occur if a customer replaces an existing heat pump or if the high-efficiency unit is installed in a new home.

Second, OCA comments that PPL Electric "proposes to decrease the energy efficiency rating of energy efficient systems that would be eligible for rebates in its program." OCA Comments, p. 5 (emphasis added). PPL Electric clarifies that it is proposing to increase, not decrease, the energy efficiency ratings of eligible equipment and acknowledges an error in the section of Table F3 for "Manufactured Homes- Energy Star." The requirements for an air source heat pump in an ENERGY STAR® Manufactured Home should be \geq SEER 15 in Program Years 5/6 and \geq SEER 16 in PY7. The Company also clarifies that the rebate for this measure (\$200 to \$300 for manufactured homes) is lower than the proposed rebate for a similar air source heat pump in a non-manufactured homes (\$50 to \$2000) because there is an additional rebate of \$1000 to \$1500 that applies to ENERGY STAR® manufactured homes. PPL Electric will correct Table F3 in its compliance filing.

Third, OCA comments that "Table F3 identifies a change in the rebate level (Builder Package) for Heat Pump Water heater from a maximum of \$2000 up to \$3000. Since this

⁷ See "Technical Reference Manual," Docket Nos. M-2012-2313373, M-00051865 (June 2014); *Implementation of the Alternative Energy Portfolio Standards Act of 2004: Standards for the Participation of Demand Side Management Resources – Technical Reference Manual 2014 Update*, Docket Nos. M-2012-2313373, M-00051865 (Order Entered Dec. 19, 2014).. By Secretarial Letter dated July 30, 2014, the Commission released an Errata to the 2014 TRM at Docket No. M-2012-2313373.

program already is unable to pass the TRC test, PPL should provide the Commission with information to justify its proposal to increase the rebate level.”⁸ OCA Comments, p. 5.

In response, PPL Electric notes that the proposed change to the rebate level for this measure has no impact on the cost-effectiveness determined by the TRC test. Costs in the TRC test are based on the incremental cost of the measure (i.e., the difference in cost between the efficient measure and the baseline measure), regardless of the portion of the incremental cost paid by the customer (i.e., participant cost) or the utility (i.e., EDC cost including the incentive). Since PPL Electric is proposing to change only the rebate amount and not the measure, there is no change to the incremental cost. Therefore, the increased rebate has no impact on cost-effectiveness as determined by the TRC test. Moreover, the actual participation for this builder package is well below planned levels, and PPL Electric believes the higher rebate is critical to incentivize builders to participate in the new home component of this program. The higher rebate level also will provide the Company with valuable market information to determine the relationship between incentives and participation (i.e., price elasticity) to determine the viability of this type of program for Phase III.

Finally, OCA requests additional information about the proposed manufactured home giveaway, specifically “the cost details of such a give-away so that the Commission has the opportunity to assess whether this is an efficient use of the budget, or if other incentives such as retrofitting a manufactured home, or providing highly efficient and long lasting measures would be more reasonable and effective.” OCA Comments, pp. 5-6.

⁸ PPL Electric notes that the proposed rebate applies to the entire package of measures (air source heat pump, heat pump water heater, ENERGY STAR® refrigerator and dishwasher, wall insulation, and ceiling insulation), not merely the heat pump water heater, as stated in OCA’s comments.

Upon further investigation after filing the Petition, PPL Electric determined that it would be too costly and too logistically and legally complex to give away a manufactured home. Complicating factors include the tax implications for the recipient, the availability of land for the new home, and the living arrangements for the occupant of an existing home while the new manufactured home is under construction. However, PPL Electric is investigating other ways to promote this program to achieve its desired participation level, including a contest for an “energy efficiency makeover” for an existing manufactured home. Concepts for this promotion could include a contest that engages consumers, advocacy groups, community-based organization, and possibly students. The promotion may also seek donations or incentives provided by trade allies (such as a discounted or free air source heat pump) and other organizations in return for media coverage of the “energy efficiency makeover.” PPL Electric would cap the Act 129 portion of the cost of this promotion at \$50,000.

3. Proposed Changes to the Portfolio’s Common Costs

OCA’s comments request additional justification regarding the proposed increase in common costs. OCA Comments, p. 6. OCA also avers that the “the direct residential program costs (which produce program results) were reduced more sharply, but the common costs (which do not directly produce program results) allocated to the residential programs were increased.”

OCA Comments, p. 6.

The following table summarizes the justification for the proposed adjustments to the common costs.

Common Cost Category	Approved EE&C Plan	Proposed Revision	Difference	Comments
Plan Development	\$1,050,000	\$2,400,000	\$1,350,000	Underestimated the number & cost of EE&C Plan updates in this relatively short 3-year phase.
EM&V	\$14,560,000	\$14,060,000	- \$500,000	Fine tuning of the estimate
Advertising & Marketing	\$9,487,000	\$9,487,000	0	
Tracking System	\$5,840,000	\$5,990,000	\$150,000	Fine tuning of the estimate
General Plan Management	\$2,475,000	\$2,575,000	\$100,000	Fine tuning of the estimate
Market Research	\$950,000	\$950,000	0	
Major Accounts	\$900,000	\$600,000	- \$300,000	Large C&I support from PPL Electric's Key Account Managers is less than expected, largely because Large C&I participation is lower than expected
TOTAL	\$35,262,000	\$36,002,000	\$800,000	

PPL Electric also disagrees with OCA's characterization that common costs "do not directly produce program results." The activities accounted for as "common costs" (i.e., portfolio-level costs) are critical to the success of the EE&C Plan. Without these activities, the programs would not produce results (i.e., energy savings) or those results could not be verified. These activities are accounted for as common costs (portfolio level costs) because they are applicable to more than one customer class or more than one program. Therefore, although it is not practical to assign these costs directly to a particular program, common costs do produce program results.

B. PPLICA COMMENTS

1. Proposed Increase in Incentives and Estimated Savings for Non-Lighting Measures⁹

PPLICA comments that “the Commission should deny or modify this proposed change in order to ensure that PPL achieves efficiency reductions in a cost-effective manner.” PPLICA Comments, p. 6. PPLICA’s reasoning is that “[w]hile increasing the incentives may attract additional rebate applicants, the proposal would also erode the cost effectiveness of the Prescriptive Programs by increasing program costs.” PPLICA Comments, p. 6. Moreover, PPLICA avers that “[p]articularly 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.” PPLICA Comments, p. 6.

PPL Electric disagrees with PPLICA’s comments for several reasons. First, as previously explained in Section II.A.2, the cost-effectiveness compliance requirement of Act 129 applies only to the portfolio as a whole, not to individual programs or measures. *2012 TRC Test Order*, at p. 11. To comply with Act 129’s cost-effectiveness requirements, the benefit-cost ratio of the entire EE&C Portfolio must be greater than 1.0 as determined by the Commission’s Total Resource Cost Test Order. *Id.* at pp. 4-5, 10-11. Therefore, since the benefit-cost ratio of the proposed EE&C Portfolio is 1.49, the proposed EE&C Portfolio complies with Act 129 requirements. *See* Petition, Appendix A, Black-Line EE&C Plan, p. 16.

⁹ PPLICA’s comments refer to PPL Electric’s “Change #12,” but PPL Electric believes that PPLICA’s comments apply to Change 13. Change 12 relates to school participation in the Continuous Energy Improvement Program, whereas Change 13 concerns the proposed increase in incentives and estimated savings for non-lighting measures.

In addition, as explained above, most non-lighting measures, such as HVAC and weatherization, would be excluded from the EE&C Portfolio if they were required to have a benefit-cost ratio greater than 1.0. However, PPL Electric believes it is important to include these types of programs and measures to help transform the non-lighting market, particularly to emphasize opportunities for a “whole building approach” to energy efficiency. *See* Petition, p. 19. The increased rebates also will help reduce the high free-ridership for air source heat pumps, will help the Company evaluate price elasticity, and should increase customers’ interest in non-lighting measures, as desired by stakeholders. *Id.* at pp. 18-19.

Moreover, as mentioned previously, the proposed change to the rebate levels for these measures has no impact on the cost-effectiveness determined by the TRC test. For additional discussion, please see Section II.A.2.

Further, the changes to this program’s benefit-cost ratio are due primarily to changes in the mix of measures, with the revised mix of measures having a higher incremental cost (see “TRC Nominal Costs” in the table below). The following table summarizes the changes that affect the benefit-cost ratio of the Large C&I Prescriptive Equipment Program. The data are from Table 7D in the black-lined EE&C Plan, except for “program costs (direct utility costs),” which are from Table O6 in the black-lined EE&C Plan. As shown in the table, the benefit-cost ratio decreased even though the savings increased and the program cost decreased.

	Approved EE&C Plan	Proposed Revision	Comments
TRC Nominal Costs (these are generally the incremental cost of the measures)	\$26,453,000	\$48,415,000	Increased 83% due to a different measure mix with higher incremental costs (difference in cost between the efficient measure and the baseline measure, regardless of the incentive amount)
Program Cost (Direct Utility Costs)	\$11,407,000	\$10,549,864	Decreased 8%
Annualized Savings MWh/yr (basis of compliance)	53,615	67,891	Increased 27%
Lifetime Savings MWh (basis of TRC and driven by annualized savings of each measure x measure life)	792,998	912,333	Increased 15%. This is less than the annualized savings increase due to a lower average measure life of the measure mix
Lifetime Benefits	\$38,266,000	\$45,529,000	Increased 19%
Benefit-cost ratio	1.44	0.94	Decreased 35%

2. Proposed Addition of Pilots to Residential and Non-Residential Programs

PPLICA requests that PPL Electric limit the cost of pilot programs to no more than 2% of each customer sector budget since 2% is the limit set forth in Act 129 for “experimental” equipment or devices. PPLICA Comments, pp. 6-7. PPLICA also suggests that PPL Electric require pilot programs in the Custom Incentive Program to meet the cost-effectiveness standards applied to other custom measures. PPLICA Comments, p. 6.

At the outset, it is important to recognize that the cost of the Company’s proposed pilot programs will be much less than 2% of each program’s or sector’s budget. PPL Electric also clarifies that most of the proposed pilots are not for “experimental” equipment or devices as PPLICA avers. In reality, many of the proposed pilots are for proven, commercially available, or common measures for which the Company is evaluating market/program conditions (such as price elasticity, delivery and marketing options, costs, savings, cost-effectiveness, consumer acceptance, how to identify potential customers, etc.) that will help PPL Electric evaluate the

viability of these measures for Phase III. Notwithstanding, PPL Electric would agree to the following 2% pilot cost caps on a customer sector basis, consistent with the five customer sectors designated in the EE&C Plan:

Customer Sector	Cost Limit for Pilots
Residential	\$1,308,000
Low-Income	\$522,000
Small C&I	\$894,000
Large C&I	\$360,000
GNI (all customer classes)	\$600,000
Total	\$3,684,000

In addition, PPL Electric disagrees with PPLICA’s comment that the Company’s waiver of the cost-effectiveness screening for pilot programs should be denied. PPLICA Comments, pp. 6, 8. Cost-effectiveness for each project (measure) in the Custom Incentive Program is not an Act 129, TRC, or Commission requirement. As previously stated in these Reply Comments, individual measures and programs are not required to be cost-effective to comply with Act 129’s cost-effectiveness requirements. *2012 TRC Test Order*, at pp. 10-11. Act 129 cost-effectiveness compliance applies at the EE&C Portfolio level. *Id.* at p. 11. PPL Electric implemented cost-effectiveness screening at the project level in the Custom Incentive Program to help ensure that very large custom projects (i.e., projects with very high incremental costs, regardless of the magnitude of EDC costs and incentives) do not disproportionately impact the cost-effectiveness of the Company’s EE&C Portfolio. That happened in Program Year 1 of Phase I when relatively few non-cost-effective renewable energy projects (e.g., photovoltaic and combined heat and power) with very high project incremental costs (i.e., TRC costs) disproportionately influenced

the TRC benefit-cost ratio of the entire EE&C Portfolio for that program year. To minimize this likelihood, PPL Electric implemented cost-effectiveness screening for each custom project recognizing that custom projects can have relatively high incremental costs, much higher than projects in other programs.

In contrast, PPL Electric does not expect pilot projects in the Custom Incentive Program to be very large and believes one of the benefits of pilots is to determine if these projects are indeed cost-effective and ready for more-widespread implementation in Phase III. The cost-effectiveness of these pilots cannot be reasonably evaluated based on “hypothetical” information (from pre-approval screening). Therefore, PPL Electric believes it is important to evaluate the cost-effectiveness of pilots based on actual incremental cost and actual savings after the projects are commercially operable.

Notwithstanding, if the Commission believes pilots in the Custom Incentive Program should be subject to the same cost-effectiveness screening as all projects in the Custom Incentive Program, then PPL Electric recommends creating a custom project cost threshold, such as subjecting all custom projects (pilots and non-pilots) with an estimated incremental cost greater than \$500,000 to the Custom Incentive Program’s pre-approval cost-effectiveness screening but excluding all custom projects with an estimated incremental cost less than \$500,000 from the program’s pre-approval cost-effectiveness screening. Of course, PPL Electric would need to review the customer’s project cost estimates to ensure that they are accurate.

3. Proposed Change to Custom Incentive Program’s Rebate Caps

Although PPLICA acknowledges the “policy objectives,” it avers that the proposed change to the rebate caps in the Customer Incentive Program (i.e., calculating the caps on a total measure cost basis instead of the current incremental cost basis) would be unfair and would prejudice customers that previously received rebates. PPLICA Comments, p. 8.

PPL Electric disagrees with PPLICA's alleged concern that the proposed change in rebates would be unfair and would prejudice customers that previously received rebates. Rebates frequently change (within the approved rebate range or via a formal change to the EE&C Plan) as well as measure eligibility (measures are added, are dropped, or have their technical requirements changed). These changes occur for many reasons, including improving programs, implementing program changes due to high free-ridership, reflecting changes to the TRM, controlling the pace of programs, and addressing market transformation. The timing of these changes may be an advantage to some participants and a disadvantage to others. For example, if rebates increase, customers who implemented projects under the previously lower rebates are disadvantaged. Whenever rebates decrease, customers who implemented projects under the previously higher rebate are advantaged. This is no different than price or product changes in consumer markets outside of Act 129. When products (e.g., clothing, groceries, cars, etc.) go on sale, previous purchasers may have paid a higher price. Consumers must make decisions based on the best information available at that time.

PPLICA also provides the following hypothetical example in support of its position:

By way of 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).

PPLICA Comments, p. 9.

PPLICA's hypothetical rebate example is overstated and does not fully account for the Company's rebate and cap structure. The Company's current Custom Incentive Program provides a rebate for those projects that provide measurable and verifiable kWh savings for

measures not included in the TRM. However, there are multiple caps on the rebates paid under this program. The rebates paid are currently 8 to 10 cents per annual kWh saved (\$0.05 for CHP projects) up to a maximum of 50% of the “incremental project cost”¹⁰ and no greater than \$500,000 per project.¹¹ As proposed by PPL Electric, the incremental project cost cap would change to a full project cost cap, but the \$500,000 per project cap would remain in place. Therefore, under PPLICA’s example, while 50% of the full project cost would be \$1.5 million, the customer would only receive a maximum rebate of \$500,000, not \$1.5 million as alleged by PPLICA.

Moreover, it is important to recall the purpose behind the current 50% incremental project cost cap and the proposed 50% full project cost cap – both prevent a customer from getting an incentive that exceeds the customer’s project cost (i.e., “making money” on the project). This would happen if a low cost project (regardless of whether “cost” is based on the full project cost or the incremental cost) has very high savings. For example, if savings are 1,000,000 kWh/yr and the project cost (incremental or full) is \$10,000, the incentive without the project cost cap would be \$100,000, which would greatly exceed the customer’s project cost. This clearly is not appropriate because Act 129 incentives are intended to offset the customer’s project cost, not to reimburse a customer more than the customer paid. Therefore, the proposed 50% full project cost cap aligns with the purpose of the 50% incremental project cost cap.

In addition, the Company recommends re-defining the incremental project cost cap as a total project cost cap to make it easier for customers and trade allies to understand and properly

¹⁰ Incremental project cost is the difference between the cost of the custom project (i.e., the “efficient measure”) and the cost of the baseline project (i.e., the standard efficiency project).

¹¹ The \$500,000 per project cap was established to prevent a single customer (one custom project with very high savings, very high cost, and a rebate that is not subject to the project cost cap) from receiving a disproportionate percentage of the total program funds (as a rebate). PPL Electric is not proposing changes to this rebate cap.

document. As explained in the Petition, an accurate “incremental cost” is very difficult to obtain for custom projects. Petition, p. 23. On the other hand, customers and trade allies clearly understand and can document the total cost of the project. *Id.* Many custom projects also are defined as “early replacements” (as opposed to replacing them at the end of their useful life). As such, incremental cost and total project cost are identical for purposes of the TRC.

Furthermore, to provide a more reliable and realistic picture of the impact of the proposed change, the Company analyzed data from actual Custom Incentive Program rebates paid under the current EE&C Plan. The results show that there have been a total of 93 projects that have received a rebate under the Custom Incentive Program for Phase II as of February 25, 2015. Of the 93 projects paid, only 21 of those projects triggered the incremental cost cap, and the average incentive paid for these 21 projects was \$26,887 per project. None of the 21 projects had a rebate in excess of the \$500,000 per-project rebate cap. The Company back-tested those 21 projects and determined that the average incentive amount that would have been paid under the proposed total project cost cap structure was \$28,221 per project. The net difference using the proposed total project cost cap is only \$1,334 per project or a 4.96% increase in the amount of incentives paid for capped projects. This difference does not represent a significant modification to the program nor would it allow vastly different rebates for similar projects submitted under the same EE&C Plan; rather, it would realize benefits as outlined in the Petition.

4. Proposed General Text Revisions

PPLICCA argues in its comments that “PPL’s Proposed Change No. 22 constitutes a ‘catch-all’ clause and should be denied for lack of specificity.” PPLICCA Comments, p. 10.

PPL Electric disagrees. The Company provided a black-lined EE&C Plan that conspicuously identifies every proposed text revision for parties to review. The “general text revisions” referred to in PPL Electric’s Petition simply correct typographical errors and clarify

the wording without changing the original intent or meaning of the Plan or its programs. PPLICA wants PPL Electric to take on the arduous, impracticable, and inconsequential task of individually listing every one of these general text revisions and explain the reason for it. If any party to this proceeding has a question about a specific text change, PPL Electric encourages that party to contact the Company for clarification.

5. Exclusion of a Participant's Internal Labor Costs from the Cost of a Project

PPLICA requests additional details and justification from PPL Electric about a proposed clarification on page 119 of the black-lined EE&C Plan, which relates to how PPL Electric determines the “project cost” for a project in the Custom Incentive Program for purposes of capping the customer’s rebate. PPLICA Comments, p. 10.

PPL Electric revised the text in the EE&C Plan to reflect the Company’s practice more clearly. PPL Electric’s practice has been to exclude a customer’s internal costs from the “project cost.” For example, if the total cost of a custom project is \$500,000 and customer’s internal labor is \$100,000 of that total cost, then the “project cost” for purposes of determining the rebate cap would be \$400,000. PPL Electric considers the customer’s internal costs as “sunk costs,” not “incremental costs,” that should not be offset by PPL Electric’s Act 129 rebates. Accordingly, PPL Electric revised the text to clarify what has been its practice.

PPLICA also seeks more information about the definition of “internal costs.” PPLICA Comments, pp. 10-11. PPL Electric clarifies that the term “internal costs” includes activities performed by the customer’s employees (i.e., wages and benefits), such as physical labor (e.g., installing the measure), engineering/design, management oversight, administration, and project management.

6. LP4 and LP5 Rate Schedules' Eligibility for the Multifamily Housing Program

PPLICA comments that PPL Electric revised the list of eligible rate schedules (added LP4 and LP5 Large C&I) for the Master-Metered Low-Income Multifamily Housing Program on page 157 of the black-lined EE&C Plan but failed to identify that revision as a formal change in the Petition. PPLICA Comments, p. 12.

PPL Electric revised the list of eligible rate schedule to clarify that this program is available to all rate schedules who meet GNI eligibility requirements (government, non-profit, and educational). In fact, all of the Company's GNI programs in the current EE&C Plan include these two rate classes. Consequently, PPL Electric made the textual revision to clarify that any LP4 or LP5 customer is eligible for this program so long as the building meets the four program eligibility requirements (i.e., master-metered, low-income occupants, owned by a GNI customer, and more than five living units).

C. CEO COMMENTS

1. Proposed Expansion of the De Facto Heating Pilot

In its comments, CEO supports the Company's proposed de facto heating pilot and encourages PPL Electric to increase the number of participants in that pilot beyond the proposed approximately 20 homes. CEO Comments, p. 1. PPL Electric notes that it is proposing this measure as a pilot to assess its viability for Phase III. PPL Electric believes it needs approximately 20 homes to assess the feasibility of expanding this measure in Phase III. Specifically, approximately 20 homes will enable PPL Electric to properly evaluate the variation of costs and savings between homes, to evaluate the alternatives for identifying participants, and to estimate the maximum number of homes that are candidates for this type of measure in Phase III. In addition, PPL Electric believes it is appropriate to limit the number of participants to

establish a reasonable budget cap for this pilot. If there are significantly more than 20 homes that warrant a de facto heating system replacement, PPL Electric believes those projects should be addressed in Phase III.

2. Proposed WRAP Tracking System Upgrade

CEO supports the Company's upgrade of its WRAP tracking system and requests additional information about how the upgrade "will improve the system and in particular how the upgrade will, if at all, improve the coordination of the Act 129 and Universal Services Programs so that low-income customers can better access and benefit from those programs." CEO Comments, p. 2.

The Low-Income Energy Assistance Programs ("LEAP") system is the new foundational tool ("tracking system") that PPL Electric uses to manage LIURP WRAP and Act 129 WRAP. Due to its architecture and age, the existing tracking system, "WRAP V," could not be updated to add the functionality, quality assurance, business controls, analytics, and future flexibility desired by PPL Electric, WRAP contractors, the PA Statewide Evaluator, and the Commission. Therefore, PPL Electric is replacing WRAP V with a new system named "LEAP." LEAP, like WRAP V, is the primary system PPL Electric uses to collect data (measures installed, cost of measures, etc.) for LIURP WRAP and Act 129 WRAP, to provide QA/QC, to provide analytics and reports (internal and for the SWE and Commission), and to manage the programs at the field level. LEAP tracks, among other things, the status of energy audits, materials installed, changes to materials installed, type of weatherization job, contractor invoices, and inspection of completed work.

LEAP is not just simply a replacement of WRAP V; it is more robust, efficient, and flexible. It includes benefits such as:

- Eliminating the need for PPL Electric to maintain paper files, notes, etc., and reducing paperwork for agencies and contractors.
- Improving communications by allowing agencies and contractors to communicate with PPL Electric and each other electronically.
- Allowing agencies and contractors to check on the status of LIURP WRAP and Act 129 WRAP jobs without having to contact the Company.
- Enhancing the efficiency and accuracy of processing WRAP and Act 129 WRAP jobs.
- Providing real-time customer and consumption data to agencies and contractors without the need for them to contact PPL Electric.
- Ensuring compliance with program requirements (e.g., matching program measures to the appropriate job type).
- Offering the ability to capture post-WRAP customer information (e.g., changes in the number of household occupants).

LEAP also has the flexibility and scalability to better support inter-utility coordination and to include other low-income programs offered by PPL Electric. For example, LEAP captures the installation date from other low-income weatherization programs (e.g., DCED's Weatherization Assistance Program). LEAP also documents customer referrals to other weatherization and utility programs. Furthermore, the system allows PPL Electric's staff to review premises that previously had received WRAP services to determine if the current occupants could benefit from additional WRAP measures. Thus, for these reasons, LEAP will improve the system and coordination of the Act 129 and Universal Services WRAP programs.

3. Proposed LED Give-Away to Low-Income Customers

CEO requests PPL Electric to confirm that the LED give-away is targeted to confirmed low-income customers. CEO Comments, p. 2. CEO also requests additional information on how the Company will distribute the LEDs. CEO Comments, p. 2. PPL Electric confirms the LEDs will be sent to low-income customers via direct mail. Please see Section II.A.1 for more information regarding these issues.

4. Proposed Call Center Costs for the Residential and Low-Income Energy Efficiency Behavior & Education Programs.

CEO seeks clarification as to the manner in which the call center costs for these programs will be prorated. CEO Comments, p. 2. PPL Electric will prorate the call center costs based on the number of participants in each program. There are approximately 128,000 participants in the Residential Energy-Efficiency Behavior & Education Program and approximately 70,000 participants in the Low-Income Energy-Efficiency Behavior & Education Program. Therefore, approximately 65% of the costs will be allocated to the Residential Energy-Efficiency Behavior & Education Program ($128,000/(128,000+70,000)$), and approximately 35% of the costs will be allocated to the Low-Income Energy-Efficiency Behavior & Education Program ($70,000/(70,000+128,000)$).

III. CONCLUSION

WHEREFORE, PPL Electric Utilities Corporation respectfully requests that the Pennsylvania Public Utility Commission approve the proposed modifications to the EE&C Plan, as set forth in the Company's Petition and these Reply Comments.

Respectfully submitted,



Paul E. Russell (ID #21643)
Associate General Counsel
PPL Services Corporation
Office of General Counsel
Two North Ninth Street
Allentown, PA 18106
Phone: 610-774-4254
Fax: 610-774-6726
E-mail: perussell@pplweb.com

David B. MacGregor (ID #28804)
Post & Schell, P.C.
Four Penn Center
1600 John F. Kennedy Boulevard
Philadelphia, PA 19103-2808
Phone: 215-587-1197
Fax: 215-320-4879
E-mail: dmacgregor@postschell.com

Devin Ryan (ID #316602)
Post & Schell, P.C.
17 North Second Street, 12th Floor
Harrisburg, PA 17101-1601
Phone: 717-731-1970
Fax: 717-731-1985
E-mail: dryan@postschell.com

Date: March 12, 2015

Attorneys for PPL Electric Utilities Corporation