

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of PPL Electric Utilities :
Corporation for Approval of its Act 129 : Docket No. M-2015-_____
Phase III Energy Efficiency and :
Conservation Plan :

**Petition of PPL Electric Utilities Corporation for Approval of its Act 129
Phase III Energy Efficiency and Conservation Plan**

Pursuant to Act 129 of 2008 (“Act 129”), P.L. 1592, 66 Pa. C.S. §§ 2806.1 and 2806.2, PPL Electric Utilities Corporation (“PPL Electric” or the “Company”) hereby files this Petition seeking approval of its Phase III Energy Efficiency and Conservation Plan (“Phase III EE&C Plan”). This filing is being made pursuant to Act 129, the Implementation Order entered by the Pennsylvania Public Utility Commission (“Commission”) on June 19, 2015,¹ and the Clarification Order entered by the Commission on August 20, 2015.² The Phase III EE&C Plan includes a broad portfolio of energy efficiency and demand response programs, conservation practices and energy education initiatives. These integrated programs are designed to meet the goals established by Sections 2806.1 and 2806.2 of Act 129 and the Commission’s *Implementation Order*.

For the reasons set forth below, PPL Electric respectfully requests that the Commission approve the Phase III EE&C Plan as described herein and the appended attachments.

¹ *Energy Efficiency and Conservation Program*, Docket No. M-2014-2424864 (Implementation Order Entered June 19, 2015) (“*Implementation Order*”).

² *Energy Efficiency and Conservation Program*, Docket No. M-2014-2424864 (Clarification Order Entered Aug. 20, 2015) (“*Clarification Order*”).

I. INTRODUCTION

1. PPL Electric is a “public utility” and an “electric distribution company” (“EDC”) as defined in Sections 102 and 2803 of the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 102, 2803. PPL Electric furnishes electric service to approximately 1.4 million customers throughout its certificated service territory, which includes all or portions of 29 counties and encompasses approximately 10,000 square miles in eastern and central Pennsylvania.

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PPL Electric’s attorneys are authorized to receive all notices and communications regarding this Petition.

3. Act 129, which became effective on October 15, 2008, created, *inter alia*, an energy efficiency and conservation (“EE&C”) program, codified in the Pennsylvania Public Utility Code, 66 Pa. C.S. §§ 2806.1, 2806.2. This program required each EDC with at least 100,000 customers to adopt and implement a Commission-approved EE&C Plan. *See* 66 Pa. C.S. § 2806.1(b), (l). EE&C Plans are designed to achieve the Act 129 energy conservation and peak load reduction requirements, by specified dates, within the specified cost cap.

4. On July 1, 2009, in compliance with Section 2806.1(b)(1)(i) of Act 129, PPL Electric filed its Phase I EE&C Plan for the period of June 1, 2009, through May 31, 2013. On October 26, 2009, the Commission entered an Order approving PPL Electric’s Phase I EE&C Plan with certain modifications and requiring PPL Electric to file a revised Phase I EE&C Plan consistent with its Order.³ On February 17, 2010, the Commission approved PPL Electric’s revised Phase I EE&C Plan.⁴ The Commission thereafter approved modifications to PPL Electric’s Phase I EE&C Plan.⁵

5. On November 15, 2012, PPL Electric filed its Phase II EE&C Plan for the period of June 1, 2013, through May 31, 2016. On March 14, 2013, the Commission entered an Order approving PPL Electric’s Phase II EE&C Plan with certain modifications and directing the Company to file a revised Phase II EE&C Plan consistent with that Order.⁶ On July 11, 2013,

³ *See Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2009-2093216 (Order Entered Oct. 26, 2009).

⁴ *Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2009-2093216 (Order Entered Feb. 17, 2010).

⁵ *See, e.g., Petition of PPL Electric Utilities Corporation for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2009-2093216 (Order Entered May 6, 2011).

⁶ *Petition of PPL Electric Utilities Corporation for Approval of its Act 129 Phase II Energy Efficiency and Conservation Plan*, Docket No. M-2012-2334388 (Order Entered Mar. 14, 2013).

the Commission entered an Order approving PPL Electric's revised Phase II EE&C Plan.⁷ Further modifications to the Phase II EE&C Plan have since been approved.⁸

6. By November 30, 2013, and every five years thereafter, the Commission must assess the cost-effectiveness of the EDCs' EE&C Plans and set additional reductions in energy consumption and peak demand if the benefits of the EDCs' EE&C Plans exceed their costs. 66 Pa. C.S. §§ 2806.1(c)(3), (d)(2).⁹

7. On June 19, 2015, the Commission issued the *Implementation Order*, which determined the required energy consumption and peak demand reduction targets for each EDC subject to Act 129 and established guidelines for implementing Phase III (i.e., June 1, 2016 – May 31, 2021) of the EE&C program. To establish the EDCs' required energy consumption and peak demand reduction targets, the Commission relied on the findings of the Statewide Evaluator's ("SWE") Energy Efficiency and Demand Response Market Potential Studies. *See Implementation Order*, pp. 12, 34-35, 56-57. The Commission specified the following overall targets for PPL Electric to reduce energy consumption and peak demand:

⁷ *Petition of PPL Electric Utilities Corporation for Approval of its Act 129 Phase II Energy Efficiency and Conservation Plan*, Docket No. M-2012-2334388 (Order Entered July 11, 2013).

⁸ *See Petition of PPL Electric Utilities Corporation for Approval of its Act 129 Phase II Energy Efficiency and Conservation Plan*, Docket No. M-2012-2334388 (Order Entered Mar. 6, 2014); *Petition of PPL Electric Utilities Corporation for Approval of its Act 129 Phase II Energy Efficiency and Conservation Plan*, Docket No. M-2012-2334388 (Order Entered May 19, 2015).

⁹ Although subsection (d)(2) does not contain the "every five years thereafter" language that appears in subsection (c)(3), the Commission found that it must evaluate the cost-effectiveness of peak demand reduction every five years and may mandate additional peak demand reduction targets beyond November 30, 2013, if they are found to be cost-effective. *Energy Efficiency and Conservation Program*, Docket Nos. M-2012-2289411, M-2008-2069887, at p. 17 (Order Entered Feb. 20, 2014).

- Energy reduction compliance target = 1,443,035 MWh/yr. This is a 3.8% reduction in consumption relative to the 2010 load forecast.
- Peak demand reduction compliance target = 92 MW. This is 1.4% reduction relative to the 2007-2008 peak demand.

Implementation Order, pp. 35, 57 (footnotes omitted).

8. On August 20, 2015, the Commission issued its *Clarification Order*, which clarified certain aspects of the *Implementation Order*.

9. On September 22, 2015, the Commission issued a Secretarial Letter at Docket No. M-2014-2424864 establishing the template for the EDCs' Phase III EE&C Plans.

10. PPL Electric prepared its Phase III EE&C Plan in accordance with the Commission's *Implementation Order*, *Clarification Order*, and Phase III EE&C Plan Template.

11. For the reasons that follow, PPL Electric respectfully requests that the Commission approve its proposed Phase III EE&C Plan.

II. LEGAL REQUIREMENTS

12. Consistent with the requirements set forth in the Act 129 and the Commission's *Implementation Order*, PPL Electric's Phase III EE&C Plan:

- Specifies a budget showing total planned expenditures by program and customer class;
- Describes PPL Electric's method for monitoring and verifying plan results;
- Includes measures designed to achieve or exceed the required reductions and states the manner in which the consumption reductions will be achieved or exceeded;
- Complies with the designated expenditure cap of 2% of 2006 Annual Revenues for each year of the five-year plan, which equates to an average of approximately \$61.5 million per year for five years and approximately \$307.5 million¹⁰ for the Phase III. The five-year Plan will start on June 1, 2016 and conclude on May 31, 2021;

¹⁰ This funding cap excludes \$5 million estimated cost for SWE.

- Achieves a total overall gross verified energy reduction of at least 1,443,035 MWh/yr by May 31, 2021;
- Achieves a minimum of 3.5% (i.e., 50,507 MWh/yr) of the consumption reduction requirements from units of federal, state and local governments, including municipalities, school districts, institutions of higher education and non-profit entities (“GNE”);
- Achieves a minimum of 5.5% (i.e., 79,367 MWh/yr) of the consumption reduction requirements from programs solely directed at low-income customers (i.e., customers at or below 150% of Federal Poverty Income Guidelines)¹¹;
- Achieves a total overall gross verified demand reduction of at least 92 MW by May 31, 2021;
- Demonstrates that the proportion of measures available to the low-income sector is at least 9.95% of the total measures available to all customer sectors;
- Offers at least one program for each rate class and offers a reasonable mix of programs for all customers;
- Offers at least one comprehensive measure for residential customers and at least one comprehensive measure for nonresidential customers;
- Includes contracts with one or more conservation service providers (“CSPs”) necessary to implement the Phase III EE&C Plan;
- Includes a proposed reconcilable cost-recovery mechanism, in accordance with 66 Pa. C.S. § 1307;
- Demonstrates that the Phase III EE&C Plan is cost-effective based on the Commission’s Total Resource Cost (“TRC”) Test; and
- Includes an analysis of the Company’s administrative costs.

III. PPL ELECTRIC’S PROPOSED PHASE III EE&C PLAN

A. OVERVIEW OF THE PHASE III EE&C PLAN

13. PPL Electric’s Phase III EE&C Plan is attached hereto and marked as “Exhibit 1.”

PPL Electric’s Phase III EE&C Plan, as more fully described below, includes a broad portfolio

¹¹For compliance purposes, PPL Electric will count savings achieved from master-metered multifamily housing units that have low-income tenants toward the 5.5% low-income carve-out target, consistent with the Commission’s finding in the *2016 TRC Test Order*. See *2016 Total Resource Cost (TRC) Test*, Docket No. M-2015-2468992, at p. 30 (Order Entered June 22, 2015) (“*2016 TRC Test Order*”). Specifically, PPL Electric will “count savings from multifamily housing programs (including master-metered commercial customers)” toward the 5.5% low-income carve-out target “if [the Company] can verify the occupants are low-income customers but only to the extent of the low-income occupancy rate.” *Id.* Further details on how PPL Electric will count savings and costs for master-metered multifamily units that have low-income tenants are provided in Section 3 of the Phase III EE&C Plan.

of energy efficiency, energy education, and demand response initiatives. PPL Electric's portfolio of programs is designed to meet the Company's Phase III energy consumption and peak demand reduction targets and to comply with the other requirements set forth in the Commission's *Implementation Order*, as further clarified by the *Clarification Order*. The Phase III EE&C Plan includes a range of energy efficiency programs geared toward all customer classes in PPL Electric's service territory, as well as a demand response program aimed at PPL Electric's nonresidential customers, including government, non-profit, and educational ("GNE") customers. These programs are the key components of an electric energy efficiency initiative designed to achieve the required: (1) 1,443,035 MWh/yr. of reduced energy consumption over the five-year Plan; and (2) 92 MW of peak demand reduction in each of the final four program years of the five-year Plan, based on the average MW reduction in each hour of mandated four-hour events for that program year.

14. The proposed Phase III EE&C Plan follows the template provided in the September 22, 2015 Secretarial Letter at Docket No. M-2014-2424864. The Phase III EE&C Plan is divided into the following ten sections: (1) Overview of Plan; (2) Energy Efficiency and Conservation Portfolio/Program Summary Tables and Charts; (3) Program Descriptions; (4) Program Management and Implementation Strategies; (5) Reporting and Tracking Systems; (6) Quality Assurance and Evaluation, Measurement, and Verification; (7) Cost Recovery Mechanism; (8) Cost-Effectiveness; (9) Plan Compliance Information and Other Key Issues; and (10) Appendices.

15. Included as Appendix E to the Phase III EE&C Plan is the proposed *pro forma* tariff for the Phase III Act 129 Compliance Rider ("ACR III"), which is designed to fully recover all applicable EE&C-related costs. The ACR III is fully reconcilable and will be applied on a

non-bypassable basis to charges for electricity supplied to customers who receive electric distribution service from the Company.

B. PLAN DEVELOPMENT PROCESS

16. The requirements of Act 129 and the Commission's *Implementation Order* and *Clarification Order* formed the basis for development of the Phase III EE&C Plan. The Company carefully evaluated Act 129, the *Implementation Order*, the *Clarification Order*, and the Phase II EE&C Plan to determine the broad requirements and allowable annual expenditures for PPL Electric. Actual amounts paid to PPL Electric for generation, transmission, distribution and surcharges by retail customers, including revenues collected by PPL Electric for an electric generation supplier for the twelve months ended December 31, 2006, were used to determine the 2% expenditure cap established by Act 129. The maximum allowable budget identified in the *Implementation Order* for PPL Electric is \$307,506,880.¹² *Implementation Order*, p. 11 n.23 (specifying an annual budget of \$61,501,376 for Phase III).

17. The process for developing the Phase III EE&C Plan consisted of establishing a set of guiding principles, including: (1) customer focus; (2) compliance with Act 129; (3) flexibility to address changing market conditions; (4) effective program design; (5) equitable programs; (6) market acceptance; and (7) commitment to low-income customers. *See* Phase III EE&C Plan, Section 1.2.1.

18. The programs included in PPL Electric's Phase III EE&C Plan were designed as a portfolio and include options for all customer sectors. The Phase III EE&C Plan is designed to provide customers with a cost-effective, equitable, flexible, and wide-ranging set of programmatic choices, incentive options, information, and educational opportunities.

¹² Funding cap excludes \$5 million estimated cost for SWE. *See Implementation Order*, p. 95.

19. PPL Electric's development of the Phase III EE&C Plan began by thoroughly evaluating actual performance in Phases I and II and reviewing the SWE's and PPL Electric's Phase III Market Potential Studies. In addition, PPL Electric's program staff identified possible programs and measures for consideration in Phase III based on input from stakeholders, trade allies, other utilities, and requests for proposals from potential program implementation contractors for residential, low-income, nonresidential, and demand response programs. Based on this input and review, PPL Electric developed a portfolio of programs that provides program options for all customer classes and that is designed to cost-effectively achieve the energy consumption and peak demand reduction targets set by the Commission, within the cost budget.

20. During the preparation of the Phase III EE&C Plan, PPL Electric pursued opportunities to solicit input from and inform stakeholders of the Company's progress.¹³ The Company maintained communications with a range of interested parties, including other investor-owned utilities, consumer advocates, environmental advocates, non-utility parties, governmental and non-governmental organizations, potential trade allies, and CSPs.

21. PPL Electric anticipates that this collaborative process will increase the likelihood of success in implementing the portfolio. Key information about stakeholder participation, including meeting dates and topics discussed with the participants, is summarized in Section

¹³ PPL Electric's stakeholder group includes, but is not limited to, representatives from: registered and other potential CSPs; environmental advocacy groups; Chambers of Commerce; public and private economic development organizations; community-based organizations; trade allies, including contractors, trade associations, energy services companies, and vendors; market partners that deliver or promote energy-efficiency programs, including Keystone HELP, Pennsylvania Housing Finance Agency, SEDA-Council of Governments, Community Committee of the Lehigh Valley, Schuylkill Community Action, Community Action Program of Lancaster, other Community Action Groups, and property/facilities management companies; Pennsylvania Public Utility Law Project; the Sustainable Energy Fund; statutory advocates; the Pennsylvania Department of Environmental Protection; municipal and local government groups; county commissioners; township commissioners; the EFMR Monitoring Group; the Pennsylvania Department of Community & Economic Development's Energy-efficiency engineers and consultants; Citizens for Pennsylvania's Future; and the PP&L Industrial Customer Alliance.

4.1.6 of the Phase III EE&C Plan. Although it was not possible to include every recommendation received through the stakeholder process, the Company considered the input it received from its stakeholders. PPL Electric intends to meet with stakeholders as needed (but not less than twice annually) until May 31, 2021, and use their input to help identify modifications that would improve the efficiency or cost-effectiveness of the Phase III EE&C Plan (subject to regulatory approval where required). This process should assist the review of the Phase III EE&C Plan by the stakeholders and the Commission and should hopefully serve to expedite the Plan's approval, thereby allowing more time to prepare for implementation and expanding the opportunities for consumer savings.

C. DESCRIPTION OF THE PHASE III EE&C PLAN

22. PPL Electric's primary objective is to deliver a portfolio of cost-effective programs that will meet customers' needs, fulfill the Company's Phase III EE&C Plan objectives, as defined in Section 1.1.1 of the Phase III EE&C Plan, and achieve the results required by Act 129 and the Commission's *Implementation Order*, as clarified by the *Clarification Order*.

23. PPL Electric's portfolio reflects a strategic approach that is targeted, yet flexible enough to adjust and expand, as warranted, to meet changing market conditions and progress toward the Phase III EE&C Plan goals.

24. The proposed Phase III EE&C Plan, as noted above, includes a portfolio of energy efficiency, energy education, and demand response initiatives. Specifically, the proposed portfolio consists of the following 10 programs¹⁴:

¹⁴ As shown in Figure 3 of the Phase III EE&C Plan, there are 10 unique programs. The Efficient Equipment, Custom, and Demand Response programs have separate cost and savings estimates for each Nonresidential sector (i.e., Small Commercial and Industrial ("C&I"), Large C&I, and GNE).

Continued from Phase II to Phase III:

- Appliance Recycling Program;
- Efficient Lighting Program (previously Residential Retail Program in Phase II);
- Energy Efficient Home Program (previously Residential Energy-Efficiency Behavior & Education Program in Phase II) (with changes);
- Student Energy Efficient Education Program (previously Student and Parent Energy Efficiency Education Program in Phase II) (with changes);
- Home Energy Education Program (previously Behavior Program in Phase II) (with changes);
- Low-Income Winter Relief Assistance Program (“WRAP”) (with changes);
- Energy Efficiency Kits and Education Program (previously E-Power Wise Program in Phase II);
- Efficient Equipment Program (previously Prescriptive Equipment Program in Phase II); and
- Custom Program.

New Programs in Phase III:

- Demand Response Program.

All of the Company’s programs are voluntary and, subject to the budget limitations for each program, customers can elect to participate in any program for which they are eligible.

25. Full descriptions of the programs are set forth in Sections 3.2 to 3.5 of the Phase III EE&C Plan. These programs include a range of energy-efficiency programs targeted to every customer sector in PPL Electric’s service territory, as well as a demand response program for nonresidential customers, including GNE customers.

26. PPL Electric has differentiated its programs according to five customer sectors: (1) Residential; (2) Low-Income; (3) Small C&I; (4) Large C&I; and (5) GNE. *See* Phase III EE&C Plan, Section 3. PPL Electric defines Residential customers as those customers served

under Rate Schedules RS and RTS (R). PPL Electric defines Large C&I customers as those customers served at primary and transmission voltage levels (Rate Schedules LP-4, LP-5, LPEP, and L5S). Small C&I customers include all nonresidential accounts served at secondary voltage levels (Rate Schedules GS-1, GS-3, BL, SA, SM (R), SHS, SLE, SE, TS (R), and GH-2 (R)). The Low-Income sector includes all residential customers whose household income is at or below 150% of the Federal Poverty Income Guidelines (“FPIG”). 66 Pa. C.S. § 2806.1(b)(1)(i)(G). The GNE sector is defined as “units of Federal, State and local government, including municipalities, school districts, institutions of higher education and nonprofit entities.” 66 Pa. C.S. § 2806.1(b)(1)(i)(B).

27. PPL Electric’s portfolio of programs is designed to provide customer benefits and to meet the Company’s Phase III energy consumption and peak demand reduction targets as well as other program requirements set forth in Act 129, the *Implementation Order*, and the *Clarification Order*, all within the designated expenditure cap of 2% of 2006 annual revenues for each year of the five-year EE&C Plan, which equates to approximately \$307.5 million (plus PPL Electric’s share of the SWE costs, estimated at \$5 million).

28. In addition, the Commission directed that each EDC obtain a minimum of 5.5% of its total required consumption reduction from low-income customers. *Implementation Order*, pp. 69-70. These savings may only be obtained from “specific low-income programs or low-income verified participants in multifamily housing programs.” *Implementation Order*, p. 69.

29. As required in the Commission’s *Implementation Order*, PPL Electric has designed its EE&C Plan to achieve at least 5.5% of its required energy consumption from the Low-Income sector (i.e., 79,367 MWh/yr) and to provide the required proportion of measures for the Low-Income sector. *See* Phase III EE&C Plan, Sections 1.1.1, 9.1.3; *see Implementation*

Order, pp. 63, 69-70. These programs will be available to customers that are at or below 150% of the FPIG. Phase III EE&C Plan, Sections 1.2.2, 3.2.1.

30. The Commission's *Implementation Order* also requires 3.5% of each EDC's Phase III energy consumption reduction target to come from GNE customers. *Implementation Order*, p. 76. For PPL Electric, this carve-out is 50,507 MWh/yr from GNE customers. *See* Phase III EE&C Plan, Section 1.1.1. PPL Electric is offering a mix of programs that provide GNE customers with three program opportunities, specifically the Company's Efficient Equipment, Custom, and Demand Response Programs. *See* Phase III EE&C Plan, Section 3.5.

31. Furthermore, the Commission's *Implementation Order* requires that PPL Electric's EE&C Plan include at least one comprehensive program for residential customers and one comprehensive program for nonresidential customers. *Implementation Order*, p. 61. To satisfy the requirement for residential customers, PPL Electric will continue to offer its Low-Income WRAP, which provides energy efficiency education and a mix of direct-install efficiency measures for low-income residential customers, including: an in-home audit; weatherization; lighting; water heating; heating, ventilation, and air conditioning ("HVAC"); water conservation; and appliance measures. *See* Phase III EE&C Plan, Sections 3.1.4, 3.2.1. For nonresidential customers, the Company will offer the Custom Program. *See* Phase III EE&C Plan, Sections 3.1.4, 3.3-3.5. Under the Custom Program, PPL Electric will provide financial incentives to customers who install any cost-effective project that includes measures that are not in PPL Electric's other programs, such as combined heat and power ("CHP") and other measures that are not in the Technical Reference Manual ("TRM"). Phase III EE&C Plan, Section 3.1.4. In addition, PPL Electric will offer the Energy Efficient Home Program, which offers a comprehensive mix of measures for non-low-income residential customers, including

weatherization, water heating, lighting (available through the lighting program), HVAC, and appliances. *See* Phase III EE&C Plan, Sections 3.1.4, 3.2. Both low-income and non-low-income residential customers also will receive energy efficiency education and will be encouraged to implement multiple measures and take a more comprehensive approach to energy efficiency. *See* Phase III EE&C Plan, Section 3.1.4. Additionally, through its Efficient Equipment Program, PPL Electric will offer a mix of measures including HVAC, lighting, and water heating that, if installed collectively, provide a more comprehensive solution for nonresidential customers. *See* Phase III EE&C Plan, Sections 3.1.4, 3.2.

32. Moreover, although there is not a specific target for multifamily housing, the Commission encouraged EDCs to include multifamily housing programs in their Phase III EE&C Plans. *Implementation Order*, pp. 76-77, 80. PPL Electric has designed many of its programs to address energy efficiency within multifamily housing units for owners and renters, including those units that are master-metered and individually metered and that have low-income and non-low-income residents. *See* Phase III EE&C Plan, Section 3.

33. The EE&C Plan further includes procedures to measure, evaluate, and verify performance of the programs and the Plan as a whole. *See* Phase III EE&C Plan, Section 6.1. PPL Electric also will conduct an annual cost-effectiveness evaluation of the EE&C Plan and report the results of that evaluation in its final annual report in accordance with the Commission's *2016 TRC Test Order*. *See 2016 TRC Test Order*, pp. 18-19; Phase III EE&C Plan, Section 5.1.

34. For each program in the EE&C Plan, cost-effectiveness was estimated in accordance with the Commission's *2016 TRC Test Order*.

35. PPL Electric's proposed EE&C Plan is cost-effective (separately for the energy efficiency portfolio and for the demand response portfolio), based on a TRC criterion. *See* Phase III EE&C Plan, Section 8. Cost-effectiveness of the EE&C Plan is demonstrated in the data tables presented in Section 8.2 of the Phase III EE&C Plan. PPL Electric determined the life-cycle costs, savings, and avoided cost benefits for each measure to compute the measure's cost-effectiveness from a TRC perspective. Application of the TRC identified some programs (or specific customer sectors within a program) that did not meet the cost-effectiveness threshold. However, to meet the Low-Income compliance target and to ensure a well-balanced mix of measures that encourages non-low-income customers to take a more comprehensive approach for energy efficiency, some programs with a benefit-cost ratio below 1.0 were retained in the Phase III EE&C Plan.

36. PPL Electric's programs are designed to support Residential, Low-Income, Small C&I, Large C&I, and GNE sector customers through a logical continuum of energy efficiency and demand response actions, starting with facility review and analysis and ending with implementation, verification, and evaluation. Marketing and education functions, customer care and quality assurance, program tracking, and evaluation, monitoring, and verification will be common features of all programs. The EE&C Plan is supported by financial incentives and a delivery approach focused on providing customers with the support they need to achieve their energy efficiency objectives. Implementation activities range from simple, common energy efficiency measures that can be installed with minimal oversight or administrative burdens to more complex measures that are vetted through a technical analysis and may (but are not required to) be part of a facility-wide energy management strategy.

D. CONSIDERING THE ROLE OF RISK AND UNCERTAINTY IN THE EE&C PLAN

37. There are several risks and uncertainties associated with PPL Electric's ability to achieve these targets within the constraints outlined in Act 129 and the Commission's *Implementation Order* and *Clarification Order*. The EE&C Plan's program descriptions outline these risks and uncertainties and explain PPL Electric's strategies to manage these risks. *See* Phase III EE&C Plan, Section 3.

38. Further, PPL Electric has developed its EE&C Plan to exceed its Phase III energy consumption targets and peak demand reduction target by approximately 9% and 25%, respectively, to provide a reasonable margin for risks and uncertainties.¹⁵ Phase III EE&C Plan, Sections 1.1.1, 9.1.2.

39. In addition, the Phase III EE&C Plan was designed to provide the Company with flexibility to address risks and uncertainties. *See* Phase III EE&C Plan, Section 1.2.1. For instance, the Phase III EE&C Plan contains several program options and controls that will help the Company manage the pace of programs (i.e., the savings and costs in the EE&C Plan) while reducing the frequency of formal EE&C Plan changes. Phase III EE&C Plan, Section 1.2.1. These include modifying marketing tactics, adjusting incentive levels within the ranges detailed in the Phase III EE&C Plan, suspending measures at certain times, and offering multiple delivery channels. *See* Phase III EE&C Plan, Sections 1.2.1, 3.

40. Moreover, the ability to meet the projected targets ultimately is a function of consumers' ability and willingness to participate in specific programs. To address the state of the economy and customers' ability to make investments in energy efficiency, PPL Electric has

¹⁵ PPL Electric designed its Phase III programs to achieve the required reductions in energy consumption without the need for utilizing carryover savings from Phase II. However, PPL Electric reserves the right to utilize any such carryover to meet its Phase III reduction targets if necessary.

included various incentive levels for customers and will educate customers about additional funding sources that may be available to help offset the customer's investment. Furthermore, where possible,¹⁶ PPL Electric has designed its programs to rely on existing market delivery mechanisms to identify and implement energy-efficiency products and services.

41. PPL Electric also has designed its Phase III EE&C Plan to use the savings assumptions from the Commission's 2016 TRM, which the Commission has adopted for the entirety of Phase III.¹⁷ *Implementation Order*, p. 97.

42. Finally, PPL Electric will continue to use the protocols established in Phases I and II to effectively monitor progress toward meeting the Phase III EE&C Plan goals, to detect problems quickly and take corrective action, and to adjust the Phase III EE&C Plan prospectively over time if necessary.

E. COSTS AND COST ALLOCATION

43. Section 2806.1(g) of Act 129 requires that the total cost of any EE&C Plan not exceed 2% of the EDC's total annual revenues as of December 31, 2006. 66 Pa. C.S. § 2806.1(g). PPL Electric's total annual revenues for calendar year 2006 were \$3,075,068,824. Accordingly, the designated expenditure cap of 2% of 2006 Annual Revenues for each year of the five-year plan, equates to an average of approximately \$61.5 million per year for five years and approximately \$307.5 million for the Phase III EE&C Plan. Phase III EE&C Plan, Section 7.1. Counting the estimated \$5 million in costs for the SWE, PPL Electric's total budget for Phase III is \$312.5 million. Phase III EE&C Plan, Section 7.2 n.33.

¹⁶ For example, there is not an existing market delivery mechanism for programs such as Low-Income WRAP, the Appliance Recycling Program, and the Home Energy Education Program.

¹⁷ The Company observes that the Commission also "reserve[d] the right to perform mid-phase updating if [the Commission] deem[s] it necessary, such as in instances where major market or technology transformations affect the EE&C Programs and associated savings values." *Implementation Order*, p. 98.

44. PPL Electric will spend most of the \$312.5 million to implement its Phase III EE&C Plan. Phase III EE&C Plan, Section 7.2. This total cost also will include the costs that PPL Electric incurred to develop its EE&C Plan. Phase III EE&C Plan, Section 7.2. In the *Implementation Order*, the Commission again found that EDCs should be permitted to recover the incremental cost incurred to design, create, and obtain Commission approval of a plan. *Implementation Order*, pp. 132, 135.

45. In addition, Section 2806.1(a)(11) of Act 129 mandates that EE&C measures be paid for by the same customer class that receives the energy and conservation benefits of those measures. 66 Pa. C.S. § 2806.1(a)(11). The Phase III EE&C Plan estimates the costs and savings for each of the five customer sectors (i.e., Residential, Low-Income, Small C&I, Large C&I, and GNE). Phase III EE&C Plan, Sections 2.3, 7.5. However, for cost-recovery purposes, the Company must assign and allocate costs to each customer class. To that end, PPL Electric will: (1) directly assign costs to customer classes; and (2) allocate costs that are applicable to more than one customer class or that provide system-wide benefits using an allocation factor. Phase III EE&C Plan, Section 7.5. The allocation factor is a percentage equal to the actual EE&C costs directly assigned to each customer class divided by the actual EE&C costs assigned to all customer classes. Phase III EE&C Plan, Section 7.5.

46. The Company also notes that its GNE programs are available to customers in any rate class who meet GNE eligibility requirements. Phase III EE&C Plan, Section 7.5. However, the Phase III EE&C Plan does not have separate savings and costs budgets for each rate class within GNE. Phase III EE&C Plan, Section 7.5. For instance, there is no specific budget for Large C&I customers participating in GNE programs. For cost recovery, the Company's ACR III rate will initially assume that 60% of the estimated GNE costs will come from Small C&I

participants and 40% from Large C&I participants. This initial allocation was based on the actual results from Phases I and II. PPL Electric will assign actual GNE costs to the specific rate class of each GNE participant. The Company's annual reconciliation process, described in Section III.F, *infra*, will account for any differences between the estimated and actual GNE costs by customer class. *See* Phase III EE&C Plan, Section 7.5.

F. COST RECOVERY TARIFF MECHANISM

47. Act 129 directs each EDC to establish a reconcilable cost recovery tariff mechanism in accordance with 66 Pa. C.S. § 1307 and include this mechanism in its Phase III EE&C Plan. 66 Pa. C.S. § 2806.1(b)(1)(i)(H), (k)(1); *see Implementation Order*, p. 145. Appendix E to the Phase III EE&C Plan contains the Company's proposed ACR III, which is a reconcilable adjustment clause under Section 1307 that will be set to recover the estimated program costs PPL Electric expects to incur each program year to achieve its energy consumption and peak demand reduction targets for that program year. Phase III EE&C Plan, Section 7 and Appx. E; *see Implementation Order*, p. 149. The ACR III will be filed by May 1 of each year and will set forth the rates that will be charged to each customer depending on the customer's rate schedule. *See* Phase III EE&C Plan, Appx. E. For each program year, PPL Electric will annually reconcile the actual expenses incurred for each customer class as a whole with the actual revenues it recovers through ACR III for that customer class as a whole. Phase III EE&C Plan, Section 7 and Appx. E; *see Implementation Order*, p. 149. In addition to the annual reconciliation, upon determination by the Company that the ACR III rate (if left unchanged) would result in a material over- or under-collection of Phase III costs incurred or expected to be incurred during the current 12-month period, the Company may file with the Commission for an interim revision of the ACR III rate. Phase III EE&C Plan, Section 7.4 and Appx. E.

48. Section 2806.1(h) of Act 129 also provides that the Commission can recover program implementation costs from EDCs. *See Implementation Order*, p. 95. Consequently, it follows PPL Electric can recover those costs from customers, and the Company will recover such costs through the ACR III. However, PPL Electric observes that the costs for the SWE are not included under the Company's 2% cost cap, in accordance with the *Implementation Order*.¹⁸ *See Implementation Order*, p. 95.

49. Further, the Commission's *Implementation Order* requires EDCs to combine their Phase II and Phase III surcharges¹⁹ into a single surcharge and tariff for Phase III using the Commission's specified transition plan. *Implementation Order*, p. 149. In accordance with the *Implementation Order*, PPL Electric will reconcile the actual costs incurred through March 31, 2016, with the actual revenues received through March 31, 2016. *Implementation Order*, pp. 146, 149. Any net over- or under-recovered amount will be reflected as a separate line item of the E-factor calculation of the Phase III rates that will become effective on June 1, 2016. *Implementation Order*, pp. 146, 149. Moreover, the Company will include, as part of its calculation of the Phase III rates effective June 1, 2016, separate line items for the following projections: (1) expenses to finalize any measures installed and commercially operable on or before May 31, 2016; (2) expenses to finalize any contracts; and (3) any other Phase II administrative obligations.²⁰ *See Implementation Order*, pp. 146-47, 149. Additional details of

¹⁸ In establishing the 2% cost cap, Section 2806.1(g) specifically characterizes the cap as a limitation on the "total costs of any plan required under this section." 66 Pa. C.S. § 2806.1(g). Because the costs of the SWE are not the costs of PPL Electric's Phase III EE&C Plan, they are not subject to the limitation set forth in Section 2806.1(g).

¹⁹ PPL Electric notes that its current cost recovery tariff mechanism for Phase II is the Phase II Act 129 Compliance Rider ("ACR II"), which will remain effective through May 31, 2016. *See* Electric Pa. P.U.C. No. 201, Supp. No. 134, First Revised Page No. 19Z.10A; *Implementation Order*, pp. 147, 149.

²⁰ The Company further notes that in accordance with the *Implementation Order* it will include the following as separate line items in the reconciliation for April 1, 2016, through March 31, 2017: (1) revenues and expenses of the

how PPL Electric's ACR III for Phase III will accomplish this transition are provided in Appendix E to the Phase III EE&C Plan.

G. IMPLEMENTATION SCHEDULE AND STRATEGY

50. The proposed Phase III EE&C Plan includes a five-year implementation schedule to achieve its Phase III energy consumption and peak demand reduction targets. *See* Phase III EE&C Plan, Section 1.4. The Phase III EE&C Plan also includes detailed budgets, milestones, and anticipated delivery dates for each program. *See* Phase III EE&C Plan, Section 3.

51. PPL Electric's implementation strategy is based on several key features that the Company has identified as critical to achieving the objectives of the proposed Phase III EE&C Plan. *See* Phase III EE&C Plan, Section 1.6. First, PPL Electric will rely on a broad range of CSPs, employees, trade allies, community agencies, stakeholders, and other entities engaged in energy efficiency to promote, deliver, and support the effective deployment of programs. Phase III EE&C Plan, Section 1.6. Second, the Company will use three sector-level CSPs (i.e., Residential, Low-Income, and Nonresidential), and one program-specific CSP (i.e., Demand Response) to deliver its portfolio. Phase III EE&C Plan, Section 1.6. Third, PPL Electric and its CSPs will engage in active marketing and outreach to customers about the programs. Phase III EE&C Plan, Section 1.6. Fourth, the Company will rely on trade allies and other market partners to engage customers, promote programs, evaluate projects, and stock and install energy-efficient equipment. Phase III EE&C Plan, Section 1.6.

remaining two months of Phase II (i.e., April 2016 and May 2016); (2) expenses to finalize any measures installed and commercially operable on or before May 31, 2016; (3) expenses to finalize any contracts; and (4) other Phase II administrative obligations. *Implementation Order*, pp. 147, 149.

IV. CUSTOMER NOTICE

52. The Company proposes to provide notice of this filing consistent with the notice provided by the Company for its Phase I and Phase II EE&C Plans. First, PPL Electric will serve copies of the filing on the Office of Consumer Advocate, the Office of Small Business Advocate, the Commission's Bureau of Investigation and Enforcement, and all parties of record in PPL Electric's Phase II EE&C Plan proceeding. Second, the Company will send notice of the filing to participants in the stakeholder process described in Section III.B, *supra*. Third, the filing will be posted on PPL Electric's Act 129 web site at www.pplact129.com. Fourth, the Company understands that the Commission will publish notice of this filing in the *Pennsylvania Bulletin*. PPL Electric believes that these various communications initiatives will provide all interested parties with full notice of the Company's proposals and an opportunity to participate in the Commission proceeding addressing those proposals.

V. THE PROPOSED EE&C PLAN IS IN THE PUBLIC INTEREST

53. PPL Electric believes that the proposed Phase III EE&C Plan is in the public interest and in compliance with the requirements of Act 129 and all of the Commission's applicable Orders.

54. First, the Phase III EE&C Plan includes a range of cost-effective energy efficiency programs that are available to all customer sectors in PPL Electric's electric service territory, and a demand response program that is available to nonresidential customers, including GNE. As seen in the Phase III EE&C Plan, these programs include a variety of measures and education and behavior components. Phase III EE&C Plan, Section 3. Therefore, a variety of measures will be applied equitably and non-discriminatorily to all customer classes.

55. Second, these programs are designed to achieve the energy consumption and peak demand reductions required by the Commission's *Implementation Order* within the 2% cost cap established by Act 129.

56. Third, PPL Electric's energy efficiency programs provide a cohesive structure intended to support the Residential, Low-Income, Small C&I, Large C&I, and GNE customer sectors through a logical continuum of energy efficiency and demand response actions, starting with facility review and analysis and ending with implementation, verification, and evaluation. Marketing and education functions, customer care and quality assurance, and program tracking, evaluation, monitoring, and verification will be common features of all programs in the Phase III EE&C Plan. Furthermore, the programs are supported by financial incentives and a delivery approach focused on providing customers with the support they need to achieve their efficiency objectives.

57. Fourth, the Phase III EE&C Plan contains a proposed tariff mechanism for full cost recovery. PPL Electric's proposed ACR III is designed to recover all of the costs for energy efficiency and conservation measures incurred by the customer class that received the benefit of those measures. To the extent that PPL Electric over- or under-recovers costs from customers, those funds will be refunded or recovered through the ACR III as part of the Company's annual reconciliation process.

VI. CONCLUSION

WHEREFORE, PPL Electric Utilities Corporation respectfully requests that the Pennsylvania Public Utility Commission approve the Phase III EE&C Plan, as set forth in this Petition and the attachments hereto.

Respectfully submitted,

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