

**Act 129 Fuel Switching Working Group
Comments of West Penn Power Company d/b/a Allegheny Power
February 16, 2010**

West Penn Power Company d/b/a Allegheny Power (“Allegheny Power” or “Company”) appreciates the opportunity to review and comment on the fuel switching proposals provided by the fuel switching subgroup established by the Pennsylvania Public Utility Commission (“Commission”). The Company provides comments on the issues of several policy considerations, Act 129 plan impacts, cost-effectiveness testing and customer costs.

Policy Considerations

Allegheny Power focused its review on the proposals that were provided and is not providing comments at this time to the policy considerations that must be decided by the Fuel Switching Working Group and/or by the Commission. The policy considerations include but are not limited to:

1. The Working Group should recognize that electric distribution companies (“EDCs”) are providing incentives that only target higher efficiency electric appliances as opposed to those meeting federal minimum standards and, thus, EDCs are not promoting electricity as a fuel source. The Working Group should consider whether or not it is appropriate for EDCs to promote natural gas through incentives paid by EDC customers.
2. Whether the natural gas distribution companies should provide the programs to customers to promote fuel switching?
3. Should the natural gas distribution companies provide programs that promote the more efficient use of natural gas?

4. Should any programs that promote the use of natural gas be required to target higher efficiency gas appliances rather than those meeting the current federal minimum standards?

Act 129 Plan Impacts

The incentive levels included in the fuel switching proposals are substantial and would have significant impact on EDC energy efficiency and conservation (“EE&C”) Plan budgets, unless the programs are limited in some fashion or restricted to specific applications. In addition, based on the potential budget impact, the inclusion of fuel switching programs may impact the ability of an EE&C Plan to provide a diversified portfolio that enables customers the opportunity to participate in and benefit from a program.

If fuel switching programs are determined to be acceptable by the Commission the Company strongly believes that fuel switching programs must be voluntary as any other potential program offering and must not be mandated in the EE&C Plans. As the Company is responsible to achieve all requirements of Act 129, including the mandated targets and the budget cap, and may be subject to significant penalties if the targets are not met, the Company must have the flexibility to provide the portfolio of programs and measures in its EE&C Plan as it determines to best meet all requirements of Act 129.

Cost Effectiveness Testing

The Company understands that the Commission staff provided guidance on the statewide electricity costs and natural gas rates that the fuel switching subgroup utilized in their initial draft proposals. As such, the Company did not review the modeling that the fuel switching subgroup provided specific to each proposal. The Company believes

that the final TRC test adopted by the Commission, as well as the Technical Reference Manual (“TRM”), needs to be revised in order to support final cost-effectiveness testing for any proposed fuel switching programs. The Pennsylvania TRC test is very specific in terms of the methodology to determine, among other things, the avoided costs and escalation rates that must be reviewed and revised to determine the appropriate rates and methodology (in comparison to the electric costs and rates) to be used for the testing of any proposed fuel switching programs. Accordingly, the TRM should be revised to establish the deemed values associated with any prescriptive appliance replacements such as those proposed by the fuel switching subgroup.

Customer Cost

EE&C programs that target the installation of higher efficiency appliances, other than those meeting the current federal minimum standards, typically do not require additional customer costs since the cost of installation does not change as a result of a change in the appliances’ efficiency level. With fuel switching programs, however, there are additional costs to customers that must be considered to assess the cost-effectiveness of such programs. Allegheny Power has identified several areas in the fuel switching proposals that the Company believes may require additional information, study or documentation to ensure that additional customer costs are adequately included in cost-effectiveness testing.

1. Based on the amount included, the gas line extension cost appears to be targeted for specific limited applications and does not apply to all potential customers. One possibility is that the cost does not include surface restoration, foundation penetrations and/or any tap in fees.

2. The cost for the in-house gas line extension seems to be based on all homes having internal gas distribution systems readily available that do not require any sizeable modification to serve appliances. Again, this may be based on the proposals targeting specific limited applications versus those where the cost is greater in order to provide natural gas service to the appliance.
3. The customer cost of \$900.00 for the gas water heater appears to be based on a 40-gallon naturally aspirated tank and not representative of all potential applications. Also, Allegheny Power believes that a customer cost of \$1,000 was quoted for electric to gas water heating conversions at the Fuel Switching Working Group meeting on January 6, 2010. It is also unclear if these costs include the power venting and flue piping that the Company understands is often required for electric to gas water heating conversions.

Conclusion

The Company appreciates the opportunity to provide comments regarding the fuel switching proposals made by the fuel switching subgroup. The Company believes that there are several policy considerations that must be decided to establish the acceptability and approach associated with fuel switching programs. To evaluate the specific proposals in more detail, the Company believes that additional information, review or documentation needs to be completed associated with customer costs and the cost-effectiveness testing, and that the TRM and TRC need to be revised to provide the necessary guidance for determining deemed savings and performing cost-effectiveness testing. Furthermore, if the Commission determines that fuel switching is acceptable for Act 129 EE&C Plans, the Company requests for the inclusion of fuel switching programs

to be on a voluntary basis, recognizing the responsibility that the EDCs have in meeting all requirements of Act 129.

Thank you again for the opportunity to provide comments.

Respectfully submitted,

Edward C. Miller Jr.
General Manager, Customer Programs Development

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