



April 27, 2020

Pennsylvania Public Utility Commission
Secretary
Keystone Building, 2nd Floor Room N201
Harrisburg, PA 17120

RE: Act 129 Energy Efficiency and Conservation Program Phase IV, Docket M-2020-3015228. Joint comments of Energy Efficiency Providers.

Dear Ms. Chiavetta,

Attached find comments of Energy Efficiency Providers on the Commission's Tentative Implementation Order for Phase IV of Act 129. Copies of these comments have been provided directly to Staff as directed by the Commission's March 12, 2020 issuance in this docket.

Please direct any questions that you may have to:

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Sincerely,

A handwritten signature in black ink, appearing to read "Bruce Campbell".

Bruce Campbell

cc: Joseph Sherrick josherrick@pa.gov
Adam Young at adyoung@pa.gov.

Joint Comments of the Pennsylvania Energy Efficiency Providers on the Act 129 Phase IV EE&C Program Tentative Implementation Order.

Introduction

The Pennsylvania Energy Efficiency Providers (EE Providers) are pleased to offer comments on the Commission's Phase IV Tentative Implementation Order. EE Providers are an ad hoc group of businesses that provide energy efficiency services in Pennsylvania. The signatories provide a range of services in support of Pennsylvania's Act 129 goals to reduce electricity use and peak demand. EE Providers employ more than 326 Pennsylvania residents and facilitate millions of dollars in energy efficiency improvements. Many EE providers are registered Conservation Service providers.

Comments

Pennsylvania EE Providers support the Act 129 program and are pleased with the robust provisions for Phase IV. There is one element of the Tentative Implementation Order that we believe can be modified to generate and would support even more success for the program. Part 5. of the Tentative Order discusses "Bidding Peak Demand from Energy Efficiency Resources into the PJM Capacity Market". The discussion includes a recommendation "that for Phase IV the EDCs be required to nominate at least a portion of the expected peak demand reductions of their EE&C Plan into PJM's Forward Capacity market (FCM)." EE Providers believe that such a recommendation is misguided for the following reasons.

Competitive Challenges

A requirement for EDCs to nominate energy efficiency resources puts EDCs in the position of displacing existing businesses that already offer this capacity into PJM's FCM. These businesses work with energy efficiency developers and electricity customers to validate project eligibility for capacity status with PJM. The revenues derived from the FCM are shared by participants and used to underwrite participant costs and thereby enhance project value. If these revenues were returned to ratepayers, participant costs would increase and degrade the effectiveness of the energy efficiency projects that they currently support. In addition, a requirement for EDC's to bid this capacity would require that the utilities develop the capability to qualify the resources for PJM eligibility.

Value opportunity

Participation in PJM's FCM is a complex endeavor. There are multiple auctions with widely varying prices. In Phase II comments on this issue, various EDCs commented on the complexity and risk imposed by such activity. The complexity has only increased since Phase II. The timing elements of offering energy efficiency products create risks and complexity. Low risk bidding strategies are highly likely to result in very low value. One reason for this is that energy efficiency projects are not eligible for FCM participation until the delivery year after the year in which they are installed. Since many EE projects are developed after the initial auction, there can be significant risk in offering prospective projects into PJM's 3-year forward auction.

Energy Efficiency Provider Comments on Act 129 Phase 4 Tentative Implementation Order

Another issue is that energy efficiency has only four years of capacity eligibility. For example, a project installed in September of 2020 is first eligible for capacity payments in June of 2021. A low risk offering of the project could take place in March of 2021. However, this auction is expected to clear at a fraction of the initial, Base Residual Auction (BRA) price for 2021-22 of \$51,100/MWyr. The most recent auction price for 2021 from September 2019 had a clearing price of just \$8,395/MWyr. This pattern of Incremental Auction prices being substantially lower than BRA prices is long standing and the March 2021 auction is not expected to differ. The project can be offered in next available auction for each of the next 3 delivery years but would only gain maximum BRA value in the May 2021 BRA for the 2024-25¹ delivery year. This creates challenges and regulatory risks for EDCs that are compelled to offer into FCM.

While there is nothing in PJM rules to prevent offering of prospective projects for inclusion the BRA for which they may be first eligible, such offers pose the risk that the projects might not be built, or qualify for the committed capability, exposing the EDC to non-performance penalties. If a utility chose to participate in the PJM market prior to confirming energy efficiency MW reductions, the utility would face a 100% revenue forfeiture for any MW deficiency plus an additional 20% out-of-pocket penalty. Unregulated providers can take risks by offering into the BRA and using those cleared offers for the full 4 years of eligibility and return much greater value to the state.

Minimum Offer Price Rule

The Federal Energy Regulatory Commission (FERC) recently directed PJM to expand its Minimum Offer Price Rule (MOPR) to include all subsidized resources. There is every reason to believe that energy efficiency projects derived from Act 129 will be considered to be subsidized and subject to offer floors. In a subsequent ruling on Rehearing issues, the FERC directed PJM to apply an offer floor to EE at Net CONE, about \$283/MWday. Because auction prices have seldom cleared at this level, and never this high in Pennsylvania, this would require that all Act 129 derived EE projects develop alternate, resource specific offer floors for PJM approval in order to have a chance to clear. There is thus significant uncertainty regarding costs to participate in PJM markets. Notably even a low risk EDC bid strategy might not return any value for 3 of the 4 years of eligibility.

We urge the Commission to apply its Phase III disposition to Phase IV as well. For Phase III the Commission stated:

“The Commission will not require the EDCs to bid either EE or DR resources into the wholesale markets. However, we will allow the EDCs to voluntarily bid EE resources so into the wholesale markets if they find it feasible and reasonable to do so. As proposed, in such cases where an EDC does bid resources into the PJM markets, that EDC must allocate the revenue received from successful bidding to the customer class from which the savings were acquired. We accept the Industrials’ recommendation to require the EDCs to document in their EE&C Plans whether they intend to bid resources into the market. “

We note that the Commission considered this issue in the Phase II Implementation Order and provided a similar disposition.

¹ The example explains a normal auction cycle. The 2024-25 BRA date is uncertain.

Energy Efficiency Provider Comments on Act 129 Phase 4 Tentative Implementation Order

This formulation has served the needs of Pennsylvania for the entirety of Act 129 implementation and should continue into the future.

We appreciate this opportunity to share our concerns with the Commission.

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