BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PETITION OF PECO ENERGY COMPANY FOR APPROVAL OF ITS ACT 129 PHASE IV ENERGY EFFICIENCY AND CONSERVATION PLAN	:	**DOCKET NO. M-2020-3020830**

PETITION OF PECO ENERGY COMPANY FOR APPROVAL OF ITS ACT 129 PHASE IV ENERGY EFFICIENCY AND CONSERVATION PLAN

I. INTRODUCTION

PECO Energy Company ("PECO" or "Company") petitions the Pennsylvania Public Utility Commission ("Commission") for approval of the Company's Phase IV Energy Efficiency and Conservation Plan ("Phase IV Plan" or "Plan") to achieve energy and peak demand reductions in accordance with the requirements of Act 129 of 2008, 66 Pa.C.S. § 2806.1 ("Act 129" or "Act") and the Commission's Implementation Order entered June 18, 2020 at Docket No. M-2020-3015228 ("*Phase IV Implementation Order*").[1] Specifically, PECO requests that the Commission: (1) find that the Phase IV Plan satisfies the requirements of 66 Pa.C.S. § 2806.1(b)(1) and the *Phase IV Implementation Order*, including those provisions mandating the implementation of programs designed to achieve the peak demand reduction ("PDR") and consumption reduction targets established for PECO and the energy savings carve-out for the low-income customer sector; and (2) approve a supplement to PECO's Electric Service Tariff to implement a Section 1307 surcharge to recover Phase IV Plan costs.[2]

[1] The proposed Phase IV Plan is attached to this Petition as PECO Exhibit No. 1.

[2] Consistent with 66 Pa.C.S. § 2806.1(b)(1)(i)(E), the Company has made a separate, contemporaneous filing seeking Commission approval of a confidential Phase IV conservation service provider contract.

The Company employed a market-based approach in order to design Phase IV programs that will satisfy the Company's Phase IV energy savings and PDR targets, stay within applicable cost limitations, and provide meaningful opportunities for customers to save energy and money. PECO's Phase IV Plan has five energy efficiency ("EE") programs: (1) Residential (excluding low-income); (2) Income-Eligible; (3) Residential Home Energy Reports; (4) Income-Eligible Home Energy Reports; and (5) Non-Residential. The Plan describes each program in detail, consistent with the content and formatting requirements of the filing template issued by the Commission (the "*Filing Template Letter*").[3] In keeping with PECO's practice for its Phase I, Phase II, and Phase III plans, PECO met with key stakeholders to discuss the design framework for the Phase IV Plan proposed in this Petition.

Over the course of the five year Phase IV Plan (June 1, 2021, through May 31, 2026), the Company estimates that its Phase IV programs will produce: (1) 1,605,107 MWh in energy savings, or 116% of PECO's overall energy savings target; and (2) 327 MW of PDR, or 128% of its overall PDR target.

II. BACKGROUND

1. PECO is a corporation duly incorporated and validly subsisting under the laws of the Commonwealth of Pennsylvania with its principal office in Philadelphia, Pennsylvania. PECO provides electric delivery service to approximately 1.6 million customers and natural gas delivery service to more than 534,000 customers in Pennsylvania.

2. On October 15, 2008, then Governor Edward G. Rendell signed into law Act 129, which, among other things, added Section 2806.1 to the Pennsylvania Public Utility Code. The

[3] *Implementation of Act 129 of 2008 – Phase IV Energy Efficiency and Conservation Plan Template*, Docket No. M-2020-3015228 (Issued September 9, 2020).

applicable provisions of Act 129 required Pennsylvania electric distribution companies ("EDCs") to file energy efficiency and conservation ("EE&C") plans by July 1, 2009, containing the plan elements specified in Section 2806.1(b) ("Phase I EE&C Program").[4] 66 Pa.C.S. § 2806.1(b). In addition, Sections 2806.1(c) and (d) required that EDCs' Phase I EE&C plans be designed: (1) to reduce retail energy consumption by a minimum of 1% by May 31, 2011, and a minimum of 3% by May 31, 2013; and (2) to reduce peak demand, measured by reference to the 100 highest hours of demand, by a minimum of 4.5% no later than May 31, 2013. 66 Pa.C.S. § 2806.1(c) and (d).

3. The EE&C plan filing requirements in Section 2806.1(b) mandated that energy savings be derived from certain customer segments during Phase I. For instance, a minimum of 10% of an EDC's consumption reductions had to be obtained from the governmental, educational and nonprofit sector. 66 Pa.C.S. § 2806.1(b)(1)(i)(B). In addition, each EDC's Phase I plan was to include specific energy efficiency programs for households with income at or below 150% of the Federal Poverty Income Guidelines ("low-income sector") that are proportionate to such households' share of the total energy usage in the EDC's service territory. *Id.* § 2806.1(b)(1)(i)(G). Finally, an EDC's plan had to pass a "total resource cost" or "TRC" test to determine whether the avoided cost of supplying electricity is greater than the cost of a plan's energy efficiency and conservation measures. 66 Pa.C.S. § 2806.1(b)(1)(i)(I); *2016 Total Resource Cost (TRC) Test*, Docket No. M-2015-2468992 (Order entered June 22, 2015).

4. Pursuant to the Act, EDCs are entitled to full and current cost recovery of prudent and reasonable costs, including administrative costs, but annual plan expenditures are limited to

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[4] 66 Pa.C.S. § 2806.1(l) exempts EDCs with fewer than 100,000 customers from this requirement.

2% of the EDC's total annual revenue as of December 31, 2006. 66 Pa.C.S. §§ 2806.1(g), (k). For PECO, this annual spending amount is approximately $85.5 million.

5. In compliance with Section 2806.1 and the Commission's Order entered January 15, 2009, at Docket No. M-2008-2069887, PECO submitted its EE&C plan for the Phase I EE&C Program on July 1, 2009. The Commission approved PECO's Phase I Plan, with modifications, on October 28, 2009.[5] PECO met its Phase I consumption reduction target, consumption reduction carve-outs, and PDR target.

6. Act 129 further required the Commission, by November 30, 2013, to evaluate the costs and benefits of the Phase I EE&C Program. If the benefits of the Program were found to exceed its costs, the Commission was directed to adopt "additional required incremental reductions in consumption" and "additional incremental requirements for reduction in peak demand." 66 Pa.C.S. §§ 2806.1(c)(3) and (d)(2). The Commission did so and has issued implementation orders for Phase II[6], Phase III,[7] and Phase IV[8] of the EE&C program.

7. PECO submitted its Phase II Plan consistent with the *Phase II Implementation Order*, which the Commission approved on February 28, 2013. A voluntary DR program was

[5] *See Petition of PECO Energy Company for Approval of its Act 129 Energy Efficiency and Conservation Plan and Expedited Approval of its Compact Fluorescent Lamp Program,* Docket No. M-2009-2093215. Certain revisions were adopted in subsequent orders.

[6] *Energy Efficiency and Conservation Program*, Docket Nos. M-2012-2289411 and M-2008-2069887 (Order entered August 3, 2012) ("*Phase II Implementation Order*"),

[7] *Energy Efficiency and Conservation Program*, Docket No. M-2014-2424864 (Order entered June 19, 2015) ("*Phase III Implementation Order*")

[8] *See Phase IV Implementation Order.*

added to the Phase II Plan on May 9, 2013.[9] PECO met its Phase II consumption reduction target and carve-outs.

8. PECO submitted its Phase III Plan consistent with the *Phase III Implementation Order*, which the Commission approved on May 19, 2016.[10] PECO expects to meet its Phase III targets by the end of the phase (May 31, 2021).

9. In its *Phase IV Implementation Order*, the Commission established both consumption reduction and PDR targets for the five-year plan period of June 1, 2021, through May 31, 2026. PECO's total Phase IV MWh savings target is 1,380,837 MWh. The Company's total Phase IV PDR target is 256 MW and must be achieved exclusively with EE measures. The Commission also established a savings carve-out for the low-income sector. Under this carve-out, PECO must obtain 80,089 MWh of savings from programs solely directed at low-income customers or low-income-verified participants in multifamily housing programs.

10. The *Phase IV Implementation Order* also includes four plan design requirements: (1) plans must be designed to achieve at least 15% of the MWh savings target and PDR target each program year; (2) plans must include at least one comprehensive program for residential customers and one comprehensive program for non-residential customers; (3) plans must allocate at least 50% of all spending to incentives, with less than 50% allocated to non-incentive categories; and (4) EDCs must describe their strategy to nominate a portion of the projected PDRs into PJM's forward capacity markets ("FCM").

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[9] *See Petition of PECO Energy Company for Approval of its Act 129 Phase II Energy Efficiency and Conservation Plan*, Docket No. M-2012 2333992.

[10] *Petition of PECO Energy Company for Approval of its Act 129 Phase III Energy Efficiency and Conservation Plan*, Docket No. M-2015-2515691 (Order entered May 19, 2016) (further revisions to PECO's Phase III Plan were adopted in later orders in the same docket).

11. On September 9, 2020, the Commission issued the *Filing Template Letter*, which included an EE&C plan template for use by EDCs in preparing and filing their EE&C Plans for Phase IV.

12. This Petition describes PECO's Phase IV Plan and the proposed mechanism for recovery of Plan costs and includes the following statements and exhibits, which are attached to this Petition and incorporated by reference:

PECO Statement No. 1	Direct Testimony of Doreen L. Masalta, PECO's Director of Energy and Marketing Services
PECO Statement No. 2	Direct Testimony of Nicholas DeDominicis, PECO's Manager of Evaluation, Measurement and Verification
PECO Statement No. 3	Direct Testimony of William R. Supple, Managing Consultant in the Energy, Sustainability and Infrastructure practice at Guidehouse, Inc.
Exhibit WRS-1	Resume of William Supple
PECO Statement No. 4	Direct Testimony of Richard A. Schlesinger, PECO's Manager of Retail Rates
Exhibit RAS-1	Proposed Supplement Setting Forth Revisions to PECO's Electric Service Tariff (Clean and Redline)
Exhibit RAS-2	Program Costs by Rate Class
Exhibit RAS-3	Calculation of the Cost Recovery Charges by Rate Class for the First Year of PECO's Phase IV EE&C Plan
Exhibit RAS-4	Responses to the Commission's Filing Requirements at 52 Pa. Code § 53.52
PECO Exhibit No. 1	PECO Phase IV Energy Efficiency and Conservation Plan (Program Years 13-17)
Appendix A	CSP Contracts
Appendix B	Program by Program Savings and Costs for Each Program Year
Appendix C	Calculation Methods and Assumptions
Appendix D	Glossary of Terms and Definitions

Appendix E Avoided Cost Calculator

III. MARKET-BASED PLAN DESIGN PROCESS

13. As explained in the testimony of Ms. Masalta, Mr. DeDominicis, and Mr. Supple, PECO employed a market-based approach to design its Phase IV Plan. The Company established high-level requirements for each program in the Phase IV Plan and then solicited and assessed bids from experienced conservation service providers ("CSPs") that were consistent with those requirements.

14. PECO first determined the appropriate division of the Company's mandated EE savings and PDRs between its five Phase IV programs. Next, the Company established a budget for each program based on the acquisition cost findings in the statewide evaluator's ("SWE's") Energy Efficiency and Peak Demand Reduction ("EEPDR") Potential Study. Finally, and consistent with the Commission's requirement in the *Phase IV Implementation Order*, the Company established a requirement that each program must be designed to meet and achieve a minimum of 15% of its total EE savings and PDRs each year. In addition, the non-behavioral programs must strive to: (1) allow customers to access all applicable measures in the Commission's Technical Reference Manual ("TRM"); and (2) engage a variety of market players (e.g., trade allies).

15. PECO then issued requests for proposals ("RFPs") for different program groupings in a manner consistent with the Company's Commission-approved Phase IV RFP process.[11] Bidders were instructed to propose program designs that met each of the Company's

[11] PECO's Phase IV RFP process was approved by Secretarial Letter issued August 27, 2020 at Docket No. M-2020-3020830.

high-level program requirements and to identify any sub-contractors they would employ. Bidders were also asked to propose a "pay for performance" contract pricing structure so that the CSP's compensation would depend on the achievement of verified EE savings.

16. The Company scrutinized each bid in accordance with its Phase IV RFP process and selected the winning bidders. The Company's Phase IV Plan reflects the program designs proposed by the winning CSPs.

17. There are several benefits to PECO's market-based approach:

- **Incorporates diverse market expertise**. By letting CSPs design programs to meet the Company's key requirements, PECO's Phase IV Plan reflects the expertise and experience of multiple market actors in the EE space.

- **Provides greater flexibility to respond to market changes**. By having a single CSP administer an entire program instead of certain portions of a program, the CSP can take a flexible and market-responsive approach, with PECO's approval, to achieving the required EE savings and PDRs.

- **Incentivizes innovative and cost-effective CSP activity**. Because CSPs are compensated based on their ability to drive EE savings, they are incentivized to design innovative, achievable and cost effective programs.

- **Engages an array of market actors to drive a positive customer experience**. By requiring CSPs to engage a variety of market actors during program implementation, PECO is ensuring that customers have access to comprehensive savings opportunities. The CSP compensation structure also incentivizes CSPs to carefully monitor subcontractor performance to ensure a positive customer experience.

IV. PECO'S PROPOSED PHASE IV PROGRAMS

18. The Company's Phase IV programs are designed to produce: (1) 1,605,107 MWh in energy savings, or 116% of PECO's overall energy savings target; and (2) 327 MW of PDR, or 128% of its PDR target. The total Plan budget is approximately $427.4 million.[12]

19. Consistent with the *Phase IV Implementation Order*, at least 5.8% of PECO's total consumption reduction target will be obtained from the low-income sector and the Plan is designed to obtain at least 15% of the total MWh savings target and PDR target each program year. Also consistent with the *Phase IV Implementation Order*, the Plan includes at least one comprehensive program for residential customers and one comprehensive program for non-residential customers; allocates at least 50% of all spending to incentives; and describes the Company's strategy for bidding a portion of the projected PDRs into PJM's FCM.

20. Below is a summary of the EE programs, which are detailed in Section 3 of PECO's Plan and described in the testimony of Mr. DeDominicis.

A. **The Residential (excluding low-income) Program** is designed to offer customers opportunities to save energy across all their electric end-uses. The Program has multiple objectives including incentives for purchases of efficient lighting, appliances, HVAC upgrades, energy saving devices, and other energy savings technologies. The Program will offer appliance recycling services to remove old, inefficient refrigerators, freezers, and window AC units. Finally, the Program will include a new construction component that will drive the construction of energy-efficient homes and also have offerings for the customer premises and common areas of multifamily buildings (both individually-metered and master-metered).

[12] *See, e.g., Phase IV Implementation Order*, p. 120 (identifying PECO's Phase IV 5-year budget limit of $427,385,830).

B. **The Income-Eligible Program** is available to customers in the low-income sector. The foundational element of the Program is a direct install whole home solution, which provides in-home audits and education as well as the direct installation of EE measures at no charge to the participant. The Program also includes appliance recycling services to remove old, inefficient refrigerators, freezers, and window AC units. Finally, the Program will provide opportunities for income-eligible families living in multifamily buildings, including measures for the customer premise and common areas.

C. **The Residential Home Energy Reports Program** involves regularly delivering direct mail or digital home energy reports that motivate customers to act through contextualized energy-usage information, personal and neighborhood comparisons, and energy savings recommendations. The Program is designed to influence participant behaviors and influence energy management in their homes.

D. **Income-Eligible Home Energy Reports Program** is similar to the Residential Home Energy Reports Program, but is targeted to customers in the low-income sector.

E. **The Non-Residential Program** is a single, comprehensive program for both large and small commercial and industrial customers with rebates for a wide range of energy conservation measures. The Program includes a prescriptive component containing measures in the TRM and a custom component that can capture the interactive effects of multiple TRM measures. Both components are available for retrofit and new construction and will employ a market-driven approach in which customers are free to choose where they buy the EE measures and who installs them.

21. Section 1.6 of the Plan describes the Company's strategy to nominate up to 50 MW of PDRs from its portfolio of EE programs into the PJM FCM in the later years of Phase IV.

22. As required by Act 129, PECO has applied the TRC test to the Phase IV Plan as a whole. It also applied the TRC test to each proposed program. PECO's Plan has an overall TRC score of 1.14, demonstrating significant benefits to PECO's customers compared to the total

costs of the proposed EE and PDR measures. The projected energy savings, PDRs, costs, and TRC calculations are detailed in PECO's Plan and accompanying appendices.

23. Consistent with Act 129 and the Company's Phase I, Phase II, and Phase III Plans, CSPs will be responsible for program implementation, staffing, training and the tracking of programs and measures pursuant to CSP contracts.

24. PECO's Phase IV RFPs have followed the process approved by the Commission in a Secretarial Letter issued August 27, 2020 at Docket M-2020-3020830. All future RFPs will follow this approved process.

25. As required by Act 129 (*see* 66 Pa.C.S. § 2806.1(b)(1)(i)(K)), PECO's Plan includes an analysis of its expected administrative costs as shown in Section 7.3, Table 10, of the Plan. Additionally, consistent with PECO's Act 129 obligations, the Plan includes an extensive set of quality assurance and performance mechanisms for evaluating the Plan on a continual basis. Each of PECO's proposed programs has detailed evaluation, measurement and verification ("EM&V") requirements tailored to the program. PECO will be retaining the services of an experienced CSP to provide EM&V services, as well as a separate CSP to manage the Company's data tracking system for maintaining data and generating reports on each program. A description of PECO's overall approach to quality assurance and the anticipated tracking system functions are set forth in Sections 6 and 5 of the Plan.

V. THE PHASE IV ENERGY EFFICIENCY AND CONSERVATION RECOVERY CHARGE

26. Act 129 provides that PECO has a right to recover all reasonable and prudent EE&C plan costs, on a full and current basis, through a Section 1307 cost-recovery mechanism. 66 Pa.C.S. § 2806.1(k). The Commission has previously directed that EDCs develop a separate

cost recovery mechanism for each EE&C plan phase and that such mechanism be non-bypassable and not affect the EDCs' prices-to-compare. *See, e.g.*, *Phase II Implementation Order*, p. 118. For Phase IV, the Commission also directed that: (1) Phase IV charges should be calculated to recover projected program costs and be adjusted annually to reflect over- or under-recoveries; (2) an EDC's charges for Phase III and Phase IV should be combined into a single surcharge; (3) EDCs must account for Phase IV costs and revenues separately from Phase III costs and revenues; and (4) EDC reconciliation statements should clearly identify PJM FCM proceeds as cost reductions and PJM FCM deficiency charges as cost increases. *See Phase IV Implementation Order*, pp. 142-143.

27. In accordance with the foregoing directives, PECO is proposing to implement a Phase IV Energy Efficiency & Conservation Program Charge ("Phase IV EEPC") to recover Plan costs. The mechanism follows the same format as the Company's existing EEPC, which recovers costs associated with PECO's Phase III Plan, but also reflects the new requirement to identify PJM FCM proceeds and deficiency charges. The Phase IV EEPC would be a fully reconcilable, non-bypassable charge in accordance with the Act and previous Commission orders.

28. The Phase IV EEPC will recover any fixed capital costs (depreciation and pre-tax return) and operating expenses, not otherwise recovered in base rates, to design and implement the EE programs incorporated in PECO's Phase IV Plan. These costs include, among others, the cost of information technology ("IT") needed to design and implement the programs; the costs of customer outreach and program promotion; incremental labor costs incurred to manage and administer the programs on an ongoing basis; the cost to measure and verify program results; and

the cost of incentives offered to customers to participate in the approved programs. PECO also proposes to recover its Phase IV Statewide Evaluator costs through the Phase IV EEPC.

29. A separate recovery charge will be established for each customer class, corresponding to the costs of the programs or program components that target that class. This ensures that the classes that receive the direct benefits of particular EE measures finance those same measures. For programs that provide benefits to more than one class, costs will be allocated using reasonable and generally accepted cost-of-service principles. Common costs will be allocated to each rate class in proportion to the energy savings (MWh) that each rate class is projected to deliver under the Phase IV Plan. Mr. Schlesinger's testimony includes an estimate of the proposed charges for each customer class.

30. Consistent with the *Phase IV Implementation Order* (p. 142), the Phase IV EEPC will be developed based on projected plan costs for the coming year. Thereafter, PECO will reset the charge annually to recover the projected Plan costs for the then-upcoming plan year and make the appropriate adjustment to reconcile and true-up revenues and the previous program year's actual costs. No interest will accrue with respect to either over- or under-recoveries, consistent with the Commission's directive in the *Phase IV Implementation Order*. PECO also proposes to combine its Phase III EEPC and Phase IV EEPC into a single surcharge and a single tariff provision with the implementation of its Phase IV EEPC, as also directed by the Commission.

31. Finally, PECO will comply with the Commission's directive to separately account for Phase IV costs and revenues by setting up new general ledger accounts for Phase IV costs and revenues. Phase III costs and revenues are currently tracked through similar, separate accounting measures. Thus, there will be no comingling of Phase IV and prior Phase costs or

revenues in PECO's accounting records. Phase III costs and revenues will also be clearly identified and tracked separately for purposes of the EEPC. This will allow Phase IV costs to be reconciled against Phase IV revenues billed under the EEPC.

VI. PROPOSED SCHEDULE

32. The Company proposes the following schedule for review of its Phase IV Plan, which is consistent with the *Phase IV Implementation Order*:

November 30, 2020	Petition Filing
December 12, 2020	Publication of Notice of Filing in *Pennsylvania Bulletin*
January 4, 2021	Due Date for Answers/Comments/Recommendations
February 2, 2021	Evidentiary Hearing
February 12, 2021	Initial Briefs
February 22, 2021	PECO Reply Comments and/or Revised Plan
March 25, 2021	Commission Order

VII. NOTICE

33. PECO is serving copies of this filing on the Office of Consumer Advocate, the Office of Small Business Advocate, the Commission's Bureau of Investigation and Enforcement, and all parties to the Company's Phase III EE&C Plan proceeding.

34. In addition, consistent with the *Filing Template Letter*, the Company will post a copy of its proposed Phase IV Plan on PECO's website at: https://www.peco.com/MyAccount/MyBillUsage/Pages/Filings.aspx.

35. Should the Commission conclude that further notice of this filing is appropriate, PECO will provide such additional notice as directed by the Commission.

VIII. CONCLUSION

Based on the above, including the attached testimony and exhibits, PECO respectfully requests that the Commission grant this Petition and enter an Order:

(1) Approving PECO's Phase IV Plan and finding that the Plan satisfies the requirements of 66 Pa.C.S. § 2806.1(b)(1) and the *Phase IV Implementation Order*; and

(2) Approving the supplement to PECO's Electric Service Tariff to implement a Section 1307 surcharge to recover Phase IV Plan costs.

Respectfully submitted,

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Counsel for PECO Energy Company

November 30, 2020

VERIFICATION

I, Doreen L. Masalta, hereby declare that I am the Director of Energy and Marketing Services for PECO Energy Company; that, as such, I am authorized to make this verification on its behalf; that the facts set forth in the foregoing Petition are true and correct to the best of my knowledge, information and belief; and that I make this verification subject to the penalties of 18 Pa.C.S. § 4904 pertaining to false statements to authorities.

Date: November 30, 2020

Doreen Masalta

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