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December 19, 2008

VIA HAND DELIVERY
James J. McNulty, Secretary
Pennsylvania Public Utility Commission
400 North Street – 2nd Floor
Commonwealth Keystone Building
Harrisburg, Pennsylvania 17120

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

Dear Secretary McNulty:

Enclosed are an original, fifteen (15) copies and an electronic Word version on disk of the Reply Comments of West Penn Power Company, d/b/a Allegheny Power, in the above-referenced proceeding. An original and fifteen copies of this filing is being provided to the Commission and copies are being served as indicated in the attached Certificate of Service. An electronic copy is also being sent to ra-Act129@state.pa.us.

Very truly yours,

John F. Povilaitis

JFP/ck
Enclosures

c. Certificate of Service

The Honorable James H. Cawley, Chairman
The Honorable Tyrone J. Christy, Vice-Chairman
The Honorable Robert F. Powelson, Commissioner
The Honorable Kim Pizzingrilli, Commissioner

The Honorable Wayne E. Gardner, Commissioner
The Honorable Veronica Smith, Chief Administrative Law Judge
The Honorable David Salapa, Administrative Law Judge
Cheryl Walker Davis, Director, Office of Special Assistants
Karen O. Moury, Director of Operations
Robert F. Wilson, Director, Fixed Utility Services, (w/disk)
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Louise Fink Smith, Assistant Counsel
Wayne L. Williams, Director, CEEP (w/disk)
Cal Birge, Conservation, Economics and Energy Planning
June Perry, Director, Legislative Affairs
Tom Charles, Manager, Office of Communications

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing documents in accordance with the requirements of 52 Pa. Code § 1.54 et seq. (relating to service by a participant).

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

WEST PENN POWER COMPANY REPLY COMMENTS

I. INTRODUCTION

West Penn Power Company, d/b/a Allegheny Power, submits the following comments to the issues raised in the December 10, 2008 Working Group session. The Working Group convened by the Pennsylvania Public Utility Commission ("Commission") to facilitate discussion and resolution of issues related to the initial Act 129 implementation order that must be issued no later than January 15, 2009.

The following reply comments represent Allegheny Power's positions on implementation order issues, based on the positions advocated by various interested parties in writing in their December 8 written comments or orally, at the December 10 Working Group session. These reply comments are listed in the order the relevant issues arise in the draft "straw proposal" implementation order, using the same headings as that draft order, for the convenience of staff and the Commission.

II. COMMENTS ON IMPLEMENTATION ORDER ISSUES

A. Plan Approval Process

The draft order does not make provision for a phased approval of an EDCs conservation and energy efficiency plan. Allegheny Power suggests that the Commission consider filing and approval of proposed programs in phases to enable phased development, implementation and approval of the programs. A staggered approach will be most process to deliver programs and results most effectively, especially given the relatively short timeframe. The Commission should not be concerned that, under this approach, it will not have the opportunity to view the overall utility plan prior to approving a phase of it. Allegheny Power believes that the development, implementation and approval process will be iterative under either approach and, as such, the composition of the overall plan will be, and will continue to be, evolutionary.

B. Plan Effectiveness Evaluation Process

1. In its December 8 comments, Allegheny Power supported the Energy Association of Pennsylvania's ("EAPA") proposal that a Technical Resource Manual ("TRM") working group be formed to address, on an expedited basis, updates to the TRM. On further reflection, Allegheny Power is concerned that a working group approach may delay completion of this important, time-sensitive task. Allegheny Power instead supports the following process:

- Issue the revised draft TRM, which we understand is now ready
- Request and accept comments on the updated draft
- Adopt the revised TRM expeditiously.

This process should include updates to the TRM for demand and energy reductions, while assuring timely delivery of an approved TRM for use by the EDCs.

2. It was suggested at the working group session that fuel-switching measures, such as the conversion of electric devices to natural gas, should be incorporated into the TRM and that measures relating to this type of fuel switching should be considered in the context of an EDC's plan. Allegheny Power strongly urges that energy efficiency/conservation programs should not be designed or intended to promote fuel-switching. Further, electric customers should not bear the expense of programs for fuel-switching to natural gas when natural gas utility customers benefit from such programs due to increased sales and fixed-cost dilution. AP would find fuel-switching, as a compliance tactic, less objectionable in the presence of an appropriate revenue decoupling mechanism. Alternatively, should the Commission endeavor to consider fuel-switching measures, it is not necessary to develop a specific benefit/cost analysis for these measures. The Total Resource Cost Test (as documented in the California Standard Practices Manual) contemplates and appropriately addresses fuel switching programs.

C. Cost-Benefit Analysis Approval Process

1. The working group discussion clarified that there are two issues to be resolved to finalize the TRC test – use of the California Standard Practices Manual and selection of a discount rate. Rather than prolong finalization of this issue with the process of a stakeholder working group, Allegheny Power recommends that the Commission finalize these issues without a further working group process and communicate its determinations in the final implementation order.

2. DEP recommends that the TRC test be modified to take into account "quantifiable environmental benefits".[1] Allegheny Power disagrees with DEP's assertions regarding ease of determination of costs associated with environmental mitigation costs. The TRC test as set forth in the California Standard Practices Manual

[1] DEP December 8, 2008 comments, p. 5.

excludes externalities. Externalities are included in the Societal test, not the TRC test per the CSPM. AP believes the authors of Act 129 were purposeful in their express advocacy and selection of the TRC test. While the Act provides for Commission discretion, AP suggests that no compelling arguments have been put forth to deviate from the widely accepted and applied body of work that comprises the CSPM and its definition of the TRC test.

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

1. The position was pressed at the working group that the statute is clear that the 100 peak hours that are subject of the 4.5% reduction requirement must be each EDC's highest 100 peak hours during a calendar year, and not the highest 100 peak hours during the summer period (May-Sept) as proposed by the EDCs. Allegheny Power does not agree that the Act is so prescriptive. First, there is no prohibition that prevents the Commission from interpreting the highest 100 peak hours to mean the summer period. AP suggests that authors of Act 129 selected the highest 100 peak hours because of their understanding of the correlation between peak demand and electricity cost. With this in mind, the PJM RTO is summer-peaking and, therefore, it is the summer period, and only the summer period, that is germane to setting the capacity obligation for retail customers. Further, it is also during the summer period that electricity prices in PJM are elevated. The Commission should exercise its discretion and focus programs on the summer period, which is the most relevant period with respect to both demand and price. An interpretation otherwise, consequently, would necessitate programs to equally address both winter and summer peak reduction, dissipating resources and resulting in less meaningful outcomes.

2. DEP argues in their December 8 comments that the same measure cannot be credited for both kW and kWh reductions, and that to permit such tracking and reporting of reductions would be "double counting".[2] Allegheny Power disagrees. By definition, an energy reduction is a demand reduction that occurs over time. While we appreciate that DEP is urging constructions of the Act that promote initiation of as many programs as possible, the actual effect of program measures should not be discounted or ignored simply for the sake of encouraging more widespread reduction programs.

3. A point of disagreement is whether the results of third-party state/federal programs should be counted toward EDC energy/peak reductions. Allegheny Power submits that it is reasonable to measure and count these reductions where the EDC is, in whole or in part, financially supporting said third-party program. Moreover, this scope should include RTO programs, such as PJM demand response programs, as Allegheny Power incurs expense to promote and support these programs.

4. AP supports the staff's conclusion that the method by which energy reduction goals are developed should be "deemed savings" rather than "reductions". AP advocates a similar approach for peak reduction goals. However, A similar approach to

[2] DEP comments of December 8, 2008, pp. 2-3.

peak demand reduction calls for achievement of the goal to be measured by demonstrated capacity adjustment capability, rather that measurement of actual peaks during the evaluation year, which could be seriously impacted by factors such as weather or the level of economic activity.

A "demonstrated capability" approach to measuring the achievement of demand reduction goals will result in direct and indirect capacity benefits in the form of lower capacity prices in both the short-term and long-term markets, as explained below.

- Direct Capacity Benefits

The anticipated benefits of the Demand response program arise from the value of the capacity and energy reductions and the aggregate effects of those reductions on capacity clearing prices in the PJM Reliability Pricing Model (RPM) Base Residual Auction and location marginal prices for energy. Direct benefits are those that arise from a customer participating in the program. Indirect benefits are benefits that are derived from improvements in the operation of the PJM markets that result from greater demand elasticity. Both direct and indirect benefits accrue to both participants and non-participants in the form of lower overall capacity and energy prices in the PJM markets, and therefore lower default service costs.

The estimate of direct capacity benefits is determined using the total load reduction and the forecasted value of capacity for each PJM Planning Period for resources identified as Demand Resource (DR) or Interruptible Load for Reliability (ILR). Load Management applies to end-use customer load that can be interrupted at the request of PJM. Such load can participate in the RPM capacity market as Interruptible Load for Reliability ("ILR") or as a Demand Resource ("DR"). ILR can only be existing resources, while DR can be planned or existing resources.

The direct capacity benefits generated by a demand response program would be monetized in the PJM markets. Interruptible Load Resources (ILR) must be qualified by PJM as certified load reductions three months in advance of the delivery year in which they are offered. The Demand Resources (DR) would be offered into PJM Base Residual Auction, which occurs three years prior to the delivery year in which they are offered. In an unconstrained Load Deliverability Area (LDA), such as the AP Zone, the value of ILR resources and DR resources essentially will be identical.

- Indirect Capacity Benefits

Offering DR resources into the RPM Base residual Auction provides a secondary benefit to participants as well as a benefit to non-participants. In the RPM Base Residual Auction, DR resources are treated equivalent to capacity (supply resources), such that the addition of DR resources shifts the supply curve, altering the point of intersection of the supply and demand curves. This reduces the need for more expensive capacity that must be cleared to meet PJM's Installed Reserve Margin and, thus lowers the market clearing price for all capacity within the Load Deliverability Areas.

The indirect capacity benefits manifest themselves in the form of lower capacity clearing prices in the PJM RPM auction. That is, there are no market revenues, but instead there are lower capacity costs for default service customers. The indirect capacity benefit for customers in Pennsylvania then is incremental DR capacity value for each MW of the default service peak load contribution.

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

It is clear from Act 129 that EDCs may self-supply programs and measures to achieve the reduction goals of the Act. Act 129 does not impose any specific or additional approval requirements or standards that the Commission must apply to self-supplied programs. The final implementation order should not so encumber self-supplied programs and the standard for reviewing and approving such programs should be one of general prudence and reasonableness. One point the Commission may consider is whether similar programs have been successfully self-supplied by EDCs in other states. In particular, the Commission should not dilute the funds available for programs by requiring those funds to pay for a separate evaluation process for self supplied programs.

H. Procedures to Ensure Compliance with Consumption Reduction Requirements

Allegheny Power strongly supports the parties that have urged prioritization of completing the load forecast for June 1, 2009 through May 31, 2010 and establishing the requisite EDC goals. This is fundamental to the design of the EDC plan and must be completed as soon as possible. Allegheny Power suggests that March 1, 2009 be set as a deadline for this work-product.

J. EDC Cost Recovery

1. The issue has arisen as to whether the plan expenditures are limited to 2% of an EDC's 2006 revenues or to an expenditure of 2% of 2006 revenues per year. Allegheny Power submits that the Commission should adopt the latter interpretation. First, this interpretation is consistent with industry benchmarks of utility expenditures for DSM programs. Summit Blue Consulting, in its March 6, 2007 presentation at the ENERCOM Conference reported that 1-2% of sector revenues were expended on residential programs and 1-3% of sector revenues were expended on industrial and commercial programs in 2005. Second, and more concretely, the goals set forth in the Act are substantial and are not likely attainable should the total expenditure be limited to 2% of 2006 revenues.

2. The chart on page 25 of the draft implementation order requires correction relative to the listing of West Penn Power Company's 2006 total annual revenues for amounts paid to the EDC by retail customers. The Company's FERC Form 1 for 2006 lists $1,096,360,683 as revenues for sales to ultimate, i.e. retail, customers. This number should be the basis for calculating maximum program expenditures.

III. CONCLUSION

Allegheny Power thanks the Commission and staff for providing interested parties with a further opportunity to provide recommendations on the proper interpretation and application of Act 129. We urge the Commission to incorporate the above recommendations in its final implementation order.

Respectfully submitted,

West Penn Power Company
d/b/a Allegheny Power

Date: December 19, 2008

By:

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