BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

En Banc Hearing on Alternative Energy,	:
Energy Conservation and Efficiency	: Docket No. M-00061984
and Demand Side Response	:

TESTIMONY OF FRANK J. JIRUSKA
ON BEHALF OF
PECO ENERGY COMPANY

November 19, 2008

Chairman Cawley, Vice Chairman Christy, Commissioners Powelson, Pizzingrilli and Gardner and presiding Administrative Law Judge Salapa. My name is Frank Jiruska, and I am the Director of Energy and Marketing Services for PECO Energy Company.[1] Thank you for the opportunity to appear today and offer comments on Act 129. The issues addressed in this bill are of importance to our Company, our customers and the Commonwealth.

I would like to highlight some of the key issues raised by the Act 129 legislation that the Commission should consider. These issues include how to quantify the consumption reduction targets that an EDC's plan must be designed to meet and how to quantify the energy savings that may be credited for each measure, as well as other issues associated with program evaluation, managing conservation service providers, and cost recovery. Before I do that, however, I would like to discuss PECO's commitment to energy reduction programs, the requirements of Act 129, and how those requirements will impact PECO.

PECO'S PRE-ACT 129 COMMITMENT

PECO, headquartered in Philadelphia, is the largest electric and gas utility in Pennsylvania, serving more than 1.6 million electric customers in Philadelphia, Montgomery, Bucks, Delaware and Chester Counties and 480,000 natural gas customers in the four counties surrounding Philadelphia. PECO employs over 2,100 people and, over the past 5 years, we have invested over $1.2 billion in

[1] I have been responsible for managing the development and implementation of all energy consumption and demand reduction programs at PECO Energy Company since 2002 and performed the same management role for PECO's affiliate, Commonwealth Edison Company, from 1998 through 2005.

infrastructure improvements. We are focused on operational excellence and providing our customers reliable electric and natural gas service, and PECO is one of the safest utilities in the country. We are proud of the longstanding commitment to the communities we serve in southeastern Pennsylvania and are proud of the economic-development efforts and the community involvement of our company and employees.

Even before Act 129's enactment, PECO and its parent, Exelon Corporation, were committed to environmental stewardship. This is reflected in the "Exelon 2020" goal of reducing Exelon's direct carbon footprint by 15 million metric tons of greenhouse gas emissions by 2020, an amount that is equal to 10-15% of Exelon's 2001 level of emissions. Moreover, PECO has been a supporter of energy efficiency and peak load reductions for many years and has a number of programs currently available to our customers.

PECO currently sells Energy Savings Kits at cost ($25), which can save customers as much as $300 per year on energy. We also offer the "Online Energy Store", which provides customers discounts on various energy efficient products. In addition, PECO offers access to the DOE/ENERGY STAR® energy audit to help customers understand how they use energy and what steps they can take to become more energy efficient. PECO also has an award-winning Low Income Usage Reduction Program for our financially disadvantaged customers

PECO also offers a portfolio of peak reduction programs marketed under the "Smart Returns" brand. This program provides business customers the ability to participate in peak load reduction in return for financial incentives. In 2008, PECO had almost 300 mW enrolled in these programs.

Furthermore, PECO has undertaken recent efforts to be at the forefront of the industry in the energy efficiency and conservation. These include Residential Real Time Pricing, compact fluorescent lighting ("CFL"), and residential direct load control proposals, as well as an enhanced energy audit and bill analyzer that would be made available to our customers over the Internet. While these programs have been overtaken by Act 129 and recently withdrawn by PECO, we look forward to proposing and implementing the same or similar programs in connection with our Act 129 plan to enable our customer's to reduce their usage and peak load, to the benefit of their energy bills and the environment. Finally, PECO is set to embark on implementing a gas appliance efficiency program recently approved by the Commission in our gas base rate case.

ACT 129 REQUIREMENTS AND IMPACT

PECO commends the General Assembly and the Rendell Administration for their leadership in enacting Act 129, which represents a comprehensive plan for promoting consumption and peak load reductions throughout Pennsylvania. PECO also welcomes the present initiative of the Pennsylvania Public Utility Commission to implement the energy efficiency and conservation ("EE&C") provisions of the Act 129 legislation.

Act 129 has aggressive targets for both consumption and peak demand reductions, and the timing thereof. The legislation targets a 3% reduction in kWh usage and a peak load reduction target of 4.5% by May 2013. The electric utilities have the responsibility to develop, plan and execute the programs to reach these targets. To that end, PECO is excited to work with the many interested stakeholders in developing a cost effective plan to reach these targets.

Act 129 calls for energy consumption and peak demand reductions that greatly exceed the benefits of our existing programs. Under our existing load reduction programs, we estimate the demand reduction potential to be 118 mW of firm reduction. This does not include an additional 159 mW of reduction capability provided by other curtailment service providers. Under Act 129's targets for 2013, we estimate that the 3% and 4.5% consumption and peak demand reduction targets equate to approximately 1,200,000,000 (1.2 billion) kWh and 450 mW, respectively, with the 1% consumption target for 2011 having a lesser effect.

HOW CONSUMPTION REDUCTION TARGETS TRANSLATE INTO KILOWATTS AND KILOWATT-HOURS

It is critical that the Commission determine the intent of Act 129 in terms of the targets utilities are required to meet. Under the Act (Section 2806.1(C)), the impact of the EE&C measures deployed under an EDC's plan are to be measured against the annual projected weather normalized kWh for the period June 1, 2009, through May 31, 2010, and equate to kWh sales equal to 1% and 3% target of that base period forecast, in 2011 and 2013, respectively. PECO encourages the Commission to define the consumption reduction targets as a firm kWh target, and not as a baseline requirement that actual annual weather normalized sales must be 1% or 3% below.

An example might help illustrate our position on this issue. If the forecast is 1,000,000 kWh for the base year period, we believe that the utility would need to provide measures in the market place that are designed to achieve a total of 10,000 kWh in usage reductions by May 2011 in order to meet the 1% target and a total of 30,000 kWh of reductions in order to meet the 3% target. These reductions would be a summation of the reduction credits from all program measures, which are either "deemed" (in the case of standard measures) or "verified" (as in the case of customized measures for larger customers) and which the EDC has implemented in accordance with its filed and approved plan.

In contrast to the target definition outlined above, a requirement that weather normalized sales in 2011 and 2013 must be 1% and 3% below the base period forecast would be unreasonable. Such a position would have the effect of doubling the stated goals due to the growth in consumption expected between 2010 and 2013. Clearly, this is not the intent of the Act.

USE OF ESTABLISHED MEASUREMENT AND VERIFICATION METHODS.

It is critical that measurement and verification ("M&V") protocols be developed and agreed upon in advance of program execution. As such, the use of standard kWh reductions for prescriptive measures such as CFLs and other appliances in the development of "deemed" savings is a generally accepted method for measuring energy savings throughout the EE&C industry.[2] Use of a "deemed" savings methodology avoids, where appropriate, the need to impose more costly, metered solutions or other intensive analytical techniques that are difficult to apply and cannot control for the fact that actual consumer behavior is not susceptible to precise forecasting.

The *Model Energy Efficiency Program Impact Evaluation Guide* developed by the Action Plan for Energy Efficiency (Nov 2007) provides a framework for measuring and verifying various energy efficiency measures. This publication provides that for "simpler efficiency measures whose performance characteristics and use conditions are well known, a deemed savings approach may be appropriate." For measures that fit this definition, such as high efficiency lighting, dishwashers, refrigerators etc, a deemed savings approach is appropriate and cost effective. The Commission's *Technical Reference Guide,* adopted in its AEPS DSM proceeding, is a solid starting point, as agreed-upon "deemed" savings values have already been established for many measures for determining the amount of Alternative Energy Credits ("AEC") associated with the measure.

Larger and more complex energy efficiency projects require more extensive M&V analysis. While this approach adds to the M&V cost, it provides an appropriate level of verification required for such projects.

Additionally, PECO believes the kWh savings that should count toward the reduction goal are those that are due to customer participation in the programs implemented by the utilities. Attempting to measure the impact of reductions in usage due to economic conditions or other actions by customers would be nearly impossible and prohibitively expensive.

Again, using an example might help illustrate this point. A business customer may take advantage of a lighting program and install energy-efficient lighting in its facility. Its business, however, may be expanding at the same time. Thus, if

[2] Examples of states that have implemented EE&C programs that utilize the "deemed savings" approach include New Jersey, Vermont, Connecticut, New York and Illinois.

we simply measured the usage on the meter, it may appear that this firm had not become more energy efficient. In reality, this business is more energy efficient. This example highlights at least one reason why we should count savings based on a measure's standardized or "deemed" savings rather than on an actual customer's usage.

PROGRAM DESIGN FLEXIBILITY

The goals set out in Act 129 are aggressive both from the perspective of absolute targets and timing. PECO's benchmarking of programs across the nation indicates that getting to a 3% target by 2013 will be challenging to say the least. However, with a well-designed plan that targets all customer segments, we believe the target can be achieved.

Program design and eventual implementation must be based on each EDC's service territory demographics and customer base. The energy efficiency measures included in the plan should take existing saturation and appliance type and age into account as well as current market conditions. Therefore, while some measures may be consistent across companies (e.g., a CFL program), others components may vary significantly among EDCs and geographic areas. To that same end, the cost effectiveness of programs may also vary based on these same factors.

Therefore, we urge the Commission to interpret the requirement that energy efficiency measures be equitably provided to all classes of customers based on the particular circumstances of the EDC and not based on a "cookie-cutter," "one size fits all" type of program that applies across the Commonwealth.

Further, the Commission should ensure that all classes have appropriate efficiency and conservation measures available to them. It is likely, especially over the short term, that kWh usage reductions may be obtained more efficiently and cost-effectively from certain classes of customers. In order to achieve the overall targets, measures that are successful may be allocated relatively greater resources than others in the portfolio. We recognize that Act 129 has a proportional measures requirement for low-income customers (number of measures must equal the proportion that low-income usage represents out of "all total energy usage in the service territory") and a percentage requirement for government and nonprofit participation (10% of all consumption reductions) and, therefore, will design and implement programs for those market segments accordingly.

Finally, EDCs, in developing their plans, should receive credit for the energy savings obtained from other government-funded energy conservation measures being implemented in their service territory. For example, under the Alternative Energy Investment Act signed into law this past summer, the Commonwealth will contribute $650 million of alternative energy and conservation project funding and tax credits over the next several years. These measures should be credited to the EDC's targeted reduction. Otherwise, EDCs will find themselves in direct competition with the government-sponsored projects for customer participation in the EDC-sponsored project. The Commission should clarify how these projects will be credited to the EDC's plans.

THE ROLE FOR A CONSERVATION SERVICE PROVIDER ("CSP")

The Commission's rules should broadly construe the functions CSPs may perform. Act 129 defines a CSP as "an entity that provides information and technical assistance on measures to enable a person to increase energy efficiency or reduce energy consumption…" PECO suggests that this language should not be construed to limit the role a CSP may play in implementing an EE&C plan. PECO believes that "information and technical assistance" can be interpreted properly to encompass an array of services that CSPs can deliver efficiently and cost-effectively. For similar programs instituted in other states (e.g., Vermont, New Jersey, Illinois and California), CSPs perform program management, program execution, and measurement and verification roles. CSPs should be permitted to function in the same fashion in Pennsylvania.

PECO would anticipate competitively bidding any contract for which services are provided by a CSP under the suggested broader definition. Any bids received would be evaluated based upon a number of factors, including but not limited to experience, past performance, price, insurance and performance bonding. As the Commission embarks on creating the registry of approved CSPs, it should consider the same factors when reviewing a CSP's registry application.

In approving a contract with a CSP, we would suggest that the Commission allow the EDC to use contracts approved in its plan proceeding and that any review and approval requirements for the successful CSP contracts be limited to a determination that the competitive bid process correctly chose the best bidder(s). We absolutely agree with the need to competitively bid the work. However, we believe that expedited selection processes will encourage bidders to participate and that long-, drawn-out processes will have the opposite result. This type of selection process has worked in the area of AEPS credits on the PECO system, as well as in the selection of wholesale generation suppliers for default load throughout the country.

USE OF WELL-ESTABLISHED PROGRAM EVALUATION MODELS

Act 129 requires that programs be evaluated, in part, by the use of a Total Resource Cost ("TRC") test. This test evaluates the total benefits and costs incurred by both the program participants and the utility. PECO would suggest that the TRC should be used as a guideline for individual measures and be strictly applied to the total portfolio of programs offered by the utility. As such, PECO would encourage the Commission to develop a standard TRC manual that can be applied by all utilities. PECO has utilized the TRC test associated with the *California Standard Reference Manual* and believes this manual would be a solid starting position.

COST RECOVERY

As Act 129 provides, utilities have the right to recover, on a full and current basis, the costs of the EE&C programs they implement. PECO believes that costs associated with the plan filed by the utility and approved by the Commission are appropriate for cost recovery. Plans filed by the utility and approved by the Commission have already been judged prudent and are reasonable expected to be successful. If customer acceptance is not what the EDC and the Commission anticipated, then the programs may be improved or eliminated. However, after-the-fact modifications should not be a ground for denying cost recovery for programs previously approved by the Commission.

Furthermore, as previously discussed, contracts with CSPs will be competitively bid and, as such, should be entitled to full and current cost recovery. It would be inappropriate to utilize post-implementation evaluation, which employs hindsight review, to make judgments about “prudence” as a condition precedent to cost recovery. Post-implementation evaluation should be used only to assess whether the program should be continued and/or can be improved prospectively.

CONCLUSION

Thank you for the opportunity to present PECO’s views on the questions posed by the Commission as to implementation issues associated with Act 129. PECO enthusiastically embraces the challenges presented by Act 129. We look forward to continuing to work with you and all the stakeholders to develop and implement an effective energy efficiency and peak load reduction program to meet the targets as laid out in Act 129.