

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DOCKET NO. R-2008-2028394

PECO Energy Company

DIRECT TESTIMONY OF MANUS J. MCHUGH

Concerning

PECO's Low-Income and Universal Service Programs

March 31, 2008

1 billion. I am also responsible for the promotion and operation of PECO's
2 Low Income Programs, including all of the programs discussed in this
3 testimony. PECO's Low Income Programs provide assistance valued at more
4 than \$95 million annually, making PECO's low income portfolio of programs
5 the largest in the Commonwealth and one of the largest in the nation.
6 Approximately \$7 million of those benefits currently flow to PECO's
7 customers who receive gas service.

8 **What is the purpose of your testimony?**

9 The purpose of my testimony is to address PECO's five Universal
10 Service/Low income Programs. For each of those programs, I (1) describe the
11 program, (2) describe the activities that PECO pursues under that program, as
12 well as any changes to the scope of the program that PECO is proposing in
13 this filing, (3) describe PECO's success level with that program, and (4)
14 address the costs that PECO has experienced or anticipates to incur for each
15 program.

16 The five programs that are addressed in my testimony are:

17 CAP, or Customer Assistance Program

18 LIHEAP, or Low Income Home Energy Assistance Program

19 LIURP, or Low Income Usage Reduction Program

20 MEAF, or Matching Energy Assistance Fund

21 CARES, or Customer Assistance and Referral Evaluation Services

II. CAP

1

2 6. Q. **What is "CAP"?**

3 mo "CAP" is an acronym for "Customer Assistance Program." The Commission
4 has an extensive policy statement on Customer Assistance Programs. 52 Pa.
5 Code § 69.261 et seq. (The Policy Statement is currently undergoing revision
6 in Docket No. M-00072036.) In general, Customer Assistance Programs seek
7 to identify a utility's low-income, payment-troubled customers and provide
8 them with assistance in paying their utility bills. Customer Assistance
9 Programs can take a number of different forms. Two of the primary forms in
10 use in Pennsylvania are a percentage-of-income plan, or "PIP," in which
11 customers pay a specified percentage of their income for their utility service,
12 regardless of the amount of usage or the full tariffed rate for that service; and
13 the rate discount, in which customers pay for each additional unit of utility
14 service they receive, but at a rate lower than is charged to higher-income
15 residential customers. PECO uses a rate discount approach; its CAP is a
16 special rate for customers with income levels at or below 150% of the Federal
17 poverty level ("FPL"). For its gas CAP Rate, PECO has historically provided
18 a rate discount on the variable distribution portion of its bill. For customers
19 with income at or below 100% of the FPL (CAP Rate I), PECO waives the
20 variable distribution charge; for customers with income between 101-150% of
21 the FPL (CAP Rate II), PECO provides a discount to the variable distribution
22 charge of approximately 50%.

1 **7. Q. Does PECO propose to change its gas CAP Rate in this proceeding?**

2 no Yes. PECO is proposing significant enhancements to its gas CAP Rate.
3 (These changes are also set forth in a new CAP Rate Tariff Sheet, which
4 accompanies my testimony as Exhibit MJM-1. PECO has structured the new
5 CAP Rate program as a Rider to its residential rate.) Those enhancements fall
6 into three general categories. First, PECO is proposing to apply CAP Rate
7 discounts to the full gas bill, including the commodity charge. Since the
8 commodity charge is currently the largest portion of a gas service bill (and is
9 expected to remain the largest portion of the bill for the foreseeable future),
10 this change will result in a very significant enhancement to gas CAP Rate
11 benefits.

12
13 Second, PECO proposes to increase the number of CAP Rate levels from the
14 existing two levels to four levels, with eligibility for each level based upon the
15 customer's income level and circumstances. The four new gas CAP Rate
16 levels parallel the five CAP Rate levels in PECO's electric service tariff, but
17 in the gas CAP program the rate levels that are separated on the electric side
18 as CAP Rate A and CAP Rate B will be combined into a single rate, CAP
19 **Rate MB.**

20
21 Third, PECO proposes to increase the discount level for each of these CAP
22 Rates. PECO commissioned an analysis by the Applied Public Policy
23 Research Institute for Study and Evaluation ("APPRISE") to determine the

1 level of discount that would be needed to reach the affordability guidelines set
2 forth in the Commission’s CAP Policy Statement, 52 Pa. Code §69.265(2)(i).
3 (A copy of the APPRISE analysis is provided as Exhibit MJM-2.) The
4 APPRISE analysis demonstrates that, using PECO’s gas rates in early 2008,
5 affordability could be obtained using the following discount levels for the four
6 new CAP Rate levels:

	Income eligibility (FPL percentage)	Rate Discount*
CAPRate A/B	25% or below	90%
CAPRate C	26% -- 50%	75%
CAPRate D	51%-- 100%	50%
CAPRate E	101%-150%	10%

7

8 *Gas CAP Rate customers will have a minimum payment of \$25 per month
9 if they are heating customers, \$10 a month if they are non-heating
10 customers. These minimums are most likely to affect CAP A/B customers,
11 since their overall discount level is 90% absent the minimum.

12

13 These discount levels reflect the discount that is necessary to reach PECO’s
14 affordability targets, given recent (March 1, 2008) changes to PECO’s PGC
15 rates. In his testimony, Mr. Xander demonstrates the method for developing
16 these percentages. *See* Exhibit SRX-3.

17 e. **Q. How do these changes bring the gas CAP Rate into alignment with the**
18 **Commission’s CAP Policy Statement?**

1 mo The Commission’s current CAP Policy Statement, 52 Pa. Code §69.265(2)(i),
 2 provides guidelines for use in evaluating whether a "percentage-of-income" or
 3 "PIP" plan results in affordable service. While PECO is not proposing a
 4 percentage-of-income approach, it is aware that the Commission has
 5 previously used these targets as one guideline for evaluating the affordability
 6 of non-PIP CAP programs such as PECO’s. The guidelines for gas heating
 7 are:

Household income (FPL percentage)	Maximum bill (income percentage)	PECO CAP Rates
0-50%	5-8%	A,B,C
51%-100%	7-10%	D
101-150%	9-10%	E

8
 9 PECO is aware that, in the proposed revisions to the Commission’s Policy
 10 Statement currently under review in Docket No. M-00072036, the
 11 Commission has proposed to change the affordability level for gas heating
 12 to a 6% target across all income levels. However, that new level has not
 13 been adopted at this time and was the subject of extensive comments during
 14 the January 2008 comment period. PECO has therefore evaluated its
 15 program against the Commission’s existing Policy Statement.

16
 17 The APPRISE analysis found that "while the lower poverty groups need
 18 much higher gas discounts to reach the PUC target, most of the households
 19 in the higher poverty group need no gas discount to meet the gas energy
 20 burden." Applying the data from the APPRISE evaluation, PECO

1 concluded that, at the rates proposed above, virtually all of its low income
2 gas customers would meet the gas energy burden targets set in the
3 Commission's Policy Statement. In fact, the number of customers meeting
4 or exceeding the affordability target would be as follows:

CAP Rate A/B	100%
CAP Rate C	94%
CAP Rate D	93%
CAP Rate E	88%

Source: APPRISE Evaluation, Tables 4-6

5 **Earlier in your testimony, you stated that the APPRISE Evaluation was**
6 **done using "PECO's gas rates in early 2008." PECO's gas rates**
7 **increased in March 2008 in its latest Purchased Gas Cost ("PGC")**
8 **proceeding. Has PECO adjusted its proposed discount levels to**
9 **compensate for these increased gas rates?**

10 ^{mo} Yes. PECO recalculated the discount levels needed to maintain the same
11 levels of affordability set forth above, but under its PGC rates. Mr. Xander
12 presents this calculation in Exhibit SRX-3. As a result of that adjustment,
13 PECO proposes to implement the following discount levels:

	Income eligibility (FPL) percentage	Rate Discount*
CAP Rate A/B	25% or below	90%
CAP Rate C	26% -- 50%	79%
CAP Rate D	51%-- 100%	58%
CAP Rate E	101%-150%	24%

1 *All CAP Rate levels will have a minimum payment of \$25 per month if they
2 are heating customers, \$10 a month if they are non-heating customers.

3 10, **Q. Why is PECO offering a combined gas CAP Rate A/B, rather than two**
4 **separate rates as it does in its electric CAP Rate?**

5 mo The distinction is not needed for gas service.

6 Under its electric CAP Rates, PECO offers CAP Rate B customers an 85%
7 discount on the first 500 kWh of usage, with some discounts against
8 additional usage in some circumstances. The electric CAP Rate A is designed
9 as a safety net for those customers who cannot make even those payments and
10 who also have certain extenuating circumstances. For the electric CAP Rate
11 A customers, that safety net is a bill of \$12 per month for non-heating
12 customers, and \$30 a month for heating customers.

13
14 For gas service to Rate A/B customers, PECO is offering a 90% discount with
15 no usage limit on the discounted service, but with a minimum bill amount of
16 \$10 for non-heating customers and \$25 for heating customers. PECO
17 estimates that almost 100% of the CAP Rate A/B customers will pay the
18 minimum monthly bill amount. Therefore, no additional discounts are
19 available for a separate CAP Rate A. Put differently, all of the customers in
20 PECO's gas CAP Rate A/B will receive about the same discount levels as its
21 electric CAP Rate A customers receive.

1 11. Q. Why is PECO not proposing limits on the amount of gas usage for which
2 customers can receive a rate discount?

3 mo PECO has historically crafted its gas CAP Rate program differently than its
4 electric CAP Rate program on this issue. In the electric CAP Rate program,
5 PECO provides rate discounts for a specified usage amount - 500 kWh in
6 most months, more in the summer - that is sufficient to ensure the provision
7 of basic electric service, which is typically comprised of a combination of
8 appliance and lighting load. Discounts are eliminated for higher usage
9 amounts in order to induce conservation.

10

11 In the gas program, base usage is normally comprised of heating load and
12 water heating load. These loads, especially heating load, are driven by
13 weather and housing stock much more than other types of load, such as
14 appliance load. For gas, therefore, conservation usually means keeping the
15 house cold.

16

17 While conservation obviously is important in gas service, PECO does not see
18 any reason to reverse its historical choice to provide discounts without usage
19 limit for gas service.

20 12. oo Will PECO make additional adjustments to the gas CAP Rate discounts
21 to maintain affordability as the commodity prices change?

1 no Yes. The discount levels that I described previously in my testimony will
2 make gas service affordable as measured against the gas rates proposed in this
3 base rate proceeding. However, PECO typically makes quarterly adjustments
4 to its purchased gas cost rate. These adjustments can be significant, either
5 upward or downward, in any given quarter. If the rate discounts remain at a
6 static level, then customer bills for gas service will either become
7 unaffordable (if gas commodity costs increase) or too generous (if gas
8 commodity costs decrease). To avoid this, PECO proposes to adjust the rate
9 discount levels each quarter with its quarterly PGC rate adjustment so that
10 customer bills will remain affordable. The mechanism for accomplishing this
11 is described in Mr. Xander's testimony and shown in Exhibit SRX-3. In this
12 way, the quarterly adjustment would insulate PECO's low-income customers
13 from future changes in the commodity price of natural gas.

14 13. Q. Why is PECO not implementing a percentage-of-income program?

15 A percentage-of-income program requires that a separate discount be
16 individually calculated and applied for each customer. That approach is
17 extremely consumptive of administrative resources. PECO has the largest
18 combined CAP program in the Commonwealth, with more than 125,000
19 customers enrolled in its electric and gas CAP Rates. Using a PIP for the
20 gas - only component of the CAP Rate would require PECO to construct and
21 maintain separate, parallel systems for the gas and electric CAP Rates;
22 applying a PIP approach to both gas and electric would require having
23 125,000 individual rates. In both cases, the administrative burden would be

1 extremely significant.

2

3 The approach that PECO proposes in this base rate case avoids those
4 extensive administrative burdens. At the same time, because each tranche of
5 the new gas CAP Rate ensures that service will be affordable to a very high
6 percentage of the customers in that tranche, PECO's proposal gives the low-
7 income customers effectively the same benefits as a PIP approach.

14. What costs will PECO experience due to its new gas CAP Rate?

9 mo The primary cost effect will be in the revenue loss from billing the usage at
10 discounted rates rather than at full residential rates. I have calculated the
11 revenue loss that would be associated with this new proposal using the 2008
12 budget. Assuming that the average low-income customer uses 87 mcf of gas
13 annually, this new CAP Rate would create a revenue shortfall of \$10.3 million
14 per year. By comparison, in the 2008 budget, PECO's existing gas CAP Rate
15 would have caused a revenue shortfall of approximately \$4.3 million, based
16 on the same usage assumptions. The new gas CAP Rate thus represents a
17 marginal increase of \$6.0 million, or approximately 140%, in revenue
18 shortfall. My supporting data and calculations for these conclusions are
19 provided in Exhibit MJM-3. An adjustment has also been made to the test
20 year data to reflect this expected revenue shortfall. See Exhibit RLO-1,
21 Schedule D-5C.

1 15. Q. Will PECO have any offsetting expense savings associated with this
2 increase in the gas CAP Rate discount?

3 Yes. The primary source of savings is an expected reduction in PECO's
4 uncollectible expense. Each year, PECO reports to the Commission its total
5 CAP bills rendered, as well as the total cash payments made by CAP
6 customers. A copy of the relevant data from PECO's most recent report to the
7 Commission is provided as Exhibit MJM-4. The key data in PECO's 2007
8 report (reflecting 2006 data) show that PECO billed its gas CAP Rate
9 customers \$24,974,960 and those customers made cash payments totaling
10 \$21,830,604. This reflects an 87% payment rate against rendered CAP Rate
11 bills.

12
13 Based on these historic data, when PECO actually billed these customers for
14 the amounts in question, the customers paid 87% of those billings, while 13%
15 of those dollars became uncollectible. I therefore estimate that when PECO
16 ceases to bill these amounts, it will see a reduction in its uncollectible expense
17 of 13% of the marginal revenue cost of this program. Since the marginal
18 increase in revenue shortfall is \$6.0 million, and the data demonstrates that
19 PECO will save 13% of that amount through a decrease in its uncollectible
20 expense, I expect to see a decrease in PECO's uncollectible expense of
21 approximately \$780,000 ($\$6.0 \text{ million} \times 13\%$). An adjustment has also been
22 made to the test year data to reflect this expected change in uncollectible
23 expense. See Exhibit RLO-1, Schedule D-5C.

1 **16. Q. Are any other test year adjustments made to reflect the proposed changes**
2 **to the CAP Program?**

3 mo Yes. PECO expects higher administrative and related expenses. Adjustments
4 to reflect these increases are made in Exhibit RLO, Schedule 5C and
5 described in Mr. O'Brien's testimony.

17. oo **How will PECO recover its gas CAP Rate costs?**

7 mo Cost recovery is discussed in Mr. Xander's testimony. He generally proposes
8 to recover these costs through a combination of base rates and a Section 1307
9 mechanism. Mr. Xander also describes the effects of PECO's March 1, 2008
10 PGC rate increase on the ultimate discounts to be provided on January 1,
11 2009.

12 **III. LIHEAP**

13 **18. oo What is "LIHEAP"?**

14 "LIHEAP" is an acronym for "Low Income Home Energy Assistance
15 Program." The purpose of LIHEAP is to provide financial assistance to low
16 income customers to assist them in paying their utility bills. LIHEAP is a
17 federally-created program, 42 U.S.C.A. § 8621 et seq., and is also largely
18 funded by the federal government. Federal funding is primarily given to
19 states through block grants. The states may choose to supplement the federal
20 funding from the state treasury, and in some years Pennsylvania chooses to do
21 so. Pennsylvania's LIHEAP program is administered by the Pennsylvania

1 Department of Public Welfare ("DPW"). LIHEAP funds are distributed by
2 DPW to low-income customers, who use them to pay their energy bills.

3 19. **What activities does PECO undertake in its LIHEAP program?**

4 ^{AO} PECO's primary activities with respect to LIHEAP are to make sure that its
5 customers are aware of the availability of LIHEAP funds and can easily get
6 access to those funds and apply them to their utility bills. Program activities
7 are thus focused on customer outreach, interaction with DPW, and application
8 of LIHEAP funds to customer bills.

9 20. **Has PECO been successful in its LIHEAP activities?**

10 ^{MO} Yes. PECO measures success in LIHEAP by determining how much of the
11 available LIHEAP funds its customers were able to obtain and apply to PECO
12 bills. LIHEAP in Pennsylvania is made available on a "seasonal" basis from
13 November through March. For the most recently completed LIHEAP season
14 - November 2006 through March 2007 - PECO's customers applied over
15 \$10.4 million in LIHEAP funds to their PECO bills. Approximately \$2.8
16 million of that total was applied to the bills of customers who receive gas
17 service from PECO. PECO applies LIHEAP grants directly to the customer's
18 account, reducing the outstanding balance of that account. This results in a
19 minimum 60-day termination hold on the account, even if the LIHEAP grant
20 does not fully resolve the customer's outstanding balance.

21

22

1 In addition, PECO was the first utility in the Commonwealth to automatically
2 enroll LIHEAP recipient customers in its CAP Rate programs. This
3 innovative program ensures that PECO customers who receive a LIHEAP
4 grant and apply it to their PECO account receive not only the benefit of the
5 LIHEAP grant, but also a continuing benefit lasting for at least two additional
6 years during which the customer receives service at a discounted rate.
7 Although PECO believes that it is the only utility in the Commonwealth that
8 performs this innovative automatic enrollment, the Commission recently
9 stated, in its proposed CAP Policy Statement revisions, that it encourages
10 other utilities to follow PECO's lead and adopt similar automatic enrollment
11 programs.

12 21. **Q. What cost does PECO incur for its LIHEAP program?**

13 mo LIHEAP grants themselves are funded by the federal and state governments.
14 PECO's LIHEAP costs are therefore limited to the administrative costs
15 associated with public outreach, agency coordination, billing issues, and
16 similar administrative costs. PECO administers the gas LIHEAP program in
17 coordination with, and using the same personnel as, its electric LIHEAP
18 program. Its gas program costs consist of the gas-allocated portion of its
19 LIHEAP personnel/administrative costs. Those costs are captured generally
20 in PECO's expense claim for personnel.

21 22. **Q. Does PECO have any offsetting expense savings associated with the**
22 **LIHEAP program?**

1 mo Typically, customers who use LIHEAP funds to pay their bills are in financial
2 distress and, absent the LIHEAP funds, probably would not pay 100% of the
3 bill in question. Use of LIHEAP funding to pay PECO bills therefore has a
4 positive effect on PECO's uncollectible expense. However, because PECO is
5 not seeking to increase the size of its LIHEAP program, the offsetting
6 reduction to expense is fully reflected in the historic uncollectible expense
7 included in the test year, and no further adjustment is needed.

8 23. Q. How will PECO recover its LIHEAP costs?

9 mo The limited costs associated with this program are included in the test year
10 data for PECO's normal operational, personnel, and other expenses. The costs
11 will be recovered through base rates.

IV. LIURP

13 24. **Q. What is "LIURP"?**

14 mo "LIURP" is an acronym for "Low Income Usage Reduction Program." As the
15 program name implies, the purpose of LIURP is to assist low income
16 customers to conserve energy and thus reduce their residential energy usage
17 and bills.

18
19 Although many utilities and many states have conservation programs,
20 including conservation programs focused on low-income customers, LIURP is
21 a Pennsylvania-specific program, having been created by Commission
22 regulations (52 Pa. Code § 58.1 et seq.) in 1988.

1 25. Q. What activities does PECO undertake in its LIURP program?

2 ^{Ao} LIURP encompasses two kinds of activities. First, PECO performs extensive
3 educational activities to promote LIURP conservation. Second, PECO visits
4 the homes of low income customers and performs an energy "audit" of the
5 household to develop recommendations for possible methods of energy
6 conservation in that household. During these audits, PECO will implement
7 certain conservation measures that meet prescribed guidelines - known as
8 remediation measures - for example, wrapping a water heater with insulation.
9 In 2007, PECO conducted 9,318 energy audits, of which approximately 500
10 were for customers who take gas service from PECO. The most recent data
11 demonstrate that, over the past five years, the average gas customer for whom
12 PECO conducts an energy audit will experience a 10.9% decrease in usage.

13 **26. Q. Has PECO's LIURP Program been subject to any external reviews or**
14 **acknowledgements?**

15 ^{Ao} Yes. In 2007, PECO's LIURP Program received an award from the American
16 Council for an Energy-Efficient Economy (the "ACEEE"). According to
17 ACEEE's website, www.aceee.org, ACEEE is "a non-profit organization
18 dedicated to advancing energy efficiency as a means of promoting both
19 economic prosperity and environmental protection." ACEEE was founded in
20 1980 in California but now has a national presence. ACEEE periodically
21 reviews utility conservation programs across the nation, singling out some
22 programs as "Exemplary Programs," while others receive "Honorable

1 Mention."

2

3 In 2007, PECO's LIURP program was selected by ACEEE as an "Exemplary
4 Program" in the category of "Low-Income Programs." PECO's LIURP
5 Program was one of only five low income programs nationwide to receive this
6 honor, and the only one in Pennsylvania.

7 27. **Q. What funding level is PECO proposing for its gas LIURP program?**

8 ^{ao} The Commission's regulations, 52 Pa. Code § 58.4(a), state that: "Annual
9 funding for a covered natural gas utility's usage reduction program shall be at
10 least .2% of a covered utility's jurisdictional revenues." The regulations
11 further state that: "A covered gas utility will continue to fund its usage
12 reduction program at this level until the Commission acts upon a petition from
13 the utility for a different funding level ...".

14

15 Utilizing this formula, PECO's gas LIURP program funding was set at
16 \$875,000 annually during its last base rate case in 1987, and has remained at
17 that level ever since. In this filing, PECO proposes to increase the funding to
18 its gas LIURP program to \$1.75 million annually (i. e., PECO's test year
19 revenue of approximately \$875 million times .2% = \$1.75 million). PECO
20 anticipates that it will be able to conduct hundreds of additional energy audits
21 per year with this increased funding. PECO has made an adjustment to its
22 operating expense to reflect this impact. *See Exhibit RLO-1, Schedule D-17.*

1 28. Q. Does PECO propose any phase-in of these increased expenditures?

2 ^{ao} No. Although the proposed gas LIURP budget of \$1.75 million is a significant
3 increase from existing gas LIURP funding levels - more than double the 2008
4 budgeted amount - PECO believes that it can effectively spend that money on
5 additional LIURP audits in the first year of implementing the increase.
6 PECO's total LIURP program, which involves both its electric and gas
7 customers, is quite large - the electric program has an annual budget of
8 approximately \$5.6 million. Thus, while the increase in the gas LIURP
9 budget nearly doubles the size of the gas program, it only increases the overall
10 LIURP program by about 14%. Since PECO jointly manages these programs,
11 it will utilize the administrative structures and expertise associated with the
12 overall program to quickly and effectively utilize the increased amount
13 earmarked for gas LIURP.

**14 29. Q. Does PECO have any offsetting revenue effects or expense savings
15 associated with the LIURP program?**

16 ^{mo} Yes. The purpose of the LIURP program is to reduce usage of utility service.
17 As noted above, PECO gas customers achieve an average usage reduction of
18 10.9% after a LIURP audit. When that reduction is successfully
19 accomplished, it causes a dollar-for-dollar reduction in billed revenue.
20 Because PECO is more than doubling the size of its gas LIURP program, it
21 expects to see a parallel reduction in gas revenue. It has made an adjustment
22 to its revenue projections to reflect that expectation. *See* Exhibit RLO-1,

1 Schedule D- 17.

2

3 For the commodity portion of gas service, reductions in revenue caused by
4 decreased usage are matched, virtually dollar-for-dollar, by reductions in the
5 cost of purchased gas. Those reductions will be reflected in PECO' s system-
6 wide purchased gas costs and will therefore result in a lower claim for
7 purchased gas costs in future Purchased Gas Cost Adjustment proceedings.

8 No offsetting adjustment has therefore been made in this proceeding.

9 For the non-commodity portion of gas service, reductions in revenue caused
10 by decreased usage are unlikely to be matched by any decrease in either
11 embedded or variable service costs. The change in usage is simply not large
12 enough, compared to overall system usage, to result in decreased costs of
13 owning or operating the utility system. PECO has therefore made no
14 offsetting adjustment to its operational costs.

15 30. **Q. How will PECO recover its LIURP costs?**

16 mo The administrative costs of the program are included in PECO' s test year data
17 for operations, personnel, etc. While PECO is proposing to enlarge the
18 program, it also plans to manage it using its existing personnel and therefore
19 has made no adjustment to test year data. As noted above, any decrease in
20 future purchased gas costs will be reflected in the relevant Section 1307 filing.

1 **V. MEAF**

2 31. **What is "MEAF"?**

3 mo MEAF is an acronym for "Matching Energy Assistance Fund." MEAF is
4 PECO's version of a "Hardship Fund," which, according to Commission
5 regulations, 52 Pa. Code § 54.72, is: "A fund that provides cash assistance to
6 utility customers to help them pay their utility bills." Hardship Funds
7 developed from Commission jurisprudence; in the *Equitable Gas* case the
8 Commission adopted a policy of requiring utilities to have Hardship Funds.
9 The "matching" aspect of this program is PECO's use of shareholder funds to
10 "match" certain contributions made by other parties. PECO does not recover
11 its shareholder match through its rates.

12 32. **Q. What activities does PECO undertake in its MEAF program?**

13 mo PECO solicits contributions to assist low income customers in paying their
14 bills. These solicitations include multiple bill inserts seeking contributions
15 each year, and a "checkoff box" on PECO's monthly bills allowing single or
16 ongoing contributions. PECO has also worked with local media outlets and
17 industrial customers to make contributions to the MEAF program.
18 PECO forwards the contributions that it receives to local community-based
19 organizations ("CBOs"). The CBOs also obtain funds from other sources for
20 these purposes. The CBOs meet with low income customers in the normal
21 course of the CBOs' business. If a CBO determines that MEAF funds are
22 available and that the low income customer meets certain eligibility

1 requirements for a MEAF grant, it then provides the customer with a grant to
2 assist it in paying its utility bills. (The MEAF grant can be used to pay a
3 PECO bill, or some other utility bill.) When PECO receives the MEAF grant
4 on behalf of the customer, PECO "matches" the MEAF grant dollar-for-dollar.
5 In 2007, PECO matched approximately \$500,000 of MEAF grants.
6 Approximately \$55,000 of those grants were applied to the accounts of
7 customers who receive gas service. Because its natural gas customers also
8 tend to take electric service from PECO, the MEAF grants for PECO's natural
9 gas customers are generally applied to their past due balance, both gas and
10 electric.

11
12 In addition, PECO pays 1/3rd of the administrative costs of the Philadelphia-
13 based Utility Emergency Services Fund.

14 33. **Q. Has PECO been successful in its MEAF activities?**

15 ^{mo} Yes. The \$500,000 used to match funds in 2007 exceeded PECO's budget
16 and expectations for that program.

17 34. ^{oo} **What funding level is PECO proposing for its gas MEAF program?**

18 ^{A°} As noted previously in my testimony, PECO uses shareholder funds to match
19 contributions made by its customers. The size of the program is therefore
20 driven by customer contributions. However, because it funds the matches
21 with shareholder funds, PECO is not seeking to recover any of its MEAF

1 matching fund budget. The administrative costs of the MEAF program are
2 included in PECO's general administrative expenses.

3 **35. Q. Does PECO have any offsetting expense savings associated with the**
4 **MEAF program?**

5 mo Yes. The effects are similar to the LIHEAP cost savings discussed previously
6 in my testimony. That is, customers who are applying MEAF dollars to their
7 accounts probably would not pay 100% of the bill in question. Use of MEAF
8 funding to pay PECO bills therefore reduces PECO's uncollectible expense.
9 However, because PECO is not seeking to increase the size of its MEAF
10 program, the effect of historic MEAF funding on uncollectible expense is
11 expected to be the same as the effect of future MEAF funding on uncollectible
12 expense. The offsetting reduction to expense is thus fully reflected in the
13 historic uncollectible expense included in the test year, and no further
14 adjustment is needed.

15 **36. oo How will PECO recover its MEAF costs?**

16 As noted previously in my testimony, PECO uses shareholder funds for this
17 matching program and therefore is not seeking to recover any of its MEAF
18 matching fund budget. The administrative costs of the MEAF program are
19 included in PECO's general administrative expenses.

1 VI. CARES

2 37. Q. What is "CARES"?

3 mo CARES is an acronym for Customer Assistance and Referral Evaluation
4 Services.

5 38. oo What activities does PECO undertake in its CARES program?

6 A° There are two primary activities in the CARES program. First, PECO
7 engages in broad-based communications to its low income population to assist
8 that population in being aware of low income assistance opportunities.
9 Because the low income group that receives these communications numbers
10 well in excess of 100,000, this program results in several hundred thousand
11 communication "touches" each year. Second, PECO has three employees
12 who work directly with its most challenged customers to assist those
13 customers in obtaining the proper financial assistance from the various low
14 income programs available to them. The use of three dedicated CARES
15 employees was agreed to with various stakeholders in the settlement known as
16 the "Consensus Modifications" and was subsequently approved by the
17 Commission in Docket No. M-00001418.

18 39. oo Has PECO been successful in its CARES program?

19 mo Yes. The multiple communication "touches" associated with the CARES
20 program have been an integral part of the success of PECO' s other low-
21 income programs. In addition, the three employees who work directly with

1 the most challenged customers have successfully worked with hundreds of
2 those customers to provide access to available assistance.

40. Q. What funding level is PECO proposing for its gas CARES program?

4 CARES-type outreach works best if all available programs operate in a
5 coordinated fashion. PECO's CARES program uses this integrated approach;
6 the cost of running the program is therefore partially incurred as part of
7 PECO's electric service, and part is incurred as part of its gas service. PECO
8 is therefore seeking in this proceeding to recover the gas-allocated portion of
9 the CARES program. For both the communications outreach and the three
10 CARES workers, these costs are included in PECO's general cost of service.

11 **41. Q. Does PECO have any offsetting expense savings associated with the**
12 **CARES program?**

13 Customers who use the CARES program will typically enroll in one or more
14 of the other low income programs described previously in my testimony. To
15 the extent that there are offsetting savings, those savings will be captured in
16 the accounting for those programs, as described above.

17
18 PECO is not aware of any other offsetting expense savings associated with the
19 CARES program. However, to the extent such offsetting expense savings
20 exist, the effect of historic CARES functions is fully reflected in the budgeted
21 expense data included in the test year. Since PECO is not proposing any

1 CARES program changes, the test year data fully reflects any offsetting
2 expense savings for this program.

42. **Q. How will PECO recover its CARES costs?**

4 ^{AO} Through base rates. The costs of the CARES program are reflected in the test
5 year data.

43. **Q. Does this conclude your testimony?**

A. Yes.