



December 19th, 2014

The Pennsylvania Public Utility Commission
P.O. Box 3265, Harrisburg, PA 17105-3265

Re: Act 129 Energy Efficiency and Conservation Program Phase III
Docket No. M-2014-2424864

The Home Performance Coalition (HPC) is pleased to comment on the Commission's Secretarial Letter of October 23rd regarding Act 129 Energy Efficiency and Conservation Program Phase III. HPC is a national non-profit organization that supports the residential energy efficiency sector through research, policy and educational initiatives and by convening conferences.

For the past three years HPC has led a national effort to improve cost-effectiveness testing. Our comments focus primarily on the questions related to cost-effectiveness in the Secretarial letter. These include:

- a) Should the Commission establish a periodic review and updating process for the TRC Test methodology in Phase III?
- b) How often should the TRC Test methodology be reviewed?
- c) Should a periodic review and updating of the TRC Test methodology process schedule be dependent on the length of Phase III? For example, if the Commission implements a three-year phase vs. a five-year phase, would that affect how often we should review the TRC Test methodology and consider updates?

The Home Performance Coalition recommends that the Commission establish a process for reviewing and updating the TRC on a regular basis. Best practices in the field of cost-effectiveness screening have been evolving rapidly in recent years, and a process for reviewing Pennsylvania's cost-effectiveness testing regularly would provide an opportunity for ensuring that best practices are incorporated into the Pennsylvania screening methodology.

The Home Performance Coalition recommends that the Commission review its cost-effectiveness screening methodologies every two to three years. If the Commission determines that Phase III should last for five years, HPC recommends that a review of the TRC methodology conducted at least twice during the five year phase.

The Secretarial Letter also asks:

- d) In our Phase I and Phase II Implementation Orders, we declined, among other things, the requests from certain stakeholders to require inclusion of societal benefits in the TRC equation and analysis. We have seen no reasons emerge during the span of the two phases to change such a determination and do not intend to revisit those issues again in this process of addressing Phase III issues based on any theories or arguments that have heretofore already been made. If, however, there are new data, theories, or arguments available, they may be presented in comments along with other relevant comments.

Given that the Commission is required by statute to use the TRC, the decision not to include societal benefits that are explicitly excluded by definition from the TRC is understandable. However, there are a number of benefits that are not only appropriate, but necessary for inclusion in the TRC, if the test is to provide accurate information regarding the ratio of costs to benefits of the program being screened. Benefits and, when relevant, associated costs, relevant to the TRC include:

- Energy policy costs and benefits;
- Utility non-energy costs and benefits (such as lowered arrearages); and
- Participant non-energy costs and benefits (such as health, comfort, productivity, and any other relevant non-energy benefits/costs).

Non-energy benefits in particular have been the discussion of extensive debate in recent years. Now there is extensive research on the subject, with findings that strongly support the significance of non-energy benefits in driving consumer decision-making. On the basis of this research, a number of states, including Massachusetts, Vermont, Rhode Island, New York, Maryland and Arkansas have incorporated or are strongly considering incorporating non-energy benefits and associated costs into their cost-effectiveness screening methods.

More generally, HPC recommends that the Commission consult the Resource Value Framework (RVF), developed by the National Efficiency Screening Project. The RVF provides a set of principles to assist states in conducting energy efficiency screening according to best practices. These principles can be applied to any of the five California Standard Practice Manual tests, although they have the most relevance to the Societal Cost Test, the Total Resource Cost Test and the Utility Cost Test. These principles can also be used to create a theoretically coherent test that enables a state to take into account its policy goals and objectives when screening energy efficiency resources.

HPC recommends that the Commission in particular consider the following in its review of its TRC methodology:

- Ensuring that all inputs in the TRC are clear and transparent to stakeholders;

- Ensure that the TRC takes into account Pennsylvania's energy-related public policies;
- Ensuring that the TRC accounts for the full range of avoided costs, such as avoided transmission and distribution costs, and the costs of compliance with already-enacted environmental policies;
- Ensuring that the TRC adheres to the principle of symmetry between costs and benefits by including all relevant benefits as well as all relevant costs, including non-energy benefits; and
- Ensuring that the test uses an appropriate discount rate, which, for the TRC, should not be the utility sector's weighted average cost of capital (WACC), but a lower rate that reflects the low risk of energy efficiency, such as the rates for U.S. Treasury bills.

The Pennsylvania Public Utilities Commission is to be commended for considering changes to its cost-effectiveness screening methodology. The current docket provides an opportunity for the Commission to ensure that the TRC conforms to best practices, a direction that many other states are moving in. And periodic review of Pennsylvania's cost-effectiveness screening methodology will ensure that it is adequate to the task of ensuring a robust energy efficiency sector that can help the state meet its forthcoming goals as required by Section 111(d) of the Clean Air Act.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Castelli". The signature is fluid and cursive, with a large initial "B" and "C".

Brian T. Castelli, President and CEO
Home Performance Coalition