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June 15, 2011

Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

Dear Secretary Chiavetta:

Re: **Implementation of Act 129 of 2008-Total Resource Cost (TRC) Test-2011 Revisions (Docket No. 2009-2108601)**

Metropolitan Edison Company ("Met-Ed"), Pennsylvania Electric Company ("Penelec"), Pennsylvania Power Company ("Penn Power") and West Penn Power Company ("West Penn") (collectively, "Companies") hereby submit an original and fifteen (15) copies of their Reply Comments to the TRC Test-2011 Revisions as requested in the Commission's May 5, 2011 Tentative Order.

Please feel free to call me if you have any questions or require additional information.

Respectfully submitted,

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Implementation of Act 129 of 2008-Total Resource Cost (TRC) Test-2011 Revisions	:	**Docket No. M-2009-2108601**

REPLY COMMENTS OF METROPOLITAN EDISON COMPANY, PENNSYLVANIA ELECTRIC COMPANY, PENNSYLVANIA POWER COMPANY AND WEST PENN POWER COMPANY TO SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PENNSYLVANIA AND THE PENNSYLVANIA DEPARTMENT OF ENVIRONMENTAL PROTECTION'S COMMENTS TO THE TENTATIVE ORDER REGARDING THE 2011 REVISIONS TO THE TOTAL RESOURCE COST (TRC) TEST

I. INTRODUCTION

On June 3, 2011, Metropolitan Edison Company ("Met-Ed"), Pennsylvania Electric Company ("Penelec"), Pennsylvania Power Company ("Penn Power") and West Penn Power Company ("West Penn") (collectively "the Companies") submitted comments on the five specific areas mentioned in the Pennsylvania Public Utility Commission's ("Commission") May 5, 2011 Tentative Order Regarding the 2011 Revisions to the Total Resource Cost ("TRC") Test ("Tentative Order"):[1] 1) Demand Response; 2) Net-To-Gross ("NTG"); 3) Fuel Switching; 4) TRC Calculations; and 5) TRC Reporting.

Many stakeholders submitted comments to the Tentative Order. Specifically, the Sustainable Energy Fund of Central Eastern Pennsylvania ("SEF") submitted comments

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[1] *See* Implementation of Act 129 of 2008-Total Resource Cost Test-2011 Revisions, entered on May 6, 2011, at Docket No. M-2009-2108601.

regarding, among other things, the Commission's proposal pertaining to the development and conduct of NTG studies. The Pennsylvania Department of Environmental Protection ("DEP") also submitted comments to the Tentative Order including, among other things, comments on the Commission's proposal for NTG research. The DEP also commented on the treatment of American Recovery and Reinvestment Act ("ARRA") funds. The Companies hereby provide reply comments to SEF and DEP's comments related to those specific issues.

I. REPLY COMMENTS TO SEF AND DEP'S COMMENTS REGARDING NTG STUDIES

In the Companies' initial comments, the Companies generally supported the Commission's recommendations regarding NTG, with the exception of the recommended NTG studies to be funded out of the Electric Distribution Companies' ("EDCs") Act 129 2% program budgets. In addition, the Companies provided comments regarding the use of NTG for determination of compliance.

In Section B of the Tentative Order, the Commission proposed to direct the EDCs to develop and conduct NTG studies and that the EDCs fund NTG studies out of the EDCs' Act 129 2% plan budgets. In their comments, the Companies expressed that the approved Energy Efficiency and Conservation ("EE&C") Plans did not incorporate funding for NTG or additional studies. Further, while some EDCs may have funding reserves adequate to fund NTG or additional studies, those with the lowest rates (such as West Penn) will need virtually every available dollar in the EE&C Plan to support delivery of savings to meet the compliance targets or face penalties for non-compliance. The Companies also note that the NTG studies will be used primarily to develop future phases of Act 129. The Companies further emphasized that their EE&C Plans were created to meet the requirements of Act 129 and the Commission's Implementation Order, namely the energy and demand savings targets under the 2% budgetary cap. As a result, the Companies did not include additional studies or the costs to perform additional studies as part of their EE&C Plans. Thus, the Companies strongly encouraged the Commission to fund costs associated with NTG studies outside the 2% cap, similar to the funding associated with the Statewide Evaluator.

On the other hand, the SEF proposes that NTG studies should be included in the determination of compliance with Act 129, which is extremely problematic as NTG studies are inexact and change over time. Moreover, using NTG studies for compliance would be a retrospective application of the results of the studies. NTG studies demonstrate the energy savings that would not have happened absent the program, and adjusting gross savings for both free riders and spillover requires a projection of what would have happened absent the program. It is impossible to know exactly what installation of energy efficiency measures would have been made if the program did not exist. The Companies and stakeholders cannot be totally sure what the outcome would be if the program were not available. In addition to the uncertainty associated with knowing what would have happened absent the program, evaluations of programs have produced a range of estimates for net savings. While differences in savings impacts may result from differences in program design, differences can also result from the evaluation methods used to analyze savings. Furthermore, many factors that change over time, such as the state of the economy and energy prices, impact both free riders and spillover, and ultimately the NTG studies. Just as the economy and energy prices change, so does NTG. Given the inexact and variable nature of NTG adjustments, and the retrospective application, the Companies strongly suggest that it is not appropriate to include NTG adjustments for compliance purposes.

The Companies provided additional comments regarding the use of NTG studies that the Commission should incorporate in the Tentative Order before it becomes final. On page 18 of the Tentative Order, the Commission states: "We do not propose, for the period June 1, 2009, through May 31, 2013, that the NTG research be used to adjust the gross verified energy savings that are used for compliance purposes to determine whether an EDC has met its mandated Act 129 reduction targets." The Companies agree with this position and further suggested in their comments for the Commission to direct the use of this same approach for subsequent phases of Act 129 implementation. The Companies reiterate adjustments to the gross verified savings, such as the result of NTG studies, are inexact and change over time and therefore should not be included for determination of compliance to energy reduction goals. The Commission should reject SEF's proposal regarding NTG.

With respect to DEP comments on NTG issues, the Companies concur with the issues the Commission and DEP site relative to NTG studies. However, the Companies disagree with DEP's alternative suggestion that impact evaluations be performed using EPA benchmarking programs as an alternative to NTG assessments. The DEP benchmarking approach to Evaluation Measurement & Verification ("EM&V") is inconsistent with the history of Orders related to EM&V for Pennsylvania, and has material shortcomings relative to the general application to EE&C programs in Pennsylvania.

II. <u>REPLY COMMENTS TO DEP'S COMMENTS ON ARRA FUNDING</u>

With respect to the Comments of the DEP, the Companies do not agree that ARRA funds should impact Act 129 program costs, and supports the PUC's resolution of the treatment of ARRA funding in the Met-Ed decision, and in the Tentative Order at page 13, the Commission clarified that the 2009 TRC Test Order directed incentive payments from sources outside of the

Act 129 programs to be considered benefits that decrease costs to customers participating in programs and should be accounted for in the TRC calculations. The Commission goes on to explain in the Tentative Order, that Met-Ed was the only EDC to factor stimulus money into its plan. The Commission, in approving the Met-Ed EE&C Plan, concluded that ARRA incentive payments should be considered benefits in TRC testing. (See Joint Petition of Met-Ed, Penelec and Penn Power, Docket Nos. M-2009-2092222, et al (October 22, 2009) at page 22). Furthermore, the Commission in approving the Met-Ed Plan went on to explain that since Act 129 funding is fixed, any additional funds, such as ARRA funds, will be used to supplement, not replace, funds from the EDC. (See Joint Petition at Page 22). In the Tentative Order at page 13 and in response to Met-Ed, the Commission states that since Act 129 funding is fixed, any additional funds will be used to supplement, not replace, funds from the EDCs.

The Companies agree with the Commission's proposal in Section III.A.4 of the Tentative Order regarding ARRA funds. Finally, if the benefits of ARRA funding are not considered benefits in the TRC testing, the cost effectiveness of the program ignores the purpose of the ARRA funding and as a result will be lower. Therefore, the Commission should reject the DEP's proposal regarding ARRA funding.

II. CONCLUSION

The Companies again commend the Commission's efforts to provide clear direction relative to the TRC Test and to support the expedient implementation of Act 129. Additionally, the Companies appreciate the opportunity to provide these reply comments on the Commission's proposed revisions to the TRC Test.

Respectfully submitted,

Dated: June 15, 2010

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true and correct copy of the foregoing document upon the individuals listed below, in accordance with the requirements of 52 Pa. Code § 1.54 (relating to service by a participant).

Service by hand delivery, as follows:

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