

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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PECO Energy Company

Exhibit to Accompany
Direct Testimony of Manus J. McHugh

~pp~ed Public Policy Rese~h

MEMO

DATE: January 4, 2008
TO: Patricia King
FROM: Jackie Berger
SUBJECT: PECO Gas Affordability Analysis

PECO has asked APPRISE to do an analysis of the gas burden for CAP customers compared to the PUC's targeted energy burden. This memo provides a summary of the analyses that we conducted.

All analyses in this memo were conducted using 2003-2004 gas usage data for CAP participants. These usage data were weather normalized and represent gas usage for a "typical" weather year. The usage data were multiplied by 2007 gas rates provided by PECO. Income data were increased by 12 percent to account for the increase in the CPI between 2003 and 2007. Energy burden was obtained by using the following formula:

$$(\text{weather normalized gas usage}) * (\text{2007 PECO gas prices}) / (\text{inflation adjusted income})$$

Table 1 displays the gas rates provided by PECO that are used in the analyses included in this memo. Currently, customers with income below 100 percent of poverty receive a 22 percent discount per ccf consumed, and customers with income between 101 and 150 percent of poverty receive a 12 percent discount per ccf consumed.

Table 1
PECO Gas Rates
Effective 12/1/07

| CAP Tier | Rate Without Discount | CAP Rate I <100% of Poverty | CAP Rate II 101-150% of Poverty |
|--------------------------------------|------------------------------|---|--|
| Cost Per ccf | \$1,28784 | \$1,00462 | \$1,1354 |
| ccf Percent Discount | 0% | 22% | 12% |
| Annual Cost of Monthly Charge | \$86.40 | \$86.40 | \$86.40 |

Table 2 displays the projected gas energy burden using the current PECO gas discount, as shown in the table above. The table shows the mean and median energy burden for each poverty level, and the percent of each group that falls below, within, and above the PUC targeted energy burden level. Key pieces of information from the table include:

With the current gas discount, most of the households with income below 50 percent of the poverty level have an energy burden above the PUC targeted rate.

Almost half of the households with income between 51 and 100 percent of poverty have an energy burden below the targeted rate, and about one quarter have an energy burden that is above the targeted level.

Most of the households with income above poverty have an energy burden that is below the PUC targeted level.

Table 2
Projected PECO Gas Energy Burden
And Relationship to PUC Target
2007 Gas Rates and Current Gas Discount

| Poverty Level | Energy Burden | | PUC Gas Heating Energy Burden Target | Relationship to PUC Energy Burden Target | | |
|--------------------|---------------|--------|--------------------------------------|--|--------|-------|
| | Mean | Median | | Below | Within | Above |
| <=25% | 33.8% | 25.0% | 5% - 8% | 0% | 8% | 92% |
| 26% - 50% | 13.8% | 12.6% | 5% - 8% | 4% | 10% | 85% |
| 51%- 100% | 8.4% | 7,4% | 7% - 10% | 45% | 28% | 27% |
| 101% - 150% | 6.3% | 5,6% | 9% - 10% | 83% | 5% | 12% |

Table 3 displays the mean and median energy burden for households by poverty level and by whether their burden falls below, within, or above the PUC target. The table shows that households with income below 25 percent of poverty who have burdens above the PUC target, have much higher burdens than the targeted five to eight percent burden. The mean energy burden for this group is 36.1 percent and half have an energy burden above 26 percent. Households in the 26 to 50 percent of poverty group have energy burdens about double of what the PUC targets.

Table 3
Projected PECO Gas Energy Burden
By Relationship to PUC Target
2007 Gas Rates and Current Gas Discount

| Poverty Level | PUC Gas Heating Energy Burden Target | Relationship to PUC Energy Burden Target | | | | | |
|-------------------|--------------------------------------|--|--------|-----------------------------|--------|----------------------------|--------|
| | | Below Target Energy Burden | | Within Target Energy Burden | | Above Target Energy Burden | |
| | | Mean | Median | Mean | Median | Mean | Median |
| <=25% | 5% - 8% | | | 7.7% | 7.7% | 36.1% | 26.0% |
| 26% - 50% | 5% - 8% | 3.9% | 3,6% | 6.6% | 6.9% | 15.2% | 13,6% |
| 51%- 100% | 7% - 10% | 5.0% | 5.4% | 8.3% | 8.2% | 14.3% | 12.9% |
| 101%- 150% | 9% - 10% | 5.2% | 5.0% | 9.5% | 9.5% | 12.9% | 12.1% |

Table 4 displays the discount off the full 2007 rates needed by each poverty group to reach the PUC target. The following key information is included in the table below.

Only 11 percent of households with income below 25 percent of the poverty level can meet the PUC energy burden target with a discount of 10 to 25 percent. Most of these households need a much higher discount to meet the PUC target - 41 percent need a discount between 50 and 75 percent, 32 percent need a discount between 75 and 90 percent, and 14 percent need a discount of 90 percent or more.

- Fifty-six percent of households with income between 51 and 100 percent of poverty and 83 percent of households with income between 101 and 150 percent of poverty need no discount to reach the PUC target.

A significant percentage of households in the higher poverty tiers need discounts greater than those currently offered to reach the PUC target burden. For example, 17 percent of those with income between 51 and 100 percent of poverty need a discount between 25 and 50 percent, and 7 percent need a discount between 50 and 75 percent.

Table 4
Projected PECO Gas Discount Needed
Off 2007 Full Gas Rates

| Poverty Level | Percent of Customers With Each Level of Discount Off Full 2007 Rate Needed to Achieve PUC Target | | | | | | |
|--------------------|---|------|---------|---------|---------|---------|------|
| | 0% | <10% | 10%-25% | 25%-50% | 50%-75% | 75%-90% | 90%+ |
| <=25 % | 0% | 0% | 11% | 3% | 41% | 32% | 14% |
| 26% - 50% | 9% | 3% | 6% | 32% | 44% | 6% | 0% |
| 51%- 100% | 56% | 8% | 12% | 17% | 7% | <1% | 0% |
| 101% - 150% | 83% | 5% | 6% | 5% | 1% | 0% | 0% |

Table 4 did not take into account the PUC minimum monthly payment of \$18 - \$25 per month. When we recalculate the targeted costs so that minimum payments are \$25 per month (\$300 annually), results change for customers with income less than or equal to 50 percent of the poverty level. Table 5 separates out those customers who would have the minimum payment of \$25/month. The table shows that more than half of the customers with income less than or equal to 25 percent of the poverty level would have the minimum payment and 5 percent of the customers with income between 25 and 50 percent of the poverty level would have the minimum payment.

Table 5
Projected PECO Gas Discount Needed
Off 2007 Full Gas Rates
Minimum Payment of \$25/Month
Minimum Payment Customers Separated Out

| Poverty Level | Percent of Customers With Each Level of Discount Off Full 2007 Rate Needed to Achieve PUC Target | | | | | | Minimum Payment |
|------------------|--|------|---------|---------|---------|---------|-----------------|
| | 0% | <10% | 10%-25% | 25%-50% | 50%-75% | 75%-90% | |
| <=25% | 0% | 0% | 11% | 3% | 27% | 8% | 51% |
| 26% -50% | 9% | 3% | 6% | 31% | 41% | 5% | 5% |
| 51%-100% | 56% | 8% | 12% | 17% | 7% | <1% | 0% |
| 101%-150% | 83% | 5% | 6% | 5% | 1% | 0% | 0% |

Rather than separating the minimum payment customers into a separate group, Table 6 shows the percent discount customers would need to reach either the targeted energy burden or the minimum payment of \$25/month. With the minimum payment taken into account, the highest discount that would be needed is 75-90 percent.

Table 6
Projected PECO Gas Discount Needed
Off 2007 Full Gas Rates
Minimum Payment of \$25/Month

| Poverty Level | Percent of Customers With Each Level of Discount Off Full 2007 Rate Needed to Achieve PUC Target | | | | | | |
|--------------------|--|------|---------|---------|---------|---------|------|
| | 0% | <10% | 10%-25% | 25%-50% | 50%-75% | 75%-90% | 90%+ |
| <=25% | 0% | 0% | 11% | 8% | 51% | 30% | 0% |
| 26% - 50% | 9% | 3% | 6% | 33% | 43% | 6% | 0% |
| 51%- 100% | 56% | 8% | 12% | 17% | 7% | <1% | 0% |
| 101% - 150% | 83% | 5% | 6% | 5% | 1% | 0% | 0% |

This memo showed that while the lower poverty groups need much higher gas discounts to reach the PUC target, most of the households in the higher poverty groups need no gas discount to meet the PUC target gas energy burden.