

Energy Efficiency and Conservation Program and EDC Plans
Docket No. M-2008-2069887

Comments of PPL Electric Utilities Corporation

By letter dated November 26, 2008, in the above-captioned docket, the Public Utility Commission ("PUC" or the "Commission") circulated a Working Group Draft Implementation Order ("WG Draft") and additional questions relative to the first phase of implementing Act 129 of 2008 ("Act 129" or the "Act"). Comments on the WG Draft and the Commission's questions are due by December 8, 2008.

PPL Electric Utilities Corporation ("PPL Electric" or the "Company") has been an active participant in the Commission's proceedings to develop an Act 129 implementation plan. The Company filed comments on November 3, 2008 at this docket; it filed responses on November 14, 2008 to CEEP's Questions for the November 19, 2008 HB 2200 *En Banc* Hearing; and it filed responses on November 26, 2008 at Docket No. M-2008-2074154. In addition, Company representatives participated in the November 19, 2008 HB 2200 *En Banc* Hearing and the November 14, 2008 meeting of the Retail Markets Working Group. PPL Electric appreciates the opportunity to continue its participation in these important initiatives by the Commission to ensure comprehensive implementation of Act 129.

The Company's comments, which are attached hereto, follow the same organization as the Commission's November 26, 2008 letter. Attachment A contains PPL Electric's comments to the questions set forth in Attachment A to the Commission's letter. Attachment B contains PPL Electric's comments to the WG Draft set forth in Attachment B to the Commission's letter.

ATTACHMENT A

Attachment A Comments

1. Efficiency targets/Goals:

- a) **Should the Commission use the average usage during the 100 highest peak hours during the entire reference year, or the average usage during the 100 highest summer peak hours when calculating the peak demand reduction targets for each EDC?**

PPL Electric believes that the 100 highest peak hours should not be taken from the entire year, but, rather, only from the summer. The Company recommends using the traditional PJM summer months of June through September. The Company believes that the demand reduction targets of Act 129 are designed to address supply and demand in those periods when energy prices are the highest in order to cause those prices, on an average basis, to be lower. Those periods would be the highest demand hours in the summer. However, about 40% of PPL Electric's highest demand hours are in the winter and a year-round approach would require the Company, and any other Electric Distribution Company ("EDC") similarly situated, to invest some of its programs on those non-summer hours even though those are not likely to be periods when energy prices are high. As a result, high prices might not be reduced to the extent they otherwise could be. Furthermore, PPL Electric and other similarly situated EDCs might face a higher risk of non-compliance by having to split their available resources between summer and winter programs.

- b) **Does Act 129 require reductions down to a fixed level, or require a fixed amount of decrease? How should this be calculated? Should the consumption reduction requirements contained in Section**

2806.1(c) be treated the same as the demand reduction requirements contained in Section 2806.1(d)?

As the Company commented in its November 3, 2008 response to the Secretarial Letter dated October 20, 2008, and as the Company's witness testified at the *En Banc* hearing on November 19, 2008, PPL Electric believes that the targets in Act 129 require fixed amounts of decrease, for both sales and demand. Similarly, individual measures and plans should be evaluated, both for approval and after the fact, on the basis of fixed amounts of decrease. PPL Electric proposes that the targets be established as follows:

- The appropriate target for retail sales reductions is the forecast for the period June 1, 2009 through May 31, 2010 multiplied by the reduction percentages (i.e., 1% for the period June 1, 2010 through May 31, 2011 and 3% for the period June 1, 2012 through May 31, 2013) to achieve fixed amounts of kwh decrease. The 2009-2010 forecast should be weather-normalized using methods that are consistent with each individual EDC's practice for weather-normalizing sales. Energy Efficiency and Conservation ("EE&C") Plans should be evaluated against their ability to achieve the resultant fixed decreases and annual reporting should measure progress and cost-effectiveness toward achieving those reductions in consumption.
- The appropriate target for demand reductions in the highest 100 hours of demand is the average kw demand during the 100 hours

of highest demand during the period June 1, 2007 through September 30, 2007 (see discussion above supporting the use of summertime hours, only) multiplied by the reduction percentage (i.e., 4.5% for the period June 1, 2012 through May 31, 2013) to achieve a fixed amount of kw. Plans should be evaluated against their ability to achieve the resultant fixed decrease and annual reporting should measure progress and cost-effectiveness toward achieving those reductions in peak demand.

PPL Electric believes that this approach is consistent with the language of Act 129 and also consistent with the Act's reliance on plans that consist of individual measures that will be subject to evaluation using the Total Resource Cost ("TRC") Test. An individual measure will be defined by a specific plan, cost estimate for a particular scope of obtaining a specific number of customer participants, and a set of benefits that will be estimated on a per participant basis consistent with assumptions regarding the participants' behaviors. This process will result in an estimate of a fixed amount of kwh reduction or kw reduction. Completed measures will be evaluated as to their cost effectiveness on an estimate or measurement of the fixed amount of reduction actually achieved. The effectiveness of a plan, and consequently an EDC's compliance, will be measured by aggregating the fixed amounts associated with each of the individual measures that make up the plan. This aggregation will reflect meter reads, savings determined by the Technical Reference Manual

("TRM"), PJM determinations and other measurements appropriate to the specific energy efficiency, conservation or demand reduction measure. PPL Electric believes that the use of a fixed level instead of a fixed amount of decrease would be completely inconsistent with the emphasis placed by the language of the Act on individual measures and their evaluation. The Company believes that, had that been the intent, the Act could have simply capped spending and measured the fixed result without expending the effort and administrative costs on individual measure evaluation and the establishment of the TRC Test as a yardstick.

2. Program Design:

- a) **Statewide vs. EDC specific: Should the Commission encourage, by policy, a statewide approach to some programs that are likely to be effective across Pennsylvania? For example, should rebate programs be harmonized across the state? Should specific programs, such as Energy Audits, PJM load reduction programs, Home Performance with Energy Star, and Energy Star Homes be consistently available in all EDC service territories? If so, what programs should the EDCs implement consistently across the state?**

As PPL Electric noted in its responses to the questions posed by CEEP for the En Banc hearing on November 19, 2008 (Reference Question 5b), PPL Electric recognizes that all programs may not work well with all customers. Programs for different types of housing stock (e.g., urban versus rural areas, multifamily versus single family units, etc.) may require different program characteristics to increase effectiveness. EDCs should have flexibility to determine what works best for their customers. PPL Electric

would support a process that identifies categories of programs designed for certain customer types, and allows utilities to implement programs from within those categories. For example, in the residential sector, home energy audits may be a program that merits consideration. PPL Electric would support identification of a statewide standard for home energy audits (Building Performance Institute, or BPI, for existing homes and Residential Energy Services Network, or RESNET, for new construction), or as noted in the question, Home Performance with Energy Star. However, rebates for those programs should be tailored to reflect the unique characteristics and market conditions for each EDC. The Company also believes that two or more EDCs should not be precluded from proposing in their respective plans joint or coordinated programs where such an approach can be reasonably demonstrated to be efficient and in the interest of the EDCs and their customers, and may in fact be uniform statewide. And, while noting this possibility, PPL Electric reiterates that the differing demographics, climate, customer mix, and economic conditions in the Commonwealth, make it unlikely that a specific program would be cost effective in every EDC territory. EDCs will need to select programs that meet their obligations for Act 129 in the manner that proves most cost effective for their unique circumstances

- b) Can Act 129 programs have negative impacts on existing cost effective energy efficiency and demand side programs by 3rd parties? If so, how can this Commission avoid damaging existing 3rd party efforts when socializing Act 129 energy efficiency and demand side**

programs through non-bypassable charges to all customers, while increasing customer participation in these services?

PPL Electric recognizes that there may be existing programs offered by third parties, as well as EDCs, which provide customers options to reduce demand and/or use energy. The Company expects that the third parties or EDCs may choose to continue to offer these existing programs, to modify those programs to conform with Act 129, or to terminate those programs. The Company believes that programs offered by third parties, as well as EDCs under Act, should be evaluated on their own merits. Programs that are effective, and run economically, will continue to be successful and offer consumers in the Commonwealth the greatest opportunities to reduce demand and increase energy efficiency.

c) Should the Commission seek to harmonize Act 129 programs with other Federal, State, local, RTO or other group programs? If so, what specific programs should this Commission encourage EDCs to replicate, incorporate, or leverage as part of their compliance filings? How can this best be achieved?

The Company believes that undertaking a variety of efforts offers the greatest opportunities for consumer savings. In developing its EE&C Plan, PPL Electric will first emphasize opportunities that are not duplicative of existing programs. In this manner, overall reduction in demand and energy consumption can best be achieved. The Company anticipates that the Commission will allow modifications to plans that are filed so that efficiencies are achieved (as measured by the TRC Test). Thus, the positive impacts of programs offered by EDCs, as well as other groups, will be maintained.

3. Total Resource Test

a) How can the Total Resource Cost Test that must be approved by the Commission under Sections 2806.1(a)(3) and 2806.1(b)(1)(i)(1) be simplified?

PPL Electric believes that it is desirable to establish a TRC Test that is simple and able to provide consistent results that are in the interests of all stakeholders when applied to different energy efficiency and conservation measures. The Company believes that the best way to accomplish this is to establish a small, narrowly focused working group for the purpose of starting from the California Standard Practice Model version of the TRC Test, establishing a common understanding of the Test, and recommending modifications in two areas:

1. Those which are judged necessary to conform to the unique circumstances of Pennsylvania's retail electricity market and of PJM's wholesale market, and
2. Those which can simplify the application of the Test.

The Company believes that the prior efforts of the AEPS Working Group in developing a consensus TRM should serve as a model for this effort. The Company acknowledges that a final TRC Test is required so that EDCs can define the measures that will be included in their plans and those plans can be filed timely. However, the Company also believes that the early work of measure identification and plan development will be adequately supported by the existing California model and that if a final version is available by February 15 it will not delay the filing of EE&C Plans.

- b) The Act defines “Total Resource Cost Test” (TRC test) as “a standard test that is met if, over the effective life of each plan not to exceed 15 years, the net present value of avoided monetary cost of supplying electricity is greater than the net present value of the monetary cost of energy efficiency conservation measures.” Under this definition, may the Commission limit consideration of monetary costs to the costs incurred by the EDC?**

PPL Electric believes that the correct measure of cost should be costs incurred by the EDC, plus any costs incurred by the participant. In the event that the EDC fully covers the cost of the measure, then there would be no additional participant costs. However, in the event the EDC program only partially covers the cost, as would be the case with a rebate to defray the cost of a measure, there would be some participant cost that would need to be reflected in application of the TRC Test.

- c) Can the TRC test include avoided environmental costs or other avoided societal costs?**

PPL Electric believes that the TRC Test should and will reflect environmental and societal costs that have been monetized through Federal or State legislation or regulation. For example, costs to address Acid Rain are reflected in the energy costs that will be used in the analysis by virtue of the fact that the 1990 Federal Clean Air Act Amendments and associated rulemakings have established costs associated with sulfur dioxide and nitrogen oxide emissions and those costs are reflected in the price of wholesale energy. Similarly, the Commonwealth’s support for renewable generation established in the Alternative Energy Portfolio Standards Act is reflected as a component of the retail price of electricity. The Company strongly believes that the monetization of other

environmental or societal factors outside of specific legislation is inappropriate, and that these issues are more appropriately addressed by legislation. One example often raised in this regard is the inclusion of a carbon tax, cost for carbon dioxide emissions, or other mechanism to address global climate change issues. Without commenting here on the merits of such mechanisms, PPL Electric believes that the modeling of such mechanisms in the TRC Test can only follow legislative action to implement such mechanisms.

- d) If the Commission limits costs considered under the TRC test to those incurred by the EDC, should the Commission exclude costs not incurred by the EDC from the test?**

See response to Question 3.b, above.

- e) If participant costs that are not paid by the EDC are included, should these costs be reduced by tax credits under the AEPS Act received by the participants?**

PPL Electric believes that the TRC Test should reflect the true cost of the measure and, therefore, tax credits as well as grants that may be provided from sources other than the EDC should be reflected in the analysis.

- f) What elements of the “avoided monetary cost of supplying electricity” should be included in the TRC test?**

PPL Electric believes that the avoided cost of supplying electricity should reflect the following components:

1. The avoided cost of generation supply (energy, capacity, ancillaries, and line losses consistent with PJM’s definition of these items). The Company believes that these items should reflect a forecast of each

EDC's marginal price (the EDC zonal clearing price for energy, capacity market clearing price for capacity, and other relevant markets or indicators for ancillary services). The forecast should reflect those hours that are most appropriate for the measure (e.g., a price weighted to off-peak hours would be more appropriate for residential lighting measures, but a price weighted to on-peak hours might be more appropriate for lighting measures applied to an office application). The Company believes that a projection of zonal price is a more appropriate measure than, for example, the results of an individual EDC's default service procurement because use of the zonal forecast results in an analysis that is more likely to be neutral to a customer's decision to pursue competitive retail supply.

2. The avoided cost of transmission service which is Network Integration Transmission Service as defined by PJM.
3. The avoided cost of distribution service as that component exists in the tariffs of each EDC. The Company understands that this measure is not an avoided cost, but, instead, reflects the embedded cost of distribution service. However, the marginal cost of additional distribution investment is very difficult to establish. First and foremost, most widespread energy efficiency and conservation measures do not avoid distribution investment, but only delay such investment until either equipment age or cumulative load growth make the investment necessary. The Company acknowledges that some measures may be

large and focused on a particular segment of the distribution system where a specific investment might be avoided. The Company believes that such instances can be properly addressed as exceptions to the general rule.

- g) Should these costs be valued at the “marginal costs for the periods when there is a load reduction” as required by the draft Implementation Order? What does this mean precisely?**

See response to Question 3.f, above.

- h) Should the methodology for calculating the Net Present Value (NPV) and B/C ratio set forth in *The California Standard Practice Manual – Economic Analysis of Demand-Side Programs and Projects* (July 2002) be used, or is there a better alternative?**

While PPL Electric believes that the methodology presented in the referenced California Manual is adequate and appropriate, the Company believes that this would best be confirmed by the working group proposed in the Company’s response to Question 3.a, above.

- i) What discount rate should be used in the calculation of NPV? How frequently should it be reevaluated? Should it be established for each EDC service territory, or for the Commonwealth as a whole?**

PPL Electric believes that the appropriate discount rate for calculation of net present value in the TRC Test is each EDC’s weighted cost of capital as determined in an appropriate proceeding before the Commission.

However, the Company also believes that this approach should be confirmed by the working group proposed in the Company’s response to Question 3.a, above.

- j) Should the elements used in the calculation of an EDC's total annual revenue be the same elements used to calculate the "avoided monetary cost of supplying electricity" under the TRC test?**

PPL Electric's comments on the Commission's draft order (see Attachment B, Section J.1) include a discussion of costs that should be excluded from the calculation of total annual revenues. The Company's response to Question 3.f, above, identifies the costs that the Company believes should be included in determining the avoided cost of supply. The Company further observes that, because the avoided cost of supply is a marginal cost and an EDC's annual revenues reflect average costs, these two should never be identical.

- k) The gas industry raised some interesting points on the net impact of displacing natural gas heating equipment (space and water) with electricity heating equipment. Should the TRC test include parameters to capture the consequences of net energy gains or losses in delivering alternative fuels to consumers?**

Because the legislature did not place any limitations on the use of natural gas, propane, fuel oil, or other fossil fuels as substitutes for electricity, PPL Electric believes that it would be inappropriate for the TRC Test to be modified to include cost factors other than the quantity of the fuel, its projected cost, the cost of equipment necessary to implement the measure, and any other costs normally incurred as a result of such a substitution. However, the Company notes that, in the same way that Act 129 is intended, at least in part, to alter the supply and demand relationship for electricity in order to achieve price reductions, the large scale substitution

of fossil fuels will alter the supply and demand relationship among those fuels with the result that prices of those fuels may increase.

4. Evaluation, Measurement and Verification:

- a) Should the Commission use a statewide, independent evaluator hired by the Commission to review EDC compliance with Act 129, pursuant to 2806.1(b)(1)(i)(J)? What would the advantages and disadvantages of consolidating this review process?**

PPL Electric interprets Act 129 to require that the Commission conduct an evaluation of the entire statewide effort, in particular, to address additional reduction targets. The Company believes that this function is most appropriately performed by an independent evaluator. In its November 3, 2008 comments, the Company recommended that the cost of such an evaluator be recoverable from ratepayers. The Company believes that each EDC should be free to engage its own independent evaluator to assess the results of its plan.

- b) What programs lend themselves to a “deemed savings” approach, and what programs require more rigorous pre- and post-verification processes? How often should savings estimates be reviewed and how?**

PPL Electric believes that measures that involve standard consumer products are those that are the most amenable to the “deemed savings” approach. Measures that involve Compact Fluorescent Light bulbs, and energy efficient appliances are examples of measures particularly suited to the deemed savings approach. This may also include such commercial measures as relamping and energy efficient motors. This approach should also be used for building standards and for upgrades of existing buildings

to new building standards. The Company believes that a working group similar to the one that developed the Commission's TRM should be formed and charged with extending the use of the deemed savings approach to as many measures as practicable.

- c) **The Commission has a revised draft update to the 2005 Technical Reference Manual (TRM) that provides energy savings calculations for standard measures. The draft update is ready to be reviewed by interested parties. Should the Commission use a Secretarial Letter process to seek comments on this and subsequent updates to the TRM in the future? What timetable would be optimal for periodically updating the TRM?**

PPL Electric believes that a Secretarial Letter approach can be used to seek comments on the TRM. As noted in response to Question 4.b, above, the Company believes that a working group similar to the one that developed the Commission's TRM should be formed and should, among its duties, establish review procedures and a timetable for review.

- d) **In addition to the TRM for standard measures, should the Commission adopt a standard measure and evaluation protocol for determining the energy savings from the installation or adoption of non-standard or custom measures not addressed in the TRM? If so, what protocols should be adopted? Comments to date have included the following protocols: 1) International Performance and Measurement Verification Protocol; 2) ISO New England Protocol; and 3) DOE Energy Star Portfolio Manager.**

PPL Electric believes it would be desirable to establish standard measurement and evaluation protocols to the extent practicable. The Company does not, however, have sufficient knowledge, at this time, of what protocols may be available and, therefore, offers no opinion on the use of any particular protocol. The Company does believe, however, that a

standard measurement and evaluation protocol should be consistent with the TRC Test and the TRM.

e) How might the Commission simplify and streamline the monitoring and verification of data so as to maximize resources for program measures but enable a thorough evaluation of program results consistent with Act 129 requirements?

Consistent with its comments regarding other procedures and processes required by Act 129, PPL Electric supports streamlining and simplification to the extent such streamlining and simplification is consistent with the requirements of the Act, and properly reflects the interests of the various stakeholders. In regard to measurement and evaluation, the Company believes that the use of the deemed savings approach for as many measures as practicable will significantly simplify the measurement and evaluation process.

f) Should the Commission adopt standard data collection formats and data bases for the evaluation of program benefits and results that would be used across all EDC service territories?

Consistent with its comments regarding other procedures and processes required by Act 129, PPL Electric supports standardization in the interest of simplicity and reducing administrative burdens to the extent that such standardization is consistent with the requirements of the Act and properly reflects the interests of the various stakeholders. In regard to standard data collection formats, any effort to standardize would need to be pursued in conjunction with efforts to establish a standard evaluation protocol discussed in Question 4.b, above.

5. Revenue Requirement:

- a) **The Act defines “Electric Distribution Company Total Annual Revenue” as amounts paid to the EDC for “generation, transmission, distribution and surcharges” by retail customers. What “surcharges” should be included in the calculation of an EDC’s total annual revenue?**

PPL Electric believes that the calculation of an EDC’s total annual revenue should include all "surcharges" set forth in the EDC's retail tariff, and reflected in its retail rates as of December 31, 2006. For example, in PPL Electric's case, such surcharges would include: the Competitive Transition Charge, the Intangible Transition Charge, the State Tax Adjustment Surcharge, and the Transmission Service Charge. Other Pennsylvania EDCs' retail tariffs and retail bills may include additional "surcharges" not summarized above.

Such a comprehensive interpretation of the definition of "Electric Distribution Company Total Annual Revenue" should avoid unduly low limitations on the total cost of an EDC's plan, and thereby facilitate the development of energy efficiency and conservation programs in Pennsylvania. This result is wholly consistent with the General Assembly's findings in Act 129 that "it is in the public interest to adopt energy efficiency and conservation measures," and "it is in the public interest to expand the use of alternative energy and to explore the feasibility of new sources of alternative energy."

6. Cost Recovery Issues:

- a) **Can one class of customers have EE&C charges in excess of 2% of class revenues, due to an abundance of cost effective opportunities relative to other customer classes, while overall EE&C charges remain below 2% of revenues for the utility as a whole?**

Yes. PPL Electric believes that the limitation on costs established by Section 2806.1(g) should be applied on the basis of each EDC's total annual revenue as of December 31, 2006. It is not intended to be applied on the basis of customer class revenue. As the Commission Staff notes on page 16 of the WG Draft, "it is entirely possible that the most cost-effective EE and DR programs may not come proportionately from each customer class." PPL Electric agrees. Thus, it is possible that one class of customers could have EE&C charges in excess of 2% of annual class revenues while other customer classes have lower charges. At the same time, overall EE&C charges would remain below 2% of annual revenues for the EDC as a whole.

7. CSP Issues:

- a) **Does the definition of "Conservation Service Provider" (CSP) in the Act prohibit an affiliated company of an EDC from serving as a CSP to an EDC other than its affiliate?**

No. As discussed in its comments filed with the Commission on November 3, 2008, at Docket No. M-2008-2069887, and reiterated in its November 14, 2008 responses to CEEP's questions the Company believes that an improper interpretation of the definition of CSP could severely limit the number of entities that could act as CSPs. In its comments, and responses, PPL Electric pointed out that, under an improper interpretation

of that definition, an entity affiliated with an EDC would be precluded from acting as a CSP for its affiliated EDC or for any other EDC in Pennsylvania. Such an interpretation would not make sense. An affiliate of one EDC acting as a CSP for another EDC provides absolutely no basis for any concerns regarding improper transactions among affiliates. Moreover, such an interpretation would be counter-productive because it would reduce the number of entities likely to have significant expertise in the implementation of energy efficiency and conservation programs. The result ultimately being paid by customers. For these reasons, PPL Electric recommends that the PUC adopt an interpretation of Act 129 under which an entity affiliated with an EDC would be precluded from acting as a CSP only for its affiliate, and would be permitted to act as a CSP for any other EDC in Pennsylvania.

b) Are there existing barriers to CSP market development that the Commission should address in the context of Act 129? For example, what data access, meter access or other barriers should the Commission accelerate resolution of in order to enhance Act 129 goal achievement?

PPL Electric is not aware of any particular barriers to the development of the CSP market. The Company believes that Act 129 establishes a basic framework and a demand for services that should encourage the participation of CSPs. As the question suggests, however, issues may exist relative to logistics such as data collection, meter access, and customer information which may introduce inefficiencies that create

barriers to the entry of CSPs and development of the market. In this regard, the Company offers the following suggestions:

1. In addition to energy efficiency and demand reduction programs, Act 129 addresses the timeline for EDCs to provide smart meter technology. Any issues relative to meter data and meter access need to be resolved in a manner that is consistent with those provisions of Act 129.
2. The availability of customer information and the role that customer information may play in CSPs marketing measures to a receptive audience are critical and may need to be addressed on an accelerated basis.

c) How should the Commission ensure that EDC self supplied EE&C programs are more cost effective than similar services offered by CSPs? Should this Commission require EDCs to demonstrate in their implementation filing that their self supplied program is more cost effective than similar CSP provided services?

As PPL Electric commented in its November 3, 2008 filing, the Company believes that the TRC Test can be used to determine, for two similar measures, whether the different costs or benefits associated with an EDC offering as compared to a CSP offering result in one being more cost effective than the other.

ATTACHMENT B

Comments to Attachment B

A. Plan Approval Process:

On page 8 of the WG Draft, Staff lists the items that must be included in each EE&C Plan filing, including "approved contract(s) with one or more CSPs and a description of the competitive bidding process used to select the CSPs." PPL Electric believes that this filing requirement could create a potential timing concern. The Company plans to hire a consultant to help it design, create and obtain Commission approval of its EE&C Plan. As recognized by the Staff, on page 26 of the WG Draft, the costs incurred to design, create and obtain Commission approval of an EE&C Plan are recoverable. However, the Company must select and retain the design consultant to provide such assistance before it files its EE&C Plan with the Commission, and before the Commission has approved that plan. PPL Electric believes that the approach recommended by the Company in its response to Section G should adequately address this issue.

On page 9 of the WG Draft, Staff indicates that each EE&C Plan will be referred to an Administrative Law Judge who will hold, if necessary, "evidentiary hearings on any material issue of disputed facts." PPL Electric believes that such evidentiary hearings, if needed, should be limited only to issues related to the EE&C Plan. The evidentiary hearings should not be an opportunity for intervening parties to raise other issues related to the EDC's rates or service. The Company believes that the Staff intends that the evidentiary hearings be narrowly focused, particularly in light of the short time period established by Act 129 for the Commission's review and

approval of an EE&C Plan. However, to remove any doubt regarding this issue, PPL Electric requests that the Commission specifically state that the evidentiary hearings will be limited to material issues of disputed facts related to the EE&C Plan.

B. Plan Effectiveness Evaluation Process

On pages 9 and 10 of the WG Draft, the Staff sets forth an approach to evaluating the effectiveness of an EE&C Plan. PPL Electric agrees with the proposed approach. The Company believes that the TRM is an appropriate starting point for the evaluation process and further, and agrees that the TRM should be updated and expanded to fulfill the requirements of Act 129. The Company also agrees that a standardized format for reporting the data is appropriate. PPL Electric looks forward to working with the Commission, its Staff and other stakeholders to develop the updated TRM and the standardized reporting format.

C. Cost – Benefit Analysis Approval Process

PPL Electric is in general agreement with the WG Draft on the matter of Cost-Benefit analysis discussed on pages 10 through 12 of the draft. However, the Company elaborates, below, on certain specific issues:

- The Company concurs with the use of the TRC Test as spelled out in the California Standard Reference Manual as the starting point for Pennsylvania's own test. The Company has commented in Attachment A, Section 3h to this effect and, also, that the Commission should engage a small working group to review the California model and develop specific recommendations.

- On page 12, the WG Draft solicits comments on the appropriate discount rate for use in performing present value calculations. The Company has commented, in Attachment A, Section 3i, that the appropriate discount rate for use in the TRC Test for the purpose of calculating present worth values is each EDC's weighted average cost of capital as determined in an appropriate regulatory proceeding.
- On page 11, the WG Draft solicits comments on the costs and benefits to be included in the TRC Test. The Company has commented, in Attachment A, Section 3b, that it believes that all EDC costs and participant costs not covered by the EDC through a grant or other subsidy should be reflected. The Company has also commented, in Attachment A, Section 3e, that tax credits and grants from sources other than the EDC should also be reflected. In Attachment A, Section 3c, the Company has commented that the only environmental or societal costs that should be reflected are those that have been integrated into the cost of supply at either the wholesale level (as is the case for SO₂ and NO_x emissions under the 1990 Federal Clean Air Act Amendments and subsequent rulemakings) or retail level (as is the case for the Commonwealth's support for renewable generation as enacted through the Alternative Energy Portfolio Standards Act of 2004 and subsequent amendment and rulemaking). Finally, the Company has commented, in

Attachment A, Section 3f, that supply costs should include generation (reflective of energy, capacity, and ancillary services at the marginal prices established in PJM markets, acknowledging that markets may not exist for certain ancillary services), transmission (priced in accordance with PJM's pricing of Network Integration Transmission Service), and distribution which the Company believes is best priced using tariffed distribution rates rather than introducing the complexity of attempting to establish estimates of avoided distribution investment which may vary from measure to measure and are, by their nature, highly speculative."

D. Process to Analyze How the Program and Each Plan will Enable EDCs to Meet Reduction Requirements

On pages 12 through 15 of the WG Draft, the Staff discusses its proposed approach to calculating the reduction targets required by Act 129, and then determining whether an EDC has achieved the required reductions. Specifically, on page 15, the Staff indicates that "the statutory targets are intended to reflect energy and demand savings, as opposed to absolute reductions." PPL Electric agrees.

In its response to question 1(b) of Attachment A, above, the Company discusses how the targets would be calculated under the "savings" approach. PPL Electric will not repeat that discussion here. However, the Company would like to explain briefly why it believes the "savings" approach is appropriate.

First, the "savings" approach is consistent with the language of Act 129. Both Section 2806.1(C), regarding reductions in consumption, and Section

2806.1(D), regarding reductions in peak load, require that the reductions be measured against a specific historic period. PPL Electric acknowledges that neither of these sections specifies how those measurements are to be made. However, the “savings” approach is consistent with the general statutory language in that the fixed amounts of reduced consumption and reduced peak load are calculated on the basis of the designated historic periods.

Second, the “savings” approach does not discourage future economic development in the Commonwealth. PPL Electric, and many other EDCs in Pennsylvania, have actively supported economic development in their service areas for many years, and continue to do so today. Under the “savings” approach, an EDC can achieve the required reductions in consumption and peak load, even if the economy in its service area is growing. Under other approaches to determining compliance, such a result would not be possible. Under those other approaches, an EDC would have to anticipate economic growth in its service area and incorporate the impact of that growth in its EE&C Plan. As a consequence, the EDC would have little incentive to support economic development and, in fact, would have an incentive to discourage it. In the alternative, the EDC would be forced to over-comply, i.e., achieve reductions beyond the requirements of Act 129, or face exposure to a significant civil penalty.

Third, the “savings” approach does not reward or penalize EDCs for external events outside their control. One such external event is economic growth, discussed above. Under other approaches to determining compliance with Act 129, an EDC would be rewarded if the economy in its service area is declining, because it

could more easily meet its reduction targets. Conversely, an EDC would be penalized if the economy in its service area is growing, because it would have a more difficult time meeting its reduction targets and, in fact, may be unable to meet those targets. Another example is customer behavior outside the programs in the EDC's plan. If customers conserve, the EDC would be rewarded; if they fail to conserve, the EDC would be penalized. The "savings" approach avoids these unfair results.

Fourth, the "savings" approach is consistent with the way in which customers think about conservation. They expect programs to deliver a specific level of reductions, and would anticipate that an EDC's performance would be measured on the same basis. As the requirements of Act 129 and EDC's plans under the Act are publicized throughout the Commonwealth, use of the "savings" approach to determining compliance should facilitate customer understanding of and enthusiasm for these programs.

Fifth, and finally, under the "savings" approach, results are easily verifiable. The Commission will have many sources of information for such verification, e.g., experience in other states, data in the Commission's TRM and input from experienced CSPs. This ease of verification should support efficient Commission review and approval of the results of EDCs' plans.

E. Standards to Ensure that a Variety of Measures are Applied Equitably to all Customer Classes.

On pages 16 and 17 of the WG Draft, the Staff sets forth an approach regarding the distribution of EE&C measures among customer classes. PPL Electric agrees with the proposed approach. By focusing on the most cost-effective use of

resources, the approach recommended by the Staff will fully support the objectives of Act 129. Any attempt to apply a mechanical "prorated" approach to distributing EE&C measures among customer classes could lead to a situation where the EDC implements a sub-optimal mix of programs that fail to achieve the most energy savings per expenditure.

F. Process to Make Recommendations for Additional Measures

On pages 17 and 18 of the WG Draft, the Staff sets forth a proposed process for recommending additional measures that enable an EDC to improve its plan. PPL Electric generally agrees with the process outlined by the Staff, but would like to make one comment. Under the Staff's proposed approach, the Commission, the EDC and other stakeholders can recommend changes to the EDC's plan in the context of reviewing the annual report required by Act 129. However, it is important to recognize that many of the programs in an EE&C Plan will take more than one year to produce the anticipated results. Any process for an annual review, and potential modification, of an EE&C Plan should recognize the effective lives of the programs contained within that plan.

G. Procedures to Require Competitive Bidding and Approval of Contracts with CSPs.

On pages 18 through 20 of the WG Draft, the Staff outlines a proposed process for Commission review and approval of competitive bidding for and contracts with CSPs and those contracts. PPL Electric generally agrees with the proposed process, with the following exception. PPL Electric believes that the Commission's procedures should permit EDCs to propose, as part of their plan for Commission

approval, a solicitation and evaluation process as well as standard form contracts and agreements that would be put in place between the EDC and CSPs during the plan's implementation. The short timeframe required for EDCs to submit an EE&C Plan with the Commission may not allow sufficient time to select and negotiate contracts with CSPs prior to the submission of the plan, other than an entity to assist with plan formation and submittal.

In addition, PPL Electric proposes one clarification to the 15 day review process described on page 20 of the WG Draft. PPL Electric believes the RFPs to select CSPs will be part of the plan that will be filed on July 1, 2009. After the Commission approves the plan, PPL Electric will conduct the RFPs, and the Commission will have 15 days to review the results of the RFP. If no decision is issued after 15 days, the results will be deemed approved.

H. Procedures to Ensure Compliance with Consumption Reduction Requirements

On pages 20 through 22 of the WG Draft, the Staff sets forth procedures for ensuring compliance with the consumption and peak load reductions required by Act 129. PPL Electric generally agrees with the proposed procedures, but requests the following two clarifications. First, the commission directs each EDC to provide a proposed expected load forecast with its plan for Commission approval. Typically, load is meant to describe the total energy, including system losses, required to meet customer needs. Sales are the metered usage at the customer's location, and would exclude system losses. PPL Electric requests that the Commission clarify whether it is seeking load data or sales data, as defined above.

Second, the compliance period is defined as June 1 through May 31. If the definition of load forecast means sales, then are adjustments to be made for unbilled sales during the compliance period? Because customer meter reads do not all start on June 1 and end on May 31, to match the compliance period, billed sales would need to be adjusted for the net unbilled sales for the period. PPL Electric also requests clarification of this issue.

I. Participation of Conservation Service Providers

On page 23 of the WG Draft, the Staff identifies a separate proceeding, at Docket No. M-2008-2074154, which was initiated to establish the qualifications that entities must meet to be included in the Registry mandated by Act 129. As explained in its comments to CEEP's Questions for the November 19, 2008 HB 2200 *En Banc* Hearing and reiterated in its responses at Docket No. M-2008-2074154, PPL Electric believes that Section 2806.2 of Act 129 does not limit the Registry only to those entities that are eligible to serve EDCs as CSPs. Rather, Section 2806.2 requires that the Registry be open to all entities qualified to provide conservation services to all classes of customers. For example, it would be unreasonable and unduly discriminatory to exclude otherwise qualified persons from the Registry merely because they were affiliates of EDCs. In order to comply with Section 2806.2, anyone qualified to provide conservation services to customers must be permitted to be included in the Registry, regardless of whether they otherwise qualify as a CSP. However, PPL Electric believes that the Commission can establish additional experience and other qualifications for a provider to be included in the broader Registry.

J. EDC Cost Recovery

1. Determination of Allowable Costs

On pages 24 and 25 of the WG Draft, the Staff requests that each EDC confirm the amount of total revenue for calendar year 2006 set forth in the draft and, based on the 2% limitation set forth in Act 129, calculate the maximum level of spending on EE&C measures that will be recoverable under the EDC's plan. Act 129 provides clear guidance regarding the specific revenues to be used in determination of the 2% limitation on costs. Section 2806.1(g) states that "the total cost of any plan required under this section shall not exceed 2% of the electric distribution company's total annual revenue as of December 31, 2006." Section 2806.1(m) defines electric distribution company total annual revenue to be "amounts paid to the electric distribution company for generation, transmission, distribution and surcharges by retail customers."

Based upon the definitions cited above, the Company believes that the following revenues should be removed from the total PPL Electric revenues set forth on page 25 of the WG Draft:

- \$158 million in "Sales for Resale", which are PPL EnergyPlus payments to PPL Electric for output from Non-Utility Generators ("NUGS").
- \$134 million in "other Electric Revenues", which includes PJM payments to PPL Electric for Network Integration Transmission Service ("NITS") and other PJM payments and charges.

- \$32 million in "Rent from Electric Property", which is pole attachment revenue.
- \$10 million in "Customers Forfeited Discounts and Penalties".

After these adjustments have been made, PPL Electric's 2006 total annual revenue was \$3,069,413,075. Applying the 2% limitation set forth in Act 129, PPL Electric's maximum level of spending on EE&C measures will be \$61,388,262 per year.

On page 26 of the WG Draft, Staff states that "the EDC should be permitted to recover both the ongoing costs of its plan, as well as costs incurred to design, create, and obtain Commission approval of the plan." PPL Electric agrees with this conclusion. On page 26 of the WG Draft, the Staff also states that the 2% limitation established by the Act "should be interpreted as an annual amount, rather than an amount for the full 5-year period." PPL Electric agrees with this conclusion.

2. Allocation of Costs to Customer Classes

On pages 27 through 29 of the WG Draft, the Staff indicates that each EDC will be required to develop a class cost-of-service study for the purpose of allocating all costs expected to be incurred in the implementation of its EE&C plan and states that low-income customers are not excluded from EE&C cost recovery. PPL Electric agrees with the Staff's approach regarding both of these issues.

3. Cost Recovery Tariff Mechanism

On pages 29 through 30 of the WG Draft, the Staff sets forth a requirement for each EDC to develop a reconcilable adjustment clause tariff mechanism in accordance with 66 Pa. C.S. §1307 for recovery of EE&C Plan costs. The Staff indicates that the mechanism should be non-bypassable; should be set

forth in the EDC's tariff and should be adjusted no more frequently than on an annual basis. PPL Electric agrees with the Staff's approach regarding these issues.

The Company recommends that the automatic clause tariff mechanism utilized to recover EE&C Plan costs generally should be based upon the design of several clauses currently included in the Company's retail tariff, e.g., the Competitive Transition Charge, the Intangible Transition Charge, and the Transmission Service Charge. Each of these adjustment clauses is stated on a cents per kWh basis; is reconciled on an annual basis and is calculated separately for three major customer classes. Currently, those three customer classes are residential, small commercial and industrial, and large commercial and industrial. However, because Act 129 requires each EDC to design specific EE&C Programs for customers below 150% of the federal poverty level, and for governmental entities, the grouping of customers for cost recovery purposes may have to be expanded to include these additional "targeted" customer classes.

The clauses currently included in PPL Electric's tariff, which were based upon the design of the Energy Cost Rate, have worked well over many years and can provide an appropriate model for the design of the EE&C Plan adjustment clause mechanism. Although PPL Electric believes that the approach summarized above is appropriate, the Commission should not mandate such an approach, but should permit each EDC to propose an adjustment clause most suitable for its circumstances.