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November 19, 2015

Via Eletronic Filing
Rosemary Chiavetta, Secretary
PA Public Utility Commission
PO Box 3265
Harrisburg, PA 17105-3265

Re: Petition of Philadelphia Gas Works for Approval of Demand Side Management Plan for FY 2016-2020 and Philadelphia Gas Works Universal Service and Energy Conservation Plan for 2014-2016 52 Pa. Code § 62.4 – Request for Waivers – Docket No. P-2014-2459362

Dear Secretary Chiavetta:

Enclosed for electronic filing please find Philadelphia Gas Works' ("PGW") Main Brief with regard to the above-referenced matter. Copies to be served in accordance with the attached Certificate of Service.

Sincerely,

Deanne M. O'Dell

Deanne M. O'Dell
DMO/lww
Enclosure

cc: Hon. Christopher Pell w/enc.
Hon. Marta Guhl w/enc.
Cert. of Service w/o enc.

CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of PGW's Main Brief upon the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 1.54.

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Date: November 19, 2015

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Petition of Philadelphia Gas Works for Approval of Demand-Side Management Plan for FY 2016-2020	:	Docket No. P-2014-2459362
and	:	
Philadelphia Gas Works Universal Service and Energy Conservation Plan for 2014-2016 52 Pa Code § 62.4 – Request for Waivers	:	

MAIN BRIEF OF PHILADELPHIA GAS WORKS

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I. <u>INTRODUCTION AND STATEMENT OF THE CASE</u>

Since Philadelphia Gas Works ("PGW" or "the Company") voluntarily launched its demand-side management plan ("DSM Plan") in 2011, the energy efficiency and conservation programs have significantly assisted PGW's customers (of all General Service classes) with saving energy and money through cost-effective programs designed in accordance with industry best practices. Based on this proven track record of enhancing the service provided by PGW, there is no serious dispute in this proceeding whether PGW's DSM Plan should be authorized to continue. Rather, the core disputed issue is the level of funding for the DSM Plan (which includes additional program elements proposed by the parties that will significantly increase the costs of the plan). Quite simply, PGW incurs certain costs to offer these programs that, to date, it has absorbed but is no longer able or willing to absorb. These unrecovered costs are projected to be $8.46 million (nominal) through the end of FY 2015. While PGW is not seeking to recover these past lost costs, PGW is seeking to recover the going-forward losses. Not permitting these recoveries in the future presents a strong disincentive to offering a DSM program and a decision on whether or not the recovery will be allowed influences the budget PGW can reasonably offer for its DSM.

Since PGW recovers its costs of operation through its variable distribution service rates, when the level of sales go down (compared to what was assumed in the last rate case) it collects less dollars to fund those operations. This lost margin occurs from operating the DSM programs and, therefore, is a cost of providing the DSM programs that PGW seeks to recover. Unlike investor-owned utilities and because of PGW's cash flow ratemaking, this lost margin is <u>not</u> properly equated with lost "revenues" that the Commission has not to date allowed to be recovered for energy efficiency programs.

As a municipally-owned utility that is regulated on a cash-flow basis, all PGW's distribution revenues are used for funding its operations including a part of its effort to replace antiquated cast iron and unprotected steel natural gas mains. To the extent that there is any revenue that is not allocated to the cost of providing service, then PGW maintains these dollars in its cash account for inclusion in the next base rate case. In the rate case, PGW can try to reset its distribution rates to account for these reduced sales volumes, but any relief would only be prospective, and likely would only account for the losses in the test year. Thus, any decrease in revenue due to reduced sales as a result of PGW's DSM programs is a real and tangible cost of providing the program and the loss of these dollars shrinks the amount of money that is available to fund PGW's continued provision of safe and adequate service for its customers. A failure to address this negative financial impact going-forward means that PGW cannot reasonably and prudently spend significant sums of money to offer its DSM Plan since this does not ensure that it continues to have reasonable capital available to fulfill all of its other regulatory requirements to maintain safe and adequate service for its customers.

After carefully considering these financial and practical realities, PGW has chosen to propose continuing its energy efficiency programs ("DSM Phase II Plan") but at reduced spending levels and with the elimination of one of the current DSM programs (i.e. Home Rebates). This proposal assumes that PGW will not be authorized to recover lost costs going-forward.[1] With these considerations, the proposed DSM Phase II Plan is downsized to levels intended to ensure that PGW can continue to satisfy all of its statutory requirements even as it

1 This is sometimes referred to as the "base scenario" to distinguish it from an "expanded scenario" which is the DSM Plan PGW could offer if authorized to recover unrecovered costs.

continues to endure reduced sales and margin from continuing to offer these energy efficiency programs.

Notwithstanding these budgetary constraints, PGW's DSM Phase II Plan offers a unique opportunity to PGW customers and the region to benefit from the Company's continued voluntary efforts to promote energy efficiency and natural gas conservation. By approving the DSM Phase II Plan, PGW customers will be permitted to continue to earn a cost effective return on their investment in energy efficiency while also reaping the environmental benefits from both (1) usage reductions; and, (2) reduced reliance on less environmentally friendly fuel sources. PGW's new pilot Efficient Fuel-Switching load management program would introduce cost-efficient Micro-Combined Heat and Power ("CHP") projects to PGW's small and mid-sized commercial and industrial customers while supporting the growth of a new industry in the region.

If, as some parties propose, PGW were directed to expend more than it has voluntarily offered, while also being denied any reasonable way to address the financial stressors unrecovered costs place on the Company, then PGW would be required to seriously reconsider whether continuing its DSM Plan at such increased budget levels is in the best interests of the Company and its customers. Importantly, while PGW's DSM Plan includes its residential low income usage reduction program ("LIURP"), the proposed budget significantly exceeds the regulatory required minimum. The other programs of the DSM Plan are voluntary and PGW is under no statutory or regulatory mandate to continue to offer them. Though certainly not PGW's preferred course, imposing the unreasonable increased funding levels (including a LIURP spend that far exceeds that of other gas utilities) and the costly proposed program expansions offered by parties in this proceeding without permitting PGW to ameliorate the resulting negative financial impact to the Company could effectively end PGW's offering of voluntary energy efficiency and conservation programs to its customers.[2]

On the other hand, PGW has proposed two carefully designed and narrowly tailored mechanisms intended to ameliorate the disincentive and negative financial impact to the Company of continuing to offer the DSM Plan. These two mechanisms are the Conservation Adjustment Mechanism ("CAM") and the performance incentives ("PI") mechanism which would work together in removing a disincentive and providing a positive incentive (respectively) toward meeting and exceeding energy efficiency and conservation targets for customer benefits. In the interest of providing context about how approval of the CAM could positively impact the offerings of the DSM Plan, the record includes budgets and programmatic details (most significantly maintaining the Home Rebates program) for this "expanded" scenario. And, because of PGW's unique status as a cash flow regulated municipal utility, the Commission has the legal and policy flexibility to authorize the CAM which would enhance the Commission to gain valuable experience about how such policies work in practice.

In addition to permitting a more robust DSM Plan that maintains the Home Rebates program, approving the CAM would position PGW to initiate a stakeholder process intended to address one of the most significant hurdles to delivering program services and ramping up participation levels – customer financing. An On-Bill Repayment ("OBR") mechanism would enable residential customers to include financing for DSM projects in PGW's bill separate and apart from their regulated items on a customer's bill. Directing stakeholders to tackle this issue could lead to significant positive benefits for consumers by making energy efficiency

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2 If this were to occur, PGW would address issues related to LIURP through an amendment to its Universal Service and Energy Conservation Plan.

improvements more attainable to more customers. PGW's proposal envisions a robust discussion with stakeholders that would be presented to the Commission for its review and approval. Importantly, though, these expanded benefits would only be possible through approval of PGW's CAM.

In sum, PGW's customers and the environment would be best served by full approval of all PGW's proposals in this proceeding – including its proposed CAM and PI mechanisms – as such result would lead to the implementation of a more robust DSM Plan, in terms of greater activity levels, expanded programming and increased customer participation. If, however, CAM is not authorized, then PGW strongly opposes being required to implement any of the proposals of the other parties which would force the Company to incur substantially increased costs – in the form of lost margin due to increasingly reduced sales – that it would not be able to recover. PGW has offered a reasonable and prudent DSM Plan that will provide significant benefits to consumers even if it is denied the recovery of related costs going forward.

To the extent PGW is directed to increase its budget beyond these proposed levels without approval of CAM, PGW reserves the right to re-evaluate the appropriateness and effectiveness of maintaining the ongoing DSM and take appropriate action. If PGW elects to terminate the non-LIURP programs, LIURP would be addressed within the context of its Universal Service and Energy Conservation Plan ("USECP" or "Universal Service Plan") or other appropriate filing (with notice to the Bureau of Consumer Services "BCS"). the right to re-evaluate the appropriateness and effectiveness of maintaining the ongoing DSM and take appropriate action. If PGW elects to terminate the non-LIURP programs, LIURP would be addressed within the context of its Universal Service and Energy Conservation Plan ("USECP" or "Universal Service Plan") or other appropriate filing (with notice to the Bureau of Consumer

Services "BCS"). Such an outcome would be an unfortunate result for customers who have already invested in the DSM programs (including those who have not yet received the benefit of the programs), but PGW simply cannot ignore the detrimental impact on its ability to maintain safe and reasonable service due to increasing financial losses in the form of unrecovered costs arising from DSM Plan activities.

Finally, to enable the Company to implement the outcome of this proceeding, PGW respectfully asks that this proceeding be in a position to be decided by the Commission on or before its May 19, 2016 public meeting.

II. PROCEDURAL HISTORY

PGW originally filed for approval of a DSM Plan on March 26, 2009, subsequently withdrawn, and then resubmitted on April 20, 2009 ("DSM Phase I Plan").[3] The DSM Phase I Plan provided high-level designs for six programs, including estimated costs, savings, and cost-effectiveness, as well as a framework for implementation and management of the programs. One of the six programs included PGW's LIURP which was folded into the DSM Plan and, as a result, removed from PGW's Universal Service Plan. The DSM Phase I Plan filing also included a request to recover the amount of lost margin resulting from decreased gas usage resulting from the program.[4]

Ultimately, the DSM Phase I petition was consolidated with PGW's base rate filing and both proceedings were resolved through a full settlement with all parties that was approved by

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[3] *Philadelphia Gas Works' Revised Petition For Approval of Energy Conservation and Demand Side Management Plan*, Docket Nos. R-2009-2139884, P-2009-2097639, Opinion and Order entered July 29, 2010 at 3. ("*DSM I Final Order*").

[4] *Philadelphia Gas Works' Revised Petition For Approval of Energy Conservation and Demand Side Management Plan*, Docket Nos. R-2009-2139884, P-2009-2097639, Philadelphia Gas Works Revised Petition For Approval Of Energy Conservation And Demand-Side Management Plan dated April 20, 2009 at 14-15.

the Commission on July 29, 2010.[5] As a part of the approved settlement, PGW agreed not to make a claim for lost revenues during a two-year stay-out period.[6] PGW's DSM Plan (which was rebranded as "EnergySense") was approved for implementation for Fiscal Year ("FY") 2011 which, for PGW, encompasses the time period between August 31, 2010 through September 1, 2011. Upon approval of the DSM Plan Phase I, PGW engaged in period of program and development ramp-up and the DSM officially launched in January 2011. Since that time, PGW has continued to provide updates on its portfolio of energy efficiency programs in the form of annual implementation plans and annual reports.[7]

On May 7, 2015, the Commission issued an order continuing the DSM Plan on an interim basis pending the final resolution of this proceeding which addresses continuation of the DSM Plan for the longer term (this period of time is referred to as the "DSM Bridge Plan").[8] The Commission acknowledged the "success of PGW's currently effective Phase I DSM Plan," and concluded that continuing the DSM Plan on an interim basis pending the outcome of this proceeding was "reasonable, appropriate under the circumstances, and in the public interest."[9] As authorized by the Commission in this *DSM Bridge Plan Order*, PGW implemented the DSM Bridge Plan effective September 1, 2015 through either: (1) August 31, 2016; or, (2) upon the effective date of the compliance plan that will be filed in response to the Commission's final

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5 *DSM I Final Order*.

6 *DSM I Final Order* at 12.

7 PGW Exh. TML-4 at 12-14.

8 *Philadelphia Gas Works' Revised Petition For Approval of Energy Conservation and Demand Side Management; and, Pennsylvania Public Utility Commission v. Philadelphia Gas Works*, Docket Nos. P-2009-2097639 and R-2009-2139884, Opinion and Order entered May 7, 2015 (*"DSM Bridge Plan Order"*).

9 *DSM Bridge Plan Order* at 6.

order in this proceeding.[10] The total interim budget approved for the DSM Bridge Plan was $10,692,464 and the Commission noted the following issues in the *DSM Bridge Plan Order*: (1) PGW would continue to incur increased costs associated with the lost margin resulting from reduced throughput caused by the conservation resulting from the DSM Plan by customers during the bridge period; and, (2) PGW agreed to maintain the program funding level for the CRP Home Comfort (LIURP) program – both were accepted only in the interests of reaching a consensus among the parties in order to avoid the costs of winding down, and possible later ramping up, the DSM programs.[11] As directed by the *DSM Bridge Plan Order*, PGW filed its Sixth Year Implementation Plan for Fiscal Year 2016 on June 5, 2015 to continue the DSM programming during the DSM Bridge Plan period.[12]

To maintain the DSM Plan on a longer term and continuing basis ("DSM Phase II Plan"), PGW filed the Petition initiating this proceeding on December 23, 2014 so that its DSM programs can continue to support the deployment of high efficiency natural gas equipment as well as conservation and load management efforts, while at the same time ensuring that PGW recoups all the costs of the program. The Petition was referred to the Office of Administrative Law Judge and then assigned to ALJs Pell and Guhl. Through notices of intervention and petitions to intervene, the following parties are participating in this proceeding: (1) the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"); (2) the Bureau

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10 *DSM Bridge Plan Order* at 7.

11 *Philadelphia Gas Works' Revised Petition For Approval of Energy Conservation and Demand Side Management; and, Pennsylvania Public Utility Commission v. Philadelphia Gas Works*, Docket Nos. P-2009-2097639 and R-2009-2139884, Petition of Philadelphia Gas Works to Extend Demand Side Management Plan, dated April 20, 2015 at 3-5, 11-13.

12 *Philadelphia Gas Works' Revised Petition For Approval of Energy Conservation and Demand Side Management; and, Pennsylvania Public Utility Commission v. Philadelphia Gas Works*, Docket Nos. P-2009-2097639 and R-2009-2139884, PGW Sixth Year Implementation Plan, Fiscal Year 2016, for its DSM Program, filed June 5, 2015 (*"PGW Bridge Implementation Plan")*.

of Investigation and Enforcement ("I&E"); (3) the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA"); (4) the Tenant Union Representative Network "TURN") and Action Alliance of Senior Citizens of Greater Philadelphia "Action Alliance") (collectively, "TURN et. al."); (5) the Philadelphia Industrial and Commercial Gas Users Group ("PICGUG"); and, (6) Clean Air Council ("CAC").

The schedule for written testimony was established pursuant to Prehearing Order #1 issued on February 19, 2015. The schedule for the evidentiary hearings and briefs was established through Prehearing Order #3 dated August 11, 2015. The evidentiary hearing was held on October 28, 2015 and the following written testimony of PGW was admitted into the record:

PGW St. No. 1	Direct Testimony of Denise Adamucci
PGW St. No. 1-R	Rebuttal Testimony of Denise Adamucci
PGW St. No. 1-SR	Surrebuttal Testimony of Denise Adamucci
PGW St. No. 1-RJ	Rejoinder Testimony of Denise Adamucci
PGW St. No. 2	Direct Testimony of Elliott Gold
PGW St. No. 2-R	Rebuttal Testimony of Elliott Gold
PGW St. No. 2-SR	Surrebuttal Testimony of Elliott Gold
PGW St. No. 3	Direct Testimony of Theodore M. Love
PGW St. No. 3-R	Rebuttal Testimony of Theodore M. Love
PGW St. No. 3-SR	Surrebuttal Testimony of Theodore M. Love
PGW St. No. 3-Supp	Supplemental Testimony of Theodore M. Love
PGW St. No. 4	Direct Testimony of Paul Chernick
PGW St. No. 4-R	Rebuttal Testimony of Paul Chernick

Also admitted into the record at that time was written testimony submitted by OCA, OSBA, I&E, CAUSE-PA and CAC as well as hearing exhibits offered by PGW, OCA and TURN, et. al.

Also relevant to this proceeding is the Commission's 2014 final order approving PGW's Universal Plan for 2014-2015.[13] PGW's USECP for 2014-2016 was filed on May 31, 2013 and, unlike other utilities, PGW's Low Income Usage Reduction Program ("LIURP") is not included within its USECP. Thus, in the USECP filing, PGW explained that issues related to its LIURP (i.e. the CRP Home Comfort program) would be addressed within this proceeding.[14] Taking this into consideration in its *USECP 2014-2016 Order*, the Commission specifically: (1) reserved judgment as to whether PGW's LIURP should continue as part of the DSM Plan and permitted PGW the discretion as to whether to continue to include LIURP as part of the DSM Plan; (2) directed PGW to provide its LIURP proposal to the Bureau of Consumer Services ("BCS") making clear that BCS will continue to have oversight over PGW's LIURP; (3) directed PGW to request waivers of 52 Pa Code §§58.5 and 58.11(a); (4) directed PGW to develop a program and designate a portion of the LIURP budget to specifically serve low-income multifamily properties; and, (5) directed PGW to reconsider its exclusion of Customer Responsibility Program ("CRP") program (PGW's CAP program) customers with program arrearages greater than two months from LIURP.[15]

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13 *Philadelphia Gas Works Universal Service and Energy Conservation Plan for 2014-2016 Submitted in Compliance with 52 Pa. Code § 62.4*, Docket No. M-2013-2366301, Final Order entered August 22, 2014. ("*USECP 2014-2016 Order*").

14 Philadelphia Gas Works Universal Service and Energy Conservation Plan 2014-2016 dated June 1, 2013 at 3.

15 *USECP 2014-2016 Order* at 49, 52, 54-57.

III. LEGAL STANDARDS

A. BURDEN OF PROOF

Section 332(a) of the Public Utility Code provides that the party seeking a rule or order from the Commission has the burden of proof in that proceeding.[16] It is well-established that "[a] litigant's burden of proof before administrative tribunals as well as before most civil proceedings is satisfied by establishing a preponderance of evidence which is substantial and legally credible."[17] The burden of proof is comprised of two distinct burdens: the burden of production and the burden of persuasion. The burden of production tells the adjudicator which party must come forward with evidence to support a particular proposition.[18] The burden of persuasion determines which party must produce sufficient evidence to convince a judge that a fact has been established, and it never leaves the party on whom it is originally cast.[19]

Thus, PGW has the burden of proving that its proposed DSM Phase II Plan is just and reasonable and should be approved as proposed. Parties that have offered proposals not included in the original filing must present some evidence or analysis tending to demonstrate the reasonableness of their proposals and bear the burden of proving that their proposals should be adopted.[20]

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16 66 Pa.C.S. §332(a),

17 *Samuel J. Lansberry, Inc. v. Pa. Pub. Util. Comm'n*, 578 A.2d 600, 602 (Pa. Cmwlth. 1990).

18 See *In re Loudenslager's Estate*, 430 Pa. 33, 240 A.2d 477, 482 (1968).

19 *Reidel v. County of Allegheny*, 633 A.2d 1325, 1329 n. 11 (Pa.Cmwlth.1993).

20 *See Brockway Glass Co. v. Pa. Pub. Util. Comm'n,*437 A.2d 1067 (Pa.Cmwlth. 1981)*; Pa. Pub. Util. Comm'n v. Duquesne Light Company*, Docket Nos. R-2013-2372129, et al. (Opinion and Order entered April 23, 2014); *Pennsylvania Pub. Util. Comm'n v. Aqua Pennsylvania, Inc.*, Docket No. R-00072711 (Commission Opinion and Order entered July 17, 2008).

B. STANDARDS APPLICABLE TO PGW

PGW is not an investor-owned utility. Rather it is owned by the City of Philadelphia and operated by the Philadelphia Facilities Management Corporation.[21] PGW provides natural gas service to approximately 500,000 customers within the city of Philadelphia and is the only utility distributing natural gas within the city of Philadelphia.[22] As a municipal utility that is particularly dependent on revenues to finance its ability to maintain safe and adequate service (because PGW does not earn any return on its used and useful rate base in its rates), PGW is duty bound to ensure that any voluntarily offered programs (such as its DSM Plan) are cost-effective and do not result in significant unrecovered costs that negatively impact its cash flow. Effective July 2000, the Commission was given the statutory authority to regulate PGW.[23]

Pursuant to the Public Utility Code, PGW is required to furnish and maintain adequate, efficient, safe and reasonable service and facilities at just and reasonable rates.[24] Pursuant to Section 2212(e), PGW's rate are regulated pursuant to the Cash Flow Method that existed prior to the Commission's regulation of PGW.[25] As such, PGW's distribution rates are set to produce sufficient revenues to cover operation and maintenance costs and expenses (including the $18 million City Fee), interest and amortization due, debt service coverage, cash, or its equivalent, for working capital, and reasonable amounts to fund construction and retire debt.[26]

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21 PGW St. 1 at 1.

22 PGW St. 1 at 1.

23 66 Pa. C.S. § 2212.

24 66 Pa. C.S. §§ 1501 and 1301.

25 66 Pa. C.S. § 2212(e); 52 Pa. Code §§ 69.2701-69.2703.

26 52 Pa Code § 69.2702(b).

The Public Utility Code also grants the Commission the authority to approve a conservation or load management program that it deems to be prudent and cost-effective and all prudent and reasonable costs incurred for such a program are recoverable through a Section 1307 automatic adjustment clause.[27] Pursuant to this authority, the Commission's regulations require utilities to establish LIURP.[28] PGW's LIURP (CRP Home Comfort) has been a program within its DSM Plan since 2011.[29] PGW's existing and proposed LIURP program budgets far exceed the amounts required by Commission regulation.[30]

Finally, while electric utilities are specifically required by law to implement cost-effective energy efficiency and conservation plans to reduce energy demand and consumption within their service territories,[31] no such mandate exists for natural gas utilities, like PGW. While PGW has taken Act 129 precedents into consideration in the development of its DSM, there is no statutory, regulatory or other legislative policy requirements that require PGW to offer the non-LIURP programs of its DSM Plan and PGW's decision to continue these programs is voluntary.[32] Importantly, the continued inclusion of PGW's LIURP in the DSM Plan (which PGW supports) does not transform PGW's voluntarily offered DSM Plan into something that is required by statue or regulation.

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27 66 Pa. C.S. §§ 1307(f); 1319(a); 1505(b). *See also Pennsylvania Indus. Energy Coalition v. Pennsylvania Pub. Util. Comm'n,* 653 A.2d 1336, 1349 (Pa. Commw. Ct. 1995).

28 52 Pa. Code §§ 58.1-58.18

29 Prior to inclusion in the DSM Plan, PGW's LIURP program was referred to as the Conservation Works Program. Since 2011 and its movement into the DSM Plan, the LIURP program has been called the Enhanced Low Income Retrofit program ("ELIRP"). Going forward, PGW proposes to rename the program to CRP Home Comfort. PGW Exh. TML-4 at 82.

30 52 Pa. Code § 58.4(a).

31 66 Pa.C.S. § 2806.1(a)(referred to as "Act 129").

32 PGW St. 1-R.

IV. CONTINUATION OF DSM PLAN

A. SUMMARY OF BRIEFING PARTY'S POSITION

Upon receiving Commission authorization in 2009, PGW designed, implemented, and managed a portfolio of natural gas demand-side management programs, or energy efficiency programs, now marketed under the EnergySense brand. The primary goals of PGW's DSM Plan are to: (1) reduce customer bills; (2) maximize customer value; (3) contribute to the fulfillment of Philadelphia's sustainability plan; (4) potentially reduce PGW cash flow requirements; and, (5) assist the Commonwealth and City of Philadelphia in reducing greenhouse gas emissions.[33]

The DSM Plan consists of six different programs that target a broad range of customer sectors across different market transactions. The current majority of the money spent for the DSM Plan is for CRP Home Comfort Program which provides, at no cost to CRP participants, comprehensive weatherization services and natural gas conservation measures, such as air sealing, insulation, heating equipment replacements, and faucet aerators.[34] As PGW's LIURP, CRP Home Comfort is the only program of the DSM Plan that PGW is legally required to offer pursuant to Commission regulation.[35]

The remaining "market-rate" or non-LIURP programs of the DSM Plan have been offered by the Company on a voluntary basis because they provide cost-effective benefits to consumers and the environment.[36] The purpose of these programs is to provide incentives covering a portion of efficiency costs, with the remainder funded by participating PGW

33 PGW St 2 at 4, PGW St. 3 at 8

34 PGW St. 3 at 9

35 52 Pa. Code § 58.1

36 PGW St. 2 at 4. Programs that provide incentives that cover a portion of efficiency services purchased on the open market are considered "market-rate," in contrast to the low-income weatherization program in which PGW funds the entire efficiency investment. PGW St. 2 at 12, fnte.1.

customers.[37] Two of these voluntary DSM programs that provide incentives for the purchase of new energy efficient natural gas equipment: (1) the Residential Equipment Rebates program discussed in Section V.B.1; and, (2) the Commercial Equipment Rebates program discussed in Section V.B.4. Additionally, PGW targets comprehensive retrofit projects through: (1) the Home Rebates program discussed in Section V.B.5; and, (2) the Efficient Building Grants program discussed in Section V.B.3. Finally, PGW addresses natural gas conservation in the new construction market through the Efficient Construction program discussed in V.B.2.

As explained further below in Section IV.B, PGW proposes to continue its DSM Plan (subject to the Company's proposed modifications). This decision is based on its analysis of the positive customer, economic and societal impact of DSM Phase I. Based upon those results, PGW projects that its proposed DSM Plan modifications will have a positive impact going forward.

As discussed in Section IV.C, PGW proposes to update its measure of the benefit of avoided costs to include the internalized cost of carbon for natural gas and electric avoided costs and the Demand Response Price Effects ("DRIPE") for natural gas discussed in Section IV.C.

Finally, the Commission decision in this proceeding will result in changes to the Company's current DSM Plan that will require an appropriate transition process. The Company also recognizes that the Commission may not authorize the non-LIURP programs of the DSM Plan to continue or that the Company may need to exercise its right to withdraw (or otherwise modify) the non-LIURP programs to the extent PGW determines it cannot implement them in the manner, or at the budget levels directed by the Commission. Therefore, Section IV.D below sets

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[37] PGW St. 3 at 9.

forth a proposed transition process to effectuate the changes resulting from this proceeding as smoothly as possible.

B. PGW Proposal To Continue DSM

PGW's proposal to continue its DSM Plan is based on the results of its analysis of the existing DSM Plan which shows that the overall plan is cost effective and has yielded significant positive impacts for customers, the local economy and the environment. PGW projects its proposed DSM Phase II Plan will continue to yield significant positive impacts for customers. No party directly opposes continuation of PGW's DSM Plan.[38]

1. Reasons In Support Of Continuing DSM Plan

a. Analysis of Existing DSM Plan Shows Positive Impacts

PGW has designed and implemented a comprehensive portfolio of programs that has successfully and cost-effectively delivered substantial natural gas savings to customers across sectors and that incorporates the same proven strategies employed by the nation's most successful natural gas energy efficiency efforts.[39] PGW's existing DSM has directly benefitted program participants through cost-effective energy savings. Similar to the measurement used for electric Act 129 EE&C plans, the Total Resource Cost ("TRC") test is the primary metric for measuring the cost-effectiveness of PGW's DSM Plan. As the programs of the DSM Plan have ramped up over the years in terms of capacity, there has been a related positive trend in TRC net benefits over time, with the present value of TRC net benefits reaching $5.2 million in 2009

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[38] OCA specifically offers reasons in support of continuing to offer and improving energy efficiency program services. OCA St. 1-S at 3-5. However, OCA's advocacy that PGW must continue to offer these programs at a significantly increased cost without the ability to recover all of the costs of the programs, including lost margins from the resulting conservation, is not realistic or tenable.

[39] PGW St. 3 at 11-12, 19-20.

dollars through August 31, 2014, or $5.7 million in today's dollars.[40] Through June 2014 the DSM Plan delivered $4.9 million in TRC net benefits to customers (2009$), achieving a benefit-cost ratio of 1.19.[41] A benefit-cost ratio (or "BCR") of one indicates that the plan is beneficial to PGW and its ratepayers on a total resources cost basis. The Phase I programs are expected to result in the reduction of over 455,000 short tons of CO_2.[42] These TRC results show that PGW has been delivering a meaningful return on investment to ratepayers which is especially notable given the large portion of the DSM portfolio that is allocated to low-income retrofits since such retrofits are typically difficult to perform cost-effectively.[43]

Since inception through June 2014, the DSM I portfolio reduced natural gas consumption by nearly 260 BBtus (252,427 MCF), performed over 7,000 retrofits, issued over 1,600 rebates, and completed 27 commercial projects, which have resulted in a present value of total resource net benefits of $5.7 million in 2014 dollars.[44] PGW's LIURP is the largest gas LIURP in the Commonwealth and provides substantial, cost-effective benefits to customers and participants.[45] Through the end of FY 2014, PGW's LIURP, CRP Home Comfort, funded $26.2 million (PV

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40 PGW St. 3 at 10-11.

41 From inception through February 2015, the programs delivered $7.8 million in TRC net benefits to customers (2014$) achieving a benefit-cost ratio of 1.19. Based on activity during this period, the programs are projected to achieve 6.549 BBtu in lifetime gas savings. *PGW Bridge Implementation Plan* at 3.

42 PGW St. 1 at 2.

43 PGW St. 3 at 12; PGW Exhibit TML-4 at 18. Notably, these TRC results do not include additional customer savings from decreased delivery charges – which have accrued as an additional benefit to customers participating in Phase I but have resulted in a significant amount of unrecovered margin for PGW. If PGW were permitted the ability to recover this lost margin going forward as proposed here, the DSM programs would continue to be cost-effective for customers.

44 PGW St. 3 at 5. From inception through February 2015, the programs performed over 9,300 retrofits, issued over 2,400 rebates and completed 36 commercial and new construction grants. *See PGW Bridge Implementation Plan at 2-6.*

45 PGW St. 3-R at 7.

2014$) in weatherization activity.[46] All PGW's firm customers (who subsidize CRP) have benefitted from the CRP Home Comfort program as the Phase I activity is forecasted to result in a net reduction in the CRP subsidy by $7.2 million over the lifetime of the measures installed.[47] Moreover, PGW performs regular and rigorous impact evaluations which use at least one year of actual usage before and after service delivery for participants and compare those results to a control group of eligible customers who did not participate.[48] With a high degree of statistical confidence, these evaluations show that CRP Home Comfort is providing substantial energy savings for LIURP participants.[49]

Also telling is the fact that consumers and participants have expressed positive impressions of the existing DSM Plan in third-party survey evaluations. A survey found that 65 percent of residential heating equipment rebate recipients felt that rebates were important in their decision to purchase high efficiency equipment.[50] Similarly, 70 percent of contractors reported that PGW's rebates were important to their sale of high efficiency equipment. The vast majority of customers – 91 percent – reported that they were satisfied with the PGW EnergySense rebate program.[51]

Additionally, PGW's existing DSM programs have provided broader significant benefits to the local community in terms of increased economic activity, market transformation and

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46 From inception through February 2015, this program funded $27.4 million (nominal) in weatherization activity. *PGW Bridge Implementation Plan at 2.*

47 PGW St. 1 at 3.

48 PGW St. 3-R at 4.

49 PGW St. 3-R at 3.

50 PGW St. 1 at 4.

51 PGW St. 1 at 4.

reductions in carbon emissions.[52] In DSM Phase I, PGW coordinated with a number of community organizations to, among other things, address the treatment of homes with health and safety deficiencies that prevented comprehensive weatherization.[53] Working closely with other programs and organizations is crucial to: (1) avoid duplicating services, (2) leverage existing resources, (3) identify additional opportunities; and, (4) maximize the cost-effectiveness of the DSM Plan. PGW is committed to continuing this outreach and coordination if its DSM Plan is continued.[54]

DSM Phase I also provided economic benefits and job creation in the region. Phase I created approximately 234-390 jobs and paid millions of dollars to businesses throughout the region. These investments have supported the growing energy efficiency industry in the Greater Philadelphia region and put more money back into the pockets of local consumers.[55]

In sum, very few initiatives currently exist that provide customers with financial incentives to help overcome the barriers to adopting efficiency measures.[56] Regulated utility-provided support for the purchase of high-efficiency appliances and equipment continues to be needed to help overcome the market barrier of higher upfront costs for longer-term benefits.[57] PGW's DSM Plan permits the Company to enhance the adequacy of its service above and beyond what is minimally required by providing energy efficiency services to many residential, commercial and industrial customers. Importantly, PGW's programs are tailored to PGW's

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52 PGW St. 3 at 12.

53 PGW St. No. 1 at 3-4.

54 PGW St. 3 at 21.

55 PGW St. No. 1 at 4.

56 PGW St. No. 3 at 14.

57 PGW St. 3 at 13.

particular customer base, and address market barriers that no other federal or state initiatives currently do.[58] As such PGW's DSM Plan has shown that it provides significant positive impacts for the public.[59]

b. Continuation of DSM Plan Expected To Result In Continued Positive Benefits

Since first launched in January 2011, the DSM programs are operating at scale with the requisite infrastructure already developed and initial programmatic start-up costs already incurred by its customers. The DSM Plan has become increasingly cost-effective and extending it will build upon this investment to provide greater returns on customer investments (such as the initial start-up costs) as well as to continue the strong relationships with stakeholders developed over this period of time to maintain long-term confidence and influence larger and more time-consuming nonresidential projects.[60] Continuing PGW's DSM programs will enable customers to benefit from historically low natural gas prices by reducing the up-front costs of installing natural gas equipment, which are often higher than for other fuels.[61] High efficiency equipment adds even more savings to the incremental cost difference between natural gas equipment and alternatives powered by other fuels and is particularly helpful for customers of limited financial means.[62]

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[58] PGW St. 3 at 14.

[59] While OSBA restated the analysis offered during consideration of PGW's DSM Phase I, OSBA did not undertake a detailed assessment of the various programs, either historically or prospectively and acknowledged that the Commission has already concluded that PGW's DSM is cost effective. OSBA St. 1 at 2-3.

[60] PGW St. 1 at 5, 13.

[61] PGW St. 1 at 5.

[62] PGW St. 1 at 5.

PGW's DSM programs play an important part in making natural gas (the cheapest, locally available fuel that also provides the greatest efficiencies of any of the fossil fuels) high-efficiency end-uses more accessible and affordable to cost-conscious developers and building owners.[63] This supports long-term "right-sized" natural gas use in installing high efficiency natural gas equipment.[64] Efficient use of gas stretches out the supply of low-cost gas, to provide a long-term lower-emission energy source as carbon emissions are gradually reduced over the remainder of this century.[65]

2. Projected Impacts of PGW's Proposed Modifications for Phase II

PGW is proposing a number of modifications for its DSM Phase II Plan – changes to the program designs and the current budget for each of the programs and additions to the costs that PGW can recover going forward. The proposed modifications are intended to remove disincentives to offering an energy conservation program, to build upon investments to date by targeting the most cost-effective programming opportunities and to address concerns resulting from the current absence of incentives.[66] While all of these specific proposals are detailed more fully in subsequent sections,[67] they fall within two scenarios – referred to as base and expanded – that differ depending on the Commission's decision regarding PGW's request for approval to

63 PGW St. 1 at 5.

64 PGW St. 3 at 13.

65 PGW St. 1 at 5

66 PGW St. 1 at 5-6.

67 The specific program modifications and new proposals offered by PGW for the non-LIURP DSM programs that the Company voluntarily provides are discussed in Section V. The specific modifications and proposals for PGW's CRP Home Comfort Program are discussed in Section IX. PGW's proposed budget for DSM II is discussed in Section VIII and PGW's proposed new cost elements are discussed in Section VII.

recover the costs that promoting conservation has had and will continue to have on PGW's revenues and margins.[68]

PGW's base proposal offers continued DSM programs but at reduced spending levels and with the elimination of one of the current DSM programs (i.e. Home Rebates). This proposal assumes that PGW will not be authorized to recover lost costs going forward (as discussed in Section VII) to ensure that PGW can continue to satisfy all of its statutory requirements.[69] In contrast, PGW's DSM Plan expanded scenario assumes that the Commission approves PGW's proposed CAM and, therefore, offers a more robust DSM Plan which could include such items as expanded program activity levels, a return of the Home Rebates Program to the portfolio, and a pathway to a residential On-Bill Repayment mechanism.[70] Continuing the DSM Plan under either scenario will be cost-effective as well as environmentally and economically beneficial for both PGW's customers and the regions of Philadelphia and Pennsylvania.

Through the proposed DSM Phase II Plan base scenario, PGW proposes to invest $22.7 million in energy efficiency programs over the next five years.[71] Consistent with nationwide energy conservation program practices, PGW developed a technical reference manual ("TRM") to establish a consistent framework for measuring the energy savings and cost effectiveness of the DSM program.[72] PGW's TRM is similar to, and based upon, the Pennsylvania Act 129 TRM used for electricity energy efficiency plans as adapted and regularly updated to apply to gas

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68 PGW St. 2 at 4.

69 PGW St. 2 at 5; PGW St. 3 at 16.

70 PGW St. 2 at 5; PGW St. 3 at 18-19; PGW Exhibit TML-4 at 130-134.

71 PGW St. 3 at 7.

72 PGW Exh. TML-4 at 50-51.

efficiency measures.[73] Based on this TRM analysis, the base scenario's proposed level of investment will enable PGW to reduce natural gas consumption by 4,390 BBtus over the lifetime of the measures installed.[74] In addition, to gas savings, PGW anticipates additional environmental and other impacts resulting from this level of investment including: (1) a reduction of 35,760 MWh of electricity; (2) saving 22.5 million gallons of water per year; (3) a reduction of the emissions of carbon dioxide emissions by over 256,000 tons; and, (4) producing between 131 and 218 jobs.[75]

As explained in Section IV.C, PGW uses two cost-effectiveness tests to screen the performance of its DSM Plan and the result of both of these tests show that PGW's proposed DSM Phase II base scenario is cost-effective.[76] Based on the TRC test, which is similar to that used under Act 129, PGW's proposed base scenario is projected to return a present worth of total resource net benefits of $10.6 million and $1.41 in benefits for every $1 spent, with a benefit-cost ratio of 1.41.[77] Likewise, PGW's secondary cost effectiveness screening test, known as the Natural Gas Administrator test, results in a benefit-cost ratio of 1.63.[78] The DSM Phase II Plan expanded scenario would yield even more savings (approximately 47% more) and TRC net benefits (approximately 41% more) because approval of the proposed CAM would remove the

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[73] PGW St. 3 at 36; PGW St. 3-R at 17

[74] PGW St. 3 at 7, 26-27; PGW Exhibit TML-4 at 26.

[75] PGW St. 3 at 7, 32; PGW Exh. TML-4 at 21-22.

[76] PGW St. 3 at 29-32, PGW Exh. TML-4 at 21.

[77] PGW Exh. TML-5.

[78] PGW Exh. TML-5.

negative impact of DSM on PGW and thus enable PGW to increase the program budgets.[79] The expanded scenario would also be cost effective with a TRC benefit-cost ratio of 1.39.[80]

Finally, PGW projects that average customer bills will increase by less than one percent per year during the first five years of the DSM Phase II Plan with a slightly higher impact on rates.[81] Importantly, savings are projected to persist beyond the program delivery period leading to lasting long-term reductions in customer bills well after incurring the delivery costs.[82]

3. Two New Tools To Improve Customer Service

PGW proposes to offer two new tools to improve customer service and hopefully drive greater DSM program participation in Phase II.[83] The first is a more effective and user-friendly e-audit tool that would utilize actual gas usage and housing characteristics to help residential customers understand energy use and savings potential.[84] The second is a tool for Commercial and Industrial customers to allow them online access to their properties' natural gas usage and functionality to automatically upload usage data to the EPA Portfolio Manager website. This new tool will help Philadelphia large commercial property owners in ongoing conservation goal tracking and streamline participation in the City of Philadelphia's Benchmarking ordinance.[85] No party opposed these two tools.

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[79] PGW St. 3 at 7, 27, 31.

[80] PGW Exh. TML-5.

[81] PGW St. 3 at 34-36.

[82] PGW St. 3 at 36, PGW Exh. TML-4 at 31.

[83] PGW St. 2 at 11; PGW Exh. TML-4 at 45.

[84] PGW St. 2 at 11.

[85] PGW St. 2 at 11.

C. Cost Benefit Analysis

The primary test PGW uses to evaluate the costs and benefits of its DSM Plan is the industry standard TRC (electric companies required to offer energy efficiency plans pursuant to Act 129 also use the TRC test).[86] The TRC measures the gain in economic welfare from making the investment by comparing the present worth of resource costs with the present worth of resource benefits of the DSM Plan.[87] Total resource costs generally consist of expenditures on program measures, administration costs, and customers' additional direct contribution to the incremental cost of the efficiency investment.[88] Total resource benefits are the avoided costs of gas, electric, and water costs but, notably, these benefits do not include other customer bills savings resulting from decreased volumetric PGW delivery charges.[89]

Because the major benefit of gas energy-efficiency programs is the reduction of gas use and associated costs to customers, calculating a reasonable value of this benefit is important in evaluating the cost-effectiveness of the DSM Plan.[90] To measure the benefit of avoided costs, PGW has been using the lowest avoided cost scenario (referred to as "Low AC") for its primary TRC calculations throughout the DSM Plan Phase I.[91] This calculation of avoided costs does not include the cost of carbon for natural gas and electric avoided costs or DRIPE for natural gas.[92]

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86 PGW St. 3 at 29. PGW also analyzes benefits and costs using the Gas Administrator test as discussed in Section IV.B.2.

87 PGW Exh. TML-4 at 48-50.

88 PGW Exh. TML-4 at 49.

89 PGW Exh. TML-4 at 49.

90 PGW Exh. TML-4 at 45; PGW St. 4 at 6; PGW Exh. PLC-2.

91 PGW Exh. TML-4 at 27, 45.

92 PGW Exh. TML-4 at 27.

Even though not utilized as part of the primary TRC evaluation for DSM Phase I, PGW has been reporting alternate TRC figures that count the benefits of DRIPE along with the cost of carbon for both gas and electric avoided costs (referred to as "Full Internal AC").[93] Going forward, PGW proposes to include these additional benefits within the primary avoided costs and TRC calculations because these two avoided cost components are tangible benefits resulting from PGW's DSM Plan and, consistent with industry precedent, they are appropriately included as part of a reasonable evaluation process of PGW's DSM Plan.[94]

Reducing gas usage reduces the price of natural gas on a continental basis, this effect is known as the DRIPE.[95] The potential effect on the gas supply bill of PGW users' as a result of one Dth reduction in gas consumption is $0.05/Dth saved with an overall statewide savings projected at $0.233/Dth.[96] These reductions in supply-area gas prices also reduce electric prices and the costs of gas transportation.[97] Contrary to OSBA's arguments, DRIPE is a societal benefit and its approval in this case would not set a precedent for future electric cases because a new and electricity-focused estimation of electric energy DRIPE would need to be performed.[98]

PGW is proposing to use the internalized, rather than externalized, cost of carbon methodology going forward.[99] The internalized cost of carbon for both gas and electric avoided costs measure the value of gas energy efficiency on: (1) likely future carbon prices; (2) the social cost of carbon emissions; (3) the health costs of NOx and SO2 emissions from power plants; and,

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93 PGW St. 3 at 29; PGW St. 4 at 10-11.

94 PGW St. 4 at 11; PGW Exh. TML-4 at 27, 49-50.

95 PGW St. 4 at 11-15.

96 PGW St. 4 at 11-12; PGW Exh. TML-4 at 135-138.

97 PGW St. 4 at 13-15; PGW Exh. TML-4 at 138-141.

98 PGW ST. 4-R at 19.

99 PGW Exh. TML-4 at 27.

(4) the emissions avoided by reducing electric usage.[100] Because PGW proposes to include a forecast of the level of carbon tax or a forecast of the value at which carbon allowances will trade in its screening, the CO_2 value used in PGW's primary screening is not (as OSBA argues) the benefit to the entire world but rather it is the internalized benefit to PGW's customers of not paying the forecast carbon tax or allowance price.[101]

PGW follows industry best practices to provide regular inspections of installations and audits of invoices in all of its programs to insure that the savings being counted are based on actual installments.[102] PGW conducts regular third-party pre and post impact evaluations of its programs to assess the actual savings and review program assumptions so that PGW can utilize the results to identify improvements to its benefit-cost analysis in subsequent implementation plans.[103] As an example, the Residential Equipment Rebates program evaluation found that actual gas savings were less than the initial TRM projections, due to assumptions on average equipment size and run-time. PGW then revised and filed an updated TRM in the subsequent Implementation Plan, to correct the program's gas calculations and projections going forward.[104] Furthermore, PGW now has five years' worth of historical program activities and the results of several rounds of third-party evaluations on actual impacts, including gas savings.

As described above, PGW's TRM calculations were initially set on industry best practices and Act 129 precedents. Since the first TRM was filed with the FY 2011 Implementation Plan, measure characterizations have been revised based on PGW program

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100 PGW St. 4 at 15-18; PGW Exh. TML-4 at 49-50, 142-148.

101 PGW St. 4-R at 22.

102 PGW St. 3-R at 17.

103 PGW Exh. TML-4 at 50; PGW St. 3-R at 17.

104 PGW Exh. TML-4 at 97.

experience, evaluations and evolving standards.[105] These PGW TRM updates, especially those based upon these actual results and findings, have provided and even greater level of precision for the TRM calculations.

D. PROPOSED PROGRAM TERM

The outcome of this proceeding will necessitate changes to the DSM programs most of which are currently operating pursuant to the DSM Bridge Plan that will overlap with the first year of any approved DSM Phase II Plan.[106] While PGW has set forth a proposal to continue to offer full DSM programming going forward (with some modifications), the Company recognizes that the Commission may not re-authorize these programs or the Company may choose to withdraw its non-LIURP programs and modify its LIURP to the extent it cannot implement them in the way, or at the budget levels, directed by the Commission. In consideration of this, PGW offers the below two transition processes to implement the final outcome of this proceeding. The first sets forth how PGW's full DSM proposal would be implemented and the second sets forth how only PGW's CRP Home Comfort Program would be implemented with the other DSM programs being discontinued.[107]

1. Transition Process to Implement CRP Home Comfort and Other Non-LIURP Programs

If PGW's DSM Phase II Plan is approved as proposed for the base scenario, then current infrastructure will be able to meet planned activity levels with some ramp-down.[108] If the budget for the CRP Home Comfort program is decreased as proposed by PGW, then PGW may

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105 PGW Exh. TML-4 at 52.

106 PGW St. 3 at 28-29.

107 This section does not deal with any program specific modifications but focuses only on the implementation mechanics to ensure a smooth transition to the final outcome.

108 PGW St. 3 at 28.

reorganize contractors to deal with the decreased workload and potentially address the Low-Income Multifamily Program ("LIME") program.[109] Since the Home Rebates program would be discontinued pursuant to PGW's DSM Phase II base scenario, PGW would cease to accept any new applications. Contractors would have six months to complete outstanding projects and, after all projects are completed, PGW would finalize data collection, perform contractor interviews, and conduct a post-program evaluation.[110] To implement the Efficient Fuel Switching program as proposed by PGW, PGW would use mainly existing resources and expects a six-month ramp-up period until the program is fully operational.[111] In this scenario, PGW recommends that the Commission direct it to file a compliance plan within sixty days after the entry date of the final Commission order which would further detail the proposed implementation process.

The process for implementing PGW's DSM Phase II Plan expanded scenario would be similar with the exception that the Home Rebates program would continue its current course rather than being ramped down, and PGW would begin the stakeholder process regarding potential implementation of an OBR mechanism.[112] For other programs, increased marketing would be undertaken to support the higher budgets and the growth rate expected in the expanded scenario.[113]

Recognizing that the current DSM Plan is operating pursuant to the FY16 budget approved for the DSM Bridge Plan, PGW proposes to maintain that budget through the end of the month that the Commission enters its final order. The approved DSM Phase II FY16 budget

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[109] PGW St. 3 at 28.

[110] PGW St. 3 at 38.

[111] PGW St. 3 at 29

[112] PGW St. 3 at 29

[113] PGW St. 3 at 29.

would be pro-rated for the remaining months of the 2016 fiscal year. PGW would set forth the budgets and details for the approved programs in its compliance plan.

Regarding on-going reporting, PGW proposes to provide program activity details in an annual report filed with the Commission four months following the close of PGW's fiscal year.[114] PGW also proposes to file with the Commission an annual implementation plan four months prior to the upcoming fiscal year, but only when proposing major program changes to budgets or goals that deviate from the approved DSM Plan.[115]

Going forward, and consistent with PGW's proposal, the DSM programming would be authorized beyond FY 2020.[116] At that point, PGW proposes to file ongoing triennial implementation plans that will provide proposed program implementation details and modifications as well as recent program activities and give parties an opportunity to propose a termination by filing 180 days in advance of the close of the fiscal year.[117] Consistent with this, PGW reserves the right to re-evaluate the appropriateness and effectiveness of maintaining the ongoing DSM and take appropriate action. If PGW elects to terminate the non-LIURP programs, LIURP would be addressed within the context of its Universal Service Plan or other appropriate filing (with notice to BCS).[118]

All plans and reports would also be served upon BCS since PGW's LIURP would continue to be included as part of the DSM Plan.

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114 PGW Exh. TML-4 at 39-40.

115 PGW St. 1 at 6; PGW Exh. TML-4 at 39-40.

116 PGW St. 1 at 6; PGW Exh. TML-4 at 39.

117 PGW St. 1 at 6; PGW Exh. TML-4 at 39.

118 PGW St. 1 at 6; PGW Exh. TML-4 at 39.

2. Transition Process to Implement CRP Home Comfort If Remaining Non-LIURP Programs Are Discontinued

If only PGW's CRP Home Comfort is authorized to continue (or PGW elects to withdraw non-LIURP programs), then PGW's CRP Home Comfort program would continue as currently designed, subject to the decision on the regulatory waivers requested in this proceeding. PGW would file an amendment to its current Universal Service Plan proposing a budget through December 2016 and requesting an expedited decision. The budget and program details for subsequent years would be included in PGW's anticipated filing for the next Universal Service Plan period.

In this scenario, PGW would phase out non-LIURP programs three months from the entry date of final order[119] to allow for a sufficient wind-down period. If this time period extends past the end of FY 2016 (August 31, 2016) and into FY 2017, DSM budgets would be continued at pro-rated FY 2016 funding levels. To implement this wind-down, PGW would also seek approval for use of ECRS recoveries into FY 2017, strictly for accruals and true-ups of FY 2016 activities (e.g., paying out final rebates, truing up program rate class allocations based on actual participation, etc.).[120]

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119 The final order may be the one resulting from this proceeding, if the Commission does not authorize the non-LIURP programs going forward, or a subsequent proceeding addressing PGW's decision in response to this proceeding.

120 Addressing the wind-down of the ECRS surcharge in this scenario is critical to winding down the programs consistent with the deadline that is established. This money would be used to ameliorate the negative impacts of the ending programs on customers to include consumer education, addressing pending new applications and project completion deadlines.

V. PROPOSED NON-LIURP PROGRAMS

A. SUMMARY OF BRIEFING PARTY'S POSITION

PGW is voluntarily proposing to continue its DSM Plan on a scaled-back basis based on the assumption that the Commission does not authorize PGW's CAM.[121] The proposed program modifications to each of the existing non-LIURP programs focus on the size and projected growth of the individual programs, scaling them back and maintaining consistent funding level to address PGW's concerns regarding unrecovered revenue losses.[122] The proposed program designs incorporate the same proven strategies employed by the nation's most successful natural gas energy efficiency efforts.[123] No party raised any opposition regarding the programmatic elements of these programs nor seriously questioned that the programs will produce cost-effective benefits to customers.[124]

PGW also proposes to introduce a new pilot Efficient-Fuel Switching program (regardless of whether or not PGW's CAM is approved) which is described in Section V.C.

If PGW's proposed CAM is approved, then PGW proposes to continue its Home Rebates, as discussed in Section V.B.5 and pursue the potential of offering OBR for customers as described in Section V.D.

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121 PGW St. 3 at 15-17, 21-22. The record also includes details about the Commission's approval of CAM would result in a more robust DSM Plan that does not eliminate the Home Rebates program and opens a pathway to explore an OBR mechanism. PGW Exh. TML-4 at 65-66/

122 PGW St. 3 at 16.

123 PGW St 3 at 19-20.

124 PGW St. 1-R at 2, 8. The core dispute among the parties is the level at which the programs should be funded. This issue is addressed in Section VIII.

Finally, PGW does not support OCA's proposal that additional money should be spent to market to confirmed low-income customer the non-LIURP programs that PGW voluntarily offers as further explained in Section V.E.

B. PROPOSED NON-LIURP PROGRAMS

1. Residential Equipment Rebates

This equipment rebate program is designed to encourage and assist customers in improving the energy efficiency of their properties through prescriptive rebates on premium efficiency, residential-sized gas appliances and heating equipment.[125] Since program launch in April 2011 through June 30, 2014, PGW has provided 453 boiler rebates, 1,112 furnaces rebates, and 811 thermostat rebates.[126] There has been an increasing trend in rebates issued.[127] Residential Equipment Rebates achieved a positive TRC net benefits with a present value of $1.8 million (in 2009 dollars) and a TRC BCR of 1.70 in activity through June 2014.[128]

For Phase II, PGW plans to continue to review new technologies that provide additional cost-effective savings for its customers participating in the program. PGW will also seek to drive additional participation through new cost-effective marketing strategies, such as offering bonuses to contractors who submit multiple rebates or show improved performance.[129]

2. Efficient Construction Grants

This construction incentive program is available for both residential (including low income tenant projects) and non-residential new construction projects and promotes natural gas

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125 PGW Exh. TML-4 at 93.

126 PGW Exh. TML-4 at 94.

127 PGW Exh. TML-4 at 94.

128 PGW Exh. TML-4 at 95. From inception through February 2015, this program has provided rebates for 2,368 pieces of heating equipment, with positive TRC net benefits of $2.8mm (in 2014 dollars) and a TRC BCR of 1.61. *PGW Bridge Implementation Plan at 4-5.*

129 PGW St. 2 at 3; PGW Exh. TML-4 at 96-97.

energy efficiency by providing technical assistance and prescriptive financial incentives for projects that go beyond building code in reducing energy usage.[130] This program achieved net annual gas savings of 1.9 BBtu and net lifeline gas savings of 32.7 BBtu through June 2014 and is expected to achieve net annual gas savings of 3.7 BBtu and net lifetime savings of 68.6 BBtu in FY 2015.[131] As of June 2014, this program completed 12 projects, achieved a TRC Net Benefits of $31.703 (in 2009 dollars) and a BCR of 1.19.[132]

During Phase II, PGW will seek new ways to engage builders and increase participation in the program which will be informed by customer feedback as well as a third-party impact evaluation.[133] PGW will develop an online application tracking process that will allow customers to track their project throughout its lifecycle.[134]

3. <u>Efficient Building Grants</u>

This retrofit incentive program promotes natural gas energy efficiency retrofit investments by PGW's multifamily residential (including low income tenant projects), commercial, and industrial customers.[135] From inception through June 2014, PGW has issued 15 Efficient Building Grants totaling $234,415 and issued eight grants for a total of $63,816.[136]

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130 PGW Exh. TML-4 at 111.

131 PGW Exh. TML-4 at 112.

132 PGW Exh. TML-4 at 112. From inception through February 2015, this program has achieved gas savings of 2.0 BBtu and net lifetime gas savings of 36.7 BBtu, program completed 15 projects, achieved a TRC Net BENEFITS OF $33.842 (2014 dollars) and a BCR of 1.13. *PGW Bridge Implementation Plan at 4, 6.*

133 PGW Exh. TML-4 at 113-114.

134 PGW St. 2 at 3; PGW Exh. TML-4 at 113-114.

135 PGW Exh. TML-4 at 100.

136 PGW Exh. TML-4 at 101.

Efficient Building Grants achieved positive TRC net benefits with a present value of $161,960 (in 2009 dollars) and a TRC BCR of 1.31.[137]

Providing adequate opportunities for the non-residential sector to improve natural gas efficiency is crucial for a well-balanced portfolio, so PGW will be examining how to offer additional technical assistance and incentives to support the growth for this program and interface more directly with builders.[138] Thus, for Phase II implementation, PGW plans to adopt new application procedures, technical services and incentives strategies to improve market uptake of energy retrofits as informed by customer feedback and a third-party impact evaluation.[139]

4. **<u>Commercial Equipment Rebates</u>**

This equipment rebate program provides rebates on premium efficiency commercial-sized gas appliances and heating equipment to increase the penetration of these measures in the facilities of PGW's commercial, industrial and multifamily (including low income tenant projects) customers.[140] This program has achieved net annual gas savings of 6.3 BBtu and net lifetime gas savings of 145.4 BBtu through June 2014 and is expected to achieve net annual gas savings of 10.1 BBtu and net lifetime savings of 156.4 BBtu in FY 2015.[141] As of June 2014, the

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137 PGW Exh. TML-4 at 101. From inception through February 2015, this program has achieved gas savings of 8.5 BBtu and net lifetime gas savings of 168.8 BBtu, program completed 15 projects, achieved a TRC Net Benefits of $435,081 (2014 dollars) and a BCR of 1.45. *PGW Bridge Implementation Plan* at 4, 6.

138 PGW St. 3 at 17.

139 PGW St. 2 at 3; PGW Exh. TML-4 at 102-103.

140 PGW St. 2 at 3; PGW Exh. TML-4 at 106.

141 PGW Exh. TML-4 at 106.

program achieved a positive TRC net benefits with a present value of $509,797 (in 2009 dollars) and a TRC BCR of 3.07.[142]

PGW will seek to implement lessons learned, including recommendations by the third party evaluator, and to develop a more streamlined online application process so that customers may quickly submit rebate applications through PGW's website.[143]

5. **Home Rebates Program**

PGW's Home Rebates program provides discounted energy assessments and rebates for retrofits to the homes of residential customers.[144] The average number of audits completed per month began increasing in January 2014 from 25 to 31 and the conversion rate of audits resulting in completed projects was 40 percent as of June 2014.[145] As of June 2014, Home Rebates completed 134 projects worth nearly $245,000 in PGW incentives achieving TRC Net Benefits of negative $283,508 and a BCR of 0.68.[146] PGW projects that if the program were to be continued it would achieve cost-effectiveness shortly thereafter.[147]

If, however, PGW is not permitted to implement its CAM as discussed in Section VII, then PGW will discontinue the Home Rebates program after a six month wind down period.[148] The reason PGW proposes to discontinue the Home Rebates program in this scenario is because

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142 PGW Exh. TML-4 at 107. From inception through February 2015, this program has achieved gas savings of 9.8 BBtu and net lifetime gas savings of 216.6 BBtu, issued 93 rebates, achieved a TRC Net Benefits of $1,031,856 (2014 dollars) and a BCR of 3.04. *PGW Bridge Implementation Plan* at 4, 6.

143 PGW St. 2 at 3; PGW Exh. TML-4 at 108..

144 PGW St. 2 at 5; PGW Exh. TML-4 at 118.

145 PGW Exh. TML-4 at 119.

146 PGW Exh. TML-4 at 119.

147 PGW Exh. TML-4 at 119. From inception through February 2015, this program has achieved gas savings of 6.8 BBtu and net lifetime gas savings of 188.3 BBtu, completed 618 audits and 277 projects, achieved a negative TRC Net Benefits of -$550,615 (2014 dollars) and a BCR of 0.71. *PGW Bridge Implementation Plan* at 4, 5-6.

148 PGW St. 2 at 4; PGW Exh. TML-4 at 120-121..

the rejection of PGW's CAM will increase the unrecovered costs to the Company for continuing the DSM Plan resulting in less money available to fund the Company's other operating expenses. In this scenario, eliminating the Home Rebates program is a prudent way to decrease the amount of unrecovered lost margin produced by continuing DSM programming.

The Home Rebates program requires significant fixed costs compared to the other non-LIURP programs to adequately manage the network of contractors and grow market awareness.[149] Despite the fact that PGW has made significant investments in infrastructure and market outreach to get the program to current levels and Home Rebates has been very successful at converting leads and providing quality retrofits to PGW's residential customers, the program was the last of the DSM programs implemented and requires further time and growth to make it cost-effective.[150] Without the ability to fully recover lost margin costs, PGW is not in a position to spend the money needed to make this program viable going forward.[151] In such an event, PGW will focus its more limited program resources on the currently cost-effective lost opportunity programs, and wind-down the Home Rebates program.[152]

On the other hand, if PGW's proposed CAM is approved to allow PGW to recover lost margin resulting from the DSM programs, then PGW could support a more robust DSM Plan going forward and, as explained with the expanded scenario option, PGW would continue the Home Rebates Program at levels that would allow it to achieve cost-effectiveness.[153]

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149 PGW St. 3 at 18.

150 PGW St. 3 at 18.

151 PGW St. 3 at 18.

152 PGW St. 2 at 6.

153 PGW St. 2 at 6; PGW St. 3 at 19.

C. PROPOSED NEW DSM PILOT PROGRAM – EFFICIENT-FUEL SWITCHING

PGW requests approval of a pilot Efficient Fuel-Switching load management program to complement the DSM Plan by offering a holistic approach to overall energy savings through the benefits of natural gas generation.[154] The purpose of the new program will be to help small and mid-sized commercial and industrial customers improve the overall net energy efficiency of their buildings by realizing the greatest on-site energy reductions through full fuel cycle usage analyses, including all fuel types, rather than strictly on-site natural gas reductions.[155] There is no dispute that natural gas has many important advantages as an end-use fuel source in terms of efficiency and environmental benefits.[156] PGW is well positioned to assist consumers in capitalizing on these advantages in an affordable manner, consistent with the overall goals of the DSM Plan.[157]

Consistent with Act 129, PGW's proposed program will incorporate all energy increases and decreases in TRM calculations to determine overall net energy usage reductions and in TRC tests to determine cost-effectiveness.[158] Only projects that are more efficient than the existing market baseline will be examined and only those projects that are: (1) cost-effective on a TRC basis; and, (2) reduce total energy usage will be approved for inclusion in the program.[159] The TRC cost-effectiveness test is consistent with the existing DSM protocols and the total energy usage reduction requirement is a more stringent requirement than those currently in place.[160]

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154 PGW St. 2 at 10; PGW Exh. TML-4 at 42-43.

155 PGW St. 2 at 10; PGW St. 3 at 21-22; PGW St. 2-R at 33.

156 PGW Exh. TML-4 at 6-12.

157 PGW Exh. TML-4 at 7.

158 PGW Exh. TML-4 at 125-126.

159 PGW St. 3 at 12-13; PGW Exh. TML-4 at 129-130; PGW St. 2-R at 34.

160 PGW Exh. TML-4 at 43.

Based on PGW's initial analysis, only cost-efficient CHP projects that achieve greater overall energy-efficiency by making use of the waste heat from electricity production that is not utilized in typical electric generation are currently included in the proposed program.[161] Notably, CHP is a way in which states can meet the goals of Section 111(d) of the Environmental Protection Agency's Clean Air Act[162] and, therefore, a program in place that can start counting towards these goals immediately will be a benefit for all Pennsylvanians.[163] PGW would also offer a custom measure path for analyzing the cost-effectiveness and energy reductions of new measures which could lead to potential new future prescriptive measures. By focusing on seeding effective and practical nascent technologies in order to facilitate swifter market adoptions, this proposed program aligns with broader market goals of facilitating growth of natural gas demand markets in the Commonwealth.[164]

To implement the Efficient Fuel-Switching program, PGW would mainly utilize existing resources and anticipates a six-month ramp-up period before the program is fully operational.[165] The program would be tracked and reported on separately from the energy efficiency programs but be held to the same energy efficiency TRC cost-effectiveness standards as the rest of the PGW DSM Portfolio while also needing to meet the requirement of net energy reduction.[166] PGW projects that this new program will cost $2.3 million over the five-year period, lead to a 42.6 BBtu reduction in net primary energy usage during the continuing DSM Plan, and avoid the

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161 PGW St. 3 at 22; PGW Exh. TML-4 at 43; PGW St. 3-R at 12-14.

162 42 U.S.C. § 7411(d).

163 PGW St. 3-R at 15-16.

164 PGW St. 2 at 11; PGW St. 3-R at 13-15.

165 PGW St. 3 at 28-29.

166 PGW St. 2 at 9; PGW St. 3 at 21-22, 30.

emission of 5,285 tons of carbon dioxide.[167] The program is expected to provide net total resource benefits of $5,685,095 with a TRC BCR of 2.07.[168]

OCA does not dispute the positive benefits from PGW's proposed program but views the program as "designed to increase gas consumption" rather than reduce gas consumption and, therefore, not appropriately included in the DSM Plan.[169] As explained above, the program is not designed specifically for load growth but to offer a holistic approach to assist end users to efficiently manage their overall energy load and to conserve energy.[170] Since the goal and design of the program is to increase energy efficiency, it is appropriately included in PGW's DSM Plan and would offer a currently unavailable financial assistance option for small and medium customers.[171] Moreover, the Commission has already determined that fuel switching resulting in cost-effective net energy savings is appropriately included within demand-side management plans for electric utilities and there is no reason to deviate from that determination in this proceeding.[172]

D. PGW On-Bill Repayment Program Proposal

Approval of PGW's CAM, as discussed in Section VII.B, would provide for the recovery of full program costs to PGW and would position PGW to work on a process to address one of the most significant hurdles to delivering program services and ramping up participation levels –

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167 PGW St. 3 at 7, 27-28; PGW Exh. TML-4 at 4.

168 PGW Exh. TML-5.

169 OCA St. 1-S at 7.

170 PGW St. 2-R at 33

171 PGW St. 2-R at 33.

172 *See, e.g., Petition of UGI Utilities, Inc.- Electric Division for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2010-2210316, Opinion and Order entered October 19, 2011.

customer financing.[173] Through a properly structured OBR mechanism, PGW partners with a third party lender to provide seamless financing repayments for customers for the projects of the DSM Plan (but not for regulated utility rates or charges). This approach can offer PGW customers a simple and accessible financing option thus making customer participation in the DSM programs more attractive.[174] PGW has identified some key considerations that would need to be addressed in structuring an OBR mechanism and proposes to chair a working group of stakeholders and industry experts to analyze an appropriate OBR mechanism for PGW's customers which would then inform an eventual petition to the Commission for review and approval.[175] In developing this proposal, PGW did factor into its consideration the work of the Commission's On Bill Financing Working Group ("OBFWG") which identified two potential models to consider for implementation in Pennsylvania and provides strong background materials for the working group that PGW proposes.[176]

Even though PGW's OBR proposal is contingent upon approval of the CAM and would simply start a process to develop a proposal that would be submitted to the Commission for review and approval, both OCA and CAUSE-PA automatically opposed PGW's proposed OBR.[177] OCA recommended that the Commission should just outright disallow OBR programs for residential customers without any further research or consideration.[178] These objections are premature, rely on conjecture about how the OBR may be structured, and ignore the fact that if

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[173] PGW St. 2 at 6; PGW Exh. TML-4 at 3, 65-66.

[174] PGW Exh. TML-4 at 65.

[175] PGW St. 2 at 7; PGW Exh. TML-4 at 66.

[176] PGW Exh. TML-4 at 65; PGW St. 2-R at 21-22.

[177] CAUSE-PA St. 1 at 21.

[178] OCA St. 2 at 63-67

OBR were implemented, it would only be after the parties had come to an agreement on an acceptable OBR process.[179] More than this, however, an outright flat refusal to even consider engaging in a process to develop an OBR process is unreasonable. OBR could reasonably address the financial realities confronting customers who do not qualify for LIURP but do not have the means to pay up-front, out-of-pocket costs for participating in other DSM retrofit programs and, therefore, would be beneficial for PGW's customers and the Commonwealth.[180]

E. OCA Confirmed Low-Income Outreach Proposal

OCA proposed that PGW develop and file specific marketing plans through which it will market its non-LIURP programs to confirmed low-income customers.[181] OCA's reason for this proposal – that confirmed low-income customers are not participating in PGW's DSM – is not correct.[182] A proper analysis of PGW's market rate DSM programs shows that while confirmed low-income customers consist of 5% of the total number of DSM customers participating, this figure rises to as high as 25% for some programs.[183] Moreover, and notwithstanding OCA's contrary allegation, PGW already engages in DSM marketing that targets all potential customers, including low-income customers.[184] Adopting OCA's proposal here would be a wasteful use of DSM resources and have the negative effect of increasing costs needlessly in an area where such activities are unwarranted.[185]

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179 PGW St. 2-R at 22.

180 PGW St. 2-R at 22.

181 OCA St. 2 at 58-59.

182 PGW St. 2-R at 11.

183 PGW St. 2-R at 11.

184 PGW St. 2-R at 11-12.

185 PGW St. 2-R at 13.

VI. DSM COST RECOVERY MECHANISMS

A. SUMMARY OF BRIEFING PARTY'S POSITION

PGW proposes to continue to recover implementation costs going forward in the same way they are currently recovered.[186]

B. RECOVERY THROUGH UNIVERSAL SERVICE CHARGE ("USC") AND EFFICIENCY COST RECOVERY SURCHARGE ("ECRS")

Pursuant to Sections 1307 and 1319 of the Public Utility Code, all prudent and reasonable costs for developing, managing, financing and operating DSM programs may be recovered through an automatic adjustment clause.[187] Consistent with this, PGW currently recovers the costs of its non-LIURP DSM programs through the Efficiency Cost Recovery Surcharge ("ECRS") applicable to all volumes of firm gas delivered and the costs of the CRP Home Comfort program expenses through the Universal Services surcharge ("USC") which is assessed to all classes of PGW's firm ratepayers.[188] Going forward, PGW proposes to continue these cost recovery mechanisms as currently structured but to also include the additional costs discussed below in Section VII.

The ECRS will continue to be applied only to the bills of firm customers in the class for which the costs are incurred and costs will be tracked and recovered separately from each of the following firm customer rate classes served by the energy efficiency program: (1) Residential customers on Rate GS; (2) Commercial customers on Rate GS; (3) Industrial customers on Rate

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186 PGW St. 2 at 12.

187 66 Pa.C.S. § 1307(f) and 1319. *Pennsylvania Indus. Energy Coalition v. Pennsylvania Pub. Util. Comm'n*, 653 A.2d 1336, 1349 (Pa. Commw. Ct. 1995).

188 PGW St. 2 at 12. OSBA's comment that the costs for PGW's CRP should be revised is not properly raised in this proceeding which is focused on PGW's conservation programs. PGW St. 1-SR at 5.

GS; and, (4) the Philadelphia Housing Authority on Rate PHA.[189] PGW will file the computation for approval in conjunction with the Company's annual Section 1307(f)-GCR filing and the surcharge will continue to be automatically adjusted effective March 1, June 1, September 1, and December 1 of each year in accordance with Section 1307(f) quarterly adjustment procedures.[190]

VII. PGW PROPOSED TWO NEW COST ELEMENTS FOR ECRS

A. SUMMARY OF BRIEFING PARTY'S POSITION

PGW proposes to include two new cost elements for recovery through its Section 1307(f) surcharge mechanisms (both the ECRS and the USC) to allow the Company to recover all appropriate program costs. As discussed in Section VII.B, the purpose of the CAM is to recover the cost of reduced delivery charges directly resulting from DSM activities.

As discussed in Section VII.C, the purpose of the performance incentive mechanism is to align the Company's business interests with the value of the program impacts to customers. The CAM and PI are two separate mechanisms and the inclusion of the PI would not obviate the need for the CAM.[191]

PGW's proposed CAM and PI mechanism would work together in removing a disincentive and providing a positive incentive (respectively) toward meeting and exceeding energy efficiency and conservation targets for customer benefits.[192] Importantly, because PGW is a municipal utility, none of the dollars lost as a result of PGW's DSM program represent return to shareholders; correspondingly, every dollar recovered through PGW's proposed CAM

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189 PGW St. 2 at 12.

190 PGW St. 2 at 12.

191 PGW St. 4 at 26-27.

192 PGW St. 2-R at 23.

and PI mechanism will go back to fund PGW's continued provision of safe and adequate service for its customers.[193]

B. CONSERVATION ADJUSTMENT MECHANISM ("CAM")

Implementing energy efficiency programs imposes several different costs upon a utility which serve as barriers to implementation unless fully recovered.[194] These costs include the direct cost of program delivery as well as the reduced margin resulting from reduced delivery charges due to the DSM induced conservation.[195] The Commission has stated its "strong preference that the costs for any [DSM] plan be recovered through a reconcilable rider."[196]

While the existing DSM Plan cost recovery mechanisms allow PGW to adequately recover the direct costs of program delivery, there is no timely mechanism that addresses the cost to PGW of lost margin due to reduced volumetric delivery charge recoveries.[197] It is notable that reduced charges are additional savings currently accruing to customers over and beyond the already cost-effective savings measured by the TRC (due to reduced commodity charges).[198] In other jurisdictions (such as Massachusetts, New Jersey, New York, and Maryland), lost revenue adjustments have been used to recover losses due to reduced consumption but they have been largely supplanted by revenue-stabilization or decoupling mechanisms that compare actual

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193 PGW St. 1-R at 6.

194 PGW Exh. TML-4 at 52.

195 PGW St. 4 at 18-19; PGW Exh. TML-4 at 52.

196 *Pennsylvania Public Utility Commission, et. al v. UGI Central Penn Gas, Inc.*, Docket No. R-2010-2214415, et. al., Opinion and Order entered August 19, 2011 at 19.

197 PGW Exh. TML-4 at 53.

198 PGW Exh. TML-4 at 49, 53.

revenues to a target revenue levels and adjust rates to flow the difference to the utility or its customers.[199]

The purpose of PGW's proposed CAM is to permit PGW to recover the cost of lost margin in its Section 1307 surcharge mechanisms. Because PGW is a municipal utility regulated based on the cash flow methodology, the unrecovered charges are an additional cost of offering the DSM Plan.[200] Implementing the CAM would remove the strong financial disincentive to providing energy efficiency and conservation programs to benefit customers which results from incurring these unrecovered costs which can be significant.[201] Over the five years of PGW's DSM Plan, PGW is projected to incur $8.46 million (nominal) in total non-gas revenue losses through the end of FY 2015.[202] With its CAM, though, PGW is only seeking prospective recovery. As long as these costs are not recovered, the scope of PGW's energy-efficiency programs must be limited in order to ensure that the program does not excessively burden PGW's financial stability and cash flow.[203] Thus, approving PGW's CAM will remove a significant hurdle standing in the way of more robust energy efficiency programming that would lead to even more cost-effective commodity savings resulting from a more robust program for the benefit.

The ability to implement a CAM to recover the costs to PGW of providing the DSM Plan is particularly significant for PGW.[204] PGW is a municipal utility and its rates are established

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199 PGW St. 4 at 26. At least forty US jurisdictions (thirty-nine states and DC) have either lost revenue adjustments or decoupling for electric and/or gas utilities.

200 PGW St. 2 at 4; PGW St. 1-R at 6.

201 PGW St. 4 at 27.

202 PGW St. 3 at 32-33; PGW Exh. TML-4 at 56-57; PGW St. 1-R at 8.

203 PGW St. 4 at 19; PGW Exh. TML-4 at 53.

204 PGW St. 4 at 21.

using the cash flow method of ratemaking.[205] PGW recovers most of its fixed utility cost in its delivery charges.[206] PGW's rates do not include a component for return on rate base (unlike investor-owned utilities) that might absorb some losses due to unrecovered delivery costs. Rather, PGW's delivery rate only includes non-gas expenses (including the City Fee),[207] the costs of external borrowing, and an allowance to provide adequate cash flow as established in PGW's last base rate proceeding.[208] The amount of margin PGW is permitted to recover is approved by the Commission in its base rate case. When DSM reduces sales below the level assumed in the rate case, it also reduces PGW's recoveries below the Commission approved levels.[209] Those historic amounts cannot be recouped in future rate cases. Thus, every Ccf of gas that a customer does not use due to an energy-efficiency or conservation program reduces PGW's volumetric delivery margin and cash flow.[210] Therefore, the better PGW does at reducing its customers' energy usage and bills, the worse off PGW will be under current ratemaking because it does not have any ability to absorb or offset these costs.[211] The loss of these dollars does not represent a decreased return to shareholders, only lost dollars that are not available to fund PGW's continued provision of safe and adequate service for its customers.[212]

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[205] 66 Pa. C.S. § 2212(e).

[206] A small portion are recovered through fixed monthly customer charges.

[207] The City Fee is a fixed amount required to be included in PGW's rates by law. As such it is not the same as a return on investment or equity. *See* 66 Pa.C.S. § 2212(f).

[208] PGW St. 4 at 20.

[209] PGW St. 4-R at 13.

[210] PGW St. 4 at 19.

[211] PGW St. 4 at 19; PGW Exh. TML-4 at 53.

[212] PGW St. 1-R at 6. As noted, the only payment to PGW's owner is the City Fee, which is fixed and is paid whether or not sales levels are reduced.

Enabling PGW to recover the full costs of the DSM program will protect PGW's financial stability and allow it to perform essential work important for maintaining a safe and reliable natural gas distribution system by replacing antiquated cast iron and unprotected steel natural gas mains.[213] Not permitting PGW to recover lost costs while, at the same time, insisting that PGW maintain its voluntarily offered DSM Plan at current or even greater programmatic spending levels could seriously threaten PGW and its ability to pursue its other extremely important obligations.[214] This is particularly implicated in light of the additional rate increases that will be necessary to fund PGW's main replacement program and the increasing cost of maintenance and repair of its existing distribution system in the next several years.[215]

In addition, as a gas utility, PGW faces a greater disincentive to offer energy efficiency programs compared to electric utilities because gas utilities do not have the same opportunities as electric utilities to offset losses, making these losses a significant hurdle for PGW to voluntarily offer energy efficiency programs.[216] While PGW (like most gas utilities) has long experienced flat or falling sales, most electric utilities have continued to experience sales growth which offsets losses due to energy efficiency.[217] In addition, electric utilities have demand-related infrastructure expansion projects planned in the near term; energy efficiency will defer some of the demand-related costs between rate cases, mitigating the effect of lost sales.[218] Additionally,

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213 PGW St. 1-R at 5.

214 PGW St. 1-R at 5; PGW St. 2-R at 13.

215 PGW St. 1-R at 8. PGW continues to fund the replacement of 18 miles per year of cast iron mains in its base rates. The rest of its current replacement program is funded through its Distribution System Improvement Charge.

216 PGW Exh. TML-4 at 53, 56.

217 PGW St. 4 at 20; PGW Exh. TML-4 at 55.

218 PGW St. 4 at 21; PGW Exh. TML-4 at 55.

gas utilities (unlike electric utilities) have little (if any) equipment that wears out as a function of usage and, therefore, cannot offset losses from energy-efficiency programs by reductions in load-related equipment failure.[219] Gas distribution equipment also tends to have longer useful lives than electric distribution equipment so gas rate base declines more slowly between rate cases.[220]

There is substantial data supporting PGW's proposal here. Nationally, at least 22 gas utilities offering energy efficiency programs have mechanisms similar to what PGW is proposing.[221] In approving the conservation adjustment mechanism for Northwestern Energy, the Montana Public Service Commission found that, "the lost revenue disincentive is real and puts at risk a full and complete ramp-up of cost-effective energy efficiency resource acquisition programs in the near-term."[222]

1. Legal Authority

PGW's proposal is to include recovery of future DSM-related costs that it is unable to fully recover as a result of reduced margins caused by reduced consumption of gas. Such recovery is permitted because it is a cost of the DSM program, consistent with Sections 1307 and 1319 of the Public Utility Code. These Sections permit all prudent and reasonable costs for developing, managing, financing and operating DSM programs to be recovered through an automatic adjustment clause.[223] The Commission has stated its "strong preference that the costs

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219 PGW St. 4 at 21; PGW Exh. TML-4 at 56.

220 PGW Exh. TML-4 at 56.

221 PGW Exh. TML-4 at 54-55.

222 *In the Matter of the Application of Northwestern Energy's Electric Default Supply Tracker Filing*, Docket No. D2004.6.90, Montana Public Service Commission Final Order No. 6574e at ¶156 (Order issued December 14, 2005).

223 66 Pa. C.S. § 1307(f) and 1319. *Pennsylvania Indus. Energy Coalition v. Pennsylvania Pub. Util. Comm'n*, 653 A.2d 1336, 1349 (Pa. Commw. Ct. 1995).

for any [DSM] plan be recovered through a reconcilable rider."[224] While the Commission has not permitted electric utilities to recover lost "revenue" and rejected such proposals for a voluntary newly proposed DSM program for UGI, the circumstances here are different and there is no legal bar prohibiting the Commission from approving PGW's proposal.

Importantly, precedent that appears to limit the ability of a utility to recover "lost revenues" in an automatic adjustment clause all deal with either electric distribution companies barred from such recovery pursuant to Act 129 or investor owned companies.[225] PGW is not subject to Act 129, is not an investor owned company and is not seeking recovery of lost "revenues" in a conventional sense because all of the dollars that PGW receives from customers are costs used to fund the company's operating expenses. As a municipal utility, PGW's rates are set using the cash flow methodology. Pursuant to this methodology, none of PGW's revenues represent a return on investment. Because PGW does not earn any return on investment, the dollars that it does not recover due to its DSM Plan are a cost to the Company of operating the programs which are properly recovered pursuant to Sections 1307 and 1319.

Though it does not apply to PGW, Act 129's express prohibition on large electric distribution companies from recovering lost revenue due to reduced energy consumption other than prospectively through a Section 1308 base rate proceeding is instructive here.[226] By not applying Act 129 to gas utilities, like PGW, the legislature gave the Commission discretion to permit recovery of lost revenues associated with efficiency and conservation programs. And, by

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224 *Pennsylvania Public Utility Commission, et. al v. UGI Central Penn Gas, Inc.*, Docket No. R-2010-2214415, et. al., Opinion and Order entered August 19, 2011 at 19.

225 66 Pa. C.S. § 2806.1(k)(2) and (3); *Petition of UGI Utilities, Inc.- Electric Division for Approval of its Energy Efficiency and Conservation Plan,* Docket No. M-2010-2210316, Opinion and Order entered October 19, 2011.

226 66 Pa C.S. § 2806.1(k)2).

specifically setting forth in the statute how costs should be recovered for the large EDCs, Act 129 implicitly acknowledges that the Commission has the authority to determine how costs for a gas utility's DSM program may be recovered. In other words, if the legislature had wanted to foreclose the ability of gas utilities to recover costs through the use of a Section 1307 mechanism, it would have drafted the statute to make that clear. And, if the Commission did not already have the discretion to decide this issue, then the legislature would not have needed to set forth its expectations in the statute. For these reasons, Act 129 supports PGW's proposed CAM.

Even if one were to conclude that PGW's lost margins are not properly considered a "cost" of the DSM program that may be recovered pursuant to Section 1319, the Commission has not foreclosed the possibility of permitting recovery of these costs as part of a Section 1307 charge for utilities not governed by Act 129.[227] More specifically, in reviewing a mechanism proposed by UGI, the Commission concluded that it would not permit recovery because UGI's method to estimate lost revenue "lack[ed] the precision necessary for a dollar-for-dollar recovery."[228]

Unlike UGI which did not have an energy efficiency program operational, PGW's DSM program has been operational for five years and, as such, its evaluation, measurements and verification protocols are based on five years of actual, analyzed and verified impacts. Thus, PGW's projections and true-ups are based on achievements through TRM calculations and either forecasted or actual measures installed, informed by over five years of actual installation and verified third-party impacts. All programs are and will continue to be evaluated biennially by a

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227 *Petition of UGI Utilities, Inc.- Electric Division for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2010-2210316, Opinion and Order entered October 19, 2011 at 23.

228 *Petition of UGI Utilities, Inc.- Electric Division for Approval of its Energy Efficiency and Conservation Plan*, Docket No. M-2010-2210316, Opinion and Order entered October 19, 2011 at 23.

third party and findings have a real impact on calculations and projections going forward as described above in Section IV.C.[229] This established process with five years of data provides a prudent level of precision based on experience while allowing for timely recovery of DSM impacts and addressing strictly the impact of DSM losses (as opposed to other efficiency losses). Thus, PGW's proposed CAM is structured to ensure that only unrecovered DSM costs are included in the cost recovery mechanism. Timely recovery is critical, as even delays or additional effort and resources required in obtaining recovery would serve as a hurdle to further voluntary utility energy efficiency efforts.

Finally, arguments of the parties that PGW can and should recover these costs through a rate case ignore the costly reality of rate-making for PGW. Without a specific order creating a regulatory asset, rate cases do not allow for money lost between rate cases or take into consideration the further costs to file repeated rate cases. In the rate case, PGW can try to reset its distribution rates to account for reduced sales volumes due to its DSM program, but any relief would only be prospective, and likely would only account for the losses in the test year. Further, there is no single-issue ratemaking concern because these costs would be recovered through a Section 1307 surcharge and with procedures to determine the reasonableness of the charges made outside of a base rate case.[230] The Commission approved PGW's recovery level as part of a rate case. Meanwhile, DSM is a discrete on-going activity that immediately reduces recoveries below the Commission approved level. Thus, deferring the issue of recovery of these costs to a rate base essentially guarantees that all such costs will not be recovered until new rates are

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229 PGW Exh. TML-4 at 81.

230 *Pennsylvania Indus. Energy Coalition v. Pennsylvania Pub. Util. Comm'n*, 653 A.2d 1336, 1350 (Pa. Commw. Ct. 1995).

implemented, and then, only on a going forward basis. Unfortunately, this does nothing to provide assurances of resolving this important issue which is critical to the Company's ability to offer robust DSM programming.

2. CAM Implementation

PGW is not seeking to recover losses incurred as a result of the DSM Phase I Plan through its proposed CAM, but seeks to implement the CAM to address anticipated going-forward costs resulting from energy efficiency.[231] The CAM is designed to establish a simple process that provides a thorough and unbiased accounting of PGW's costs and is the result of a study of the lost revenue adjustment mechanisms currently in use in at least forty US jurisdictions.[232] For each measure covered by one of PGW's DSM programs, PGW has developed the factors that will be analyzed to compute the resulting lost revenues.[233] The CAM will be included with DSM Plan filings and will include reconciliation to ensure that the CAM costs recovered through the Section 1307 mechanisms (ECRS and USC) reflect actual program activities. In a future rate proceeding, a new projection of pro-forma revenues will be used to set rates so that any lost-revenue amount will be eliminated at the effective date of the new rates.[234] The CAM is projected to have only a nominal impact on rates.[235]

The CAM would recover lost margins resulting from all of its DSM programs including the CRP Home Comfort program.[236] Although CRP Home Comfort is PGW's required LIURP

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[231] PGW St. 3 at 33-32; PGW Exh. TML-4 at 60; PGW St. 1-R at 8.

[232] PGW St. 3 at 24; PGW St. 4 at 25-26; PGW Exh. TML-4 at 57.

[233] PGW St. 4 at 23-24; PGW Exh. TML-4 at 57-59.

[234] PGW St. 4 at 26; PGW Exh. TML-4 at 57-60

[235] PGW Exh. TML-4 at 37.

[236] PGW St. 4 at 21-23.

program, PGW is still entitled to full recovery of the reasonable costs attributable to the program and lost revenue is a cost of LIURP.[237] Even though CRP customers are required to pay a reduced amount of their actual usage with the remaining amount paid by non-CRP customers through the USC, the CAM is still necessary to recover the lost margin resulting from decreased gas usage by the CRP customers as a result of CRP Home Comfort.[238] A CAM will not have any effect on CRP customers. Non-CRP firm customers will continue to benefit from the reduction in gas commodity consumed by CRP customers (thus reducing the USC).[239] All the commodity-related savings would be retained by non-CRP customers and the delivery charges related to fixed revenue requirements would flow through the CAM.[240]

As a municipal utility, every dollar PGW recovers through the CAM will be used to maintain and enhance service to natural gas customers and avoid future rate increases and PGW is not proposing to use CAM recoveries for any purpose other than to cover fixed costs already approved through the previous rate case, without any set-aside for any one purpose.[241] A major share of those costs is the cost of PGW's construction and annual maintenance budgets which includes both maintaining the safety and integrity of PGW's gas system and systematically removing antiquated facilities such as cast iron mains (including its legacy, 18 mile per year main replacement program).[242] To the extent PGW takes actions to reduce the recovery of those

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237 52 Pa. Code § 58.4(e).

238 PGW St. 4 at 22-23; PGW St. 2-R at 16-17.

239 PGW St. 4 at 22-23.

240 PGW St. 4 at 23.

241 PGW St. 2-R at 14, 16, 19. Even though PGW is a municipal utility, it still needs to operate in a financially reasonable and prudent manner to remain a viable operation. As such, PGW cannot reasonably be expected to incur substantial and known unrecovered costs which will have an impact on its ability to perform necessary functions.

242 PGW St. 2-R at 16.

dollars (i.e. through a reduction in the amount of gas PGW's customers buy) the ability of PGW to meet its goals for these activities could be affected.[243] Contrary to the assertions of some of the parties that a base rate case would remedy this problem, a future base rate proceeding cannot correct the impact of such past reductions and can only address losses on a going forward basis at the level projected in the test year. Instead, implementation of the CAM would make the dollars available in real-time (and avoid putting PGW in the position of not being able to undertake certain action because of a lack of funding) and delay the need for a rate case.[244] Such outcome is clearly in the best interests of PGW's customers.

C. PERFORMANCE INCENTIVES ("PI")

PGW proposes to include, as an additional cost of the DSM, an additional amount that would be paid to PGW if it meets and exceeds certain goals in order to align the Company's business interests with the value of the program impacts to customers and allow PGW and its customers to share in successes of the program. This proposal is consistent Sections 1307 and 1319 of the Public Utility Code which permit all prudent and reasonable costs for developing, managing, financing and operating DSM programs to be recovered through an automatic adjustment clause.[245]

Including PI as a recoverable program cost is no different from allowing recovery of the cost of financially rewarding contractors for meeting certain timing or other targets. These costs are designed to improve the overall program and are costs that are paid for that purpose. As

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[243] PGW St. 2-R at 16.

[244] PGW St. 2-R at 14, 16.

[245] 66 Pa.C.S. § 1307(f) and 1319. *Pennsylvania Indus. Energy Coalition v. Pennsylvania Pub. Util. Comm'n*, 653 A.2d 1336, 1349 (Pa. Commw. Ct. 1995).

such, including PI costs as part of PGW's Section 1307 surcharge is appropriate and legally permissible.

The benefit of a PI mechanism is in creating a significant incentive to reward and encourage the Company to pursue superior program designs and implementation approaches, to produce greater savings and greater benefits at lower costs.[246] Better efficiency programs result in more energy conservation which leads to reduced commodity costs for customers and the PI recovered by PGW would be used to reduce fixed costs.[247] The better the outcomes for customers, the more the utility shares in the success.[248] The American Council for an Energy-Efficient Economy (ACEEE) has looked extensively into the issue of incentives for utility-led energy efficiency programs, and found at least 25 states that have enacted some form of incentive.[249]

PGW currently has no monetary incentive to make extra efforts to try to make these voluntarily-proposed DSM programs as successful as possible.[250] Even if CAM were implemented, performance incentives would still be important because they represent a separate and additional mechanism to encourage greater results by establishing a business case for PGW to pursue energy efficiency, separate from the mitigation of lost margins.[251] A PI mechanism is

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[246] PGW St. 4 at 27.

[247] PGW St. 2-R at 23-24.

[248] PGW St. 3 at 24.

[249] PGW St. 3 at 24. *See* http://aceee.org/sector/state-policy/toolkit/utility-programs/performance-incentives

[250] PGW St. 3 at 24-25.

[251] PGW St. 3 at 25.

particularly appropriate for PGW, given that PGW's DSM is a voluntary program.[252] If the PI mechanism is approved, PGW's DSM will continue to remain cost-effective.[253]

The principles for PGW's proposed PI mechanism are based on a combination of best practices and implementation in other jurisdictions, with much of the framework coming from Connecticut and Rhode Island.[254] PGW's proposed PI mechanism includes four major components:

> (1) total cap of ten percent (10%) of the annual budget (equivalent to $2.27 million over the five years of Phase II);
>
> (2) minimum threshold of a TRC BCR of 1.0 or higher in a given year to trigger PI;
>
> (3) PGW must meet a minimum of 70 percent for each individual performance target to calculate incentives; and,
>
> (4) PGW could only receive the maximum incentive by exceeding its natural gas savings and benefit cost ratio goal by 20%.[255]

Annual targets would be set based on projected annual figures, and PGW would provide an accounting of actual activity sufficient to calculate the target metrics when it files an annual report four months after the end of each fiscal year.[256] Similar to PGW's proposal for CAM, the projections and true-ups based on achievements would be based on TRM calculations informed by and continually updated upon ongoing evaluation, measurement, and verification procedures to ensure accurate measurement and recovery.[257] Taken as a whole, the proposed PI mechanism will give PGW a reason to do more, do it better, and maximize ratepayer's return on

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252 PGW St. 3 at 25.

253 PGW Exh. TML-4 at 70.

254 PGW St. 3 at 25.

255 PGW St. 3 at 22-24; PGW Exh. TML-4 at 67-71; PGW St. 2-R at 23.

256 PGW St. 3 at 24.

257 PGW Exh. TML-4 at 67-72.

investment.[258] Like the CAM, PGW proposes to apply its proposed PI mechanism to all DSM programs, including CRP Home Comfort and there is no legal prohibition against doing so.[259]

Consistent with the discussion in Section VII.B.1, the costs that PGW proposes to recover through the PI mechanism are not the same as what the Commission could award PGW in a rate case pursuant to Section 523(a).[260] Pursuant to Section 523, the Commission may adjust "specific components of the utility's claimed cost of service" upon consideration of any "action. . . to encourage development of cost-effective energy supply alternatives such as conservation or load management."[261] Exercising the discretion of Section 523 in the context of a base rate case for a traditional investor owned would result in increasing the allowed return on equity. For PGW, a municipally owned utility, any such "award" would be used toward the cost of providing service and, therefore, would not provide a return on investment. As such, including the costs of PGW's proposed PI in its Section 1307 surcharge is not precluded by the existence of Section 523.[262] Any costs recovered through this mechanism will be applied to PGW's cost of service and is not a return on investment.

Finally, PGW strongly opposes the suggestion of some parties that it should be penalized (rather than rewarded) for missing performance targets.[263] Aside from the lack of authority to implement such punitive measures for utilities not governed by Act 129 like PGW, responding to

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[258] PGW St. 3 at 25.

[259] PGW St. 2-R at 25-26.

[260] 66 Pa.C.S. § 523(a).

[261] 66 Pa. C.S. §523(a) and (b)(4).

[262] Even if one were to conclude that Section 523 somehow bars PGW's proposed PI mechanism, the Commission maintains the statutory authority to suspend or waive the application of this section to PGW. 66 Pa. C.S. § 2212(c).

[263] PGW St. 1-R at 8; PGW St. 2-R at 24-25. OSBA St. No. 1 at 13.

PGW's voluntary decision to offer programs to help consumers and the environment by imposing a system that would penalize it for not meeting voluntarily created goals would end any possibility of another Natural Gas Distribution Company ("NGDC") (not to mention PGW) offering such programs.[264]

VIII. DSM II BUDGET

A. SUMMARY OF BRIEFING PARTY'S POSITION

Due to the negative financial impact of offering a conservation program on PGW's cash flow and the uncertainty about whether PGW will be able to recover these losses going forward through its proposed CAM (as discussed above in Section VII.B), PGW is proposing to reset the budgets for all of its DSM programs.[265] The budget in the first column of the table below is what PGW is proposing to implement if the Commission does not approve PGW's CAM (the DSM Phase II Plan base scenario).[266] If the Commission were to authorize PGW's proposed CAM, then the budget in the second column could be implemented (the DSM Phase II Plan expanded scenario).[267]

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264 PGW St. 1-R at 8; PGW St. 3-R at 10 .

265 PGW Exh. TML-4 at 22.

266 PGW Exh. TML-4 at 4-5 with the budget for CRP Home Comfort as modified by PGW St. 1-RJ at 1.

267 PGW Exh. TML-4 at 130-134.

DSM Budgets (Nominal $)	**Phase II Rejoinder** ***Base Scenario if CAM not approved***	**Expanded Scenario** ***if CAM approved***
CRP Home Comfort	$15,945,846	TBD
Low Income Multifamily Efficiency (included within CRP Home Comfort numbers)	*$1,028,706*	*$1,028,706*
Residential Equipment Rebates	$3,800,000	$4,167,500
Home Rebates	$213,419	$3,820,606
Efficient Construction Grants	$1,019,000	$1,082,000
Efficient Building Grants	$1,985,500	$1,985,500
Commercial Equipment Rebates	$1,762,250	$2,630,000
Portfolio-wide Costs	$4,476,000	$4,530,000
Total Gas Conservation Budget	**$29,202,015**	**>$32,178,982** *(does not factor in potential increased budget for CRP Home Comfort)*
Efficient Fuel Switching Program	$2,290,750	$2,290,750

PGW's budget proposals are an effort to strike the appropriate balance among financial stressors related to costs and lost revenue while still continuing to offer workable and cost-effective conservation programs.[268] PGW simply cannot continue to incur the losses discussed in Section VII.B and, if it cannot recover these losses through the proposed CAM, then PGW has proposed a program that in good faith it could support without a CAM.[269]

While no party raised any specific opposition regarding any of the budgets (CAM or non-CAM) for the non-LIURP conservation programs, OCA advocated in support of the expanded scenario for the non-LIURP programs. In addition OCA and CAUSE-PA proposed significant increases to the LIURP budget. Even with these proposed budget increases, CAUSE-PA did not

268 PGW St. 2-R at 9.

269 PGW St. 1-R at 8.

support PGW's CAM proposal and OCA outright opposed it.[270] OCA's proposal that PGW significantly increase the budgets for its DSM programs as well as CAUSE-PA's proposed increase to the CRP Home Comfort program must be rejected as they lack any supporting data and are not legally supportable.

Put in context, OCA's proposed budget of $38,000,000 just for the CRP Home Comfort program would be nearly a 140% increase from PGW's proposal and approximately 423% higher than the average spending for other natural gas utilities across the Commonwealth.[271] By also opposing PGW's proposed CAM, the effect of adopting this proposal would be to significantly and unreasonably increase the amount of unrecovered costs the Company would be required to bear from offering the program which would threaten PGW's financial stability as well as its continued ability to perform infrastructure replacement as required by the Commission.[272] If the Commission were to order a spending level beyond what PGW has determined (after over five years of experience with the DSM programs) is reasonable and prudent and also declines to approve the CAM, PGW reserves the right to re-evaluate the appropriateness and effectiveness of maintaining the ongoing DSM and take appropriate action. If PGW elects to terminate the non-LIURP programs, LIURP would be addressed within the context of its Universal Service Plan or other appropriate filing (with notice to BCS).[273] Given that PGW voluntarily offers its DSM Plan, it simply cannot in good conscience allow a program to be put into effect that would threaten its financial stability and its ability to address other

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270 PGW St. 1-R at 3. OCA's issues regarding the newly proposed Efficient-Fuel Switching program are addressed in Section V.C.

271 PGW Exh. DA-6. The average spend for the 2015 LIURP budgets of the other natural gas utilities is $1.453,333. OCA's proposed spend for PGW is $7,600,000 per year.

272 PGW St. 1-R at 7. *See also* OCA St. No. 2 at 30-31; CAUSE-PA St. No. 1 at 12.

273 PGW St. 1-R at 9.

important goals of the Company – shared by the Commission – including pipeline main replacement.[274]

B. Proposed Budgets (Non-LIURP Programs)

PGW's proposed budgets for its non-LIURP program are set forth in VIII.A. As explained in VII.B, losses to PGW resulting from unrecovered costs in the form of lost margin have pressured PGW to propose a scaled back version of its DSM Plan.[275] If the Commission does not approve PGW's proposed CAM, then the proposed budgets for these programs are designed to reflect conservative participation projections from existing activity and will be kept at the same level for the full five-years and subsequently as modified by the triennial implementation plans PGW proposes to file beyond 2020.[276] If PGW's proposed CAM were approved, then PGW could support a more robust DSM Plan that could include increased budgets, planned participation growth, continuation of the Home Rebates Program, and a pathway to potential OBR (as discussed in Section V.D).

OCA's proposal that the budget for the non-LIURP programs should be consistent with PGW's expanded scenario without simultaneous approval of PGW's CAM is simply untenable for all the reasons discussed in Section VII.B.[277]

C. PGW Proposed Budget for CRP Home Comfort Program (LIURP)

PGW's proposed budget for its CRP Home Comfort program is set forth in VIII.A. For the same reasons discussed in the preceding section as well as Section VII.B, PGW's proposed budget for CRP Home Comfort far exceeds pre-DSM levels but is less than the current DSM

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274 PGW St. 1-R at 9.

275 PGW St. 3 at 6.

276 PGW St. 3 at 6.

277 PGW St. 2-R at 9-10.

Bridge Plan budget. Importantly, however, the proposed budget meets statutory requirements that its LIURP be "appropriately funded" and significantly exceeds the regulatory requirement that LIURP programs shall be at least .2% of a utility's jurisdictional revenues.[278] PGW's proposed CRP Home Comfort Budget (as increased in rejoinder) of $15,945,846 would be implemented even if PGW's proposed CAM is not approved. This proposed budget would result in a LIURP budget of 0.45% of PGW's forecasted revenue and would be consistent with the 0.45% statewide average for LIURP spending (as calculated based on the data available during this proceeding).[279] Accordingly, due to the detrimental financial effect on the Company resulting from unrecovered reduced margins, PGW cannot agree to a higher budget unless its CAM is also approved.[280]

Unfortunately, the proposals of the other parties to increase the CRP Home Comfort budget (while also opposing the CAM) are not sustainable, and would – in the final analysis– be detrimental for all of PGW's ratepayers as PGW is not an investor-owned utility.[281] Approval of the CAM, therefore, would provide a significant benefit to PGW's LIURP recipients as it would eliminate a barrier preventing PGW from offering a more well-funded program.[282]

No prior actions of PGW or the Commission have pre-determined that either PGW's current budget for LIURP or the higher budget proposals of the other parties must be accepted.[283]

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278 PGW St. 2 at 5; 66 Pa. C.S. § 2203(8); 52 Pa Code § 58.4(a)

279 PGW St. 1-RJ at 2; PGW Exhibit No. DA-6 (comparison of NGDC 2013 jurisdictional intrastate revenues with 2015 LIURP budgets). Notably, this 0.45% statewide average factors in Columbia Gas of PA, Inc. which has a LIURP program that is 1.02% of its jurisdictional revenues and is a considerable outlier from the other NGDCs' programs.

280 PGW St. 2 at 4; PGW St. 1-RJ at 2.

281 PGW St. 1-R at 5.

282 PGW St. 2-R at 17.

283 PGW St. 1-R at 12; 23.

In fact, the Commission has been clear that the 0.2% of jurisdictional revenues funding requirement of Section 58.4 "is a starting point or floor for LIURP budgets."[284] Judging PGW's proposed budget for its LIURP against this standard makes clear that PGW's proposed budget is reasonable and consistent with regulatory requirements.

Historically, PGW's Commission approved LIURP funding was at or close to the required regulatory minimum with an average actual spend that was .28% of PGW's actual average revenues in 2008-2010.[285] PGW's initial LIURP program (known then as the Conservation Works Program) was included as part of PGW's restructuring filing and subsequently modified as part of a comprehensive settlement approved in 2010 regarding PGW's DSM Phase I Plan and its rate case in which PGW agreed to a significant increase in funding for its CRP Home Comfort program upon its inclusion within the DSM Plan.[286] The proposal was based on PGW's interest in testing a pilot DSM program that would include a large LIURP program; it was not based on a needs assessment nor was the final agreed-to LIURP budget ever portrayed or intended as a permanent funding level from which PGW could never be released.[287] Thus, there is no basis upon which to support a claim that PGW is somehow required to maintain the DSM Phase I settlement budget level for its LIURP. Such a result, without approval of

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284 *UGI Utilities, Inc.- Gas Division, UGI Utilities, Inc.-Electric Division, UGI Penn Natural Gas, Inc., and UGI Central Penn Gas, Inc., Universal Service and Energy Conservation Plan for 2014-2017 Submitted in Compliance with 52 Pa. Code § 54.74 and § 62.4,* Docket No. M-2013-2371824, Final Order entered January 15, 2015 at 70.

285 PGW St. 1-R at 20-21. The spend averaged $2.3 million per year.

286 PGW St. 1-R at 21, citing, *Pennsylvania Public Utility Commission, et. al. v. Philadelphia Gas Works at* Docket R-2009-2139884, *et. al. and Philadelphia Gas Works' Revised Petition for Approval of Energy Conservation and Demand Side Management Plan,* Docket No. P-2009-2097639, Opinion and Order entered July 29, 2010.

287 PGW St. 1-R.

PGW's proposed CAM, would impose unreasonable costs on the Company and would discourage utilities from piloting enhanced LIURP programs.

The Commission's actions during PGW's recent approval of its USECP 2014-2016 further support the fact that there is no pre-determined starting point for PGW's going-forward LIURP budget. While PGW was required to provide enrollment and budget information for the LIURP program fiscal years 2015 and 2016 in response to the Commission's direct request during its review of PGW's USECP 2014-206, PGW made clear that that the FY 2016 DSM Implementation Plan was not yet finalized and would be updated upon the filing of the new proposal (which is this proceeding).[288] Thus, the budget numbers presented as part of that review process do not represent a pre-determined starting point here for the LIURP budget.

Even if, however, one were to accept for the sake of argument that the Commission somehow already predetermined the LIURP budget, that argument is negated by the fact that the Commission most recently approved PGW's DSM Bridge Plan – which included the LIURP budget – on an <u>interim</u> basis pending the outcome of this proceeding.[289] Importantly, the Commission recognized that the LIURP budget of the DSM Bridge Plan "maintained the

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288 <u>Response of Philadelphia Gas Works to Tentative Order entered April 3, 2014 Regarding the Enhanced Low Income Retrofit Program,</u> Docket No. M-2013-2366301, dated April 23, 2014 at 11. The Commission PGW's 2014-2016 Plan dated June 1, 2013, as amended September 22, 2014 which clearly states that LIURP changes and budgets will be addressed in this proceeding. *Philadelphia Gas Works Universal Service and Energy Conservation Plan 2014-2016* Docket No. M-2013-2366301, <u>Philadelphia Gas Works Universal Service and Energy Conservation Plan</u> dated June 1, 2013 as amended September 22, 2014. The Commission approved PGW's final USECP 2014-2016 Plan on November 13, 2014. *See Philadelphia Gas Works Universal Service and Energy Conservation Plan for 2014-2016 Submitted in Compliance with 52 Pa. Code § 62.*4, Docket No. M-2013-2366301, Final Order Re Compliance Filing entered November 13, 2014.

289 *DSM Bridge Plan Order* at 5.

program funding level of Fiscal Year 2015. . . in the interest of reaching a consensus among the parties" regarding the Bridge Plan proposal.[290]

In sum, the significantly increased budget for PGW's LIURP since it became a part of the DSM Plan has been the result of settlements and as a result of reaching consensus with the parties. Based on PGW's experience with the level of funding as well as its going-forward projections, PGW has offered the only reasonable budget possible if it does not receive the ability to recover lost revenue through its proposed CAM.

Nonetheless, even if the Commission were to conclude that PGW's most recent LIURP budget is some type of spending floor (as opposed to the spending floor set in the regulations) against which to analyze the proposal here, the Commission has the discretion to establish a different funding level upon either: (1) a petition from the utility – which this proceeding is; or, (2) a review of the need for program services and addressing the recovery of program costs in utility rates.[291] Through the record developed in this proceeding, PGW has fully supported the requested funding level proposed for its LIURP program:

> (1) 35,000 CRP customers would be eligible for CRP Home Comfort under its current usage requirements;[292]
>
> (2) 3,216 is the expected customer participation rate based on historical participation rates;[293]
>
> (3) $15,945,846 is the expected total expense in nominal dollars of providing usage reduction services, including costs of program measures, conservation education expenses and allocated expenses for program administration;[294] and,

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290 *DSM Bridge Plan Order* at 5.

291 52 Pa Code § 58.4

292 PGW Exh. TML-4 at 89.

293 The total projects forecasted based on PGW's initial CRP Home Comfort budget as set forth in PGW Exh. TML-4 at 88 is updated based on PGW's revised CRP Home Comfort budget.

294 PGW St. 1-RJ at 1.

> (4) These figures represent the total program spending and number of customers to be treated over the next five years which is achievable based on contractor capacity as well as the negative financial impact if PGW is not permitted to recover costs through its CAM. PGW's program will continue after the five years as proposed here for continuing to treat eligible customers.

IX. CRP HOME COMFORT PROGRAM (LIURP)

A. CONTINUATION OF CRP HOME COMFORT AS PGW'S LIURP WITHIN DSM II PORTFOLIO

In the *USECP 2014-2016 Order*, the Commission reserved judgment as to whether PGW should be permitted to continue the CRP Home Comfort program as part of its DSM Phase II Plan or "revert it back" to its Universal Service and Energy Conservation Plan and require PGW to provide its LIURP proposal to BCS so that it would be "expressly reviewed by BCS."[295] The CRP Home Comfort program should remain with PGW's DSM Plan for the following reasons.

First, PGW's LIURP program has been operating within its DSM Plan since officially launched in 2011 and PGW's proposal here would allow it to continue to operate as part of the DSM Plan.[296] Not only has this resulted in administrative efficiencies, well-established reporting requirements,[297] reviews and assessments but, as the Commission described in its *USECP 2014-2016 Order*, information about the LIURP program is more comprehensive since it is a part of the DSM Plan and cost efficiencies are gained by having it as part of the DSM process.[298]

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[295] *USECP 2014-2016 Order* at 49. Consistent with this directive, BCS has been served copies of all PGW's filings and testimony at this docket and BCS has been invited to participate in settlement discussions with the parties. PGW St. 1-R at 13.

[296] PGW St. 1-R at 10. Development and ramp-up leading to the ultimate launch for CRP Home Comfort occurred from September 2010 through January 2011.

[297] While PGW continues to adhere to all traditional LIURP reporting requirements, the energy efficiency reporting requirements are more extensive and detailed than traditional LIURP reports.

[298] PGW St. 1-R at 11; citing *USECP 2014-2016 Order* at 47. *See also* PGW St. 1 at 12.

Second, as part of the DSM Plan, the design, successes and impacts of PGW's LIURP will be examined through more updated approaches to conservation than is currently contemplated in the currently static LIURP regulations. This enables PGW and the Commission (particularly BCS) to manage and update a program that is operating in the modern conservation environment.[299] Information about the CRP Home Comfort program will be included in: (1) an annual report filed with the Commission four months following the close of PGW's fiscal year; (2) an annual implementation plan filed four months prior to the upcoming fiscal year (only if major changes are proposed); and, (3) ongoing triennial implementation plans.[300] BCS will be served with copies of all of these filings.[301] Thus, removal of CRP Home Comfort from the DSM, or a dual review in both the DSM docket and future USECP dockets could result in requirements for CRP Home Comfort that conflict with the requirements of the DSM proceeding and would be unnecessarily confusing and wasteful of resources.[302]

Finally, PGW's DSM Plan operates on a fiscal year basis, while the USECP operates on a calendar year basis and multiple reporting on the same program for different reporting cycles will create additional inefficiencies in terms of staff and consultants' time and labor.[303] For these reasons, PGW submits that the continued inclusion of the CRP Home Comfort Program in the DSM is appropriate and should be maintained.

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299 PGW St. 1-R at 11-12.

300 PGW St. 1 at 6; PGW Exh. TML-4 at 39.

301 PGW St. 1-R at 13.

302 PGW St. 1 at 12.

303 PGW St. 1 at 12.

B. CRP Home Comfort Program Eligibility Criteria

The CRP Home Comfort program provides cost-effective energy savings to low-income customers who participate in PGW's CRP.[304] An equally important goal of the program is to reduce the overall long-term cost of the CRP which is paid by all firm customers through the USC.[305] From inception through June 2014, CRP Home Comfort has generated TRC benefits with a present value of $24.5 million (2009 dollars), for a present value of net benefits of $5.0 million (2009 dollars) and a BCR of 1.26.[306] Individual selection assignments begin with screening for primary eligibility criteria, and then a statistical analysis of eligible customers' weather-normalized usage.[307] The best predictor of energy savings is pre-treatment usage and not some rigid rule or arbitrary number.[308] Usage thresholds are customized for each assignment based on the population, their usage, and the number of participants in each quintile, as well as program contractors' capacity to assume a set number of assignments.[309] This flexibility to assign only the highest-priority cases allows contractors to prioritize the homes with the greatest opportunity for savings first.[310] Typically, a biannual selection has 12,000 to 15,000 customers,

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304 PGW Exh. TML-4 at 82. PGW proposes to change the name of this program from "ELIRP" because the new name is easier to understand, serves as a linkage and reminder that participation in the program is required because of CRP status and helps provide a distinction between the low-income program and the other market rate weatherization programs. PGW Exh. TML-4 at 82.

305 PGW Exh. TML-4 at 82.

306 PGW Exh. TML-4 at 83. From inception through February 2015, this program has achieved gas savings of 234.5 BBtu and net lifetime gas savings of 4,851.3 BBtu, achieved a TRC Net Benefits of $8.1 million (2014 dollars) and a BCR of 1.28. *PGW Bridge Implementation Plan at 4-5.*

307 PGW St. 2-R at 8.

308 PGW St. 2-R at 9.

309 PGW St. 2-R at 8. PGW allows its CSPs to prioritize their work independently based on the cost effectiveness and savings outcomes that PGW demands and which ultimately determine the CSPs' funding allocations. PGW St. 1-R at 27.

310 PGW St. 2-R at 8.

with average usage of 1,621 Ccf.[311] This assignment process results in the most effective selections in terms of program savings and cost-effectiveness.

As part of its DSM Phase II Plan, PGW proposes to: (1) extend the pool of eligible high gas usage CRP customers beyond the top 30 percent of CRP users, potentially up to the top 50 percent, in order to identify sufficient cases suitable for weatherization; (2) update quality assurance training protocols; and, (3) explore new ways to leverage data and provide additional cost-effective treatment opportunities where full weatherization is prevented due to health, safety and/or structural issues at a home.[312] Also, and consistent with the directive in the *USECP 2014-2016 Order* that PGW reconsider its LIURP eligibility criteria,[313] PGW no longer excludes CRP customers with program arrearages greater than two months from CRP Home Comfort eligibility.[314]

PGW opposes the recommendation of OCA and CAUSE-PA to expand the eligibility requirements of CRP Home Comfort to include more customers (by redefining "high users"), non-CRP customers (but making this group eligible), and some non-customers (through the proposed De Facto Electric Heating proposal and Restore Service programs).[315] Expanding eligibility requirements for CRP Home Comfort: (1) would be administratively complex; (2) will provide no additional value given what the program is already achieving and the existing opportunities within the currently targeted population; and, (3) will result in a large influx of

311 PGW St. 2-R at 8.

312 PGW St. 2 at 2.

313 *USECP 2014-2016 Order* at 56.

314 PGW St. 2 at 2.

315 OCA St. 2 at 5; CAUSE-PA St. 1 at 17. PGW's position regarding the proposed De Facto Electric Heating proposal is discussed in Section IX.E. PGW's position regarding the proposed Restore Service Program is discussed in Section IX.F. Taken together, all of these proposals would result in expanding the eligibility for CRP Home Comfort and the effect of such expansion is discussed in this Section.

customers that would significantly dilute the total pool of eligible customers drawing resources away from those most in need and potentially harming program effectiveness as a result.[316] Moreover, because the actual financial impact as a result of CRP customer's participation in LIURP is a reduction of the CRP subsidy that is borne by all other PGW firm ratepayers, many of whom are just above CRP income-based eligibility criteria, increased LIURP program costs for lower users, non-CRP customers and non-customers would negatively impact all other non-CRP customers.[317]

With respect to the parties' reasoning in support of proposals to significantly expand eligibility, PGW's CRP is a percent of income payment plan that bills enrolled customers a flat "asked to pay" amount based on their income, irrespective of actual energy use. As such, participation in LIURP does not have a direct financial impact on the CRP customer.[318] Importantly, participation by CRP customers in LIURP: (1) does not affect the asked-to-pay amount of the CRP customer's bill (either by reducing or increasing that amount); (2) does not make the CRP Home Comfort customer more likely to remain on CRP; (3) does not reduce the arrearages for the LIURP CRP customer; and, (4) does not reduce either the amount of shut-offs or length of shut-offs for such customers.[319] As such, the benefit to CRP customers of participation in LIURP does not impact their specific financial situation but rather provides them

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316 PGW St-2-R at 5; 7. OCA's definition of "confirmed low-income customers" is extremely broad and would likely include non-CRP customers who are not held to the same requirements as CRP customers, including income validation and payment arrangements. PGW St. 2-R at 5. Similarly, CAUSE-PA's recommendation to expand eligibility to 50% usage would nearly double the targeted population. PGW St. 2-R at 8-9.

317 PGW St. 1-R at 16; PGW St. .

318 PGW St. 1-R at 16. This fact was acknowledged by both OCA and CAUSE-PA. PGW Exhs. DA-1 –DA-3.

319 PGW St. 1-R at 16-19; PGW St 2-R at 17-18.

the benefit of an improved housing condition.[320] Thus, the reasons offered by OCA and CAUSE-PA to support expanded eligibility requirements based on the alleged financial impacts of LIURP participation for the CRP customer do not support their proposals.

Arguments that the LIURP regulations are intended to treat premises rather than customers is a misinterpretation of regulatory intent that subverts the purpose of LIURP from a utility customer service program to a premise-focused housing stabilization program.[321] Moreover, despite the fact that CRP Home Comfort treatments are provided at no cost, treating rental properties has proven difficult because landlords either do not respond or refuse treatments and they are under no obligation to accept weatherization treatments (unlike CRP customers).[322] In sum, CRP participation is the most appropriate and cost-effective means for validating income eligibility for participation in CRP Home Comfort and there are still eligible high user CRP customers available to participate in CRP Home Comfort.[323] From either a financial impact standpoint or a treatment of housing standpoint, there is no justification to expand CRP Home Comfort eligibility (and incur the costs that would be involved in such an expansion). As such, PGW opposes expanding eligibility criteria.

C. PGW Proposed New Low-Income Multifamily ("LIME") Program

PGW proposes to include a new Low-Income Multifamily ("LIME") program as part of its CRP Home Comfort program in compliance with the Commission's Final Order approving PGW's Universal Service and Energy Conservation Plan for 2014-2016.[324] The Commission

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320 PGW St. 2-R at 6.

321 PGW St. 2-R at 6-7.

322 PGW St. 2-R at 6.

323 PGW St. 2-R at 4-7.

324 PGW St. 2 at 7.

directed PGW include such a plan within its LIURP a program to specifically serve low-income multifamily properties.[325] The Commission also directed that PGW "designate a portion of the [LIURP] budget" for the new program.[326] In doing so, the Commission recognized that multifamily accounts include commercial ratepayers but indicated that recovering costs through LIURP was deemed appropriate since PGW recovers costs for its LIURP program, in part, from non-residential ratepayers.[327]

Consistent with these Commission directives, the LIME program will provide no-cost limited scope energy usage assessments for building owners and will implement cost-effective direct install energy efficiency measures based on the results of energy assessments.[328] This approach will allow the inclusion of both individually-metered accounts and master-metered properties consistent with PGW's interpretation of the intent of *USECP 2014-2016 Order*. PGW will select a conservation service provider ("CSP") to implement the LIME program.[329] The majority of installations will likely include low cost measures such as low flow faucet aerators, low flow showerheads, programmable thermostats, hot water heater turndowns and pipe wrap, though the potential exists for additional measures (such as air-sealing, insulation and heater or domestic hot water heater replacements) where cost-effective.[330] The LIME program will be included in PGW's existing third-party evaluator process to perform regular pre/post usage impact evaluations which are then used to update savings calculations.[331]

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325 *USECP 2014-2016 Order* at 57.

326 *USECP 2014-2016 Order* at 57.

327 *USECP 2014-2016 Order* at 57.

328 PGW St. 2 at 7-9.

329 PGW St. 2 at 8; PGW Exh. TML-4 at 86.

330 PGW St. 2 at 8-9.

331 PGW St. 3-SR at 3.

The LIME program will target low-income multifamily buildings with at least 50 percent of residents at or below 150 percent of the Federal Poverty Level, targeting facilities in the top-third tier of usage at the outset of the program.[332] PGW's primary eligibility criteria is that a property must qualify as publicly subsidized housing. This can be satisfied either through Low Income Housing Tax Credits or Section 8 Housing which are federal programs that require certain income thresholds for residents that the property owner must verify and ensure are maintained.[333] Buildings will be identified through coordination with public and nonprofit agencies and both master metered and individually metered buildings will be eligible to participate.[334] Landlords whose properties receive LIURP treatments must contractually agree that rents will not be raised consistent with Section 58.8 of the Commission's regulations.[335]

Consistent with the Commission's *USECP 2014-2016 Order*, the LIME program will be included within the CRP Home Comfort program and PGW's initial pilot phase for LIME is proposed at approximately 6.45% of the total proposed budget for CRP Home Comfort.[336] As such, costs will be recovered through the USC as set forth in Section VI.B. Based on the Commission's clear directive regarding cost recovery, PGW does not support OSBA's recommendations regarding allocation of the costs of the LIME.[337] Moreover, consistent with the discussion in Section VIII.C regarding the inability to allocate more funding for its LIURP without addressing the impact of unrecovered costs on the ability to PGW to provide the DSM

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332 PGW St. 2 at 7-8; PGW Exh. TML-4 at 89; PGW St. 2-R at 30.

333 PGW St. 2-R at 27-28.

334 PGW St. 2 at 8; PGW St. 2-R at 30, 32.

335 PGW St. 2-R at 31. 52 Pa Code § 58.8.

336 The proposed budget for the LIME program is $1,028,706 and PGW's proposed budget for the CRP Home Comfort program if the CAM is not approved is $15,945,846. PGW Exh. TML-4 at 88; PGW St. RJ-1 at 1.

337 PGW St. 2-SR at 1-4.

programs, PGW opposes CAUSE-PA's recommendation to increase the budget for its LIME program.

Finally, the Commission recently announced that development of an Act 129 Multi-Family Housing Working Group ("MHWG") whose purpose is to gather stakeholder input in order to explore possible program designs and cost-effective solutions to barriers to participation in the energy efficiency and conservation programs that may exist for the multi-family sector.[338] While this process is focused on Act 129 requirements, it does establish a process to consider the barriers with these programs and is clear that the Commission is continuing to consider the best way to deal with them. As such, PGW's LIME program as proposed here should be permitted without modification. PGW will monitor the MHWG (as PGW monitors the Act 129 process) and, based on the outcome, will consider whether modifications to its proposal are appropriate or necessary.

D. Chapter 58 Waiver Requests

The CRP Home Comfort is designed to be consistent with currently accepted standards for energy efficiency programs, which focus on programs that produce positive total resource cost/benefit ratios.[339] When the Commission approved PGW's current Universal Service Plan (calendar years 2014-2016), it directed PGW to specifically request a waiver of Section 58.11(a) and Section 58.5 of the Commission's LIURP regulations. Consistent with this directive, PGW has reviewed all the LIURP regulations and specifically requests, to the extent necessary, an exemption and/or waivers of those sections discussed further below. Importantly, as part of the

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338 *In Re: Multifamily Housing Stakeholder Meeting*, Docket No. M-2014-2424864, Secretarial Letter dated November 18, 2015.

339 PGW St. 1 at 7.

DSM Plan, the successes and impacts of PGW's LIURP are examined through more updated approaches to conservation than is currently contemplated in the LIURP regulations and this enables PGW and the Commission (including BCS) to perform updates and revisions to a program that is operating in the modern conservation environment.[340] Thus, exempting and/or waiving the LIURP regulations as discussed below is justified and reasonable.

1. Exemption Pursuant to 52 Pa Code § 58.18

Section 58.18 allows a utility alleging special circumstances to seek an exemption for its usage reduction program from the LIURP regulations.[341] PGW's LIURP has operated within the DSM Plan since its launch in 2011 (and pursuant to the Commission's approval), is consistent with the goals established by 52 Pa. Code § 58.1, and – as established in this proceeding – will continue to provide cost effective benefits to customers going forward.[342] As part of the DSM Plan, CRP Home Comfort has been designed and is evaluated according to the current accepted standards for energy efficiency programs.[343] As such, participants have received significant benefits from having the program provided as part of this highly efficient and effective suite of conservation programs.[344] Aligning the Commission's more dated LIURP regulations (first effective in 1993 and most recently updated in 1998) to the current accepted standards for energy efficiency programs results in inherent conflicts.[345] Therefore, PGW submits that special circumstances exist pursuant to 52 Pa Code § 58.18 for the Commission to exempt CRP Home

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[340] PGW St. 1-R at 11.

[341] 52 Pa. Code § 58.18.

[342] PGW St. 1 at 11.

[343] PGW St. 1 at 7.

[344] PGW St. 2 at 2.

[345] PGW St. 1-SR at 4.

Comfort from Chapter 58 or, at the very least, to grant the specific waivers discussed in the sections below.

2. Unopposed Waiver Requests - 52 Pa Code §§ 58.9, 58.11, and 58.16

PGW seeks waivers of Sections 58.9, 58.11 and 58.16 of the LIURP regulations and no party has opposed these waiver requests. PGW selects CRP customers that could benefit from participation in its CRP Home Comfort program to control administrative costs and ensure that the program is limited to the highest users.[346] Selected customers are informed about the CRP Home Comfort program at the time they sign up for CRP and selection letters are mailed to assigned customers.[347] PGW is also exploring new communications tools to reach customers about CRP Home Comfort requirements and appointments, such as through the use of email and text messages.[348] Therefore, PGW requests a waiver of the Section 58.9(a)(1) requirement to undertake a targeted mass mailing. No party opposes this waiver request.

PGW uses TRC cost-effectiveness to determine what measure to include in a project rather than a 12-year simple payback criteria as identified in Section 58.11(a).[349] Accordingly, PGW requests a waiver of this regulation.[350] PGW's TRC cost-effectiveness measure has worked effectively to date and is consistent with both current industry standards and the approach used by the Commission for Act 129 electric programs.[351] As such, PGW requests a waiver of Section 58.11(a). No party opposes this waiver request.

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346 PGW St. 1 at 9.

347 PGW Exh. TML-4 at 90.

348 PGW Exh. TML-4 at 90.

349 PGW St. 1 at 10.

350 PGW St. 1 at 10.

351 PGW St. 1 at 10.

PGW is in the process of establishing an Advisory Panel as required by Section 58.16(a).[352] To the extent necessary, PGW requests that this section be waived pending the establishment of the panel. No party opposes this waiver request.

3. 52 Pa Code § 58.5

Section 58.5 deals with the amount of the LIURP budget that may be spent on administrative costs. Pursuant to PGW's CRP Home Comfort design, conservation services providers are paid for annual administrative expenses (costs not directly related to the provision of program services, such as office overhead) to not exceed fifteen percent of the budget category "Total Cost."[353] Conservation services providers may charge up to 10% of the CRP Home Comfort budget category "Total Cost" for variable program support expenses which are not administrative expenses.[354] PGW also charges its own overhead costs.[355] These costs are all included in the program's cost-effectiveness calculations. Contractors are required to maintain cost-effectiveness while targeting the greatest level of energy savings, with regular evaluations and funding reallocations based upon performance against these two metrics.[356] This methodology controls costs because it is designed to meet or exceed industry standard TRC cost-effectiveness targets and, therefore, better serves the intent of this regulation – protection of ratepayer dollars – in a more effective manner than by strictly adhering to administrative cost

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352 PGW St. 1 at 11.

353 PGW St. 1 at 8.

354 PGW St. 1 at 8-9.

355 PGW St. 1 at 9.

356 PGW Exh. TML-4 at 85-86.

caps.[357] PGW is actively exploring ways to reduce the ongoing overhead costs for the CRP Home Comfort program.[358] Therefore, PGW requests a waiver of this regulation.

While OCA does not specifically object to this waiver request, OCA indicates a concern with PGW's administrative cost levels.[359] Because PGW's CRP Home Comfort is projected to enjoy a positive TRC, the level of administrative costs should not be a significant concern. Moreover, once options for cost reductions are identified and implemented, PGW expects a rise in the percentage of LIURP funds for customer installations thus obviating OCA's concerns.[360]

4. Opposed Waiver Requests - 52 Pa Code §§ 58.4(a), 58.10, and § 58.14

Section 58.4(a) addresses the minimum funding requirements for a LIURP program and provides public notice in the event of a reduction in program funding.[361] Currently, there is no budget approved for PGW's LIURP program beyond the expiration of the DSM Bridge Plan (August 31, 2016 or the effective date of the compliance plan following the Commission's decision in this proceeding) and, as explained in Section VIII.C, PGW proposes to fund the CRP Home Comfort program far in excess of the required minimum going forward.[362] Thus, there is no "reduction in program funding" which triggers this regulation.[363] Nonetheless, to the extent the Commission deems that public notice of PGW's proposed budget going forward is required,

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357 PGW St. 1 at 9.

358 PGW St. 1-R at 24.

359 OCA St. 2 at 16-18.

360 PGW St. 1-R at 24.

361 52 Pa. Code § 58.4(a).

362 DSM Bridge Plan Order at 7.

363 PGW St. 1 at 8; PGW St. 1-R at 25.

PGW will work with BCS regarding the appropriate process.[364] Thus, OCA and CAUSE-PA's opposition to this requested waiver lacks any foundation.[365]

Section 58.10(a)(2) and (3) establish prioritization for receipt of program services based on arrearages and income.[366] PGW's current eligibility and prioritization strategies have been developed to target the program's key performance indicators of total gas savings and total cost-effectiveness.[367] Total gas savings produce the greatest reductions to the CRP subsidy that is paid by all other PGW ratepayers. Based on this, PGW targets the highest usage CRP customers based on pre-usage and does not prioritize selections based on the highest arrearage or the lowest income customers.[368] Since PGW's CRP is a percentage of income program, LIURP participation does not impact the CRP customer's pre-program arrearage or asked-to-pay bill and, therefore, prioritization based on arrearages and income makes no sense. Thus, to the extent necessary, PGW requests a waiver of Section 58.10.

Finally, Section 58.14(c)(1) is concerned with inter-utility coordination and requires a gas utility to address electricity usage through the provision of education, efficient light bulbs, installation of electric water heaters and hot water pipe insulation and devices to reduce the flow of how water.[369] OCA opposes this requested waiver on the mistaken assumption that this regulatory requirement is intended to require restoration of PGW's off customers (regardless of the reasons for the shut-off) who are using electric for a heating source.[370] By its plain language,

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364 PGW St. 1 at 8.

365 PGW St. 1-R at 25.

366 52 Pa. Code §58.10(a)(2) and (3).

367 PGW St. 1-R at 26.

368 PGW St. 1 at 10; PGW St. 1-R at 25-27.

369 52 Pa. Code § 58.14(c)(1).

370 OCA St. 2 at 54-56.

this is not the purpose of the regulation.[371] Because of the complexity involved in intra-utility coordination for electric usage reduction activities and in light of the extensive program steps that PECO is already taking as part of its Act 129 EE&C program, PGW does not propose to address or identify energy efficiency or conservation measures regarding electricity usage.[372] Therefore, PGW's waiver of this section is reasonable and should be granted.

E. De Facto Electric Heating Proposal

CAUSE-PA proposes that PGW investigate and then provide a report and action recommendation to the parties and stakeholders about addressing de facto heating (i.e. former PGW customers who use electric heating alternatives, such as space heaters, after having their PGW service terminated).[373] PGW opposes this recommendation.

CAUSE-PA's concerns are focused on a public policy problem and a concern for PECO and its ratepayers since these customers will have larger PECO bills.[374] However, PGW's CRP Home Comfort program and DSM programs are provided for the benefit of PGW's customers, are wholly paid for by PGW customers, and do not contemplate providing services to customers of a different utility in order to reduce their electric usage.[375] Moreover, even if PECO customers were to receive treatment pursuant to CAUSE-PA's proposal, such treatment may not be cost-effective given housing conditions.[376] Requiring PGW to pursue such a program would require PGW to tackle complex structural or mechanical issues at homes that prevent the use of

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371 PGW St. 1-R at 28.

372 PGW St. 1-R at 27.

373 CAUSE-PA St. 1 at 20.

374 PGW St. 2-R at 2-3.

375 PGW St. 2-R at 2.

376 PGW St. 2-R at 3.

natural gas as the primary heating source, and to fund non-PGW customers' weatherization and restoration costs, pulling the DSM program even further from its primary objective at the expense of customer projects and program cost-effectiveness. Providing a program to non-PGW customers is not a required element for PGW's LIURP. Thus, CAUSE-PA's proposal is an unreasonable expansion of the DSM program that would impose additional costs on PGW's customers to benefit non-PGW customers.[377]

F. RESTORE SERVICE PROGRAM

CAUSE-PA proposes that PGW establish a "Restore Service Program" in which PGW would restore service to households without heat/service that were previously high users and provide these households with CRP Home Comfort services to enable energy usage reductions.[378] While CAUSE-PA indicates that the purpose of its proposal is to remediate "PGW's high number of involuntary residential service terminations,"[379] it does not address how customer arrearages would be paid. Given that this program would be provided to non-PGW customers, it is not appropriately a PGW LIURP program cost. There is no statutory or other obligation for PGW to offer non-LIURP conservation programs and the impact of this proposal would be to unreasonably increase PGW and ratepayer costs.[380] For the reasons discussed in the preceding section, PGW opposes this proposal and recommends that it not be adopted.

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377 PGW St. 2-R at 2.

378 CAUSE-PA St. 1 at 17.

379 CAUSE-PA St. 1 at 16.

380 PGW St. 1-R at 4-6.

X. OTHER ISSUES

OSBA proposed that PGW's CRP be restructured to include a usage signal to program participants.[381] The structure of PGW's CRP is not an issue in the proceeding but, rather, will be addressed in the context of PGW's next USECP.

XI. CONCLUSION

PGW's customers would be best served by full approval of all PGW's proposals in this proceeding – including its proposed CAM and PI mechanisms – as such result would lead to the implementation of a more robust DSM Plan. If, however, CAM is not authorized, then PGW strongly opposes being required to implement any of the proposals of the other parties which would force the Company to incur substantially increased costs to continue the DSM Plan. PGW has offered a reasonable and prudent DSM Plan that will provide significant benefits to consumers in the event it cannot recover lost costs going forward. To the extent PGW is directed to increase its budget beyond these proposed levels without approval of CAM, PGW reserves the right to re-evaluate the appropriateness and effectiveness of maintaining the ongoing DSM and take appropriate action. If PGW elects to terminate the non-LIURP programs, LIURP would be addressed within the context of its Universal Service Plan or other appropriate filing (with notice to BCS). Such an outcome would be an unfortunate result for customers, but PGW simply cannot ignore the detrimental impact on its ability to maintain safe and reasonable service due to increasing financial losses in the form of unrecovered lost margin that is a direct result of operating the DSM Plan.

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[381] OSBA St. 1 at 7.

Finally, to enable the Company to implement the outcome of this proceeding, PGW respectfully asks that this proceeding be in a position to be decided by the Commission on or before its May 19, 2016 public meeting.

Respectfully submitted,

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XII. APPENDIX A – PROPOSED FINDINGS OF FACT

Continuation of DSM Plan

1. Upon receiving Commission authorization in 2009, PGW designed, implemented, and managed a portfolio of natural gas demand-side management ("DSM") programs, or energy efficiency programs, now marketed under the EnergySense brand. The primary goals of PGW's DSM plan are to: (1) reduce customer bills; (2) maximize customer value; (3) contribute to the fulfillment of Philadelphia's sustainability plan; (4) potentially reduce PGW cash flow requirements; and, (5) assist the Commonwealth and City of Philadelphia in reducing greenhouse gas emissions. PGW St 2 at 4, PGW St. 3 at 8.

2. The DSM Plan consists of six different programs that target a broad range of customer sectors across different market transactions. The current majority of the money spent for the DSM plan is for CRP Home Comfort Program which provides, at no cost to CRP participants, comprehensive weatherization services and natural gas conservation measures, such as air sealing, insulation, heating equipment replacements and faucet aerators. PGW St. 3 at 9. As PGW's LIURP, CRP Home Comfort is the only program of the DSM Plan that PGW is legally required to offer pursuant to Commission regulation. 52 Pa. Code § 58.1.

3. The "market-rate" or non-LIURP programs of the DSM Plan are offered by the Company on a voluntary basis. PGW St. 2 at 4. The purpose of these programs is to provide incentives covering a portion of efficiency costs, with the remainder funded by participating PGW customers. PGW St. 3 at 9. PGW's Residential Equipment Rebates program and Commercial Equipment Rebates program offer incentives for the purchase of new energy efficient natural gas equipment. PGW targets comprehensive retrofit projects through: (1) the Home Rebates program; and, (2) the Efficient Building Grants program. PGW addresses natural gas conservation in the new construction market through its Efficient Construction Grants program. PGW Exh. TML-4 at 111.

4. With PGW's DSM Plan, it has designed and implemented a comprehensive portfolio of programs that has successfully and cost-effectively delivered substantial natural gas savings to customers across sectors and incorporates the same proven strategies employed by the nation's most successful natural gas energy efficiency efforts. PGW St. 3 at 11-12, 19-20.

5. The primary test PGW uses to evaluate the costs and benefits of its DSM Plan is the industry standard Total Resource Cost ("TRC") test which is the same primary test utilized by electric companies required to offer plans pursuant to Act 129. PGW St. 3 at 29.

6. As the programs of the DSM Plan have ramped up over the years in terms of capacity, there has been a related positive trend in TRC net benefits over time. PGW St. 3 at 10-11.

7. From inception through February 2015, the DSM programs delivered $7.8 million in TRC net benefits to customers (2014$) achieving a benefit-cost ratio of 1.19. Based on activity during this period, the programs are projected to achieve 6.549 BBtu in lifetime gas savings. *PGW Bridge Implementation Plan* at 3.

8. Since inception through June 2014, the DSM I portfolio reduced natural gas consumption. PGW St. 3 at 5. PGW's LIURP is the largest gas LIURP in the Commonwealth and provides substantial, cost-effective benefits to customers and participants. PGW St. 3-R at 7.

9. All PGW's firm customers (who subsidize PGW's Customer Responsibility Program, or "CRP") have benefitted from the CRP Home Comfort program as the Phase I activity is forecasted to result in a net reduction in the CRP subsidy by $7.2 million over the lifetime of the measures installed. PGW St. 1 at 3. PGW's regular evaluations of its CRP Home Comfort found, with high statistical confidence, that there were substantial energy savings for LIURP participants. PGW St. 3-R at 3.

10. PGW's existing DSM programs have provided broader significant benefits to the local community in terms of increased economic activity, market transformation and reductions in carbon emissions. PGW St. 3 at 12.

11. DSM Phase I also provided economic benefits and job creation in the region. PGW St. No. 1 at 4.

12. Very few initiatives currently exist that provide customers with financial incentives to help overcome the barriers to adopting efficiency measures. PGW St. No. 3 at 14.

13. PGW's DSM Plan is able to provide efficiency services to many residential, commercial and industrial customers and, since it is tailored to PGW's particular customer base, addresses market barriers that no other federal or state initiatives currently do. PGW St. 3 at 14.

14. The DSM Plan has become increasingly cost-effective and extending it will build upon this investment to provide greater returns on customer investments as well as to continue the strong relationships with stakeholders developed over this period of time to maintain long-term confidence and influence larger and more time-consuming nonresidential projects. PGW St. No. 1 at 5, 13.

15. PGW's base proposal offers to continue DSM programs but at reduced spending levels and with the elimination of one of the current DSM programs (i.e. Home Rebates). This proposal assumes that PGW will not be authorized to recover lost costs going forward to ensure that PGW can continue to satisfy all of its statutory requirements even as it continues to endure negative financial consequences from continuing to offer the DSM Plan. PGW St. 2 at 5; PGW St. 3 at 16.

16. PGW proposes to invest \$22.7 million in energy efficiency programs over the next five years through the proposed DSM Phase II Plan base scenario. PGW St. 3 at 7. Based on the TRC test, PGW's proposed base scenario is projected to return a present worth of total resource net benefits of \$10.6 million and \$1.41 in benefits for every \$1 spent with a benefit-cost ratio of 1.41. PGW Exh. TML-5.

17. PGW's DSM Plan expanded scenario assumes that the Commission approves PGW's proposal for a Conservation Adjustment Mechanism ("CAM") and, therefore, offers a more robust DSM Plan which could include such items as expanded program activity levels, a return of the Home Rebates Program to the portfolio, and a pathway to a residential On-Bill Repayment ("OBR") mechanism. PGW St. No. 2 at 5; PGW St. 3 at 18-19; PGW Exhibit TML-4 at 130-134.

18. The DSM Phase II Plan expanded scenario would yield approximately 47% more savings and approximately 41% more TRC net benefits than the base scenario because approval of the proposed CAM would remove the negative impact of DSM on PGW and thus enable PGW to increase the program budgets. PGW St. 3 at 7, 27, 31. The expanded scenario would also be cost effective with a TRC benefit-cost ratio of 1.39. PGW Exh. TML-5.

19. PGW projects that average customer bills will increase by less than one percent per year during five years of Phase II with a slightly higher impact on rates. PGW St. 3 at 34-36.

Savings are projected to persist beyond the first five years as the program delivery costs go away leading to lasting long-term reductions in customer bills. PGW St. 3 at 36, PGW Exh. TML-4 at 31.

20. PGW proposes to offer two new tools to improve customer service and hopefully drive greater DSM program participation in Phase II. PGW St. No. 2 at 11; PGW Exh. TML-4 at 45. The first is a more effective and user-friendly e-audit tool that would utilize actual gas usage and housing characteristics to help residential customers understand energy use and savings potential. PGW St. 2 at 11. The second is a tool for Commercial and Industrial customers to allow them online access to their properties' natural gas usage and functionality to automatically upload usage data to the EPA Portfolio Manager website to facilitate ongoing conservation goal tracking and streamline participation in the City of Philadelphia's Benchmarking ordinance. PGW St. 2 at 11.

21. PGW follows industry best practices to provide regular inspections of installations and audits of invoices in all of its programs to insure that the savings being counted are actually installed. PGW St. 3-R at 17. PGW conducts regular third-party pre and post impact evaluations of its programs to assess the actual savings and review program assumptions so that PGW can utilize the results to identify improvements to its benefit-cost analysis in subsequent implementation plans. PGW Exh. TML-4 at 50, 81; PGW St. 3-R at 17.

22. Even though not utilized as part of the primary TRC evaluation for DSM Phase I, PGW has been reporting alternate TRC figures that count the benefits of DRIPE along with the cost of carbon for both gas and electric avoided costs (referred to as "Full Internal AC"). PGW St. 3 at 29; PGW St. 4 at 10-11. Going forward, PGW proposes to include these additional benefits within the primary avoided costs and TRC calculations because these two avoided cost components are tangible benefits resulting from PGW's DSM Plan. PGW St. 4 at 11; PGW Exh. TML-4 at 27, 49-50.

23. To measure the benefit of avoided costs, PGW has been using the lowest avoided cost scenario (referred to as "Low AC") for its primary TRC calculations throughout the DSM Plan Phase I. PGW Exh. TML-4 at 27, 45. This calculation of avoided costs does not include the cost of carbon for natural gas and electric avoided costs or the Demand Reduction Induced Price Effects ("DRIPE") for natural gas. PGW Exh. TML-4 at 27.

24. Reducing gas usage reduces the price of natural gas on a continental basis. This effect is a societal benefit known as the DRIPE. PGW St. 4 at 11-15; PGW ST. 4-R at 19.

25. PGW is proposing to use the internalized, rather than externalized, cost of carbon methodology going forward. PGW Exh. TML-4 at 27. The internalized cost of carbon for both gas and electric avoided costs measure the value of gas energy efficiency on: (1) likely future carbon prices; (2) the social cost of carbon emissions; (3) the health costs of NOx and SO2 emissions from power plants; and, (4) the emissions avoided by reducing electric usage. PGW St. 4 at 15-18; PGW Exh. TML-4 at 49-50, 142-148.

26. PGW proposes to provide program activity details in an annual report filed with the Commission four months following the close of PGW's fiscal year. PGW Exh. TML-4 at 39-40. PGW also proposes to file with the Commission an annual implementation plan four months prior to the upcoming fiscal year, but only when proposing major program changes to budgets or goals that deviate from the approved DSM Plan. PGW St. 1 at 6; PGW Exh. TML-4 at 39-40.

27. Going forward, the DSM programming would be authorized beyond FY 2020. PGW St. 1 at 6; PGW Exh. TML-4 at 39. At that point, PGW proposes to file ongoing triennial implementation plans that will provide proposed program implementation details and modifications as well as recent program activities and give parties an opportunity to propose a termination by filing 180 days in advance of the close of the fiscal year. PGW St. 1 at 6; PGW Exh. TML-4 at 39.

28. PGW reserves the right to re-evaluate the appropriateness and effectiveness of maintaining the ongoing DSM and take appropriate action. If PGW elected to terminate the non-LIURP programs, LIURP would be addressed within the context of a Universal Service Plan or other appropriate filing (with notice to BCS). PGW St. 1 at 6; PGW Exh. TML-4 at 39.

PROPOSED NON-LIURP PROGRAMS

29. PGW is voluntarily proposing to continue its DSM Plan on a scaled-back basis based on the assumption that the Commission does not authorize PGW's CAM proposal. PGW St. 3 at 15-17, 21-22. The proposed program modifications to each of the existing non-LIURP programs focus on the size and projected growth of the individual programs, scaling them

back and maintaining consistent funding level to address PGW's concerns regarding unrecovered revenue losses. PGW St. 3 at 16. The proposed program designs incorporate the same proven strategies employed by the nation's most successfully natural gas energy efficiency efforts. PGW St 3 at 19-20

30. The Residential Equipment Rebates program is designed to encourage and assist customers in improving the energy efficiency of their properties through prescriptive rebates on premium efficiency, residential-sized gas appliances and heating equipment. PGW Exh. TML-4 at 93. Since program launch in April 2011 through June 30, 2014, PGW has provided 453 boiler rebates, 1,112 furnaces rebates, and 811 thermostat rebates. PGW Exh. TML-4 at 94. There has been an increasing trend in rebates issued. PGW Exh. TML-4 at 94. Residential Equipment Rebates achieved a positive TRC net benefits with a present value of $1.8 million (in 2009 dollars) and a TRC BCR of 1.70 in activity through June 2014. PGW Exh. TML-4 at 95. From inception through February 2015, this program has provided rebates for 2,368 pieces of heating equipment, with positive TRC net benefits of $2.8mm (in 2014 dollars) and a TRC BCR of 1.61. *PGW Bridge Implementation Plan at 4-5.*

31. The Efficient Construction Grants program is available for both residential (including low income tenant projects) and non-residential new construction projects and promotes natural gas energy efficiency by providing technical assistance and prescriptive financial incentives for projects that go beyond building code in reducing energy usage. PGW Exh. TML-4 at 111. This program achieved net annual gas savings of 1.9 BBtu and net lifeline gas savings of 32.7 BBtu through June 2014 and is expected to achieve net annual gas savings of 3.7 BBtu and net lifetime savings of 68.6 BBtu in FY 2015. PGW Exh. TML-4 at 112. As of June 2014, this program completed 12 projects, achieved a TRC Net Benefits of $31.703 (in 2009 dollars) and a BCR of 1.19. PGW Exh. TML-4 at 112. From inception through February 2015, this program has achieved gas savings of 2.0 BBtu and net lifetime gas savings of 36.7 BBtu, program completed 15 projects, achieved a TRC Net Benefits of $33.842 (2014 dollars) and a BCR of 1.13. *PGW Bridge Implementation Plan* at 4, 6.

32. The Efficient Building Grants program promotes natural gas energy efficiency retrofit investments by PGW's multifamily residential (including low income tenant projects), commercial, and industrial customers. PGW Exh. TML-4 at 100. From inception through

June 2014, PGW has issued 15 Efficient Building Grants totaling $234,415 and issued eight grants for a total of $63,816. PGW Exh. TML-4 at 101. Efficient Building Grants achieved positive TRC net benefits with a present value of $161,960 (in 2009 dollars) and a TRC BCR of 1.31. PGW Exh. TML-4 at 101. From inception through February 2015, this program has achieved gas savings of 8.5 BBtu and net lifetime gas savings of 168.8 BBtu, program completed 15 projects, achieved a TRC Net Benefits of $435,081 (2014 dollars) and a BCR of 1.45. *PGW Bridge Implementation Plan* at 4, 6.

33. The Commercial Equipment Rebates program provides rebates on premium efficiency commercial-sized gas appliances and heating equipment to increase the penetration of these measures in the facilities of PGW's commercial, industrial and multifamily (including low income tenant projects) customers. PGW St. 2 at 3; PGW Exh. TML-4 at 106. This program has achieved net annual gas savings of 6.3 BBtu and net lifetime gas savings of 145.4 BBtu through June 2014 and is expected to achieve net annual gas savings of 10.1 BBtu and net lifetime savings of 156.4 BBtu in FY 2015. PGW Exh. TML-4 at 106. As of June 2014, the program achieved a positive TRC net benefits with a present value of $509,797 (in 2009 dollars) and a TRC BCR of 3.07. PGW Exh. TML-4 at 107. From inception through February 2015, this program has achieved gas savings of 9.8 BBtu and net lifetime gas savings of 216.6 BBtu, issued 93 rebates, achieved TRC Net Benefits of $1,031,856 (2014 dollars) and a BCR of 3.04. *PGW Bridge Implementation Plan* at 4, 6.

34. PGW's Home Rebates program provides discounted energy assessments and rebates for retrofits to the homes of residential customers. PGW St. 2 at 5; PGW Exh. TML-4 at 118. The average number of audits completed per month began increasing in January 2014 from 25 to 31 and the conversion rate of audits resulting in completed projects was 40 percent as of June 2014. PGW Exh. TML-4 at 119. As of June 2014, Home Rebates completed 134 projects worth nearly $245,000 in PGW incentives achieving TRC Net Benefits of negative $283,508 and a BCR of 0.68. PGW Exh. TML-4 at 119. PGW projects that if the program were to be continued it would achieve cost-effectiveness shortly thereafter. PGW Exh. TML-4 at 119. From inception through February 2015, this program has achieved gas savings of 6.8 BBtu and net lifetime gas savings of 188.3 BBtu, completed 618 audits and 277 projects,

achieved a negative TRC Net Benefits of -$550,615 (2014 dollars) and a BCR of 0.71. *PGW Bridge Implementation Plan* at 4, 5-6.

35. If PGW is not permitted to implement its proposed CAM, then PGW will discontinue the Home Rebates program after a six month wind down period. PGW St. 2 at 4; PGW Exh. TML-4 at 120-121.

36. The Home Rebates program require additional growth to make it cost-effective, despite the fact that PGW has made significant investments in infrastructure and market outreach to get the program to current levels and Home Rebates has been very successful at converting leads and providing quality retrofits to PGW's residential customers. PGW St. 3 at 18.

37. The purpose of the new Efficient Fuel-Switching load management program will be to help small and mid-sized commercial and industrial customers improve the overall net energy efficiency of their buildings by realizing the greatest on-site energy reductions through full fuel cycle usage analyses, including all fuel types, rather than strictly on-site natural gas reductions. PGW St. 2 at 10; PGW St. 3 at 21-22; PGW St. 2-R at 33.

38. To implement the Efficient Fuel-Switching program, PGW would mainly utilize existing resources and anticipates a six-month ramp-up period before the program is fully operational. PGW St. 3 at 28-29. The program would be tracked and reported on separately from the energy efficiency programs but be held to the same Energy Efficiency TRC cost-effectiveness standards as the rest of the PGW DSM Portfolio while also needing to meet the requirement of net energy reduction. PGW St. 2 at 9; PGW St. 3 at 21-22, 30.

39. A properly structured OBR mechanism, in which PGW partners with a third party lender to provide seamless financing repayments for customers, can offer PGW customers a simple and accessible financing option for the projects of the DSM Plan thus making participation in the DSM programs more attractive from the customer's viewpoint. PGW Exh. TML-4 at 65.

40. Approval of PGW's CAM would provide for the recovery of full program costs to PGW and would position PGW to work on a process to address one of the most significant hurdles to delivering program services and ramping up participation levels – customer financing. PGW St. 2 at 6; PGW Exh. TML-4 at 3, 65-66.

41. PGW already engages in DSM marketing that targets all potential customers, including low-income customers. PGW St. 2-R at 11-12.

COST RECOVERY

42. PGW proposes to continue to recover implementation costs going forward in the same way they are currently recovered. PGW St. 2 at 12.

43. PGW currently recovers the costs of its non-LIURP DSM programs through the Efficiency Cost Recovery Surcharge applicable to all volumes of firm gas delivered and the costs of the CRP Home Comfort program expenses through the Universal Services surcharge which is assessed to all classes of PGW's firm ratepayers. PGW St. 2 at 12.

44. PGW's proposed CAM and PI mechanism would work together in removing a disincentive and providing a positive incentive (respectively) toward meeting and exceeding energy efficiency and conservation targets for customer benefits. PGW St. 2-R at 23. Since PGW is a municipal utility, none of the dollars lost as a result of PGW's DSM program represent return to shareholders; correspondingly, every dollar recovered through PGW's proposed CAM and PI mechanism will go back to fund PGW's continued provision of safe and adequate service for its customers. PGW St. 1-R at 6.

45. The purpose of PGW's proposed CAM is to remove the strong financial disincentive of providing energy efficiency and conservation programs to benefit customers. PGW St. 4 at 27. While the existing DSM Plan cost recovery mechanisms allow PGW to adequately recover the direct costs of program delivery, there is no timely mechanism that addresses the cost to PGW of reduced volumetric delivery charge recoveries. PGW Exh. TML-4 at 53. Because PGW is a municipal utility regulated based on the cash flow methodology, these unrecovered charges are an additional cost of offering the DSM Plan. PGW St. 2 at 4; PGW St. 1-R at 6.

46. PGW's unrecovered incurred costs projected from DSM I activities have been significant – \$8.46 million (nominal) in total non-gas revenue losses through the end of FY 2015. PGW St. 3 at 32-33; PGW Exh. TML-4 at 56-57; PGW St. 1-R at 8. PGW is not seeking to recover losses incurred as a result of the DSM Phase I Plan through its proposed CAM, but seeks to implement the CAM to address anticipated going-forward costs resulting from energy

efficiency. PGW St. 3 at 33-32; PGW Exh. TML-4 at 60; PGW St. 1-R at 8. As long as these costs are not recovered, the scope of PGW's energy-efficiency programs must be limited in order to ensure that the program does not excessively burden PGW's financial structure and cash flow, since that will limit PGW's ability to pursue energy efficiency. PGW St. 4 at 19; PGW Exh. TML-4 at 53.

47. The ability to implement a CAM to recover the costs to PGW of providing the DSM Plan is particularly significant for PGW. PGW St. 4 at 21.

48. Enabling PGW to recover the full costs of the DSM program will protect PGW's financial stability and allow it to perform essential work important for maintaining a safe and reliable natural gas distribution system by replacing antiquated cast iron and unprotected steel natural gas mains. PGW St. 1-R at 5. Not permitting PGW to recover lost costs while, at the same time, insisting that PGW maintain its voluntarily offered DSM Plan at current or even greater programmatic spending levels could seriously threaten PGW and its ability to pursue its other extremely important obligations. PGW St. 1-R at 5; PGW St. 2-R at 13. This is particularly implicated in light of the additional rate increases that will be necessary to fund PGW's accelerated main replacement program and base rate increases in the next several years. PGW St. 1-R at 8.

49. PGW faces a greater disincentive to offer energy efficiency programs compared to electric utilities because gas utilities do not have the same opportunities as electric utilities to offset losses making these losses a significant hurdle for PGW to voluntarily offer energy efficiency programs. PGW Exh. TML-4 at 53, 56.

50. The CAM would recover lost margins from all of its DSM programs including the CRP Home Comfort program. PGW St. 4 at 21-23.

51. As a municipal utility, every dollar PGW recovers through the CAM will be used to maintain and enhance service to natural gas customers and avoid future rate increases and PGW is not proposing to use CAM recoveries for any purpose other than to cover fixed costs <u>already approved</u> through the previous rate case, without any set-aside for any one purposes. PGW St. 2-R at 14, 16, 19.

52. PGW proposes to include, as an additional cost of the DSM, an additional amount that would be paid to PGW if it meets and exceeds certain goals in order to align the Company's business interests with the value of the program impacts to customers. These costs are designed to improve the overall program and are costs that are paid for that purpose. PGW St. 3 at 22-25; PGW St. 4 at 26-27.

53. The benefit of a PI mechanism is in creating a significant incentive to reward and encourage the Company to pursue superior program designs and implementation approaches, to produce greater savings and greater benefits at lower costs. PGW St. 4 at 27. Improved efficiency programs would result in more energy conservation which would lead to reduced commodity costs for customers and the PI recovered by PGW would be used to reduce fixed costs. PGW St. 2-R at 23-24. The better the outcomes for customers, the more the utility shares in the success. PGW St. 3 at 24.

54. PGW currently has no direct monetary incentive to pursue voluntarily-proposed DSM programs; rather, there is a rather strong disincentive because fixed costs are not currently being recovered when sales are reduced from the program activities. PGW St. 3 at 24-25.

55. Even if PGW is made whole for the costs incurred as the result of implementing a CAM, performance incentives are a separate and additional mechanism to encourage greater results by establishing a business case for PGW to pursue energy efficiency, separate from the mitigation of lost margins. PGW St. 3 at 25. The principles for PGW's proposed PI mechanism are based on a combination of best practices and implementation in other jurisdictions, with much of the framework coming from Connecticut and Rhode Island. PGW St. 3 at 25.

DSM II BUDGET

56. Due to the negative financial impact of offering a conservation program on PGW's cash flow and the uncertainty about whether PGW will be able to recover these losses going forward through its proposed CAM, PGW is proposing to reduce the budgets for all of its DSM programs to $4.5 million in FY 2016. PGW Exh. TML-4 at 22. In this scenario, the budgets for each program would be as follows: CRP Home Comfort program - $15,945,846 ($1,028,706 of which would be dedicated to PGW's proposed LIME); Residential Equipment

Rebates program - $3,800,000; Home Rebates program - $213,419; Efficient Construction Grants program $1,019,000; Efficient Building Grants program - $1,985,500; and, Commercial Equipment Rebates program - $1,762,250. PGW St. 1-RJ at 1-2; PGW Exh. TML-4 at 4-5.

57. If the Commission were to authorize PGW's proposed CAM, then the DSM Phase II Plan expanded scenario budget could be implemented at the expanded program budget levels: CRP Home Comfort program - TBD; Residential Equipment Rebates program - $4,167,500; Home Rebates program - $3,820,606; Efficient Construction Grants program $1,082,000; Efficient Building Grants program - $1,985,500; and Commercial Equipment Rebates program - $2,630,000. PGW St. 1-RJ at 1-2; PGW Exh. TML-4 at 130-134.

58. PGW's budget proposals are an effort to strike the appropriate balance among financial stressors related to costs and lost revenue while still continuing to offer workable and cost-effective conservation programs. PGW St. 2-R at 9. PGW simply cannot continue to incur the losses it has experienced and, if it cannot recover these losses through the proposed CAM, then PGW proposed a program that in good faith it could support without a CAM. PGW St. 1-R at 8.

59. If the Commission were to order a spending level beyond what PGW believes is reasonable and prudent, PGW reserves the right to withdraw its entire DSM program and address its required LIURP program within the context of a Universal Service Plan filing. PGW St. 1-R at 9. Given that PGW voluntarily offers its DSM Plan, it simply cannot in good conscience allow a program to be put into effect that would threaten its financial stability and its ability to address other important goals of the Company – shared by the Commission – including pipeline main replacement. PGW St. 1-R at 9.

60. If the CAM is not approved, PGW's proposed budget for CRP Home Comfort is $15,945,846, which far exceeds pre-DSM levels but is less than the current DSM budget. PGW Exh. TML-4 at 88; PGW St. RJ-1 at 1. Historically, PGW's Commission approved LIURP funding has been at or close to the required regulatory minimum with an average actual spend that was .28% of PGW's actual average revenues in 2008-2010. PGW St. 1-R at 20-21.