

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF)
DELMARVA POWER AND LIGHT COMPANY)
FOR APPROVAL OF ITS PROPOSAL) PSC DOCKET NO. 11-330
TO ESTABLISH A NEW RESIDENTIAL AIR)
CONDITIONING CYCLING PROGRAM)
(FILED JULY 28, 2011))

**COMMENTS OF COLLIN P. O'MARA, SECRETARY OF THE DELAWARE
DEPARTMENT OF NATURAL RESOURCES AND ENVIRONMENTAL CONTROL,
ON DELMARVA POWER & LIGHT'S PROPOSAL TO ESTABLISH AN AIR
CONDITIONING CYCLING PROGRAM, PSC DOCKET NO. 11-330**

The Delaware Department of Natural Resources and Environmental Control (DNREC) generally supports the application of Delmarva Power and Light (DPL) for its proposed Rider, "R-DOL" Residential Direct Load Control Rider, PSC Docket No. 11-330. The proposed Direct Load Control (DLC) program supports the Administration's strategic priority of securing cleaner, cheaper, and more reliable energy. Specifically, if implemented in a cost-effective manner with rigorous oversight, the program has the potential to (1) enable measurable economic benefits for Delaware households and businesses through reduced energy costs both for program participants and all ratepayers, (2) provide environmental benefits for Delaware by reducing demand for electricity from high-emission power plants in upwind states, (3) enable significant progress in meeting statutory requirements for energy and peak load savings, and (4) advance technologies and methods that will support further progress in meeting State goals for energy efficiency and peak demand reductions. Due to the significant environmental and economic

benefits in the record and noted in these comments, DNREC believes that DLC should be implemented as cost-effectively and quickly as practicable in order to maximize the program's environmental and economic benefits.

1. STATUTORY BASIS

Delaware Code provides an ample basis for the Public Service Commission (PSC) to approve DPL's application. DLC will be of significant value in achieving progress in reaching the energy and peak demand savings targets found in 26 *Del. C.* § 1502:

§ 1502. Energy Efficiency Resource Standards.

(a) It is the goal of this chapter that each affected energy provider shall achieve a minimum percentage of energy savings as follows:

(1) For each affected electric energy provider, energy savings that is equivalent to 2% of the provider's 2007 electricity consumption, and coincident peak demand reduction that is equivalent to 2% of the provider's 2007 peak demand by 2011, with both of the foregoing increasing from 2% to 15% by 2015;

DPL's direct load control proposal will be a significant step forward in meeting the statutory requirement, found in 26 *Del. C.* § 1020 (a), that DPL engage in demand response programs to help meet the EERS requirements:

Electricity demand response programs shall be directly implemented by the utility. . . The contributions of utility-implemented and SEU-implemented programs shall be considered in meeting the Energy Efficiency Resource Standards required under Chapter 15 of this title.

The projected demand savings in this docket would enable DPL to achieve a significant portion of the peak demand target. DPL cites these statutory energy reduction targets in its filing:

5. Additionally, the savings impacts of these programs will help both Delmarva and the State reach the energy reduction goals set forth in Delaware's Energy Conservation & Efficiency Act of 2009. (Paragraph 5, page 3)

DLC will also help DPL align its energy strategy to meet the provision in *26 Del. C. § 1020 (b)* that specifies an efficiency-first loading order:

In preparing the IRP, the utility shall first consider electricity demand response and demand-side management strategies for meeting base load and load growth needs and shall preferentially obtain electricity demand response resources through utility operated programs or demand-side management resources from the SEU or Weatherization Assistance Program, and cost-effective renewable energy resources before considering traditional fossil fuel-based electric supply services to meet their retail electricity supplier (as defined in § 352 of this title) obligations.

Taken together, these provisions provide a compelling basis for approving DPL's application in this docket.

2. ECONOMIC BENEFITS

Adopting DLC will enable progress in achieving significant economic benefits for DPL customers through cost-effective efficiency and peak demand programs. DPL projects a benefit/cost ratio of 2.4 using the Total Resource Cost (TRC) test, a widely used measure for tracking the economic benefits of state- and utility-wide efficiency programs.¹

The actual and potential benefits of demand response and energy efficiency are significant and offer the lowest-cost, zero-emission, and reliable energy supply option. DNREC sees DLC as an important component of a larger strategy of promoting energy efficiency and demand reduction. The cost of electricity during peak demand days is much higher than baseload power. Cost savings from reducing peak demand will accrue to all of DPL's ratepayers and to all electricity customers. Participating customers will be directly rewarded for voluntarily reducing their demand when supply is most expensive. All Delaware electricity customers, including DPL customers, will benefit from lower peak power costs which will reduce average

¹ DPL has updated its original calculation to a ratio of 2.4 in its comments filed October 31, 2012.

kilowatt-hour costs.

DNREC is mindful that the benefit/cost ratio may change over time, and thus supports the rigorous evaluation, measurement and verification of costs and benefits in implementing DLC. Specifically, DNREC strongly supports the recommendation in the PSC Staff Report that DPL “should be required to provide quarterly and annual reports and status updates on program implementation, costs, revenues, targets and results.” (Staff Report, page 2) More specifically, DNREC supports Staff’s proposed requirements for quarterly and annual reporting described in detail on pages 8 and 9. In addition, DNREC recommends that marketing expenditures be recalibrated and adjusted quarterly to reflect customer participation rates. Given the size and connected nature of Delawareans, there are ample opportunities to drive participation through free media, social media, and other low-cost alternatives to a more costly traditional marketing campaign. If participation is lower than anticipated, then a larger marketing effort may be necessary, but every effort must be made to avoid unnecessary expenditures with the goal of further boosting the benefit-cost-returns for customers.

In DNREC’s view, these more rigorous reporting and oversight measures will help ensure that the program is cost-effective and achieves anticipated cost-savings, while providing useful guidance for designing and evaluating future demand response and energy efficiency programs. DNREC further proposes that these reporting requirements include economic and environmental benefits from the program and that DPL update its benefit/cost calculations as pertinent data becomes available. The benefits and costs presented in this docket indicate that the public interest is best served by both implementing this proposal and ensuring regular and rigorous oversight.

3. ENVIRONMENTAL BENEFITS

While the statutory requirements and economic benefits should be sufficient for approval, there are public health and environmental benefits that further bolster the case for prompt approval of the application. As Delaware's environmental agency, DNREC has an interest in the potential for reductions in air emissions and other environmental impacts that will result from this program and from further progress in related energy efficiency programs.

Direct load control will provide environmental benefits by reducing the load on generating capacity when increased emissions from uncontrolled energy generation units are of particular concern. High peak power demand leads to increased air emissions from baseload generators including uncontrolled units in upwind states that contribute the vast majority of the air pollution in Delaware. The oxides of nitrogen, sulfur dioxide, mercury, acid gases, and particulate matter contribute to a range of respiratory illnesses that unfortunately plague millions of Americans.

Further, a skewed PJM capacity market unintentionally incentivizes increased use of behind-the-meter diesel generation in response to peak demand prices, displacing cleaner and more efficient combined-cycle natural gas generation. Diesel generators, ostensibly used for backup power, can emit as much as 500 times as much NO_x per unit of energy as combined cycle gas generators. This skewed market, which is supported by excessive peak energy prices, has detrimental immediate and long-term effects on air quality and hinders the siting of additional low-emission generation that offers lower cost electricity and greater grid stability. Reducing peak demand through the proposed program will both reduce emissions from higher-emission baseload units as well as behind-the-meter diesel generators on hot summer days. The environmental benefits provide another reason for moving expeditiously to implement DLC.

4. PROMOTING FURTHER PROGRESS

Implementing DLC in Delaware will promote further progress beyond the direct benefits identified in this docket. DLC will advance technologies and methods that will support other techniques to meet our goals for energy efficiency and peak demand reductions. First, implementing DLC will lead to the installation of thousands of smart thermostats, which will give customers control over their energy use beyond the DLC program proposed in this docket. Smart thermostats will enable savings through techniques like dynamic pricing and the direct remote control of energy use by customers.

Second, implementing and tracking DLC will give DPL, DNREC, the Public Advocate and the PSC valuable working experience in evaluating, measuring and verifying energy and demand savings—experience that will be crucial for implementing successful, cost-effective efficiency and demand savings programs for years to come as part of the State’s strategy to secure cleaner, cheaper, and more reliable energy. We will have the chance to learn more about benefit/cost tests, evaluation, measurement, and verification (EM&V), avoided costs, and the relationship between MW and MWH savings. The knowledge and experience gained by working our way up this learning curve is another reason to recommend quarterly and annual reporting of program costs and benefits from DLC.

CONCLUSION

DPL’s application in this docket supports the State priority of securing cleaner, cheaper, and more reliable energy. If implemented in a cost-effective manner with rigorous oversight, the program has the potential to (1) enable measurable economic benefits for Delaware households

and businesses through reduced energy costs both for program participants and all ratepayers, (2) provide environmental benefits for Delaware by reducing demand for electricity from high-emission power plants in upwind states, (3) enable significant progress in meeting statutory requirements for energy and peak load savings, and (4) advance technologies and methods that will support further progress in meeting State goals for energy efficiency and peak demand reductions. Due to the significant environmental and economic benefits in the record and noted in these comments, DNREC believes that DLC should be implemented as cost-effectively and quickly as practicable.

DNREC encourages rigorous evaluation, monitoring, and verification of the program's performance and cost-effectiveness, and supports PSC Staff's recommendations for quarterly and annual reporting. DNREC further proposes that these reporting requirements include economic and environmental benefits from the program. In conclusion, DNREC believes that the benefits and costs presented in this docket indicate that the public interest is best served by moving cost-effectively and expeditiously to implement this proposal.

Respectfully submitted,
/s/ Collin P. O'Mara
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