

**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 :

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**UGI UTILITIES, INC. – ELECTRIC DIVISION’S  
REPLIES TO EXCEPTIONS**

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## GLOSSARY OF TERMS

Act 129	Act 129 of 2008, P.L. 1592, 66 Pa.C.S. §§ 2806.1 and 2806.2
ALJ	Administrative Law Judge Susan D. Colwell
EDC	Electric Distribution Company
EE&C Plan	Energy Efficiency & Conservation Plan
R.D.	Recommended Decision of Administrative Law Judge Susan D. Colwell, Docket No. M-2010-2210316 (July 15, 2011)
TRC Test	Total Resource Cost Test, defined in Section 2806.1(m) and applied by Commission Order in Docket M-2009-2108601, is used to determine the cost-effectiveness of EE&C Plans
UGI Electric	UGI Utilities, Inc. – Electric Division

**UGI ELECTRIC'S REPLY TO OTS EXCEPTION:  
CUTTING PLAN EXPENDITURES TO 1.2%**

The Office of Trial Staff ("OTS") continues on exceptions to press its discredited argument that UGI Electric's EE&C Plan expenditures should be capped at 1.2% of annual revenues. OTS Exceptions at 4-8. OTS' basis for the 1.2% is the convoluted rationale that Act 129's cap of 2% of annual revenues applies only to EDCs that have 100,000 or more customers, whereas UGI Electric has only 60,000 customers, so that UGI Electric's budget should be only 60% of the 2% of an Act 129 EDC:

UGI must realize that it only has 60,000 customers; or 60% of the Act 129 defined Large EDC 100,000 customer base. ...I recommend that the Commission determine that the proposed 2% expenditure projection is too great considering the size of UGI – Electric's customer base; and, I recommend that the Commission require UGI Utilities to resubmit its voluntary EE&C Plan with a proposed expenditure limit of 1.2% (60% of 2%) of its total annual revenue....

OTS Statement No. 1 at 23:14-15, 24:3-7.

As should be self-evident, Act 129's 2% cap is intended to produce a budget proportional to each EDC's revenues, so that all EDCs, regardless of the number of customers they serve, are spending the same proportion of their revenues (2%) on their EE&C plans. UGI Electric Witness Raab illustrated the obvious flaw in the OTS' reasoning, pointing out that its approach, if applied to EDCs with more than 100,000 customers, would result in EE&C plan budgets far in excess of 2% of annual revenues:

Using this [the OTS] formulary logic, larger EDCs such as PPL Electric with approximately 1.5 million customers would have an annual EE&C budget of 30% (1500% of 2%) of annual revenues.

UGI Electric Statement No. 2R at 36:20-23.

Likewise, OSBA Witness Knecht, no friend of UGI Electric's Plan in that he opposed any application of the Plan to commercial customers, felt compelled to comment on the illogic of the OTS' budget-as-percentage-of-customer-count proposal:

[The OTS] argument in support of this reduction, namely that UGI Electric is a smaller utility, fails to recognize that a cap based on percentage of revenues already adjusts for the size of the utility. That is, with a 2 percent revenue cap, a utility with 60,000 customers will have a substantially less costly program than a utility with 100,000 customers. There is therefore no obvious need to further reduce costs by lowering the percentage factor.

OSBA Statement No. 2 at 2:17-22.

Even if the OTS proposal to lower the cap on plan expenditures from 2% to 1.2% were based on a valid arithmetical adaptation of Act 129's 2% of revenues cap, imposing such a drastic reduction on UGI Electric's proposed Plan expenditures would be a bad policy choice for two reasons.

First and foremost, a drastic reduction in expenditures would rob the Plan of the "scope and scale" it needs to generate projected benefits. Chairman Powelson, in a statement the OTS relied on (we believe erroneously) to support its proposals to either reject UGI Electric's Plan in its entirety or to slash Plan expenditures, OTS Statement No. 1 at 6-12, recognized that a successful voluntary EE&C plan needs to carefully match program expenditures with administrative cost expenditures to get the greatest benefit out of ratepayer dollars:

[C]ompanies filing plans should determine the proper scale and scope of the measures in their proposed plans; in many cases it may be prudent to file plans that are less expansive, with lower reduction targets, than those filed by the larger EDCs. ... While customers certainly may be better able to absorb the initial administrative costs associated with EE&C plans while wholesale prices are low, because the cost of energy efficiency and conservation measures are generally static or declining, EE&C actually becomes more cost effective the higher wholesale prices climb.

OTS Exhibit No. 1, Sch. 2.<sup>1</sup>

As UGI Witness Raab explained on cross-examination, an integral part of this “scope and scale” calculus is taking advantage of economies of scale, which requires a “right sized” package of conservation programs (potentially resulting in more, not fewer programs) to maximize efficient use of unavoidable program overhead:

So, for example, the Company’s level of administrative costs, this 300,000, that’s based on the hiring of people. Well, people can obviously administer one program or ten programs. And I believe that was Chairman Powelson’s point, as I interpret what he said, is you’re going to have to hire, let’s say, some person to administer these programs. And that’s going to - - you’re going to incur costs for that. And all I’m suggesting is that you need a broad enough base of programs to generate enough benefits to support the costs you’ve incurred for that individual. And I think that’s all Chairman Powelson was saying, that you’re going to have - - and smaller EDCs may not be able to offer enough programs to generate enough benefits to support even one individual. And I think that’s what he was saying.

...

Q. You do understand that OTS Witness Granger’s recommendation is to cap the level of overall costs at a 1.2% level precisely because we are dealing with smaller EDCs?

A. Well, yeah. And I say that goes exactly against what he’s [Chairman Powelson] trying to avoid. ... That is, you are lowering the level of programs, the level of expenditures on programs you can make. And when you do that, you are throwing off less benefit to support your administrative costs.

Tr. at 55:6-22, 56:16-57:3.

The OTS proposal ignores this need for resource maximization, carefully balanced in UGI Electric’s proposed Plan, in favor of an arbitrary reduction in Plan expenditures.

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<sup>1</sup> Chairman Powelson’s statement accompanied the Commission’s December 23, 2009 Secretarial Letter Re: Voluntary Energy Efficiency & Conservation Program, Docket No. M-2009-214285, introduced into evidence in this proceeding as OTS Exhibit No. 1, Sch. 2.

Second, OTS offered no coherent roadmap for restructuring UGI Electric's proposed Plan to accommodate the drastic budget cut it advocates.<sup>2</sup> The OTS proposed cuts cannot be accomplished with mere tinkering. Assuming the Plan could even survive an expenditure cut of nearly half, UGI Electric would need to start from scratch to assemble a scaled-back set of programs with sufficient TRC benefits and the related administrative services to implement and support them. There is no basis for doing so, because UGI Electric has fully justified the expenditures it proposes. The Plan as proposed offers a very carefully balanced and inter-related set of conservation programs that together meet and exceed the TRC test of cost-effectiveness. The Plan as a whole, as well as each of the individual programs comprising it, is cost effective, with a TRC benefit-to-cost ratio of nearly 2.04 for the proposed portfolio, with the complement of Residential Programs reflecting a TRC benefit-to-cost ratio of 2.5 and the Commercial and Industrial Programs a ratio of 1.49. UGI Electric Exhibit No. 1 at 70. The total Plan benefit-to-cost ratio of 2.04 is far in excess of the 1.0 minimum TRC Test parameter required of the large EDCs' EE&C plans under Act 129. *Id.* No party disputed the Plan's cost-effectiveness under this measure. Given that UGI Electric has fully supported the expenditures it proposes, and that the OTS offers no basis for the arbitrary reductions it advocates, acceptance of the OTS recommendation would discourage, rather than promote, adoption of EE&C plans by smaller EDCs.

OTS' exception should be denied. The 2% of revenues budget cap recommended by the ALJ mirrors the requirements of Act 129. As UGI Witness Raab explained, a smaller EDC

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<sup>2</sup> If anything, other OTS proposals rejected by the R.D. actually would have increased, rather than decreased, UGI Electric's expenditures. For example, ignoring Chairman Powelson's admonition that "it may be prudent to file plans that are less expensive, with lower reduction targets" than those imposed on large EDCs, OTS advocated that UGI Electric be required to commit to peak day reduction targets, OTS Statement No. 1 at 21:20-22:2, that presumably would have required interval meters and time-of-use billing systems, thereby significantly increasing EE&C-related costs ultimately imposed on UGI Electric's customer base.

arguably needs to spend an even larger proportion of revenues to make sure that, given unavoidable administrative costs, its plan has the necessary scope and scale to succeed. OTS' arbitrary attempt to slash the budget to an even smaller percentage of annual revenues has no basis in the statute, in logic, or in policy, and should be rejected.



**UGI ELECTRIC'S REPLY TO OCA EXCEPTION:  
LIMITING LOW-INCOME CHOICE**

The Office of Consumer Advocate (“OCA”) argues that the R.D. errs by rejecting as discriminatory the OCA’s proposal to prevent low-income customers from receiving an incentive payment to switch from electricity to propane for home heating, water heating, and clothes drying. The basis for the OCA’s proposal to restrict choice for low-income customers is that encouraging economically vulnerable customers to switch to an unregulated energy source will result in the customers’ loss of the consumer protections afforded them under the Public Utility Code. OCA Exceptions at 2-4. OCA is wrong on principle. Just as important, OCA ignores facts that render its proposal unworkable and unnecessary.

As to principle, and notwithstanding its protests to the contrary, OCA’s recommendation is in fact “a denial of freedom of choice” to low-income customers. OCA Exceptions at 3. If all customers other than low-income customers are eligible to receive an incentive payment to fuel switch, denial of that opportunity to low-income customers has the effect of limiting their ability to choose the alternate fuel, thus restricting their freedom of choice. The economic disincentive occasioned by such discrimination would affect any excluded customer class, but is particularly freedom-restricting for low-income customers, for whom the incentive payment may be the only means to pay for the switch. The OCA no doubt is well-intentioned in its concern, but its paternalistic urge to protect low-income customers from themselves is (or should be) trumped by the customer’s freedom to choose in the same way that non-low-income customers enjoy that freedom.

The OCA’s proposal also is unworkable because it will significantly increase the cost to administer the Plan. UGI Electric already has an array of programs to assist low-income

customers, including its Customer Assistance Program (“CAP”) and its Low-income Usage Reduction Program (“LIURP”). These existing programs have demonstrated that the administrative costs of identifying customers entitled to “low-income” status is very high. Screening for low-income status has only been done to date for the subset of low-income customers who are CAP and LIURP participants. What the OCA is suggesting would require UGI Electric to identify all *other* low-income customers and then separately implement a different set of EE&C program criteria specifically for low-income customers. Such an undertaking will add significantly and prohibitively to the administrative costs of the EE&C Plan. UGI Electric Statement No. 2R at 25:19-26:2.

The OCA’s proposal is, in any event, unnecessary because the record evidence establishes that there will be little, if any, fuel switching from electric to propane, regardless of customer income level. As UGI Electric Witness Raab explained:

[p]ropane has a relatively low benefit to cost ratio of 0.49. ...[T]he relative cost-ineffectiveness of conversions to propane will significantly limit the number of such conversions, so that they are unlikely to have a significant (or any) impact on the Plan’s overall positive TRC result.

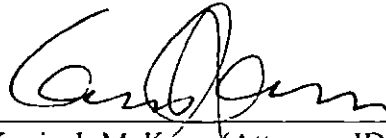
UGI Electric Statement No. 2RJ at 3:17-21. Moreover, given the stipulation agreed to by UGI Electric after Mr. Raab made the above observation in prefiled testimony, customers now have available to them an incentive payment to switch to solar thermal for water heating, reducing even further the likelihood of any significant switch from electricity to propane. R.D. at 56.

Accordingly, OCA’s exception seeking to limit the freedom of choice of low-income customers should be denied. Customers in general are unlikely to switch to propane from electric, and so the relatively low risk that a few low-income customers will switch to propane and thereby forego service shut-off protections afforded to electricity customers is far

outweighed by the administrative costs that UGI Electric (and its customers) will incur to implement the OCA's proposal and the sacrifice of the principle that low-income customers are entitled to the same opportunities as other customers.

**CONCLUSION**

UGI Electric respectfully requests that the Commission deny the exceptions of the OTS and the OCA, grant the exceptions of UGI Electric, and approve the Plan as amended to reflect: (1) the addition of solar thermal water heating as per the SEF stipulation; (2) the revised 30-day notice provisions; and (3) the revised classes for cost on lost revenue rider recoveries.



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Dated: August 1, 2011

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## CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon all parties of record in this proceeding in accordance with the requirements of 52 Pa. Code Section 1.54 (relating to service by a participant), in the manner and upon the persons listed below:

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