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August 15, 2016

Via Electronic Filing

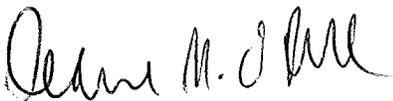
Rosemary Chiavetta, Secretary
PA Public Utility Commission
PO Box 3265
Harrisburg, PA 17105-3265

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") Comments with regard to the above-referenced matter. Copies to be served in accordance with the attached Certificate of Service.

Sincerely,



Deanne M. O'Dell
DMO/lww
Enclosure

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

CERTIFICATE OF SERVICE

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

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Date: August 15, 2016

**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 :

**COMMENTS OF
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Date: August 15, 2016

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CUSTOMERSA**

I. INTRODUCTION

This proceeding was initiated on December 23, 2014 through a petition filed by Philadelphia Gas Works (“PGW”) seeking approval to continue to offer its energy efficiency and conservation programs for the benefit of all its ratepayers on a longer term and continuing basis. All of PGW’s energy efficiency and conservation programs, including PGW’s required residential low-income reduction usage program (“LIURP”),¹ have been operating as part of PGW’s demand-side management (“DSM”) plan which was launched in 2011. In addition to the LIURP, the DSM Plan includes five voluntarily offered “market-rate” programs which have provided residential building retrofits, equipment rebates and commercial projects.² These voluntarily offered market-rate programs are distinguishable from LIURP because they provide incentives to cover a portion of efficiency service purchased on the open market with the remainder funded by participating PGW customers. In contrast, LIURP is funded entirely by PGW ratepayers.

As the Commission acknowledges in its Tentative Order, the issue of setting a budget for PGW’s LIURP has been “difficult and controversial”³ and, in fact, consumed the majority of the time and effort of the parties in this proceeding. One reason the issue is so difficult and

¹ The name of PGW’s LIURP is CRP Home Comfort. The predecessor program names were the Conservation Works Program (“CWP”) and the Enhanced Low Income Retrofit Program (“ELIRP”). PGW’s new name is intended to more clearly represent the program and its purpose to participating customers and ratepayers. PGW Exh. TML-4 at 82.

² This is in contrast to LIURP in which the efficiency investment is funded entirely by PGW ratepayers. Two of these voluntary DSM programs that provide incentives for the purchase of new energy efficient natural gas equipment are: (1) the Residential Equipment Rebates program; and, (2) the Commercial Equipment Rebates program. Comprehensive retrofit projects (commercial and residential) are targeted through: (1) the Home Rebates program; (2) the Efficient Building Grants program; and, (3) the Efficient Construction program. *See* PGW Main Brief at 14-15.

³ Tentative Order at 66.

controversial is the need to strike a reasonable balance among maximizing the positive benefits that can be achieved from weatherization services for residential low income customers with ensuring that the resulting costs do not unreasonably and negatively impair the ability of PGW (a municipal utility with rates established using the cash flow method of ratemaking) to fund the continued provision of safe and adequate service for all its customers.⁴ In addition, while the Natural Gas Choice Competition Act requires LIURP programs to be “appropriately funded and available,”⁵ the current Commission regulations do not provide a formula for establishing the budget but, rather, request various data points.⁶

There was no agreement among the parties on how to satisfy the legal requirements and achieve the appropriate balance in setting the PGW LIURP budget. Some parties supported a budget higher than that proposed by PGW and other parties supported a budget lower than that proposed by PGW.⁷ Ultimately, the Commission rejected all the proposed LIURP budgets of the parties and elected to establish the LIURP budget based on its own new independent needs assessment. By doing so, the Commission determined that PGW’s historical LIURP budget (which was not based on need) is not required to be maintained to fulfill the requirements of the Natural Gas Choice Competition Act. In its Tentative Order, the Commission set forth its proposed analysis of need, explained how it would apply to PGW and – based on this – set the

⁴ PGW Exceptions at 10-11.

⁵ 66 Pa. C.S. § 2203(8).

⁶ 52 Pa. Code § 58.4(c).

⁷ The Office of Consumer Advocate (“OCA”), the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania (CAUSE-PA) and the Tenant Union Representative Network & Action Alliance of Senior Citizens of Greater Philadelphia (TURN et al.) all supported requiring PGW to significantly increase its proposed LIURP budget – a position that the Administrative Law Judges (“ALJs”) recommended. On the other hand, the Bureau of Investigations and Enforcement (“I&E”) and the Office of Small Business Advocate (“OSBA”) all supported requirement PGW to lower its proposed LIURP budget.

PGW LIURP budget. PGW appreciates the direction offered by the Commission on this issue and is not – at this point – offering any comments in opposition to the Commission’s proposed independent needs assessment used to guide its decision.⁸

In its Tentative Order, the Commission invited parties to offer comments on the following four issues: (1) the LIURP budget directive for PGW; (2) the total cost of LIURP eligible projects and a reasonable expectation of need; (3) the rate impact of the higher budget on PGW’s customers; and, (4) how to address LIURP funding on a going forward basis.⁹ As detailed more fully below, PGW offers the following comments on each of these issues:

- PGW requests that the Commission to adjust the number of PGW “Total LIURP Eligible Customers” utilized in its calculation to reflect more updated numbers. PGW proposes the Commission utilize the number developed on the record in this proceeding (35,000) or, alternatively, the most current number of customers enrolled in PGW’s customer responsibility program (“CRP”) as of June 30, 2016 who have not received LIURP treatments in the past two years (46,809). While PGW recognizes that making either adjustment will marginally reduce the total budget directed by the Commission, the purpose of the requested modification is to ensure that the final budget directed is based on the most accurate information. PGW also identifies a concern with using the most recent LIURP budget in calculating the Historical Cost Budget for PGW though PGW is not requesting any related modification.
- Based on the job completion rate utilized in the Commission’s proposed needs assessment analysis, the total number of years it would take to treat all eligible homes would be between 34 and 44 (as detailed further herein). PGW submits that this is a reasonable pace given the particular demographics of its service territory (i.e. a significant number of low-income customers) and the fact this rate is below the Commission-approved statewide average among the NGDCs of approximately 46 years. Moreover, though PGW is not requesting any modification to the Commission proposal here to utilize \$3,605 as PGW’s average cost per job, PGW does expect this number to change going forward and requests that the Commission authorize recognition of this in future PGW budgets.

⁸ PGW does, however, reserve the right to file additional comments if necessary based on the comments of the other parties on this issue. Further, if the Commission establishes a stakeholder process for establishing a utility-wide needs assessment methodology, PGW respectfully requests the opportunity to participate. In addition, going forward PGW may provide comments on this and other proposed LIURP assessment methodologies in its Universal Service and Energy Conservation Plans.

⁹ Tentative Order at 66-70.

- Regarding rate impact, PGW projects that the average annual bill impact to non-CRP customers of providing LIURP at the Commission’s recommended budget, and offsetting this number by the projected CRP subsidy gas commodity savings realized, would be \$8.94 per residential customer; \$176.39 per industrial customer; and \$55.30 per commercial customer.¹⁰ While one may conclude that this is not a significant cost, even with the Commission’s proposed LIURP budget (whether or not the calculation is updated regarding PGW’s Total LIURP Eligible Customers), PGW’s universal service program will continue to remain among the highest cost universal service program of all the NGDC programs (which is paid for by a significant number of lower income ratepayers).
- Upon further consideration, PGW will now support removing the LIURP from the DSM plan and reincorporating it into its Universal Service and Energy Conservation Plan effective September 1, 2016 (which is Fiscal Year 2017). To make this transition, PGW proposes to prorate the final LIURP budget as a result of this proceeding through the open time in PGW’s currently pending USECP (“PGW 2017-2020 USECP”).¹¹ Also, for the cost efficiencies of scale, PGW proposes to continue to combine administrative costs associated with LIURP with the DSM. Following the Commission’s Final Order in this proceeding, PGW proposes to file a compliance revision to the relevant USECP 2017-2020 section in that proceeding addressing this issue.

II. COMMENTS

A. Issue No. 1: LIURP Budget Directive

In the Tentative Order, the Commission rejected the recommendation of the ALJs to continue PGW’s current LIURP budget at the most recent level (\$7.6 million/year) because this was an agreed upon budget amount implemented as part of a settlement of a rate case which was

¹⁰ Average annual bill impacts are based on four-years of LIURP from FY 2017 – FY 2020. The previously provided rate and bill impacts in the DSM Phase II plan were for five-years of activity from FY 2016 – FY 2020.

¹¹ Philadelphia Gas Works Universal Service and Energy Conservation Plan 2017-2020, Docket No. M-2016-2542415 dated May 1, 2016 at 12 (“PGW 2017-2020 USECP”). PGW would submit that the Commission has already determined what is required to meet the requirements of the Natural Gas Choice Competition Act – the utility must match the minimum amount set forth in 52 Pa. Code § 58.4. such conclusion is further evidenced by PGW’s pre-rate case settlement, historical LIURP spend.

not based on a needs assessment.¹² The Commission also rejected PGW’s proposed LIURP budget (\$3.2 million/year) (as well as proposals of other parties to further reduce this budget) finding that it would result in an unacceptable decrease from the currently existing budget.¹³ To resolve this issue, the Commission performed a new independent needs assessment to guide its decision and directed a budget of \$5,860,506 based on this analysis.¹⁴ The Commission invited comments from the parties regarding this budget directive for PGW.¹⁵

In response, PGW requests only one modification – an update to the number used for PGW’s Total LIURP Eligible Customers. While PGW is not requesting any other specific changes, PGW also offers comments about utilizing PGW’s most recent LIURP budget which was negotiated as part of a settlement and is not based on an needs assessment to calculate going-forward budgets.

1. Modification of PGW Total LIURP Eligible Customers Number

As part of its needs assessment analysis, the Commission identifies the “Total LIURP Eligible Customers” for each NGDC and then utilizes this as part of the calculation of the state’s average job completion rate.¹⁶ The state average job completion rate is then multiplied by PGW’s specific Total LIURP Eligible Customers and that number is then multiplied by the state

¹² Tentative Order at 65-66. Historically, PGW’s Commission-approved LIURP budget averaged \$2.3 million/year. See PGW Main Brief at 64, referencing PGW St. 1-R at 20-21.

¹³ Tentative Order at 66.

¹⁴ Tentative Order at 66-68. The Commission directed that PGW “designate a portion of the [LIURP] budget” for the new LIME program in the recent Universal Service PLAN. *USECP 2014-2016 Final Order* at 57.

¹⁵ Tentative Order at 68.

¹⁶ Tentative Order at 67, Table 1 – NGDC LIURP Data.

average cost per job to determine the first step of the Commission's calculation.¹⁷ In its calculations, the Commission utilizes 71,625 as the Total LIURP Eligible Customers for PGW.¹⁸ As explained more fully below, PGW respectfully requests that the Commission replace this number with the more updated number of 35,000 provided in the record of this proceeding¹⁹ and consistent with PGW's most recently filed Universal Service and Energy Conservation Plan 2017-2020 ("PGW 2017-2020 USECP").²⁰ Alternatively, the Commission could replace this number the most current number of CRP customers as of June 30, 2016 who have not yet received LIURP weatherization treatments.²¹ Though not PGW's preferred revision, at least this alternate number utilizes accurate, updated information and is calculated consistent with the number relied upon by the Commission in its Tentative Order.

(a) Utilizing 35,000 as the Total Number of Eligible Customers

PGW recognizes that replacing the Total Number of Eligible Customers used for PGW with 35,000 is less than that proposed by the Commission and would result in a nominal downward adjustment of the calculation of PGW's LIURP budget. However, there are several sound reasons to make this adjustment.

¹⁷ Tentative Order at 66. PGW Total LIURP Eligible Customers (71,625) * state average job completion rate (2.5%) = 1,790.625 jobs. 1,790.625 jobs * PGW average cost per job (\$3,605) = \$6,455,203.

¹⁸ Tentative Order at 67.

¹⁹ PGW Exh. TML-4 (Phase II: Five-Year Implementation Plan dated December 2014, revised April 16, 2015) at 88. The number was updated through June 2014 and factored in the application of usage requirements that had not been applied to the outdated 71,625 number provided in the 2014-2016 USECP.

²⁰ Philadelphia Gas Works Universal Service and Energy Conservation Plan 2017-2010, Docket No. M-2016-2542415 dated May 1, 2016 at 12 ("PGW 2017-2020 USECP")

²¹ The ALJ Recommended Decision determined that LIURP participation expanded to include customers who are not participants in CRP. RD at 139-140. The Commission affirmed this decision.

First, the Commission number of 71,625 is taken from PGW's currently effective 2014-2016 USECP which relies on information as of March 31, 2013 (over three years ago) and assumes (consistent with PGW's prior historical assumptions) that all CRP customers who had not received LIURP weatherization treatment in the prior two years were eligible for LIURP treatment.²² In the past, no other disqualifiers were applied to this number. Contained in the record of this proceeding is the information required by Section 58.4(c).²³ Specifically, Section 58.4(c)(1) requires "the number of eligible customers that could be provided cost-effective usage reduction services" and the calculation "shall take into consideration the number of customer dwellings that have already received, or are not otherwise in need of, usage reduction services."²⁴ In this proceeding, PGW provided updated information through June 2014 and estimated that 35,000 CRP customers²⁵ would be eligible for LIURP weatherization pursuant to Section 58.4(c)(1). This number represents the top 50% – by usage – of the total approximate CRP customer base at the time the petition in this proceeding was filed.²⁶ Rather than using an outdated number to calculate PGW's LIURP budget, the Commission should utilize the more updated estimate developed on the record in this proceeding.

²² Philadelphia Gas Works Universal Service and Energy Conservation Plan 2014-2016, dated June 1, 2013 and updated on September 22, 2014 pursuant to Final Order entered August 22, 2014 at Docket No. M-2013-2366301 at 9 ("PGW 2014-2016 USECP"). At the time PGW stated that it was still in the process of performing an impact evaluation of the LIURP and would address issues regarding its LIURP as part of this proceeding

²³ 52 Pa. Code § 58.4(c). See PGW Main Brief at 66-67 citing PGW Exh. TML-4 at 88.

²⁴ 52 Pa. Code § 58.4(c)(1).

²⁵ In this proceeding, the Commission rightly confirmed that using CRP participation is an appropriate starting point for identifying LIURP eligibility. Tentative Order at 93.

²⁶ As discussed in the next section, the total number of CRP customers is currently lower than at the time the petition was filed in this docket. PGW Exh. TML-4 (Phase II: Five-Year Implementation Plan dated December 2014, revised April 16, 2015) at 88.

Second, even using the 35,000 would still overestimate the eligible LIURP population.²⁷ As explained on the record, the 35,000 number was to be further refined by applying the LIURP selection criteria including removing customers who: (1) received treatments over a prior period; (2) lacked enough billing months for proper energy usage analysis; and, (3) had other usage analysis outlier factors.²⁸ It bears noting that application of such factors would be consistent with the numbers relied upon by the Commission for the Total LIURP Eligible Customers for other NGDCs which do factor in the application of eligibility requirements.²⁹ Directly on point, for example, the Commission specifically affirmed the application of LIURP eligibility

²⁷ PGW reserves the right to address proper modifications to the total number of eligible customers in future USECP proceedings and amendments to such plans or otherwise as may be appropriate.

²⁸ PGW Exh. TML-4 (Phase II: Five-Year Implementation Plan dated December 2014, revised April 16, 2015) at 88.

²⁹ See, e.g., Columbia Gas of Pennsylvania, Inc. identified a total number of 22,409 LIURP eligible customers which was further reduced to 17,504 after factoring in the difficulty of weatherizing rental properties. *Columbia Gas of Pennsylvania Inc. Universal Service and Energy Conservation Plan for 2015 2018 Submitted in Compliance with 52 Pa. Code § 62.4*, Docket No. M-2014-2424462, Final Order entered July 8, 2015 at 48. Peoples Natural Gas Company, LLC applied a minimum usage threshold to determine the number of customers eligible for LIURP referenced in Table 1 of the Tentative Order. *Peoples Natural Gas Company LLC Universal Service and Energy Conservation Plan for 2015-2018 Submitted in Compliance with 52 Pa. Code § 62.4*, Docket No. M-2014-2432515, Final Order entered December 17, 2015 at 39. National Fuel Gas Distribution Corporation identified 93,279 households under 200% of the federal poverty guidelines and then removed from that number those which did not meet the usage guidelines for participation in NFG's LIURP leaving 25,185 customers eligible for LIURP. NFG then subtracted from that number the weatherization projects that have been completed and/or reviewed and cancelled. National Fuel Gas Distribution Corporation's Universal Service and Energy Conservation Plan for 2014-1016, Docket No. M-2013-2366232, dated March 31, 2015 at 32. Regarding UGI Utilities, Inc – Gas Division (“UGI”) and UGI Penn Natural Gas, Inc. (“UGI-PNG”), the number of customers in need of LIURP services as reported in its Third Revised Universal Service & Energy Conservation Plan for the Four-Year Period January 1, 2014 – December 31, 2017 accounts for the Companies' eligibility criteria: (1) identified low-income; (2) 12 months of consecutive service; (3) meeting LIURP usage criteria; (4) premises not treated within past seven years. *UGI Third Revised Universal Service & Energy Conservation Plan for the Four-Year Period January 1, 2014 – December 31, 2017*, Docket No. M-2013-2371824, filed September 14, 2015 at B-1. The Commission also permits use of eligibility guidelines for electric utilities. For example, Metropolitan Edison Company targets low income customers who participate in the company's customer assistance program and applies the following : (1) income at or below 150% of Federal Poverty Income Guidelines; (2) annual electric usage of 6,500 kWh; (3) reside in the service territory with a minimum of six months consecutive service. Universal Service & Energy Conservation Plan Program Years 2015, 2016, 2017 and 2018, Metropolitan Edison Company, Amended Plan dated June 17, 2015 filed at Docket No. M-2014-2407729 at 17-18.

requirements³⁰ for National Fuel Gas Distribution Corporation and the Total LIURP Eligible Customers number in the Commission's Table 1 for NFG (13,695) reflects the application of these criteria.³¹

Setting aside these appropriate data refinements and merely updating the Total LIURP Eligible Customers for PGW from the Commission proposed 71,625 to 35,000 still overestimates the population (because it does not factor in additional eligibility requirements as used by other NGDCs). However, not including these data refinements would still be a better approach because doing so is consistent with the record developed in this proceeding and relies on more updated information that that used in the Tentative Order. Accordingly, PGW requests that the Commission make this adjustment in its Final Order.

(b) Using 46,809 as Total LIURP Eligible Customers

While PGW recommends that the Commission utilize 35,000 for the Total LIURP Eligible Customers for PGW for the reasons discussed in the previous section, if the Commission is not inclined to use this number then PGW respectfully suggests that the Commission utilize the number of CRP customers as of June 30, 2016 less the number of weatherization treatments provided over the last two years. As reported to the Commission in PGW's most recent CAP enrollment reporting numbers, the most current number of CRP customers as of June 30, 2016 is

³⁰ NFG LIURP eligibility criteria includes: (1) high annual usage; (2) substantial arrearage; (3) income below 150% of federal poverty guidelines, an exception allows for 20% of the annual budget to be spent on the income level from 150-200%; and, (4) residency at the premises for at least one year. NFG also requires that measures installed must be cost-effective (pay for themselves through energy savings in a specified time frame according to LIURP regulations). National Fuel Gas Distribution Corporation's Universal Service and Energy Conservation Plan for 2014-1016, Docket No. M-2013-2366232, dated March 31, 2015 at 30.

³¹ *National Fuel Gas Distribution Corporation's Universal Service and Energy Conservation Plan for 2014 2016 Submitted in Compliance with 52 Pa. Code § 62.4*, Docket No. M-2013-2366232, Final Order Re: Compliance filing entered April 23, 2015 at 8.

51,169.³² Reducing this number by the number of LIURP weatherization services performed in the past two years results in total LIURP eligible customers of 46,809.³³ Therefore, if the Commission is not inclined to utilize the 35,000 number developed on the record in this proceeding then – at the very least – PGW respectfully requests that the most current number comparable to that provided in the PGW 2014-2016 USECP be utilized.

Importantly, this number applies no usage or other legitimate eligibility criteria to determine true LIURP eligibility and, therefore, seriously overstates the actual number of eligible customers who could benefit from the program. Consistent with the discussion in the previous section, actually being able to provide a customer LIURP weatherization services depends on a number of factors and not all CRP customers have sufficient usage or live in homes that require weatherization. Nonetheless, while PGW supports using the 35,000 number developed in the record of this proceeding, at the very least the Commission should update the number in the Tentative Order which identified CRP participants as of March 31, 2013 less those who received weatherization treatments in the prior two years. Since that time, participation in PGW's CRP has decreased. Thus, the a more accurate number for purposes of the Commission's needs assessment is the number of CRP customers as of June 30, 2016 who have not received weatherization treatments in the prior two years – 46,809.

³² As required by the Bureau of Consumer Services (BCS), utilities provide CAP participation quarterly to BCS.

³³ The number of LIURP customers treated includes the number of customers treated in Fiscal Year 2015 (September 1, 2014 – August 31, 2015) and reported in the DSM Annual Report filed with the Commission on December 30, 2015 and the projected number of customers treated in Fiscal Year 2016 (September 1, 2015 – August 31, 2016) reported in the FY 2016 Implementation Plan filed with the Commission on June 5, 2015.

(c) Summary of Impact on LIURP Budget Under Each Modification

Utilizing the data presented in the above and the Commission’s new needs assessment calculation, below are the resulting PGW budgets utilizing: (i) the 35,000 number presented in this proceeding; and, (ii) the current number of CRP customers who have not received weatherization treatments in the past two years (46,809).³⁴ The calculations for this chart are provided on Attachment A hereto.

	Scenario i (PGW preferred)	Scenario ii (Alternative to PGW preferred)
Total LIURP Eligible Customers	35,000	46,809
Anticipated Annual LIURP Jobs ³⁵	1,029	1,376
Cost Per Job	\$3,605	\$3,605
Budget	\$4,211,019	\$4,743,389

PGW recognizes that its proposed modification results in a downward adjustment of the Commission directed LIURP budget of \$5,860,506. However, the intent of these conservative modifications to the Commission’s proposal – as discussed above – is to utilize current numbers (even if the current numbers used herein are still overly inclusive). The two alternatives to do this is to utilize the number developed on the record of this proceeding or the current number of CAP customers who have not received treatment in the prior two years. While these numbers are still overly inclusive, because they are updated, they present a more accurate picture of the current situation.

³⁴ For purposes of future needs assessments, as explained more fully in Section II.B.2, PGW proposes that going forward the Commission authorize modifications in PGW’s budgets based on, among other things, the latest costs per job.

³⁵ The anticipated annual LIURP jobs is a product of PGW’s job completion rate of 2.94% cited in the Tentative Order at 67, and the total LIURP eligible customers under each scenario.

2. Historical Cost Budget Calculation

In determining the appropriate LIURP budget for PGW going forward, the second calculation the Commission utilizes to make this determination is the “Historical Cost Budget” calculation.³⁶ As part of this calculation, the Commission divides the state average cost per job into the “historical total program cost for PGW.” This historical total program cost for PGW utilized by the Commission, however, is its most recent LIURP budget of \$7.6 million/per year. In this proceeding, the Commission acknowledged that this most recent LIURP budget was not based on a needs assessment but was an agreed-to amount as part of settlement of a base rate case.³⁷ Consistent with the undisputed record of this case, the historical PGW LIURP budgets that were set based on a need averaged \$2.3 million a year.³⁸ Moreover, when it approved PGW’s DSM plan, the Commission recognized the need to control the costs of PGW’s DSM Plan (which included the LIURP program) by not authorizing a yearly budget that would exceed 1% of PGW’s total projected gross intrastate operating revenue.³⁹ In determining the need for services, a budget that was set pursuant to a settlement does not provide relevant data regarding need.

PGW does recognize that substituting the average historical budgets in the calculation of PGW’s Historical Cost Budget would lead to an overall LIURP budget below what PGW proposed (and the Commission rejected) in this proceeding.⁴⁰ Therefore, given that this

³⁶ Tentative Order at 68.

³⁷ Tentative Order at 64-65.

³⁸ See PGW Main Brief at 64, referencing PGW St. 1-R at 20-21.

³⁹ *Pennsylvania Public Utility Commission et al. v. Philadelphia Gas Works*, Docket No. R-2009-2139884 (consolidated), Final Order entered July 29, 2010 at 12.

⁴⁰ Utilizing a \$2,300,000 budget in the needs assessment calculation and 35,000 for the Total LIURP Eligible Customers would result in a total budget of \$2,374,738. The Historical Cost Budget calculation (step 2 of the Commission analysis) would result in a budget of \$1,593,753.

historical budget was established some time ago and that historically PGW's Commission-approved funding was at or close to the regulatory minimum, it may be more appropriate to use the regulatory minimum set forth at 52 Pa.Code § 58.4(a) in performing this calculation going forward.

B. Issue No. 2: Total Cost of LIURP Eligible Projects and Reasonable Timeline Needed To Accomplish Total Saturation of Eligible LIURP Customers

The Commission invited parties to address PGW's LIURP budget based upon the total cost of LIURP eligible projects and set a reasonable expectation of the time necessary to meet that need.⁴¹ The Commission's regulations require "a plan for providing program services within a reasonable period of time."⁴² Establishing a reasonable expectation for meeting need is vital to both PGW's customers' ability to pay their bills and maintain service, and PGW's financial stability. If one were to focus only on fully weatherizing all low income customers' homes in PGW's service territory including those whose usage is not excessive, as some of the parties to this proceeding have argued,⁴³ then PGW's LIURP budget would need to be increased exorbitantly, unnecessarily creating a financial burden on non-CRP firm customers and resulting in significant lost revenues for PGW that would result in higher base rates for non-CRP customers.

As discussed further below, the anticipated timeframe to complete weatherization for all eligible customers is reasonable. This assumption, however, is dependent based on the treatment

⁴¹ Tentative Order at 68-69.

⁴² 52 Pa. Code § 58.4(c).

⁴³ See PGW Reply Brief at 63 referencing OCA Main Brief at 67, CAUSE-PA Main Brief at 19-21; TURN Main Brief at 13.

rate and the average cost per job which are expected to change going forward and, therefore, PGW requests that future needs assessments account for updated costs per job.

1. Reasonable Expectation of Time Necessary to Meet Need

Utilizing (i) 35,000 for the total LIURP eligible customers (as PGW advocates in the prior section) and the current average cost for job of \$3,605, the total nominal cost to provide LIURP weatherization to all these customers would equal \$126,175,000; and, (ii) 71,625 for the total LIURP eligible customers (as the Commission does in the Tentative Order) and the current average cost per job of \$3,605, the total nominal cost would equal \$258,208,125.⁴⁴ Requiring PGW's customers to bear such costs in an expedited timeframe would be unreasonable.

Aside from not being affordable in the short-term, such a requirement would undermine the benefits that PGW's customers receive from LIURP which are accrued over the lifetime of the measures (over 40 years in some cases) and are compared against the immediate upfront costs.⁴⁵ Frontloading all of the costs and treatment of eligible customers also ignores cost-effectiveness considerations, which could even negate the long-term benefit of the program.

Other real-world logistical issues could be presented by attempting to provide weatherization services on an unreasonably expedited timeframe. These include the viability of the measures for each specific customer due to home conditions (i.e., though a customer may be eligible for weatherization services, conditions inside the home may negate the ability of implementing these measures) and contractor availability and capacity issues.

⁴⁴ PGW has assumed for purposes of these comments that the number of customers needing services over time is fixed, however it is expected that a number of changes will impact this number over time (e.g. new housing; housing improvements external to the PGW program, such as by a landlord, etc.).

⁴⁵ PGW Exh. TML-4 (Phase II: Five-Year Implementation Plan dated December revised April 16, 2015) at 88..

In order to very conservatively examine the expectation of time to complete, PGW has assumed 71,625 customers would actually require treatment (though PGW requests that this number be revised to 35,000) and the job completion rate remains 2.94% (as presented in the Commission's needs assessment even though PGW's job completion rate exceeds the average, Commission approved, state-wide job completion rate of 2.50%). Based on these assumptions, it would take 34 years ($71,625 \text{ total eligible customers} / 2,108 \text{ anticipated annual jobs} = 33.98$) to treat all eligible customer homes. If PGW calculates the Commission assumed job completion rate based on the budget in the Tentative Order (\$5,860,506) and utilizes the cost per job in the Tentative Order, it would take 44 years ($\$5,860,506 \text{ budget} / 3,605 \text{ cost per-job} = 1625.66$; $71,625 \text{ total eligible customers} / 1625.66 = 44.06$) to treat all eligible customers homes. Either result is below the statewide average among NGDCs, excluding PGW, of approximately 46 years to treat all eligible customers at the rate presented in the Commission's needs assessment, all assumptions remaining constant. Although this is a simplistic view that does not consider other variables affecting the population of eligible homes, or inflation, it does lead to the conclusion that PGW's pace is reasonable. Further, factoring that PGW's average cost per job is currently lower than \$3,605 and, as explained in more detail herein is expected to further decrease, these estimates are very conservative ones.

2. Future Considerations in Establishing Accurate Cost per Job Number

The average cost per job utilized by the Commission in its needs assessment calculation is expected to change going forward. Based on the historical activity in its LIURP, as PGW explained in the record of this proceeding, approximately 30 percent of the selected homes will receive only core measures because health, safety, structural or cost-ineffectiveness reasons

prevent comprehensive weatherization.⁴⁶ Over time, this limited-scope work has increased and has had the effect of diminishing the cost per job. Thus, for purposes of future needs assessments, PGW proposes that going forward the Commission authorize PGW to make modifications in PGW's budgets based on the latest costs per job.

C. Issue No. 3: Rate Impact of the Higher Budget on PGW's Customers

Recognizing that PGW already has the highest universal service budget of any public utility in the Commonwealth and that PGW customers have the heaviest burden in paying for these programs, the Commission asked the parties to consider the rate impact of the higher budget on PGW's customers.⁴⁷ As a preliminary matter, PGW's customer base is a particularly vulnerable one. Approximately 30.8% of PGW's customers are confirmed low-income. This is the highest proportionate number of low income customers of all Pennsylvania's utilities – electric or gas.⁴⁸ Not all of these low income customers are enrolled in CRP, and firm customers who are not enrolled in CRP pay for the LIURP program through PGW's Universal Services Surcharge ("USC").⁴⁹ In addition, a significant number of PGW's customers are just above the poverty level – the working poor. PGW's LIURP treatments do not have a financial impact for the CRP customer who receives the treatment because PGW's CRP customers are required to pay a PGW calculated asked-to-pay amount (not based on usage) and, if there are any pre-

⁴⁶ PGW Exh. TML-4 (Phase II: Five-Year Implementation Plan dated December 2014, revised April 16, 2015) at 88.

⁴⁷ Tentative Order at 69.

⁴⁸ *Pennsylvania Public Utility Commission 2014 Report on Universal Service Programs and Collections Performance*, October 2015 at 7. Available at: http://www.puc.pa.gov/General/publications_reports/pdf/EDC_NGDC_UniServ_Rpt2014.pdf

⁴⁹ See PGW Main Brief at 43.

existing arrearages, an additional \$5 per month toward the arrearage.⁵⁰ In contrast, reductions in energy usage for the CRP customer who received the LIURP treatment can financially benefit the non-CRP customers by reducing the CRP subsidy⁵¹ over time as long as the program remains cost effective from a gas benefits perspective. The impact of these benefits, however, is tenuous due to the falling natural gas prices in recent years. In addition, it is notable that the CRP subsidy is reduced over the lifetime of the installed measures – some of which have a lifetime up to 40 years – while the subsidy is paid as the costs are incurred.

Taking all of this into consideration, the key to delivering benefits to the non-CRP customers is to focus on achieving program savings and, to the extent possible given the costs of gas, operating a cost-effective program.⁵² In addition to these goals, the budget for the LIURP program must consider the financial stressors on the Company's customers (particularly when the program is not cost-effective), and on the Company (for increased unrecoverable costs in the form of reduced distribution charges due to LIURP weatherization measures⁵³). While PGW continues to believe that its proposed LIURP budget struck the appropriate balance among all the

⁵⁰ PGW Exceptions at 42; PGW Reply Brief at 78. The recipients of weatherization services, however, do receive the benefits of the treatments which include receiving assistance to conserve energy and improved health, safety and comfort levels consistent with Section 58.1 of the Commission's regulations. 52 Pa. Code § 58.1.

⁵¹ The CRP subsidy is what non-CRP customers pay for a CRP customer's usage that is not paid by the CRP customer in his or her asked-to-pay amount, plus arrearage forgiveness if there are arrears. When a CRP customer's home receives weatherization services, their usage is decreased leading to a reduction in the CRP subsidy.

⁵² PGW Reply Brief at 79.

⁵³ PGW recognizes that the Commission did not foreclose PGW's ability to seek recovery of these reduced distribution charges resulting from energy efficiency in a base rate proceeding. Tentative Order at 30. However, receiving recovery of these losses in a rate case does not result in full cost recovery because rate case recovery is only prospective (cannot address prior losses) and only applies to projected losses in the test year. See PGW Exceptions at 23.

relevant issues,⁵⁴ PGW has analyzed the annual budget directed by the Tentative Order (\$5,860,506). To the extent the Commission accepts PGW's recommendation to utilize an updated number for PGW's Total LIURP Eligible Customers as discussed above in Section II.A.1, these rate impacts would be further ameliorated.

Based on its analysis, PGW projects that the average annual bill impact of providing LIURP at the Commission's recommended budget, and offsetting this number by the projected CRP subsidy gas commodity savings realized, would be \$8.94 per residential customer; \$176.39 per industrial customer; and \$55.30 per commercial customer – in addition to the other universal service costs paid by these firm ratepayers. By comparison, the average annual bill impact of providing LIURP would be \$6.61 or \$7.37 per residential customer; \$130.36 or \$145.34 per industrial customer; and \$40.87 or \$45.56 per commercial customer under PGW's scenarios i) utilizing 35,000 eligible LIURP customers and ii) using all current CRP customers minus those already treated (respectively).

While some may not view these numbers as significant, they must be viewed in the context of the specific characteristics of PGW's service territory. Importantly, whether or not the Commission updates its calculated budgeted regarding PGW's Total LIURP Eligible Customers, PGW's universal service program will continue to remain as the highest cost universal service program of all the NGDC programs; and its LIURP will remain among the highest NGDC program. PGW's customer base is a particularly vulnerable one with approximately 30.8% confirmed low-income (the highest proportionate number of low income customers of all

⁵⁴ Some of these issues include: (1) providing a necessary and sustainable level of LIURP services to low income customers, (2) permitting PGW to continue to provide non-LIURP energy efficiency and conservation programs; and, (3) incurring only a manageable level of unrecoverable costs in the form of lost revenues. PGW Exceptions at 11.

Pennsylvania's utilities – electric or gas).⁵⁵ Not all of these low income customers are enrolled in CRP, and firm customers who are not enrolled in CRP pay for the LIURP program through the USC meaning that PGW's customers will be impacted by the costs of an increased LIURP budget.

To provide additional context, the lost revenue attributed to LIURP from Fiscal Year 2017 through Fiscal Year 2020 (September 1, 2016 – August 31, 2020) at the budget recommended by the Commission in the Tentative Order is \$2,562,759⁵⁶ over the lifetime of the measures until the effective date of the rate case following the installation of the measures (all figures in nominal dollars).⁵⁷ By comparison, utilizing 35,000 for PGW's Total LIURP Eligible Customers would result in \$1,807,483 in lost revenues attributed to LIURP from the time the measures are installed through the effective date of the next rate case (nominal \$). Because PGW is a municipal-owned utility with rates set based on the cash-flow methodology, the loss of a revenue stream due to weatherization does not reduce return on equity but results in less dollars available to fund PGW's core operations. PGW recognizes that the Commission did not foreclose PGW's ability to seek recovery of these reduced distribution charges indirectly

⁵⁵ *Pennsylvania Public Utility Commission 2014 Report on Universal Service Programs and Collections Performance*, October 2015 at 7. Available at: http://www.puc.pa.gov/General/publications_reports/pdf/EDC_NGDC_UniServ_Rpt2014.pdf

⁵⁶ Due to the timing of this proceeding, Fiscal Year 2016 was removed from this analysis because the year is nearly complete, but PGW has still incurred this lost revenue. PGW's DSM Phase II base program was projected to result in \$3.1 million (nominal \$) in total lost revenues, including \$932,623 from LIURP. Under the DSM Bridge Plan implemented in Fiscal Year 2016, PGW's total lost revenues are estimated to be \$723,490 including \$452,611 from LIURP (nominal \$) incurred through the effective date of the next rate case.

⁵⁷ This is in contrast to the \$5,225,886 of lost revenues PGW projected would occur if the ALJs' recommended budget had been implemented from Fiscal Year 2017 – Fiscal Year 2020. Due to the length of time this case has taken, PGW has incurred additional lost revenue which is why this projection is greater than that provided in PGW's Exceptions. See PGW Exceptions at 2, n. 2.

resulting from energy efficiency – as well as other causes – in a base rate proceeding.⁵⁸

However, receiving recovery of these losses in a rate case does not result in full cost recovery because rate case recovery is only prospective (cannot address prior losses) and only applies to projected losses in the test year.⁵⁹

D. Issue No. 4: Future Process for Addressing LIURP Funding

In the Tentative Order, the Commission suggests that “a more appropriate proceeding for the Commission to consider the LIURP funding issue in the future would be in PGW’s next USECP proceeding.”⁶⁰ Given the LIURP regulatory waivers that have already been reviewed and granted in this proceeding, and the Commission’s clear preference for fully removing LIURP from the DSM and re-incorporating it back into the USECP, PGW has reconsidered its position on this issue and can now support such a modification for a number of reasons.

There are significant differences between a low-income weatherization program and market-rate programs. Although there are administrative efficiencies to be gained by combining the programs, other aspects of PGW’s LIURP could be better served as part of a proceeding that reviews other, more similar Universal Service programs. For example, the cost effectiveness and related calculations used in low income programs can recognize differences from those used in market-rate programs and such alternative processes could be better addressed in a USECP. In addition, incorporating LIURP back into the USECP would provide the Commission with sufficient facts in that proceeding to make determinations regarding program changes.

⁵⁸ Tentative Order at 30.

⁵⁹ See PGW Exceptions at 23.

⁶⁰ Tentative Order at 70.

While PGW now supports removing the LIURP program from its DSM effective September 1, 2016 (the start of Fiscal Year 2017), returning the LIURP program to PGW's USECP does raise two important issues that need to be addressed: (1) syncing the different timing between the two plans; and, (2) addressing administrative costs.

1. Syncing Fiscal Year DSM Plan and Calendar Year USECP

The programs within the DSM Plan operate on a fiscal year basis (September 1 to August 31). The USECP operates on a calendar year (January 1 to December 31). PGW's current USECP under consideration by the Commission would be effective January 1, 2017 through December 31, 2020. Consistent with the approval of PGW's DSM Plan in this proceeding (and to the extent PGW chooses to continue to offer the non-LIURP market-rate programs), the DSM programming would be authorized beyond fiscal year 2020.⁶¹ Therefore, the approved budgets for the LIURP (which would be on a fiscal year basis) would need to be synced with the approved budget for the USECP (which is on a calendar year basis). To accomplish this, PGW proposes to prorate the LIURP budget approved in this proceeding for the open time in the currently pending USECP (i.e. September 1, 2020 through December 31, 2020). Following the Commission's Final Order in this proceeding, PGW proposes to file a compliance revision to the relevant USECP 2017-2020 section in that proceeding addressing this issue.

2. Administrative Costs

Because PGW's LIURP has been included within the DSM Plan, for administrative efficiency and other economic benefits, administrative costs for the LIURP and DSM programs

⁶¹ See PGW Main Brief at 28-30. Future modifications to DSM programming would be included in ongoing triennial implementation plans which would provide parties an opportunity to propose a termination by filing 180 days in advance of the close of the fiscal year.

have been calculated over the entire portfolio of programs within the DSM Plan.⁶² Removing the LIURP program from PGW's DSM Plan will require PGW to evaluate overall portfolio administrative costs based on the program structure of the USECP and the DSM Plan to determine where efficiencies are best met. Given the cost efficiencies that are achieved by handling the portfolio administrative costs of LIURP through the DSM Plan, PGW proposes that for now the administrative costs of the LIURP budget continue to remain combined with the DSM Plan and allocated across the programs proportionally. This determination will be further analyzed by PGW and modification requested if needed. Finally, PGW respectfully requests that the Commission allow the increase to the LIURP administrative costs consistent with the final budget approved by the Commission in this proceeding.⁶³

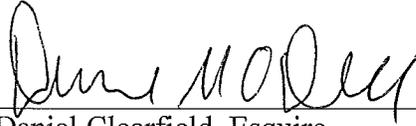
III. CONCLUSION

PGW appreciates the direction offered by the Commission regarding setting a LIURP budget as well as the opportunity to provide these comments. As discussed more fully herein, the only modification requested by PGW is to use a more updated figure for PGW's "Total LIURP Eligible Customers." In addition, PGW provides the Commission requested information and additional considerations regarding the estimated time to complete weatherization for all eligible customers and the rate impact of the higher LIURP budget on PGW's customers. Finally, PGW supports the Commission's desire to return the LIURP back to PGW's USECP and sets forth a proposed process to implement this.

⁶² See PGW Main Brief at 78-79. The Commission granted PGW a waiver of 52 Pa. Code § 58.5. Tentative Order at 110.

⁶³ Tentative Order at 110.

Respectfully submitted,



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Date: August 15, 2016

**ATTACHMENT A: UPDATED NEEDS ASSESSMENT CALCULATION REVISING
NUMBER USED FOR PGW TOTAL LIURP ELIGIBLE CUSTOMERS**

	A	B	C	D	E	F	G	H	I	J	K	L	M
1	Scenario I.	PGW	Columbia	Peoples	Peoples - Eqt.	National Fuel	PECO	UGI	UGI-PNG				Calculation
2	Total LIURP Eligible Customers	46,809	17,504	14,604	9,319	13,695	32,170	7,265	6,861		Total	148,227	=SUM(B2:I2)
3	Anticipated Annual LIURP Jobs	1,376	600	245	165	250	1,345	176	121		Total	4,278	=SUM(B3:I3)
4	Cost Per Job	\$ 3,605	\$ 7,917	\$ 5,102	\$ 4,848	\$ 5,200	\$ 1,673	\$ 6,250	\$ 7,025		Average	\$ 5,202.50	=AVERAGE(B4:I4)
5	LIURP Annual Spend	\$ 7,600,000	\$ 4,750,000	\$ 1,250,000	\$ 800,000	\$ 1,300,000	\$ 2,250,000	\$ 1,100,000	\$ 850,000		Average	\$ 2,487,500	=AVERAGE(B5:I5)
6	Job Completion Rate	2.94%	3.43%	1.68%	1.77%	1.83%	4.18%	2.42%	1.76%		Average	2.5010687%	=AVERAGE(B6:I6)
7													
8	Job Completion Budget	\$ 4,220,465	=(B2*L6)*B4										
9	Historical Cost Budget	\$ 5,266,314	=(B5/L4)*B4										
10	Calculated Average Budget	\$ 4,743,389	=AVERAGE(B8:B9)										
11													
12	Scenario II.	PGW	Columbia	Peoples	Peoples - Eqt.	National Fuel	PECO	UGI	UGI-PNG				Calculation
13	Total LIURP Eligible Customers	35,000	17,504	14,604	9,319	13,695	32,170	7,265	6,861		Total	136,418	=SUM(B13:I13)
14	Anticipated Annual LIURP Jobs	1,029	600	245	165	250	1,345	176	121		Total	3,931	=SUM(B14:I14)
15	Cost Per Job	\$ 3,605	\$ 7,917	\$ 5,102	\$ 4,848	\$ 5,200	\$ 1,673	\$ 6,250	\$ 7,025		Average	\$ 5,202.50	=AVERAGE(B15:I15)
16	LIURP Annual Spend	\$ 7,600,000	\$ 4,750,000	\$ 1,250,000	\$ 800,000	\$ 1,300,000	\$ 2,250,000	\$ 1,100,000	\$ 850,000		Average	\$ 2,487,500	=AVERAGE(B16:I16)
17	Job Completion Rate	2.94%	3.43%	1.68%	1.77%	1.83%	4.18%	2.42%	1.76%		Average	2.5010687%	=AVERAGE(B17:I17)
18													
19	Job Completion Budget	\$ 3,155,723	=(B13*L17)*B15										
20	Historical Cost Budget	\$ 5,266,314	=(B16/L15)*B15										
21	Calculated Average Budget	\$ 4,211,019	=AVERAGE(B19:B20)										
22													