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October 2, 2017

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

Re: PA Public Utility Commission v. Philadelphia Gas Works - R-2017-2586783
Office of Consumer Advocate v. Philadelphia Gas Works - C-2017-2592092
Office of Small Business Advocate v. Philadelphia Gas Works - C-2017-2593497
Philadelphia Industrial & Commercial Gas Users Group v. Philadelphia Gas Works – C-2017-2595147 and Dingfelder v. Philadelphia Gas Works – C-2017-2593903

Dear Secretary Chiavetta:

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

PGW is also compelled to respond to the comments contained in PICGUG's letter submitted in this docket on September 25, 2017. In its letter, PICGUG commented upon a portion of the Recommended Decision having to do with an agreement between PICGUG and PGW to attempt to negotiate a new "LT" rate applicable to IT customers. LT rate customers would be subject to interruption in fewer instances than the existing IT rate. The R.D. (taking from PGW's Statement in Support) stated that "[t]he newly proposed LT service will be available only to new IT load or existing IT customers and will be set at an increment higher than the existing IT rates …" R.D. pages 49 and 50.

In its letter of September 25, PICGUG states that "[a]lthough the term "higher" was referenced in Philadelphia Gas Works' ("PGW") Statement in Support and may have been the intent of the parties, PICGUG notes that the language of the Joint Petition for Partial Settlement ("Joint Petition") does not actually contain the word "higher." Joint Petition, ¶ 23(b)(ii) ("The LT rates will be an increment of the IT rates established in this case."). As noted previously, the exact rate and the terms and conditions will be determined after the parties meet to discuss further."

PGW respectfully submits that the word "increment" has only one accepted definition: "the action or process of increasing especially in quantity or value : enlargement,"[1] Thus, the Settlement logically may only be read as to authorize the parties to negotiate and/or propose an LT rate that is an "increment," i.e., higher, than the customer's comparable IT rate. This is certainly what PGW intends to do. Please do not hesitate to contact me with questions.

Sincerely,

Daniel Clearfield

DC/lww

Enclosure

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

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1 https://www.merriam-webster.com/dictionary/increment.

CERTIFICATE OF SERVICE

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

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Date: October 2, 2017

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission	:	R-2017-2586783
Office of Consumer Advocate	:	C-2017-2592092
Office of Small Business Advocate	:	C-2017-2593497
Philadelphia Industrial & Commercial Gas Users Group	:	C-2017-2595147
William Dingfelder	:	C-2017-2593903
v.	:	
Philadelphia Gas Works	:	

REPLY EXCEPTIONS OF
PHILADELPHIA GAS WORKS

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I. INTRODUCTION AND SUMMARY OF REPLY EXCEPTIONS

Philadelphia Gas Works ("PGW" or "Company") files these Reply Exceptions in response to the Exceptions filed by the Office of Consumer Advocate ("OCA") and by the Office of Small Business Advocate ("OSBA") to the Recommended Decision ("RD") issued on September 8, 2017 by Deputy Chief Administrative Law Judge Christopher P. Pell and Administrative Law Judge Marta Guhl (collectively, the "ALJs"). By these Reply Exceptions, PGW fully incorporates by reference its Main Brief ("MB") filed on July 21, 2017 and its Reply Brief ("RB") filed on August 4, 2017.

In a comprehensive opinion, the RD recommended approval of the Settlement. No party excepted to that recommendation. The RD, however, also made recommendations on the two issues which were not resolved by the Settlement. Specifically, the ALJs recommended that OCA's proposal to modify PGW's long-standing partial payment allocation practices be dismissed without prejudice,[1] and the OCA filed Exceptions. The ALJs further recommended that "PGW maintain its current universal services cost allocation with the requirement that PGW submit the aforementioned data regarding adjustments to its universal service cost allocation in the next rate proceeding,"[2] and the OSBA filed an Exception.

The Exceptions of OCA and OSBA raise no new issues or arguments and simply repeat their arguments that were rejected by the ALJs in the RD. The ALJs were correct in their conclusions and both exceptions should be denied.

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1 RD at 77.

2 RD at 112.

Allocation of Partial Payments

As part of this base rate proceeding, OCA has sought to modify PGW's partial payment allocation practices, which are not in its tariff or in any way related to its tariff and which are fully compliant with the Commission's regulations and the Public Utility Code. Specifically, under the applicable regulations, public utilities are required to first apply partial payments – payments from customers that are not sufficient to pay a balance due for prior basic service and current basic service – to the balance due for prior basic service.[3] This is exactly what PGW does.[4]

The ALJs correctly determined that the issue raised by OCA has no relationship to PGW's tariff provisions governing the computation and assessment of late payment charges, which nearly mirror the Commission's regulations, and therefore is not properly before the Commission in this proceeding.[5] Moreover, to the extent that the Commission desires to direct modifications to PGW's partial payment allocation practices, the Commission must initiate a rulemaking proceeding or other type of generic investigation that examines the various utilities' practices, including those that handle partial payment allocation similar to PGW, and makes a decision on the basis of the operational impacts and other compelling policy objectives for all affected utilities.[6]

If the Commission desires to review PGW's partial payment allocation practices in this proceeding, the ALJs properly determined that a party raising an issue that is not included in a public utility's general rate case bears the burden of proof regarding that issue.[7] Specifically, as

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3 52 Pa. Code § 56.24.

4 PGW MB at 20-23; PGW RB at 9-10.

5 RD at 76.

6 PGW MB at 36-39; PGW RB at 9.

7 RD at 29.

the proponent of a rule or order, OCA has the burden to establish that PGW's practice is unlawful, unjust or unreasonable.[8]

OCA has failed to carry its burden of showing that PGW's partial payment allocation practices violate any provision of the Commission's regulations or the Public Utility Code or are unjust and unreasonable. By contrast, PGW has demonstrated that it follows the requirement of the regulations by first applying partial payments to charges for prior basic service before applying them to charges for current basic service.[9] In fact, OCA has not contended that PGW's posting method is contrary to any particular requirement of the applicable regulations. Rather, OCA has cobbled together a flawed legal theory using bits and pieces of various regulations and statutory provisions to maintain that PGW's partial payment allocation practices have the "effect" of charging compound interest. In fact, OCA agrees that PGW is not charging compound interest since it does not charge interest on interest and it subtracts unpaid late payment charges before assessing new late payment charges.[10] Indeed, the only evidence presented by OCA in support of its claim was nothing more than a calculation by its witness that shows the mathematical outcome of compounding an 18% per annum simple interest rate, which produces an annual interest rate of 19.562%.[11] As the ALJs correctly noted, OCA has simply presented no evidence in this proceeding to show that, as a result of PGW's partial payment allocation practices, any customer has been billed or has paid late payment charges in excess of 18%.[12] OCA's Exception should be denied.

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8 PGW MB at 8-10; PGW RB at 2.

9 PGW MB at 21-23; PGW RB at 9-22.

10 PGW MB at 24-26; PGW RB at 16-17.

11 PGW MB at 26; PGW RB at 17-18.

12 RD at 76.

Universal Service Cost Recovery

Similarly, OSBA's Exception concerning the allocation of Universal Service Charges to all firm customers (and not just residential customers) should be rejected. The PUC has approved PGW's present method of allocation on numerous occasions. The record also shows that allocation to all customers is justified on cost causation principles, as commercial and industrial customers receive both direct and indirect benefits from the existence of PGW's low-income programs. Finally, OSBA's scheme, which purportedly would permit a reallocation to residential customers but avoid "rate shock" to those customers, would merely delay the significant negative effects of such a policy change on residential customers, skew class cost allocation, and significantly complicate PGW's future rate cases. OSBA's Exceptions should be denied.

PGW did not propose any changes to its long-standing practice – reflected in its allocation of the costs of its universal service programs to all firm customers. Continuation of that allocation was opposed by the OSBA, which proposed that non-residential customers should not be required to contribute towards universal service costs. The record shows that the continuation of the allocation to non-residential customers is just and reasonable and, despite coming up with a novel scheme to carry out its previously rejected proposal, OSBA has not met its burden of showing that its proposed allocation scheme should be adopted.

The OSBA outlined a novel proposed four-step implementation process for shifting 100% of the cost responsibility for universal service costs to residential customers. In essence, OSBA's scheme would require PGW to embed existing universal service cost responsibility in base rates, but force residential customers to bear 100% of those costs on a going forward basis. Since the OSBA's cost-shifting proposal should be rejected in the first instance, PGW submits that the ALJs and the Commission need not consider this novel implementation process.

Nevertheless, if the implementation process is considered, it should be rejected because, on a going forward basis, it would lead to the eventual allocation of all universal service costs to one class of customers, even though all customers benefit from the existence of these programs. Further, the proposal would merely delay the "rate shock" associated with this singular assignment to future years and rate cases. Nothing in the record shows that the rates resulting from such an implementation process fairly balance the interests of PGW or its ratepayers, are supported by substantial evidence, are in the public interest, or are just and reasonable.

For all of the reasons expressed herein and in PGW's Briefs, PGW urges the Commission to adopt the RD and deny the Exceptions of OCA and OSBA.

II. REPLY TO EXCEPTIONS OF OCA

A. The ALJs Rightly Concluded That Issues Regarding PGW's Partial Payment Allocation Practices Should Be Addressed Outside Of This Rate Case

In determining that issues regarding PGW's partial payment allocation practices are beyond the scope of this base rate proceeding, the ALJs have properly rejected OCA's proposed modifications.[13] Rule 4.2 of PGW's tariff, which OCA has relied upon in an effort to pursue issues concerning PGW's partial payment allocation practices in this proceeding, provides as follows:

> Finance Charge on Late Payments. PGW will assess a late penalty for any overdue bill, in an amount which does not exceed 1.5% interest per month on the full unpaid and overdue balance of the bill. These charges are to be calculated on the overdue portions of PGW Charges only. The interest rate, when annualized, may not exceed 18% simple interest per annum. Late Payment Charges will not be imposed on disputed estimated bills, unless the estimated bill was required because utility personnel were unable to access the affected premises to obtain an Actual Meter Reading.

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13 RD at 76.

This tariff provision parrots the requirements of Section 56.22 of the Commission's regulations governing the computation and assessment of late payment charges and has no language relating to the application of customers' partial payments. Therefore, the ALJs correctly concluded that "the language of PGW's tariff is not at issue here."[14] This result recommended by the ALJs is consistent with the ALJ's interim order issued in *Pa. P.U.C. v. PPL Electric Utilities Corp.*, Docket No. R-2015-2469275 (Sixth Prehearing Order dated July 14, 2015) ("*PPL*"). As in *PPL*, the challenges raised by OCA are not related to either base rates or to PGW's existing or proposed tariff and thus are beyond the proper scope of this base rate proceeding.

In its Exceptions, OCA suggests that the ALJs may have dismissed its proposal on the basis that OCA challenged the application, rather than the language, of an existing tariff provision.[15] The RD contains no such discussion but rather appropriately recognizes that the issue raised by OCA simply does not relate to the tariff. Moreover, OCA did not challenge the application of Rule 4.2 of PGW's tariff. Specifically, OCA made no claims that PGW improperly calculated late penalties or improperly imposed them on customers' bills. Merely because OCA's issue focuses on PGW's method for applying partial payments to previously imposed late payment charges does not bring PGW's partial payment allocation practices within the scope of Rule 4.2 of its tariff, which only addresses the initial assessment of late payment charges and is silent on the posting of partial payments to those charges for prior basic service.

While OCA has proposed that PGW include its partial payment allocation practices in its tariff, that proposal cannot authorize a review of PGW's practices in this base rate proceeding. Indeed, it would be inappropriate to allow a party to bring any unrelated issue into a base rate proceeding by simply proposing that the practice in question be incorporated in the tariff.

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14 RD at 75-76.

15 OCA Exceptions at 7.

Moreover, nothing in the Commission's regulations requires public utilities to incorporate their practices for complying with Sections 56.23 and 56.24 in their tariffs. Even when public utilities include such information in their tariffs, PGW has shown that they simply parrot the language set forth in the regulations and do not provide any greater detail about how partial payments are applied to the various components of prior basic service charges.[16] Although PGW has indicated a willingness to also include language in its tariff reflecting the requirements of the regulations, nothing has been presented here to show why PGW should be required to do anything more.

Rather than permitting OCA to challenge PGW's partial payment allocation practices in this base rate proceeding, the ALJs appropriately observed that OCA is free to raise these issues in a complaint proceeding.[17] While OCA notes that it already filed a formal complaint in this base rate proceeding and argues that it should not be required to file another complaint to pursue the same claims,[18] the fact remains that the issues were never properly before the Commission as part of this proceeding. Merely because OCA elected to raise the issue here does not negate the fact that PGW's partial payment allocation practices are not part of its tariff and are therefore well outside the proper scope of the base rate proceeding. In addition to pursuing these issues in a separate complaint proceeding, OCA could likewise petition the Commission to initiate a

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16 PGW MB at 35-36.

17 RD at 77. The ALJs also suggested that the forthcoming order in *SBG Management Services, Inc./Colonial Garden Realty Co., L.P. v. Philadelphia Gas Works*, Docket No. C-2012-2304183, and *SBG Management Services, Inc./Simon Garden Realty Co., L.P. v. Philadelphia Gas Works*, Docket No. C-2012-2304324 (Order entered December 8, 2016) ("*SBG Order*") will affect all PGW customers. RD at 77. As to that observation in the RD, PGW agrees with OCA's comments that the *SBG Order* should not apply to all customers, and has urged the Commission to decline to direct changes to its partial payment allocation practices in the context of a complaint proceeding involving a few individual customers. *See* PGW Petition for Reconsideration, Clarification and/or Rehearing filed on December 23, 2016 and currently pending before the Commission. PGW is also planning to file an additional Supplemental Petition for Rehearing to request that, if the PUC determines to review PGW's system-wide partial payment allocation policy in the context of the SBG case it reopen the record to admit the significant system-wide evidence that was developed here.

18 OCA Exceptions at 10-11.

generic investigation into public utilities' partial payment allocation practices and/or launch a proposed rulemaking proceeding proposing modifications to the methods followed by various public utilities. In fact, PGW has argued that a proposed rulemaking is the lawful and appropriate way for the Commission to examine system-wide modifications to the Company's (and other public utilities') partial payment allocation practices.[19]

B. OCA's Argument Regarding the Burden of Proof Fails

It is well-settled that a party alleging a violation of the Commission's regulations bears the burden of proof under Section 332(a) of the Public Utility Code.[20] As the RD correctly recognizes, "a party that raises an issue that is not included in the public utility's general rate case filing bears the burden of proof regarding that issue."[21]

In its Exceptions, OCA asserts that PGW had the burden to demonstrate that all aspects of its existing tariff are just and reasonable. PGW has not disputed that it carries the burden of proof for the issues related to the base rate increase, the existing tariff and the proposed tariff. However, OCA's proposal does not to relate to PGW's tariff, as explained above. Therefore, OCA has the burden of establishing that PGW's partial payment allocation practices are unlawful, unjust and unreasonable and should be modified.[22]

C. OCA's Claims of Compound Interest Are Not Supported By The Record

If the merits of OCA's claims are considered, the Commission should conclude that OCA has not carried its heavy burden of proof to show that PGW's partial payment allocation practices violate the Commission's regulations. To the contrary, PGW has shown that its practices are consistent with the mandate in the Commission's regulations that require public

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19 PGW MB at 36-39; PGW RB at 9.

20 66 Pa. C.S. § 332(a).

21 RD at 29.

22 PGW MB at 8-10; PGW RB at 2.

utilities to first apply partial payments to prior basic service before applying them to current basic service.

Partial payment allocation practices are governed by the Commission's regulations at Sections 56.23 and 56.24.[23] Section 56.23 of the regulations addresses the application of partial payments as between nonbasic charges and basic charges for residential public utility service. Establishing basic charges as the priority over nonbasic charges, Section 56.23 provides, in its entirety, as follows:

> Payments received by a public utility without written instructions that they be applied to merchandise, appliances, special services, meter testing fees or other nonbasic charges and which are insufficient to pay the balance due for the items plus amounts billed for basic utility service shall first be applied to the basic charges for residential public utility service.[24]

Section 56.24 governs the posting of partial payments as between charges for prior basic service and current basic service. Requiring public utilities to give priority to charges for prior basic service over charges for current basic service, Section 56.24 provides, in its entirety, as follows:

> In the absence of written instructions, a disputed bill or a payment agreement, payments received by a public utility which are insufficient to pay a balance due both for prior service and for service billed during the current billing period shall first be applied to the balance due for prior service.[25]

The evidence adduced in this proceeding demonstrates that PGW follows these requirements <u>to the letter</u>. Nothing in Section 56.24 requires PGW or other public utilities to follow any certain hierarchy in posting partial payments to the balance due for prior service, as long as the payment is applied to the "prior basic service" bucket. Therefore, by first applying partial payments to the late payment charges for prior basic service before applying them to

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23 52 Pa. Code §§ 56.23 and 56.24.

24 52 Pa. Code § 56.23.

25 52 Pa. Code § 56.24.

charges for current basic service, PGW is fully compliant with the requirements of Section 56.24.[26]

Rather than contending that PGW's partial payment allocation practices violate any requirement of these applicable regulations, OCA has cobbled together a flawed legal argument using bits and pieces of various provisions of the regulations and statute to argue that PGW is required to apply partial payments in a manner that is simply not mandated by law. The underpinning of this legal theory is that somehow by applying partial payments first to outstanding late payment charges, PGW effectively charges more than 18% simple interest.[27]

The ALJs properly rejected OCA's claims that PGW's practices have the "effect" of imposing compound interest.[28] Indeed, it is undisputed in this proceeding that PGW does not charge interest on interest, which is the definition of compound interest, and that it in fact subtracts prior unpaid late payment charges before assessing late payment charges on overdue balances.[29] By OCA's own admission, it is not alleging otherwise but rather is relying on a legal theory devised by its witness to support the commercial complainants' position in the *SBG Order* proceeding to contend that PGW's partial payment allocation practices have the "effect" of imposing compound interest.[30] Notably, however, as the ALJs correctly observed, the record developed by OCA in this proceeding "does not contain any actual billing data reflecting how PGW's partial payment allocation practices have affected" PGW's customers.[31] Importantly,

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26 PGW MB at 21-24; PGW RB at 9-16.

27 OCA Exceptions at 15-17.

28 RD at 76. Although the ALJs observed that the assessment of late payment charges in excess of 18% per year would be a violation of Section 56.22 of the Commission's regulations, they found that the record contained no actual billing data to show that this was happening.

29 PGW MB at 24-26; PGW RB at 16-17.

30 OCA Exceptions at 16.

31 RD at 76.

OCA's only support for its claim that "PGW's posting practices result in an interest rate of 19.562%"[32] is the calculation of its expert witness which is nothing more than the mathematical outcome of charging 18% annual interest on a compounded basis. The calculation has no basis in reality in terms of the interest rate that PGW customers are actually assessed or that they ultimately pay.[33]

Absent any evidence that PGW's partial payment allocation practices result in charging compound interest, all of OCA's legal arguments fail. Each of OCA's contentions of alleged violations rests on the flawed premise that PGW is "effectively" charging customers more than 18% on an annual basis.[34] Specifically, the fact that "PGW sequences its payments to apply partial payments against newer, non-interest-bearing late charges before applying the payments against older, interest-bearing principal amounts"[35] is not evidence of charging or effectively charging customers more than 18% interest. Rather, this evidence shows that PGW applies partial payments in a manner that incentivizes customers to timely pay their bills in full and reduces uncollectible expenses and bad debt costs.[36] Moreover, evidence that a customer may ultimately pay more for services when partial payments are first applied to late payment charges[37] is not evidence that PGW is charging or effectively charging customers more than 18% interest. Rather, it is evidence that PGW is applying partial payments in a way that results in customers who are responsible for incurring late payment charges being the ones who pay those

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32 OCA Exceptions at 16.

33 PGW MB at 26; PGW RB at 17-18.

34 OCA Exceptions at 15-17.

35 OCA Exceptions at 15-16.

36 PGW MB at 31-32; PGW RB at 23.

37 OCA Exceptions at 16.

penalties instead of shifting those costs to other paying customers.[38] Notably, by contrast, under OCA's preferred approach, a customer who is properly assessed $143.77 in late payment charges over the course of the year would only pay $5.25 during that year.[39] Finally, evidence that the Company imposes interest on balances for prior service that has already been assessed interest[40] is not evidence that PGW is charging or effectively charging customers more than 18% interest. Rather, it is evidence that PGW is recovering the costs to carry unpaid balances; whether an unpaid balance has existed for ten months or two months, the costs continue to accrue and need to be recovered.[41] Indeed, even under OCA's preferred approach, PGW would assess late payment charges on prior unpaid balances multiple times if they continue to be unpaid.

In summary, OCA has not carried its heavy burden of demonstrating that modifications are warranted to PGW's partial payment allocation practices. By contrast, PGW has shown that its method for posting partial payments complies with the Commission's regulations and does not amount to imposing compound interest in actuality or in effect. Moreover, PGW has demonstrated the compelling policy objectives supporting its approach, including incentives for customers to timely pay their bills in full, reduced uncollectible costs and bad debt expenses, and a system that holds customers accountable for paying the properly-assessed late payment charges incurred by them.

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38 PGW MB at 32-33; PGW RB at 24-25.

39 PGW MB at 33; PGW RB at 24.

40 OCA Exceptions at 16.

41 PGW MB at 31-34; PGW RB at 23-26.

III. REPLY TO EXCEPTIONS OF OSBA

A. The Record Fully Supports The Continuation Of PGW's Long-Standing Universal Services Cost Allocation and OSBA's Exception Should Be Denied

As it has in almost every PGW case since 2003,[42] OSBA has continued its claim that PGW's Universal Service Charge ("USEC"), which has always been billed to all firm customers, not just residential customers, should be reallocated so that commercial and industrial customers are exempt from the charge — even though they receive both direct and indirect benefits from low income energy assistance programs.

OSBA claims that the sole reason that the ALJs' rejected its proposal was because "the ALJs seem to be inferring that the OSBA's proposal … runs afoul of the principles of rate shock and gradualism."[43] OSBA then tries to refute this strawman by claiming that its proposal here would not cause any rate shock because it has put forward a scheme whereby, *for this case only*, the rate effects of reallocating USC responsibility to solely residential customers would be offset by corresponding decreases in residential delivery charges,[44] thus delaying the rate effects of the shift until the next time PGW increased its USEC. OSBA claims that its "delay scheme" thus addresses the sole reason that the Commission and the RD rejected OSBA's proposal. But the OSBA is wrong on all counts.

Preliminarily, it should be remembered that this is a base rate proceeding. It will set PGW's delivery rates until PGW's next base rate proceeding. By way of comparison, PGW recovers its universal service costs – including (but not limited to) costs related to PGW's Customer Assistance Program ("CAP"), which PGW calls its "Customer Responsibility

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42 *See* PGW MB at 40, n. 78; PGW RB at 27-29.

43 OSBA Exceptions at 5.

44 *See* OSBA Exceptions at 7-9.

Program" ("CRP") – through a reconcilable surcharge, the USEC.[45] The USEC is adjusted quarterly, when rates change.[46] PGW did not propose any changes to the allocation of the costs of its universal service programs. Continuation of the allocation to all firm service customer classes is supported by OCA, TURN and CAUSE-PA. Importantly, OSBA has the burden of proof on this proposal and failed to carry it for the reasons stated herein and in PGW's brief and reply brief.[47]

OSBA's suggestion that the only reason that the ALJs rejected its cost allocation proposal was because of a concern about rate shock is simply not true. In fact, the ALJs specifically stated that they "agreed with the arguments advanced in this proceeding by PGW, OCA, TURN et al. and CAUSE-PA."[48] PGW's support for its allocation of universal service costs to all firm ratepayers included the following:

PGW's Policy is Longstanding and Has Been Approved by the PUC on Numerous Occasions

Prior to the Commission assuming jurisdiction over PGW in 2000, PGW recovered the cost of its Customer Responsibly and other low income customer programs from all firm customers. Since that time, PGW's allocation of universal service costs and related rate design has been found to be just, reasonable and in the public interest in almost every PUC proceeding involving PGW.[49] In fact, the Commission has consistently determined that, because PGW has followed this allocation policy prior to and at the time it came under the regulatory authority of the Commission, PGW is an exception to the general policy (applied to other Commission regulated companies) that all of the universal service costs should be allocated to residential

45 PGW MB at 40; PGW RB at 26-27.

46 PGW RB at 27.

47 PGW MB at 8-11, 38-48; PGW RB at 7, 26-34.

48 RD at 110.

49 *See* PGW MB at 40, n. 78; PGW RB at 27-29.

customers.[50] The PUC followed this policy not because PGW is a municipal utility but because it was a municipal utility that followed a specific policy, and the PUC determined that it was reasonable to continue that policy.

PGW Industrial and Commercial Customers Both Directly and Indirectly Benefit From Low Income Assistance Programs

Moreover, the reason that PGW allocated universal service costs to all firm customers prior to PUC regulation, and the reason PGW's allocation of universal service costs continues to make sense for PGW includes the fact that such allocation is consistent with cost causation principles.[51] Generally speaking, cost causation provides that ratepayers should pay for activities and programs that benefit them. While the USC recovers the costs of programs designed specifically to benefit low-income residential customers, customers in all classes benefit by programs that support and enable a community in which low-income customers are able to maintain utility service at an affordable cost.[52] Beyond that, all non-residential customers indirectly benefit from keeping the residents of Philadelphia in their homes. The residents contribute to the well-being and economic vibrancy of Philadelphia's business community.[53] Without residents living in the City, businesses may lose their workforce and customers.[54] Keeping people living and working in the City will help businesses avoid financial losses, increase employee productivity, and retain viable consumers.[55] Thus, PGW believes that the portion of universal service costs paid by non-residential customers is offset by the substantial

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50 PGW MD at 40-41; PGW RB at 28.

51 PGW MB at 40-44; PGW RB at 29.

52 PGW MB at 41-42; PGW RB at 29, 33-34.

53 PGW MB at 42.

54 PGW MB at 42.

55 PGW MB at 42.

positive economic impact in Philadelphia on those non-residential customers created by PGW's universal service programs.[56]

Moreover, PGW's Low-Income Multifamily ("LIME") program actually directly benefits at least one portion of the commercial and industrial rate classes: customers that own or operate residential master-metered multi-family buildings.[57] The costs of the LIME program are recovered in PGW's USEC.[58]

OSBA's "Base Rate Offset" Approach Advocated Here Simply Delays the Rate Shock Associated With Its Proposal – Not Eliminate It

In an attempt to make this major policy shift more palatable to the Commission, OSBA has put forward an implementation plan that would provide some initial mitigation of the large residential rate increases (more than $15 million at the Settlement Rates[59]) that would otherwise be required if the USEC was simply modified to be solely the responsibility of residential customers. OSBA's proposal would simply offset any increase in the USEC as a result of allocating all responsibility for the charges to residential customers by decreasing the residential delivery rate (and then increasing the delivery rates of commercial and industrial firm customers to offset the decrease). According to the OSBA, the implementation of these steps will: (1) place

56 PGW MB at 42.

57 PGW MB at 42.

58 OSBA waves this off by claiming that the program is small and that the costs could be transferred to PGW's Demand Side Management program and recovered in the automatic adjustment charge used to recover those costs. OSBA Exceptions at 6. But the LIME program was conceived as a program to help low income apartment dwellers; it was not proposed or implemented as an energy efficiency program *per se*.

59 PGW has recalculated the effect of recovering the USC solely from residential customers using the actual proof or revenues attached to the Settlement (Exh. 2). The rate impacts are significantly higher than originally calculated due to the effect on class volumes of using twenty year average weather as opposed to using ten-year average weather, on which previous estimates had been based. See, e.g., PGW RB at 31, n. 125.

the cost responsibility for universal service programs with the residential class; and (2) keep the same revenue effects for PGW and each customer class in this case.

But the OSBA's offset proposal is a "shell game."[60] In an effort to generate a "revenue neutral" effect (at least for the moment, so as to claim no rate shock), OSBA would modify the delivery rates established by the Settlement in order to offset the increased USEC charges that OSBA would impose on residential customers The result would be that, coming out of this case only, the overall rates (including USEC charges) for the residential, commercial and industrial firm customer classes would be the same as if the USC reallocation had not been implemented (although the pots of dollars would be different). However, the effect in the long run would be just as bad, if not worse than merely modifying the USEC to impose all costs on residential customers.

First, under the OSBA's plan, revenue neutrality will last only until the next USEC change.[61] It appears quite clear that the OSBA is proposing that, once its plan is put into effect, on a going forward basis: (1) the USEC would only be charged to residential customers; and (2) there would be no corresponding increase or decrease in a class's delivery service rates to offset such future changes in the USEC. This means that while residential customers would not have to solely contribute to the increase in universal service costs as a result of this case (since they will receive a corresponding delivery service decrease), all future increases will be 100% their responsibility. Importantly, PGW's USEC changes each time the rates – either the Gas Cost Rate or the delivery charge – changes (because customers in PGW's CAP program pay only a percentage of their income). So, if natural gas costs go up in 2018, PGW will be required to

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60 PGW RB at 31-34.

61 PGW RB at 32-33.

modify its USEC to recover that incremental amount of charge, and, under the OSBA proposal, residential customers would be responsible for 100% of the increase. More concerning, if PGW is required to increase its rates to recover a Gross Receipts Tax at 5.7% (as is now being considered by the General Assembly[62]), 100% of the resulting increase in the USEC increase to recover the portion of the tax that CAP customers would otherwise pay, would be assigned to residential customers. Thus it should be clear that OSBA's proposal does not eliminate rate shock on residential customers – it simply pushes it slightly down the road.

Moreover, even the initial effort to avoid rate shock in this proceeding would only last until PGW's next base rate case.[63] At that time, the OSBA would undoubtedly argue that commercial and industrial firm rates exceeded their appropriate levels, since all of the costs of universal service would have been declared the sole responsibility of residential customers. If the Commission were inclined to attempt to set rates reflecting the (incorrect) cost principles advocated by OSBA, the increase to the residential class would likely be even more dramatic than that necessary to recover whatever rate increase PGW requests at that time. The resulting rate shock effect is likely to be far worse than if the OSBA "mitigation" scheme had not been implemented.

Further, OSBA's scheme would distort the cost of service delivery rates being charged to various classes merely to achieve OSBA's mistaken view of appropriate cost responsibility. PGW would be left with delivery rates that do not reflect cost causation principals for all firm rate classes, something that would add complexity and controversy in PGW's next rate case.

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62 PGW RB at 33; House Bill 542, Printers No. 2259, which is available at: http://www.legis.state.pa.us/cfdocs/billInfo/billInfo.cfm?sYear=2017&sInd=0&body=H&type=B&bn=0542.

63 PGW RB at 33-34.

The bottom line is that there are compelling policy reasons for PGW to assign cost responsibility for universal service costs to all firm customers. Unrefuted evidence in the record shows that all customers, including commercial and industrial customers, benefit from utility service support for low-income customers, so that they can contribute to the local economy and participate in the workforce. Also, PGW's relatively large level of the universal service charges justifies a spreading of these costs to all firm customers. This fact, as well as the fact that PGW has been allocating these costs to all firm customers for years – both prior and subsequent to coming under PUC authority – fully justifies a continuation of this practice for PGW and a rejection of the OSBA's position. The OSBA's new scheme to make the reallocation of these costs solely to residential customers in this case would merely delay but not eliminate the unfairness and rate shock that would accompany its proposal. For all these reasons OSBA's Exception should be denied.

IV. CONCLUSION

PGW respectfully requests that the Commission (1) adopt the Recommended Decision without modification; and (2) reject the Exceptions of both OCA and OSBA.

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