

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Investigation of Conservation, Energy :  
Efficiency Activities, & DSR by Energy : Docket No. M-00061984  
Utilities & Ratemaking Mechanisms to :  
Promote Such Efforts

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**REPLY COMMENTS OF WEST PENN POWER COMPANY  
D/B/A ALLEGHENY POWER**

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**I. Introduction**

West Penn Power Company, d/b/a/ Allegheny Power appreciates the opportunity to submit comments in response to questions that were asked at the November 19, 2008 Pennsylvania Public Utility Commission *en banc* hearing that addressed conservation and energy efficiency issues. These Reply Comments are intended to provide the Commission and interested parties with Allegheny Power's perspective on the issues relevant to EDCs that arose in the course of the *en banc* hearing in the form of Commissioners' questions directed to the EDC panel. Those questions are restated below based on the audio record of that proceeding.

**II. En Banc Proceeding Questions**

**Commissioner Powelson:** Would you agree that we are going to “Consumer Driven Electricity”? That the end user is now making a conscious decision on how much electricity they are going to use and how much they are going to conserve?

**Allegheny Power:** Yes. The amount of electricity a customer uses is being thrust into the customers' consciousness. There are several reasons for that reality, including the expectation that electricity prices will be rising, the recession, and the fact that energy issues were in the forefront of the recent elections. Energy efficiency is the less controversial issue, since it just makes practical sense for electrically powered equipment to function using less energy. However conservation has always been an issue more associated with political perspective and values. Allegheny Power believes that both energy efficiency and conservation are objectives that warrant a priority commitment by EDCs, the government and customers.

An important point is that while EDCs must implement a plan, customers are not required to participate in conservation/efficiency programs. Act 129 is unprecedented in Pennsylvania and the customers' willingness to respond to the Act's initiatives cannot be known with certainty at this time.

Understanding that changing customer behavior is the ultimate objective, the logical progression is to first focus on the deployment of more efficient equipment (energy efficiency) and then shift the focus to the manner in which it is operated (conservation). The continuum moves from passive customer participation to interactive customer participation, while the program offerings move from targeting equipment efficiency to targeting more efficient equipment operation.

To effectuate this transformation, customers must be provided not only more information, but more real-time information on which to base operating decisions. Customers need to be presented with more detailed and timely information regarding their energy usage decisions. The monthly electric bill presentation that provides only

aggregated historical consumption and cost isn't a sufficient motivator for behavior change. For example, the ability to view the actual and projected costs for individual appliances, such as air conditioning, clothes washing, etc. will enable customers not only to understand the consequences of their energy decisions, but to react to them in real-time. Thus the timing of the availability of this information to customers is a key issue as well.

**Commissioner Powelson:** With regard to smart meters and the capturing and use of the data, is that your data or is that data to be shared with CSPs in the marketplace?

**Allegheny Power:** Smart meters are owned by the EDC and therefore there is no real issue relative to ownership of the data produced by such meters – the data is owned by the EDC. However, "ownership" is probably not the best term to use in connection with smart meter data and the issues that arise in connection with this data. A better term might be that the data is held "in trust" by the EDC for the customer.

This Commission, through its regulations and policy on utility use of customer information, has shown that it considers it important to strike a balance between honoring the customers' reasonable expectation of privacy relative to its use of regulated service, and the benefits that can arise from access to such data from sharing that information with other entities such as utility competitors, or in this instance, providers of energy efficiency/conservation programs, CSPs. It is Allegheny Power's expectation that the Commission will continue to strike that balance as it implements Act 129. The Act does require EGSs and CSPs to be given access to customer meter data, but with customer consent.

The EDC industry is moving toward customer web portal applications that give password protected access to customer information via the internet. Under such a system, the customer would have the ability to give a CSP access to their customer data directly, which is a way of providing customer consent.

Costs associated with making this critical information available should be recoverable from customers, although Act 129 does not appear to contain any explicit prohibition of recovering costs related to data access from EGSs or CSPs.

**Commissioner Pizzigrilli:** A number of people have recommended that the Commission adopt the California resource cost test (TRM - Total Resource Manual). Is that standard available and if so, does it need to be substantially tweaked for use in Pennsylvania?

**Allegheny Power:** The Company utilizes at least three cost-effectiveness tests to evaluate programs including the Total Resource Cost Test (also known as the All Rate Payers Test), the Participant Test and the Rate Impact Measure Test<sup>1</sup>. Allegheny Power applies the tests as it understands them based on the California Standard Practice Manual.

Allegheny Power does not believe that any one test should be viewed in isolation to assess whether a program is or is not cost-effective. However, the Company more heavily weights the TRC test in assessing the cost-effectiveness of a program. The TRC test is the broadest in scope without including externalities. The TRC test includes the

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<sup>1</sup> There has been some debate as to the application of the RIM Test for utilities that purchase all of their power requirements through full requirements contracts, as there is no cost for a MWh not used, it simply isn't purchased. Therefore, it could be argued that there is no rate impact because there is no cost avoided. Regardless, Allegheny Power believes it important to assess the rate impact and bill impact for both participants and non-participants alike through the RIM Test or similar analysis.

participants' cost, the program administrator costs and the avoided supply costs, and thus provides a basis of comparing both supply-side and demand-side options.

Evaluations should be conducted on a program basis for programs that are single-measure programs and on both a program and a measure basis for programs that are multi-measure programs. Measures that did not pass the TRC test should not be included in the utility plan portfolio. Further, general awareness and informational programs are not screened, which is consistent with the California Standard Practice Manual. Allegheny Power does not support the application of the cost-effectiveness tests to low income programs. The Company has not traditionally screened public benefits programs such as LIURP, as these programs are undertaken with desired outcomes other than achieving a payback for the utility or its customers.

**Chairman Cawley:** I know from previous meetings with CSPs how the CSPs need access to the utilities meter to attach devices and to offer services they provide or services the utility does not provide. I want assurances that you (the utilities) are going to cooperate in giving access to your meters to CSPs. Does anyone have a problem with that?

**Allegheny Power:** Allegheny Power readily provides its assurances that no delivery of conservation or energy efficiency programs by CPSs will be impaired by lack of access to meter data. However, the release of customers' data must be accompanied by appropriate customer protections, so that public policy objectives are met in a way that respects customers' reasonable expectations of privacy. Assurances must be sought and obtained from CSPs that customer information is used only for valid conservation/energy

efficiency purposes and that customer electricity usage information is properly safeguarded. In addition, there may be issues relating to the EDC's ability to handle CSP requests in volume, and a reasonable standard for responding that takes into account available staff and equipment may be necessary.

**Chairman Cawley:** A question on the "Duquesne" anomaly - The electric competition act was designed to encourage you to shed your electric generation customers, but keep them for distribution. We want that to continue for when the electric generation suppliers come back. You're not going to have any control over the usage of these customers who shop. Is that the point Duquesne is trying to make?

**Allegheny Power:** Act 129 does not disturb a core principle of the 1996 Electricity Generation Customer Choice and Competition Act, which was that the EDC should be indifferent to a customer's choice of generation provider and not strive to compete with electric generation suppliers through default service prices. The mandate that default service now be obtained at the lowest reasonable price under Act 129 takes a step in a competitive direction, but proper Commission implementation of that directive can assure that an anti-competitive result does not occur from the revised procurement standard. EDCs and the Commission must be careful that either in result or perception, energy efficiency/conservation programs are not vehicles for EDCs to harm competitive generation suppliers by reducing the EGSSs' level of business or revenues. The threshold issue the Commission must address is whether shopping customers' load should be included when consumption and peak load reduction mandates are measured. Allegheny Power recommends that such load be included,

given the fact that customers are allowed to freely switch between default service and alternative competitive service under the 1996 Act, and over the course of the conservation/efficiency plan, can be a user of default service or acquire generation service from an electric generation supplier at various times. That flexibility has been preserved under Act 129, and it strongly suggested that Pennsylvania efficiency/conservation policy should apply equally to customers, *regardless of whether they take service from the EDC or a competitive supplier.*

An EDC should be permitted to offer conservation services to customers regardless of the generation supplier and receive credit for and reductions achieved by a demand response service provider. The alternative is to assess reduction requirements proportionally to all suppliers and demand response providers, which is difficult, time consuming and generally inadvisable.

The "lack of control" the EDC has over customer usage is a chronic "condition" the EDC faces, regardless of whether the customer obtains generation service from the EDC via default service, or from an electric generation supplier (EGS). Although the Act 129 reduction mandates are EDC mandates, at bottom it is the customer that decides how much electricity to use and when that usage occurs. Conservation/efficiency measure must include shopping customers, and should be implemented in a manner so that anti-competitive concerns are not raised.

**Chairman Cawley:** If we're going to ask customers to make sacrifices in order to save money on their usage part of their bill, would it also be helpful to educate them

that if they reduce their demand, it's going to reduce the wholesale price as well. Do you agree with that?

**Allegheny Power:** There is no question that customers are at the start of a formidable energy learning curve that *should* include information on the enormous impact wholesale prices have on the retail price of electricity. EDCs should be an integral part of that education process and Allegheny Power is committed to make that educational process effective and successful.

**Chairman Cawley:** If we're going to ask people to make sacrifices, people need to believe their utility is sincere in these conservation programs and not stop at the 1% and 3% savings. Do I have some assurances from you [the utilities] that you're going to go all out and not just try to achieve the minimums?

**Allegheny Power:** The Commission has Allegheny Power's assurances that no "brakes" will be put on conservation and energy efficiency efforts as we move toward accomplishing the Act 129 energy consumption and peak reduction mandates. The spirit of this question, which is made more explicit in the question that follows, is that there is an economic disincentive associated with EDCs discouraging electricity usage. That disincentive is undeniable, and it should be on everyone's agenda, the General Assembly, the Commission and the EDCs, to ameliorate that disincentive by making good interpretive and policy choices as we move forward specifically with Act 129 implementation and generally with the development of future energy policy.

**Chairman Cawley:** Let me ask the skeptics' question. Why would you shoot yourself in the foot by encouraging conservation if your revenues are depending on usage? What is your answer to that? Why would you encourage people to save energy if it's going to hurt your bottom line?

**Allegheny Power:** This question suggests that policy mandates which are in conflict with investor mandates are not nearly as effective as mandates that synchronize policy with reasonable business community expectations, and investor requirements. Act 129 provides the EDC with no economic incentive to reduce electric consumption. In fact, the Act blunts any EDC ratemaking incentive to achieve the efficiency/reduction goals by granting rapid and full cost recovery to program expenditures via automatic adjustment clauses, but denying the availability of those same automatic adjustment clause cost recovery mechanisms to EDCs for fixed cost recovery when sales decrease. The good news is that the Commission's authority over ratemaking is extensive and this is basically a ratemaking issue. Allegheny respectfully suggests that the disincentive issue identified by the Chairman should be pursued by the entire Commission, with the goal of establishing base rate case procedures that minimize the cost recovery disincentive created by Act 129.

The Commission should develop new base rate case procedures that minimize the lag between sales reductions and the time when those reductions are reflected in rates. This objective is challenging both practically and legally because it is currently fundamental to base rate cases to measure **all** expense levels, and the historic legal restrictions associated with "option level" or "temporary rates" must be taken into

account.<sup>2</sup> Nevertheless, the Commission should strive to establish new ratemaking procedures that are lawful and fair to competing interests, but minimize the costly lag effect EDCs will experience when their fixed cost recovery is impacted by consumption reduction, as they are limited to "base rate cases" to recover those costs. Allegheny Power would welcome the opportunity to assist the Commission with the development of new innovative cost recovery mechanisms that address the important issue identified by Chairman Cawley.

### **III. Conclusion**

Allegheny Power appreciates the Commission's provision for Reply Comments in response to testimony presented at the November 19, 2008 *en banc* hearing, and hopes the foregoing perspective assists the Commission in effectively pursuing the Commonwealth's important electricity conservation and efficiency objectives. Allegheny Power supports those objectives and is committed to assisting the Commission in their accomplishment as outlined above.

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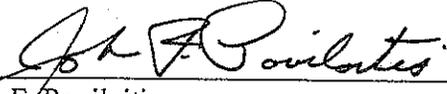
<sup>2</sup> This is a reference to the Commission's option order process which was overturned by the Commonwealth Court. Under the option order process, the less controversial aspects of a utility's rate case were allowed to go into relative immediate effect after preliminary review, as an alternative to a more extensive, expensive and time consuming traditional base rate review taking nine months in total.

Respectfully submitted,

West Penn Power Company  
d/b/a Allegheny Power

Date: December 2, 2008

By:

  
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John F. Povilaitis  
RYAN, RUSSELL, OGDEN & SELTZER P.C.  
800 North Third Street, Suite 101  
Harrisburg, Pennsylvania 17102  
(717) 236-7714  
[JPovilaitis@RyanRussell.com](mailto:JPovilaitis@RyanRussell.com)

John L. Munsch  
Attorney ID No. 31849  
[jmunsch@alleghenyenergy.com](mailto:jmunsch@alleghenyenergy.com)  
WEST PENN POWER COMPANY,  
d/b/a ALLEGHENY POWER  
800 Cabin Hill Drive  
Greensburg, PA 15601  
(724) 838-6210

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**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).

VIA FIRST CLASS MAIL

William Lloyd, Esquire  
Small Business Advocate  
Office of Small Business Advocate  
Suite 1102 Commerce Building  
300 North Second Street  
Harrisburg, PA 17101  
Bus. (717) 783-2525  
Fax (717) 783-2831  
[willoyd@state.pa.us](mailto:willoyd@state.pa.us)

Irwin Popowsky, Esquire  
Consumer Advocate  
Office of Consumer Advocate  
555 Walnut Street  
5<sup>th</sup> Floor Forum Place  
Harrisburg, PA 17101-1923  
Bus. (717) 783-5048  
Fax (717) 783-7152  
[spopowsky@paoca.com](mailto:spopowsky@paoca.com)

J. Edward Simms, Esquire  
PA Public Utility Commission  
400 North Street, 2<sup>nd</sup> Floor  
Commonwealth Keystone Building  
Harrisburg, PA 17120  
Bus. (717) 787-1976  
Fax (717) 772-2677  
[josimms@state.pa.us](mailto:josimms@state.pa.us)

Energy Association of Pennsylvania  
800 North Street – 3<sup>rd</sup> Floor  
APC Building  
Harrisburg, PA 17102

Date: December 2, 2008

  
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John F. Povilaitis  
RYAN, RUSSELL, OGDEN & SELTZER P.C.  
800 North Third Street, Suite 101  
Harrisburg, PA 17102-2025  
Phone: (717) 236-7714  
Fax: (717) 236-7816  
Email: [JPovilaitis@RyanRussell.com](mailto:JPovilaitis@RyanRussell.com)