

COMMONWEALTH OF PENNSYLVANIA



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June 14, 2011

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HAND DELIVERED

Rosemary Chiavetta, Secretary
Pa. Public Utility Commission
Commonwealth Keystone Building
P.O. Box 3265
Harrisburg, PA 17105-3265

**Re: Petition of UGI Utilities, Inc. – Electric Division for Approval of its Energy Efficiency and Conservation Plan
Docket No. M-2010-2210316**

Dear Secretary Chiavetta:

Enclosed for filing are the original and nine (9) copies of the Responsive Brief, on behalf of the Office of Small Business Advocate, in the above-docketed proceeding. As evidenced by the enclosed certificate of service, two copies have been served on all active parties in this case.

If you have any questions, please contact me.

Sincerely,

A handwritten signature in black ink that reads "Steven C. Gray" with a stylized flourish at the end.

Steven C. Gray
Assistant Small Business Advocate
Attorney ID #77538

Enclosures

cc: Parties of Record
Robert D. Knecht

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Petition of UGI Utilities Inc. - Electric :
Division For Approval of its Energy : **Docket No. M-2010-2210316**
Efficiency and Conservation Plan :

**RESPONSIVE BRIEF
ON BEHALF OF THE
OFFICE OF SMALL BUSINESS ADVOCATE**

**Steven C. Gray
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Attorney ID # 77538**

**For: William R. Lloyd, Jr.
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Dated: June 14, 2011

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American Recovery and Reinvestment Act of 2009 Investigation, Docket No. I-2009-20998819

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I. INTRODUCTION

The act of October 15, 2008 (P.L.1592, No. 129) (“Act 129”) required each electric distribution company (“EDC”) with at least 100,000 customers to develop and file an Energy Efficiency & Conservation Plan (“EE&C Plan”) with the Pennsylvania Public Utility Commission (“Commission”) for approval. Moreover, Act 129 required that each EE&C Plan include a variety of EE&C measures to reduce overall and peak load consumption and that each measure be financed by the customer class that receives the direct energy and conservation benefit of that measure. *See* Section 2806.1 of the Public Utility Code, 66 Pa. C.S. § 2806.1.

EDCs with fewer than 100,000 customers are specifically exempted from the requirements of Act 129. *See* 66 Pa. C.S. § 2806.1(l). However, on December 23, 2009, the Commission issued a Secretarial Letter at Docket No. M-2009-2142851 (“*Secretarial Letter*”) addressing the question of the filing of EE&C Plans by those small EDCs on a voluntary basis. *See Voluntary Energy Efficiency and Conservation Program*, Docket No. M-2009-2142851 (*Secretarial Letter* of December 23, 2009).

In a statement that accompanied the *Secretarial Letter*, Commissioner Robert F. Powelson (now the Chairman) observed that “these EDCs should only file plans if, after careful scrutiny, it is determined that doing so is in the best interest of their customers.” Statement of Chairman Robert F. Powelson, Docket No. M-2009-2142851 (Dated December 17, 2009) (“*Powelson Statement*”).

II. HISTORY OF THE PROCEEDING

On November 9, 2010, UGI Utilities, Inc. – Electric Division (“UGI Electric” or the “Company”) filed a Petition for Approval of its Energy Efficiency and Conservation Plan (“*Petition*”) with the Commission at Docket No. M-2010-2210316.

On November 29, 2010, the Office of Small Business Advocate (“OSBA”) filed a Notice of Intervention and an Answer to the *Petition*.

On January 5, 2011, a prehearing conference was held before Administrative Law Judge (“ALJ”) Susan D. Colwell.

On March 17, 2011, the OSBA served the direct testimony of its witness, Robert D. Knecht.

On April 7, 2011, the OSBA served the rebuttal testimony of Mr. Knecht.

On April 21, 2011, the OSBA served the surrebuttal testimony of Mr. Knecht.

On May 4, 2011, an evidentiary hearing was held before ALJ Colwell.

On June 2, 2011, the OSBA submitted its Initial Brief.

The OSBA submits this Responsive Brief pursuant to the procedural schedule in this case.

III. SUMMARY OF ARGUMENT

A. Revenue Decoupling

There is no legal basis for the Commission to permit UGI Electric to implement a revenue decoupling mechanism. Contrary to UGI Electric’s contention, Section 1319 of the Public Utility Code, 66 Pa. C.S. § 1319, does not provide authority for the Company’s proposed

Conservation Development (“CD”) Rider or its alternative of treating lost distribution revenue margins as a regulatory asset for possible future recovery.

B. UGI Electric’s Threat of a Base Rate Filing

Based upon the Company’s Initial Brief and the testimony of its witnesses, there is no longer any credible threat that the lack of a revenue decoupling mechanism would force UGI Electric to file a base rate case at the conclusion of the EE&C Plan period.

C. Ex Post Prudence Review Plan

UGI Electric is not subject to the mandatory load reduction targets and the potential penalties that Act 129 imposes on larger EDCs. As a result, the Company would have an inadequate incentive to operate its EE&C Plan in the most cost-effective manner possible. UGI Electric should be required to demonstrate that the overall cost-effectiveness of its load reductions is comparable to that achieved by the larger EDCs. Therefore, the Commission should require an ex post prudence review of UGI Electric’s claimed EE&C costs, which specifically includes an evaluation of the relative performance of UGI Electric’s EE&C Plan against those of other EDCs.

D. Applicability of the Plan to Small Business Customers

Contrary to the claim of UGI Electric, the OSBA has never argued for an “opt-out” of non-residential customers from the proposed EE&C Plan. Instead, the OSBA has simply argued that subsidies are an unreasonable incentive for non-residential customers that would realize a net savings by participating in an EE&C measure without any such incentives.

IV. ARGUMENT

A. Burden of Proof/Applicable Legal Standard

The OSBA set forth its position on this issue in its Initial Brief. The OSBA offers no additional argument on this issue in this Responsive Brief.

B. Filed Plan

1. Position Regarding Approval of the Plan as Filed

The OSBA set forth its position on this issue in its Initial Brief. The OSBA offers no additional argument on this issue in this Responsive Brief.

2. Filed Plan's Adherence to the Commission's December 23, 2009, Secretarial Letter Guidelines

The OSBA set forth its position on this issue in its Initial Brief. The OSBA offers no additional argument on this issue in this Responsive Brief.

3. The Plan's Cost Effectiveness

The OSBA set forth its position on this issue in its Initial Brief. The OSBA offers no additional argument on this issue in this Responsive Brief.

4. Filed Plan's Voluntary Nature/Company's Ability to Withdraw Plan If Commission Removes Revenue Recovery Mechanism

The OSBA set forth its position on this issue in its Initial Brief. The OSBA offers no additional argument on this issue in this Responsive Brief.

C. Proposed Modifications to the Filed Plan

1. Elimination of Any Revenue Recovery Mechanism

a. Summary

The OSBA addressed the issue of revenue decoupling in detail in its Initial Brief and incorporates those arguments herein. Specifically, the Commission must reject UGI Electric's CD Rider and the Company's alternative of treating lost distribution revenue margins as a regulatory asset for potential deferred recovery. *See OSBA Initial Brief*, at 11-15.

b. Section 1319

In its Initial Brief, UGI Electric argued as follows:

Section 1319 of the Public Utility Code, 66 Pa. C.S. § 1319, which directs the Commission to allow the recovery of 'all prudent and reasonable costs associated with the development, management, financing and operation' of a 'conservation or load management program,' provides all the authority that is necessary for the Commission to approve recovery of lost revenues as part of a voluntary EE&C Plan. Indeed, the Commission's *1993 DSM Order [Investigation Into Demand Side Management By Electric Utilities Uniform Cost Recovery Mechanism, 80 Pa.P.U.C. 608 (1993)]* did just that. In that case, the Commission expressly relied on Section 1319 as the proper statutory vehicle to 'in effect, jump start the DSM process' by removing the 'significant disincentives to the initiation of DSM programs' by adopting a 'special rate making mechanism' that featured a lost revenue recovery component. *1993 DSM Order, 80 Pa.P.U.C. 608, 623.*

The Commission's *1993 DSM Order* was reviewed and for the most part affirmed by the Commonwealth Court in *Pennsylvania Industrial Energy Coalition v. Public Utility Commission, 653 A.2d. 1336, aff'd per curiam, 670 A.2d. 1152 (1996) ('PIEC')*. On the question whether Section 1319 permits the recovery of lost revenues in the context of a base rate proceeding, as the Commission in that case contended, the Court failed to reach the issue, finding it unripe because no utility had yet made a regulatory asset claim in the context of a base rate proceeding pursuant to the *1993 DSM Order*.

UGI Electric Initial Brief, at 19-20 (footnote omitted).

Section 1319(a) states as follows:

(a) Recovery of certain additional expenses.-- If:

(1) a natural gas or electric public utility elects to establish a conservation or load management program and that program is approved by the commission after a determination by the commission that the program is prudent and cost-effective; or

(2) the commission orders a natural gas or electric public utility to establish a conservation or load management program that the commission determines to be prudent and cost-effective:

the commission shall allow the public utility to recover all prudent and reasonable costs associated with the development, management, financing and operation of the program, provided that such prudent and reasonable costs shall be recovered only in accordance with appropriate accounting principles. Nothing in this section shall permit the recovery of costs in a manner prohibited by section 1315 (relating to limitation on consideration of certain costs for electric utilities). Nothing in this section shall permit the recovery of the cost of producing, generating, transmitting, distributing or furnishing electricity or natural gas.

Section 1319 authorizes EDCs to establish conservation or load management programs, either voluntarily or upon order of the Commission. Before implementation, the Commission must determine that the program is “prudent and cost-effective.” If the Commission makes such a determination, the Commission is to allow recovery of “prudent and reasonable costs.” However, an EDC may not recover Construction Work in Progress or costs of producing, generating, transmitting, distributing, or furnishing electricity or gas.

UGI Electric’s argument that Section 1319 provides authority for its CD Rider or its regulatory asset alternative must fail. The Company chose to focus on the language of Section 1319 that addresses the “recovery of ‘all prudent and reasonable costs associated with the development, management, financing and operation’ of a ‘conservation or load management program.’” UGI Electric Initial Brief, at 19. In spite of the Company’s argument that Section

1319 authorizes revenue decoupling, UGI Electric acknowledged that the Commonwealth Court in *PIEC* never reached the issue as to “whether Section 1319 permits the recovery of lost revenues in the context of a base rate proceeding.” *Id.* Thus, the Commonwealth Court’s decision in *PIEC* provides no support for UGI Electric’s broad interpretation of Section 1319.

UGI Electric asserted that the Commonwealth Court in *PIEC* “did decide that it is appropriate to recover DSM related costs under Sections 1319 and 1307(a) of the Public Utility Code.” UGI Electric Initial Brief, at 20, footnote 5. UGI Electric continued as follows:

For its part, the Commission has already decided, expressly or implicitly in the *1993 DSM Order*, that lost revenue recovery either through a surcharge or through a regulatory asset is not proscribed single issue ratemaking.

Id.

In the *PIEC* decision, the Commonwealth Court determined that the recovery of demand side management (“DSM”) costs under Section 1307(a) was lawful because: (1) the language of Section 1307 gives the Commission discretion to establish automatic adjustment clauses for the recovery of prudently incurred costs; and (2) the legislature specifically identified and provided for the recovery of prudent and reasonable costs for developing DSM programs. Specifically, the Court reasoned as follows:

Because Section 1319 directs the PUC to allow recovery of all prudent and reasonable costs for developing, managing, financing and operating DSM programs and because Section 1307 gives the PUC the discretion to establish by either regulation or order the manner in which automatic adjustment recovery may be instituted and when such automatic adjustment of rates should be mandated, the surcharge method is permitted. This court is not free to substitute its discretion for the discretion properly exercised by the PUC in establishing the surcharge method.

PIEC, at 1349.

At most, *PIEC* authorizes the recovery of EE&C Plan costs through a Section 1307-type surcharge. However, the dispute here is over the recovery of lost distribution revenue margins, not over the recovery of actual EE&C Plan costs. Nothing in *PIEC*, Section 1319, or Section 1307 explicitly or implicitly authorizes the recovery of lost distribution revenue margins.

Interestingly, the Company failed to address the language in Section 1319 that explicitly provides that a conservation program implemented under Section 1319 is not permitted to provide for the recovery of the cost of distributing electricity. (“Nothing in this section shall permit the recovery of the cost of producing, generating, transmitting, *distributing* or furnishing electricity or natural gas.” [emphasis added]) The purpose of UGI Electric’s revenue decoupling proposal is to permit the Company to recover the same margins on its distribution service as it would recover if there were no EE&C Plan. Margins are part of the cost of distribution service. Because the CD Rider (and the regulatory asset alternative) would recover distribution costs, it is more reasonable to interpret Section 1319 as disallowing revenue decoupling than as allowing it.

c. *Secretarial Letter*

In view of the General Assembly’s express disallowance of revenue decoupling in the case of the larger EDCs as set forth in Section 2806.1(k)(2) of the Public Utility Code, 66 Pa. C.S. § 2806.1(k)(2), revenue decoupling should not be approved as part of UGI Electric’s EE&C Plan under Section 1319. In the *Secretarial Letter*, the Commission recognized that small EDCs such as UGI Electric might file EE&C Plans that would vary somewhat from the mandates set forth in Act 129. However, the Commission’s *Secretarial Letter* envisioned a voluntary EE&C Plan that would closely follow Act 129, not depart from Act 129 on such a fundamental principle as the explicit prohibition of revenue decoupling.

d. ARRA

UGI Electric also observed that “[t]he lost revenue issue has arisen again in the context of the Commission’s ongoing ‘ARRA’ [*American Recovery and Reinvestment Act of 2009 Investigation*, Docket No. I-2009-2099881] investigation.” UGI Electric Initial Brief, at 20. UGI Electric continued as follows:

The ARRA Final Report confirms that, on the issue of lost revenue recovery, ‘no legal precedent exists that would preclude the Commission from reviewing/approving an RDM [revenue decoupling mechanism] or similar rate making change [e.g., a lost revenue recovery mechanism] for gas utilities under 66 Pa.C.S. § 1307(a)].

UGI Electric Initial Brief, at 20 (citation omitted). The Company concluded as follows:

The same legal conclusion applies to UGI Electric, because, given that Section 2806.1 does not apply to EDCs with fewer than 100,000 customers, UGI Electric is in the same legal position as an NGDC [natural gas distribution company] for purposes of lost revenue recovery.

Id.

UGI Electric is correct that the issue has arisen in the ARRA investigation. However, the Company omitted two crucial facts. First, the OSBA and other ratepayer advocates have opposed revenue decoupling in the ARRA investigation. Second, the Commission has not yet adopted or entered an Order adjudicating that dispute. Therefore, the fact that the issue has arisen in the ARRA investigation is not authority for allowing revenue decoupling in this case.

In any event, Section 410(a) of the ARRA does not require the Commonwealth to allow decoupling as a condition for receiving stimulus funds. Furthermore, to this point, Congress has not mandated revenue decoupling in any other energy-related enactments. In addition, the General Assembly has expressly prohibited revenue decoupling for larger EDCs and has not provided explicit statutory authority for NGDC or small EDC revenue decoupling. Thus, UGI

Electric is correct: it is in the “same legal position as an NGDC.” Without authority under state law, the Commission may not implement revenue decoupling for EDCs or NGDCs.

Furthermore, because an EDC may reflect anticipated sales declines in the future test years in upcoming distribution rate cases, the only “loss” to the utility (due to the absence of revenue decoupling) would arise from the lag between the point at which conservation measures begin to impact sales and the implementation of new distribution rates. In light of an EDC’s ability to file distribution rate cases whenever it deems necessary, there is no reason to search for ways to implement revenue decoupling through the back door, *e.g.*, through a strained reading of the ARRA.

e. ROE

Finally, UGI Electric complained that the rate of return on equity (“ROE”) calculations of OSBA witness Mr. Knecht were not the best measure of how the Company would be impacted by the EE&C Plan. UGI Electric Initial Brief, at 26-27. UGI Electric asserted as follows:

As Mr. McAllister explained, the only useful focus is on UGI Electric’s adjusted financials.... Calculated on this realistic basis (*i.e.*, the one UGI Electric will use to decide whether to file a rate case) lost revenues of the magnitude anticipated would cause UGI Electric’s ROE to fall to 10%.

Id., at 27.

For the sake of argument, the OSBA will accept the Company’s assertion that its ROE will drop to 10% at the end of the three-year EE&C Plan period. Therefore, according to Company witness Mr. William J. McAllister’s testimony under cross-examination, operating the EE&C Plan without revenue decoupling would not cause UGI Electric to file for a base rate case. As set forth in the OSBA’s Initial Brief, Mr. McAllister stated that the Company would only begin to consider whether it should file a base rate case if its ROE dropped to 9.5%. OSBA

Initial Brief, at 14. Thus, the Company would not be filing a base rate case with an ROE of *10.0%* at the conclusion of the EE&C Plan period.

2. Elimination or Modification to Fuel Switching Program

The OSBA set forth its position on this issue in its Initial Brief. The OSBA offers no additional argument on this issue in this Responsive Brief.

3. Inclusion of Peak Load Reduction Targets

The OSBA takes no position on this issue.

4. Reduction in Total Plan Expenditure Levels

The OSBA takes no position on this issue.

5. Recovery of Plan Costs by Customer Class

The OSBA set forth its position on this issue in its Initial Brief. The OSBA offers no additional argument on this issue in this Responsive Brief.

6. Expansion or Modification of Customer Education

The OSBA takes no position on this issue.

7. Funding Percentage for Residential Lighting

The OSBA takes no position on this issue.

8. Modification to Commercial Lighting

The OSBA set forth its position on this issue in its Initial Brief. The OSBA offers no additional argument on this issue in this Responsive Brief.

9. Notice Period for a Change in Plan Rider Charges

The OSBA takes no position on this issue.

10. Necessity for a Prudence Review of Plan

The OSBA addressed this issue in detail in its Initial Brief and incorporates those arguments herein. Specifically, the OSBA advocated an *ex post* prudence review of the EE&C Plan costs because the Company would lack the financial incentives to control costs that Section 2806.1 provides for the larger EDCs. *See OSBA Initial Brief*, at 20-23.

In its Initial Brief, UGI Electric argued strenuously against the OSBA's proposal for an *ex post* prudence review. UGI Electric stated as follows:

The OSBA recommendation would not only impose a burden upon UGI Electric that was never intended, but it would also impose a greater burden than that currently carried by the large EDCs, as they are not required to undergo prudence reviews that rise to the level of pitting their plans directly against those of their larger EDC counterparts.

UGI Electric Initial Brief, at 52.

As set forth in the OSBA's Initial Brief, both the *Secretarial Letter* and the *Powelson Statement* make it clear that the Commission expects that a small EDC will follow the basic tenets of Act 129, with certain reasonable exceptions. The OSBA is well aware that UGI Electric is not subject to the mandatory load reduction targets and the potential penalties that Act 129 imposes on larger EDCs. However, in order to keep UGI Electric "on track" with the

expectations of Act 129, OSBA witness Mr. Knecht recommended that, if the Commission approves the recovery of non-residential EE&C program costs from non-participating customers, a rigorous review of the Company's EE&C Plan performance should be required as a substitute for those mandatory penalties.

Simply put, UGI Electric does not have the same incentive as large EDCs to design and operate the EE&C Plan in the most cost-effective manner possible. Consequently, if the Commission approves UGI Electric's proposed reliance on subsidies for the EE&C program measures, the potential denial of recovery of costs which are not reasonable and prudent would provide at least some financial incentive for the Company to spend ratepayer-provided funds in a cost-effective manner.

Consequently, in the absence of direct economic incentives, an *ex post* prudence review would be a reasonable tool for the evaluation of the effectiveness of any EE&C Plan submitted by a small EDC. The *ex post* prudence review is a reasonable substitute for the penalties which are not imposed upon EDCs like UGI Electric, but which are imposed upon larger EDCs by Act 129. This review should include an evaluation of whether UGI Electric's EE&C Plan is as cost-effective as that of the larger EDCs subject to Act 129.

Ironically, UGI Electric argued that Section 1319 is authority for revenue decoupling. However, the Company ignored the language in Section 1319 that specifies that "prudent and reasonable costs shall be recovered only in accordance with appropriate accounting principles." *Ex post* review is the logical procedure for determining that UGI Electric's claimed EE&C costs were prudently incurred, were reasonable, and were recovered in accordance with normal ratemaking principles.

11. Applicability of the Plan to Small Business Customers

The OSBA addressed this issue in detail in its Initial Brief and incorporates those arguments herein. In sum, UGI Electric could implement an effective EE&C Plan without requiring subsidies as an incentive for non-residential customers to take advantage of EE&C measures. *See OSBA Initial Brief, at 23-25.*

In its Initial Brief, the Company characterized the OSBA's position on this issue as wanting an "opt-out" of the EE&C Plan by requesting that the Commission set the non-residential EEC Rider charge to zero, and assign the full cost of the non-residential programs to non-residential program participants." UGI Electric Initial Brief, at 53.

Contrary to the Company's assertion, the OSBA has not argued for non-residential customers to "opt-out" of the proposed EE&C Plan. Rather, the OSBA supports (to use a popular phrase) "EE&C Lite" for the Company's non-residential customers.

Specifically, the OSBA recommends that the Company's EE&C Plan be modified to remove the program subsidies for the non-residential customer participants. These subsidies are simply inequitable. As Mr. Knecht's uncontested testimony demonstrated, a program participant in UGI Electric's EE&C Plan will get a larger economic benefit from its load reduction than it would face in program costs, *without any subsidies at all*. OSBA Statement No. 1 at 6. The subsidies simply *increase* the net benefit to the participant, and *increase* the rates paid by non-participants (that see no benefits at all).

EE&C Lite would result in those non-residential customers that benefit from the conservation measures also pay for those measures: At the same time, the remaining non-residential customers would not be forced to subsidize the EE&C Plan's participants. As

explained by Mr. Knecht, the elimination of these subsidies would leave UGI Electric with a viable, but less expensive, Plan. OSBA Statement No. 1, at 7-8.

Given the precarious nature of the economic recovery, it is critical to avoid imposing unnecessary costs on small business customers. In short, every dollar a small business must pay in utility rates is a dollar that is unavailable to expand the business, hire new employees, or increase wages and benefits.

12. Expansion to include solar thermal and/or other Tier I resources

The OSBA takes no position on this issue.

13. Other Modifications

The OSBA has no additional modifications to propose at this time.

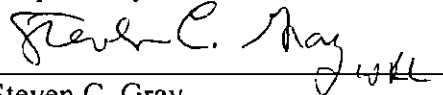
V. CONCLUSION

For the reasons set forth herein, as well as the reasons set forth in the OSBA's Initial Brief, the OSBA respectfully requests that the Commission deny the *Petition* unless revenue decoupling, *i.e.*, both the CD Rider and the alternative of deferred regulatory asset treatment, is eliminated from the EE&C Plan.

If the Commission approves the Company's EE&C Plan (with or without revenue decoupling), the OSBA respectfully requests that the Plan be modified to eliminate the ratepayer-funded subsidies for participating non-residential customers.

If the Commission approves the socialization of costs related to non-residential EE&C programs by allowing recovery of those costs from non-participants (which it should not do), the OSBA respectfully requests that the Commission impose an *ex post* prudence review of the Plan's costs.

Respectfully submitted,



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BEFORE THE
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Energy Efficiency and Conservation Plan : Docket No. M-2010-2210316

CERTIFICATE OF SERVICE

I certify that I am serving two copies of the Responsive Brief, on behalf of the Office of Small Business Advocate, by e-mail and first-class mail (unless otherwise noted) upon the persons addressed below:

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