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July 8, 2009

**Via Electronic Filing**James McNulty, Secretary  
PA Public Utility Commission  
PO Box 3265  
Harrisburg, PA 17105-3265Re: Philadelphia Gas Works Universal Service and Energy Conservation Plan 2008-2010  
Submitted in Compliance with 52 Pa. Code § 62.4, Docket No. M-00072021

Dear Secretary McNulty:

On behalf of Philadelphia Gas Works, enclosed for filing please find its original Petition to Amend Philadelphia Gas Works' Universal Services and Energy Conservation Plan 2008-2010 along with the electronic filing confirmation with regard to the above referenced matter.

Very truly yours,



Daniel Clearfield

DC/lww  
Enclosure

cc: Cert. of Service w/enc.

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served a true copy of the foregoing document upon the participants listed below in accordance with the requirements of § 1.54 (relating to service by a participant).

### VIA E-MAIL and FIRST CLASS MAIL

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Daniel Clearfield, Esq.

Date: July 8, 2009

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Re: Philadelphia Gas Works Universal** :  
**Service and Energy Conservation Plan :** : **Docket No. M-00072021**  
**2008-2010 Submitted in Compliance** :  
**with 52 Pa.Code § 62.4** :

**PETITION TO AMEND PHILADELPHIA GAS WORKS' UNIVERSAL  
SERVICES AND ENERGY CONSERVATION PLAN 2008-2010**

Philadelphia Gas Works ("PGW" or "Company") hereby petitions the Pennsylvania Public Utility Commission ("PUC") pursuant to 66 Pa. C.S. § 703(g) and 52 Pa. Code § 62.4, to amend its PUC-approved Universal Services and Energy Conservation Plan for 2008-2010 ("Plan"). The Plan is attached hereto as Exhibit "A". PGW requests amendment of the Plan to revise the manner in which it applies federal Low Income Home Energy Assistance Program ("LIHEAP") Cash grants to the accounts of Customer Responsibility Program ("CRP") participants. As described below, PGW seeks to amend the Plan because the Pennsylvania Department of Public Welfare ("DPW") has ordered PGW to do so as a condition for allowing PGW to continue as a LIHEAP vendor in the upcoming, as well as future, heating seasons.<sup>1</sup> In support of this Petition, PGW states as follows:

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<sup>1</sup> In summary, through the application of its Universal Service and Energy Conservation Surcharge, PGW shall charge non-CRP customers the total amount of the 2008-2009 LIHEAP Season Cash Grants, as well as future Cash Grants, received with respect to CRP participants. With respect to the 2008-2009 LIHEAP season, these Grants were originally applied as a credit to the surcharge but will now be directed to the accounts of each applicable CRP customer (thereby increasing the amount of the subsidy provided to CRP customers, for which non-CRP customers must pay).

## **Background**

1. PGW filed its currently effective Plan on June 7, 2007 and it was approved, as filed, by PUC Order of August 31, 2007 (“Order”).
2. As described in the Plan, PGW’s CRP is funded through a Universal Service And Energy Conservation Surcharge (“Surcharge”) that is imposed on all firm customers (other than those in the Company’s Customer Assistance Program (“CAP”) – CRP), including commercial and industrial sales customers. Computation of the Surcharge is made in accordance with the automatic adjustment procedures under 66 Pa.C.S. § 1307(f) and the Surcharge is adjusted quarterly in accordance with section 1307(f) quarterly adjustment procedures. Philadelphia Gas Works Gas Service Tariff No. 2, page 81.
3. CRP was designed to provide an affordable payment plan that avoids loss of service for vulnerable customers, to improve the payment behavior of CRP participants, and to reduce collection costs while minimizing burdens transferred to other customers. As designed and approved by the PUC, the cost of the discount provided to CRP customers was offset in part by LIHEAP cash grants received with respect to CRP program participants. To accomplish these goals and in accordance with 52 Pa.Code §§ 69.265(1) and (9) and the Plan, LIHEAP Cash Grants (“Grants”) are applied to the accounts of CRP participants as follows:

LIHEAP Cash Grant: when the grant payment is received, it is posted to the account but immediately backed out. The grant is used to offset the discount/subsidy passed through to other firm rate payers via the Universal Service Charge surcharge (USC). The transaction is noted on the account and it appears as part of the CRP bill.

Plan, page 4. PGW applied LIHEAP Cash Grants for the 2008-2009 LIHEAP season (“2008 Season”) in this manner (i.e., the Surcharge was reduced by the amount of the 2008 Season Cash Grants).

## Communications with DPW

4. DPW administers the LIHEAP program in the Commonwealth of Pennsylvania. Beginning in late October 2008, DPW began questioning PGW about its application of Grants to CRP customer accounts. PGW engaged in months of discussions and meetings with DPW in an effort to explain the design of its CRP program, the benefits of the existing program design for Grant recipients, and the design's compliance with statutory and other provisions governing the LIHEAP program.

5. Pursuant to a May 6, 2009 letter ("May Letter"), DPW required that going forward and *retroactively for all Grants issued during the 2008 Season* PGW must apply the Grants directly to past due CRP bills (the "asked to pay" amount). A copy of the May Letter is attached hereto as Exhibit "B". Any remaining Grant funds would be applied to future CRP "asked to pay" bills. In the May Letter, DPW further stated that this application should reduce pre-CRP arrearages for each month to which the Grant is applied, based on the current 1/36<sup>th</sup> forgiveness formula provided in the Plan. DPW also stated that Grants may not be applied against actual usage amounts of the CRP customer (i.e., the difference between the actual cost of service and the monthly CRP "asked to pay" bill). Pursuant to these requirements, therefore, LIHEAP Grant funds will no longer be available to offset or reduce the Subsidy.

6. On May 27<sup>th</sup> PGW met with DPW in an effort to better understand DPW's demands. At that meeting, PGW was told that it could propose an alternative application method for the 2008 Season but that for future LIHEAP seasons it must make the changes set forth in paragraph 5 above and provide a prompt timeframe for doing so. DPW also informed PGW that if it did not make the changes, DPW would no longer utilize PGW as a LIHEAP vendor, would

provide all LIHEAP grants directly to PGW customers, and would seek retroactive recovery/application of past seasons' Grants.

7. Under these circumstances, in a June 2<sup>nd</sup> letter ("PGW Letter") PGW agreed that it would apply for PUC approval of the changes requested by DPW for Grants. A copy of the PGW Letter is attached hereto as Exhibit "C". The PGW Letter also proposed an alternative application for the 2008 Season -- that it would retroactively apply Grants first to the CRP recipient's "asked to pay" arrearage; then to the pre-CRP arrearage; and then as a credit against future "asked to pay" bills as incurred. Correspondence DPW received from the federal Department of Health and Human Services indicated that DPW had authority to grant that alternative application.

8. In a June 18<sup>th</sup> letter ("June Letter"), DPW rejected the alternative proposed by PGW. A copy of the June Letter is attached hereto as Exhibit "D".

#### **CRP Program Changes**

9. As a result of the Grant application required by DPW, as described above, the amount of the Surcharge will increase on a continuing, going forward basis. The Surcharge will also increase because of the one-time retroactive adjustment required by DPW for the 2008 Season as funds received from LIHEAP that were used to reduce the subsidy are reversed and applied to individual CRP accounts. Of course, PGW's non-CRP ratepayers will bear the burden of this increase. The current amount of the Surcharge is already the highest in the Commonwealth. Although PGW does not know what the Surcharge increase will be going forward, as of the filing date of this Petition the retroactive changes for the 2008 Season will result in increasing the Surcharge by \$15,200,000. To minimize the additional expected Surcharge burden to be placed on its non-CRP customers going forward, and to conform the

program support for low income customers to the PUC's original intentions, PGW plans to seek future PUC approval to further modify its CRP program.

10. In order to put the DPW-required changes into effect for the 2009-2010 LIHEAP season, PGW has dedicated resources to reprogramming its billing system. However, given PGW's limited resources, it is unable to evaluate potential future changes to the CRP program structure and obtain authorization from the PUC for any such modifications in time for the start of the 2009-2010 LIHEAP season. Accordingly, PGW will conduct a detailed study of possible modifications to CRP and expects that it will file a petition with the PUC in January 2010 (or sooner, if possible) requesting authorization to make the CRP modifications it believes are necessary; these modifications will conform the CRP benefits for low income customers and the resulting Subsidy recovered from other customers with the PUC's CAP policies and requirements as PGW understands them.

**Proposed Amendment – Retroactive and Future Application of Grants**

11. The Plan amendment proposed herein will modify the application of LIHEAP Cash Grants effective November 3, 2008 (with respect to Grants for the 2008 Season) through 2010 as set forth below. A hypothetical detailing such application is provided on page 2 of the PGW Letter.

**Application of Grants:**

LIHEAP Grants are applied to CRP accounts as follows:

LIHEAP Cash Grant: when the grant payment is received, it will reduce the CRP "asked to pay" balance and arrears and will not be applied to pre-CRP enrollment arrears while the customer is an active CRP participant.

12. As clarification, PGW applied Grants received for the 2008 Season in accordance with the PUC-approved Plan – as an offset against the cost of the discount provided to CRP customers and paid for by other ratepayers. The Plan amendment proposed herein will require

recovery of the Grant amounts for the 2008 Season – currently in the amount of \$15,200,000 – from all firm customers (other than those in CRP) through the Surcharge .

13. Accordingly, as amended the Plan will authorize PGW to recover 2008 Season Grants pursuant to the Surcharge and to apply future Grants directly against each respective recipient’s “asked to pay” CPR bill.

WHEREFORE, Philadelphia Gas Works hereby petitions the Pennsylvania Public Utility PUC to:

1. Partially rescind and amend its Order entered August 31, 2007 by authorizing the below amended language, effective from November 3, 2008 (with respect to Grants for the 2008 Season) through 2010, for page 4 of the Plan which provides as follows:

Application of Grants:

LIHEAP Grants are applied to CRP accounts as follows:

LIHEAP Cash Grant: when the grant payment is received, it will reduce the CRP “asked to pay” balance and arrears and will not be applied to pre-CRP enrollment arrears while the customer is an active CRP participant.

2. Grant other such relief as is in the public interest.

Respectfully Submitted,



Denise Adamucci, Esq.

Senior Attorney

Philadelphia Gas Works

800 W. Montgomery Avenue, 4<sup>th</sup> Floor

Philadelphia, PA 19122

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Facsimile (215) 684-6798

Counsel for Philadelphia Gas Works

Of Counsel:

Daniel Clearfield, Esq.

Eckert Seamans Cherin & Mellott, LLC

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Harrisburg, PA 17101

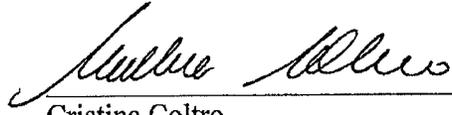
Dated: July \_\_, 2009

**VERIFICATION**

I hereby state that: a) I am Vice President, Customer Affairs for Philadelphia Gas Works; and b) the facts set forth in the attached Petition for Amendment are true and correct to the best of my knowledge, information and belief and that I expect to be able to prove the same at a hearing held in this matter.

I understand that the statements herein are made subject to the penalties of 18 Pa. C.S. § 4904 (relating to unsworn falsification to authorities).

Date: 7/8/9

  
Cristina Coltro

# EXHIBIT A

# Philadelphia Gas Works

Gregory J. Stunder  
Senior Attorney



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## VIA OVERNIGHT MAIL

June 1, 2007

James J. McNulty  
Secretary  
PA Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2nd Floor  
Harrisburg, PA 17120

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Re: Philadelphia Gas Works Universal Service and Energy Conservation Plan – 2008 to 2010

Dear Secretary McNulty:

Enclosed for filing pursuant to 52 Pa.Code § 62.4 are an original and three (3) copies of Philadelphia Gas Works Universal Service and Energy Conservation Plan – 2008 to 2010.

If you have any questions regarding this matter, please contact me. Thank you for your assistance with this matter.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gregory J. Stunder".

Gregory J. Stunder

cc: Mitch Miller, Bureau of Consumer Services  
Michael Smith, Bureau of Consumer Services  
John Simms, Office of the Trial Staff  
Sonny Popowsky, Office of the Consumer Advocate  
William Lloyd, Office of the Small Business Advocate

# Philadelphia Gas Works

## Universal Service and Energy Conservation Plan – 2008 to 2010

### I. Plan Submission:

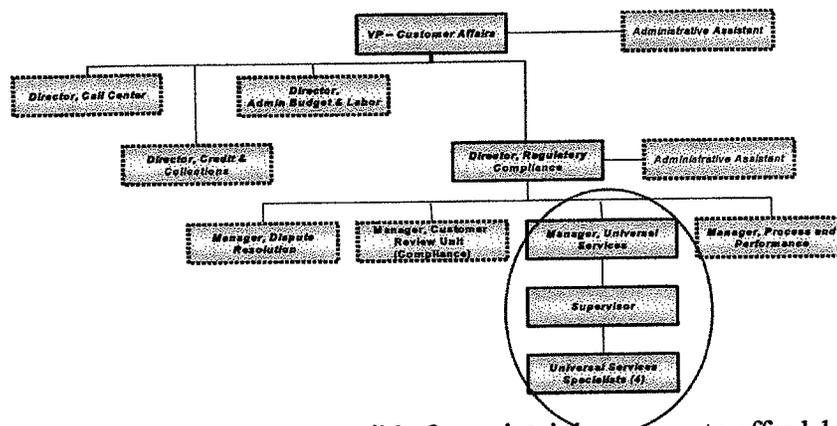
Pursuant to “Regulation 52 PA Code 62.4 Universal Service and Energy Conservation Plans”, PGW hereby submits for approval of the Pennsylvania Public Utility Commission (“Commission”) its proposed plan for years 2008 through 2010. PGW’s Universal Service Programs include Customer Responsibility Program (CRP), Conservation Works Program (CWP), Hardship Fund, Customer Assistance Referral and Evaluation Services (CARES).

### II. Historical Overview:

PGW submitted its first Universal Service Plan in September 2003 as part of its Restructuring Filing as required by the Natural Gas CHOICE and Competition Act in Docket No. M-00021612. The Commission approved the plan on DATE. PGW has complied with the provisions of the Plan since its approval. Subsequent to that, PGW performed an impact evaluation of its Customer Responsibility Program. PGW commissioned this evaluation to determine CRP payment impacts, coverage rates of variable and fixed costs by CRP customers, and to obtain informed recommendations on how the CRP can be modified to better serve PGW, its low-income customers, and the ratepayers as a whole. The evaluation also provided required information to the Pennsylvania Public Utility Commission (PUC), Bureau of Consumer Services (BCS). The evaluation was conducted by APPRISE Inc. and finalized in February 2006. The evaluation was filed with the PUC on March 22, 2006. A copy of the evaluation, including recommendations suggested by APPRISE, is in Appendix A.

### III. Organization

PGW’s Universal Services unit is part of the Customer Affairs department. There is one manager reporting to the Director, Regulatory Compliance, one supervisor, and four specialists.



The Universal Services Department is responsible for maintaining access to affordable gas service for customers in need, in a manner that is fair, efficient, and financially sustainable. This office manages and assesses PGW’s main Universal Service Programs: Customer Responsibility Program (CRP), LIHEAP

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Program, Conservation works Program (CWP), the CARES program, as well as the Senior Citizens Program. The Department works closely with customer services departments such as the Call Center, Customer Service Centers, Credit & Collections, and Process and Performance.

**IV. Program Descriptions:**

Pursuant to 52 Pa Code 62.4(b), the components of PGW's universal service and energy conservation plan is described in detail. Following are program descriptions, proposed changes, budget, and projected participation levels.

**1) Customer Responsibility Program:**

**Background**

The Customer Responsibility Program (CRP) was implemented in 1994 as a revision of a percentage of income plan created in 1989. CRP is a low-income payment assistance program available to any residential customer with gross household income at or below 150% of the federal poverty level (FPL). Participants do not need to demonstrate that they are "payment troubled", either by the existence of a minimum level of arrearage or because housing and utility expenses exceed a certain percentage of income. There is no restriction on the number of customers on CRP. Currently, there are 76,200 participants in the program.

CRP customers are asked to pay a CRP budget amount that is based on household income and occupancy plus \$3 co-pay towards pre-program arrears. They can have only one account in the customer's name. Participants receive a discount that is defined as the difference between the actual gas bill minus the CRP budget amount. They also receive 1/36<sup>th</sup> arrearage forgiveness of their pre-program arrears provided they are current and pay their CRP bills each month on time and in full. CRP customers are eligible to receive free conservation services through PGW's Conservation Works Program (CWP).

The CRP program is funded through a Universal Services Surcharge that is passed to all firm customers, including commercial and industrial. The goals of CRP are to establish an affordable payment plan that avoids loss of service for vulnerable customers, improves payment behavior and reduces collections costs while minimizing the burden transferred to other customers. The cost of the discount provided is offset by the LIHEAP cash grants received from program participants.

Customers may apply for CRP by mail or in person at the six (6) PGW's Customer Service Centers. There are three (3) types of CRP agreements:

- 0-50% of FPL pays 8% of gross income; minimum payment of \$18/month.
- 51-100% of FPL pays 9% of gross income
- 101-150% of FPL pays 10% of gross income

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CRP Responsibilities include:

- Making timely payments
- Apply for and assign a LIHEAP grant to PGW each year, if eligible
- Report any change of income and/or occupancy
- Recertify yearly. Customers who received a LIHEAP grant during the current program year are excluded from recertification.
- Accept free conservation measures offered by PGW

**Control Features:**

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PGW monitors CRP accounts daily to ensure compliance with the terms of the program. CRP costs are managed through conservation and weatherization services and customer education regarding energy assistance grants.

**A) Recertification:**

CRP participants are required to recertify yearly. Customers who received a LIHEAP grant during the current program year are excluded from the recertification requirement for that year.

**B) Default Provision:**

CRP customers who fail to comply with one or more of the following may be removed from the program:

- Failure to make monthly CRP payments resulting in termination. Shut-off notices are issued to CRP customers who are delinquent by one payment or more.
- Failure to recertify yearly unless the customer received a LIHEAP grant, as set forth above
- Refusal to accept free conservation measures offered by PGW

**a) Non-Pay default:**

When a CRP customer becomes delinquent by one payment or more, they are required to pay the catch-up/cure amount to continue participation in the program. Termination proceedings are initiated prior to removal from CRP. If the customer does not pay the overdue CRP amount, the customer will have service terminated and be removed from CRP. In order to reinstate in CRP after termination the customer must do the following:

First Removal:

- Pay the catch-up/cure amount plus the reconnection fee

Two or more removals:

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- Pay the full balance in addition to the reconnection fee

Enrolling CRP customer are exempt from payment of a security deposit.

b) Other than non-payment default

**Lack of Recertification:**

PGW mails a reminder notice to CRP customers required to recertify 30 days prior to their agreement anniversary date. If the customer does not recertify by the anniversary date, PGW mails the "recertification default notice" providing 45 days to complete recertification. PGW mails a final recertification notice 35 days from the recertification default notice. The customer will be suspended from CRP if recertification is not completed by the 45<sup>th</sup> day. Once the customer is suspended from the program, their CRP pre-program arrears that remain unpaid and not forgiven will be deemed payable and the customer will be billed and treated as a regular residential customer. In order to reinstate on CRP the customer must pay the CRP catch-up/cure amount of unpaid CRP bills prior and subsequent to suspension. Bills sent after suspension will be calculated as CRP bills for the purpose of reinstatement.

**Refusal to accept free conservation measures offered by PGW:**

CRP customers who refuse PGW's Conservation Works Program Services may be removed from the program. In order to reinstate, the customer must accept the treatments offered in addition to remaining current with other CRP provisions.

**Other reasons for being removed from CRP are:**

- Over Income: If income exceeds program limits of 150% of the federal poverty level, the customer will be removed from CRP and offered regular payment arrangements.
- CRP budget amount exceeds regular budget amounts
- Customer request

**C) Application of Grants:**

LIHEAP Grants are applied to CRP accounts as follows:

LIHEAP Cash Grant: when the grant payment is received, it is posted to the account but immediately backed out. The grant is used to offset the discount/subsidy passed through to other firm rate payers via the Universal Service Surcharge (USS). The transaction is noted on the account and it appears as part of the CRP bill.

CRISIS and other grants (UESF, City Grant, etc.): when the payment is received, it is applied to the account similarly to regular payments. It reduces the CRP balance and arrears.

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D) Needs Assessment:

Consistent with the data provided by the Bureau of Consumer Services' document to the Energy Association of Pennsylvania, dated May 24, 2001, PGW based the needs assessment on the following criteria:

- a) The number of identified low income customers: includes customers who have been on a payment arrangement and whose household income was reported at or below 150% of the FPL; all CRP customers; all accounts that have received LIHEAP or other energy assistance grants. The monthly figures and average for 2006 are:

|                |                |
|----------------|----------------|
| January        | 138,308        |
| February       | 138,734        |
| March          | 139,621        |
| April          | 140,438        |
| May            | 140,984        |
| June           | 141,150        |
| July           | 140,966        |
| August         | 140,569        |
| September      | 139,299        |
| October        | 138,092        |
| November       | 137,243        |
| December       | 136,240        |
| <b>Average</b> | <b>139,304</b> |

- b) Estimated low-income customers based on most recent census data for the Philadelphia County:

|       | Column 1                                      | Column 2 | Column 3        | Column 4 |
|-------|---|----------|-----------------|----------|
|       | Item  | Source   | Calculation     | Result   |
| Row 1 | Households in City                            | Census   |                 | 580,784  |
| Row 2 | Households at or below 150% Poverty in City   | Census   |                 | 185,091  |
| Row 3 | Percent of household at or below 150% in City |          |                 | 32%      |
| Row 4 | PGW Customer Households                       | PGW      |                 | 478,646  |
| Row 5 | 150% Poverty in PGW                           |          | (Row4) * (Row3) | 152,540  |

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PGW reports this calculation of estimated low income customers in its Universal Services Reporting Requirement (question #12).

- c) Number of identified payment troubled, low income customers (subset of a), as per question # 9 of the 2006 Universal Services Reporting Requirement.

|                |               |
|----------------|---------------|
| January        | 29,045        |
| February       | 28,087        |
| March          | 27,366        |
| April          | 26,406        |
| May            | 24,853        |
| June           | 23,760        |
| July           | 22,983        |
| August         | 22,513        |
| September      | 22,372        |
| October        | 21,900        |
| November       | 21,470        |
| December       | 20,832        |
| <b>Average</b> | <b>24,299</b> |

E) Proposed Changes to the CRP Program:

PGW proposes two changes to the current CRP program design. These changes are intended to improve the coverage of the variable cost of gas by CRP customers, reduce the subsidy that firm customers have to bear, and still be able to maintain an open and limitless program participation. Most of the changes are based and outlined in the recent CRP evaluation conducted by Apprise that was filed with the PUC under Docket P-00042090 (Attachment A).

- a) Increase the minimum CRP payment:

PGW proposes an increase in the minimum CRP payment from \$18 to \$25. The \$25 minimum is consistent with 52 Pa. Code 69.261, adopted July 1992. The consumer price index has increased significantly since 1992. The Federal Reserve Bank of Minneapolis' consumer price index calculator (<http://www.minneapolisfed.org/research/data/us/calc/>) shows that purchases of goods or services for \$25 in 1992 would now cost \$36.62. Even when including the \$5 co-pay towards arrears, the monthly payment is well below the original guideline. Currently, there are 3.5% CRP participants in the \$18 minimum agreement category. These customers would be impacted by the minimum payment changes.

- b) Increase Charges for Arrearage Reduction:

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PGW proposes an increase in customer contribution from \$3 to \$5 per month. Apprise's CRP evaluation recommended an increase in customer contributions of pre-program arrears in a tiered approach: \$18 minimum and 8% of income contributes \$5; 9% of income contributes \$7, and 10% of income contributes \$9. The PUC Bureau of Consumer Services (BCS)'s staff reviewed the recommendation and supports an increase of no more than \$5 per month. PGW supports BCS's recommendation.

The financial impact of both changes is outlined on the table below. Using PGW's figures for the test year submitted in its rate case, Docket No. R-00061931, PGW calculated the impact of each of the proposed change as well as combined. The combined changes yield a reduction of approximately \$2.09 million in net discount passed on to rate payers through the Universal Service Charges.

| Impact of CRP Changes on Universal Services Surcharge |                |                                    |                                   |   |
|---|----------------|------------------------------------|-----------------------------------|---|
|   |                | Proposed Change #1                 | Proposed Change #2                | Combined Changes  |
| CRP Increased Participation Level - FY07              | 76,500         | 76,500                             | 76,500                            | 76,500  |
| Proposed Changes (Apprise)                            |                | ? Increase Minimum Payment to \$25 | ? Increase Co-pay from \$3 to \$5 | ? Increased Minimum Payment to \$25<br>? Increase Co-pay to \$5 |
| Number of Customers                                   | \$ 76,500      | \$ 76,500                          | \$ 76,500                         | \$ 76,500   |
| Revenue @ CRP Rates                                   | \$ 68,967,610  | \$ 69,221,885                      | \$ 70,802,614                     | \$ 71,056,889   |
| Revenue @ GS Rates                                    | \$ 168,407,822 | \$ 168,407,822                     | \$ 168,407,822                    | \$ 168,407,822  |
| Gross Discounts                                       | \$ 99,440,212  | \$ 99,185,937                      | \$ 97,605,208                     | \$ 97,350,933   |
| LIHEAP Grants   | \$ 9,400,100   | \$ 9,400,100                       | \$ 9,400,100                      | \$ 9,400,100  |
| Net Discount  | \$ 90,040,112  | \$ 89,785,837                      | \$ 88,205,108                     | \$ 87,950,833   |
| CRP Forgiveness                                       | \$ 11,450,400  | \$ 11,450,400                      | \$ 11,450,400                     | \$ 11,450,400   |

**F) Program Budget:**

PGW does not estimate a fixed budget for the CRP program; the program is open enrollment. The CRP program is funded through a Universal Services Charges that is passed to all firm customers, including commercial and industrial. Both the CRP credit/discount, net of LIHEAP cash grants, as well as the arrearage forgiveness is included in the universal services surcharge. The Universal Service Surcharge is reviewed monthly and adjusted quarterly for actual and forecasted data.

| Customer Responsibility Program |                 |                 |
|---------------------------------|-----------------|-----------------|
|                                 | FY07            | FY08 to FY10    |
| Administrative Costs            | \$2.4 Million   | \$2.4 Million   |
| Shortfall                       | \$90 Million    | \$90 Million    |
| Arrearage Forgiveness           | \$11.4 Million  | \$11.4 Million  |
| Total Expense                   | \$103.8 Million | \$103.8 Million |
| Participation Level             | 76,500          | 76,500          |

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The table above provides an estimate for CRP administrative cost, shortfall (CRP discount), arrearage forgiveness, and participation level. The estimated administrative cost includes labor and non-labor costs incurred by different departments that are directly linked to CRP. For the most part, these costs are embedded in each of the department's operating budgets. These costs are recovered in base rates. The CRP shortfall/discount and arrearage forgiveness are an identified amount recovered through the Universal Services Change, a non-by-passable charge established and approved by the Commission, and adjusted on a quarterly basis. The participation level is an average as of the end of each fiscal year (September 1 – August 31).

**2) Conservation Works Program (CWP)**

**Current Program:**

Philadelphia Gas Works' Conservation Works Program (CWP) was created in 1990. It is designed to provide cost-effective energy savings to PGW's low-income customers who participate in the Customer Responsibility Program (CRP). CWP is a Low-Income Usage Reduction program intended to reduce the overall long-term costs of CRP. A Customer must meet the following criteria:

- A residential heating customer and a participant in the CRP/CAP program
- High user

These criteria are in compliance with 52 PA Code, §58.2 with the exception of assigning LIURP funds for "special needs customers", as defined in 58.2. Due to the large participation level and need within CRP/CAP, PGW intends to continue its current practice of operating CWP/LIURP as a tool to reduce consumption for high users within CRP. CWP is the main tool that CRP/CAP customers have to reduce consumption and receive program and energy education. Energy savings from CWP translate into a reduced CRP/CAP discount that other ratepayers have to bear. Evaluation of the CWP program shows an average of 146 ccf/year in energy savings per participant. At PGW's current rates, these savings translate in a reduction of approximately \$254 in CRP discount per year. Therefore, PGW is requesting a waiver of §58.2.

The objective of the CWP is to focus on this population of low-income customers, by addressing the main factors that influence their gas usage such as mechanical and structural systems as well as behavior issues. The goals of CWP are:

- reduce gas usage in a cost-effective manner
- reduce CRP subsidy
- improve payment practice

## Philadelphia Gas Works Universal Service and Energy Conservation Plan – 2008 to 2010

The primary measures that may be provided by the CWP include:

- Diagnostic audits;
- Energy education;
- Energy-related home repair;
- Thermostats with automatic clocks;
- Blower door guided shell tightening;
- Water heater wrap and pipe insulation;
- Furnace filters or radiator reflectors;
- Hot water conservation devices – e.g., aerators and showerheads; and
- Roof insulation.

The program is currently administered by two outside contractors. The budget for the program is \$2.3 million per year. Unlike many other utilities in the Commonwealth, the CWP offers services to a large number of participants. On average, 2,800 houses are treated each year for approximately \$780 each. The program offers low-cost but highly effective measures to conserve gas usage. It is based on a strong educational component that stresses self help measures and behavior changes.

Impact, process, and payment evaluations are frequently conducted by outside experts. Through these analyses, administrators are evaluated for the energy savings and cost-effectiveness produced.

PGW is also currently undertaking a pilot program to assess the efficacy and cost-effectiveness of expanding the treatments in each home. The pilot treatments began in 2006 with a goal of servicing approximately 100 homes. There was not sufficient post-treatment data to enable including the pilot participants in the most recent impact evaluation study. Results from the pilot will be assessed during the next year.

PGW does not propose changes to the program.<sup>1</sup> PGW will continue its pilot program and utilize approximately 25% of its approved budget for CWP towards it. PGW will continue performing impact evaluations to determine the cost-effectiveness of the treatments and determine how the program can better service participants. PGW intends to continue offering CWP to CRP participants only and is requesting a waiver of applicable Commission regulations to recognize this element of the program.

PGW will continue maximizing coordination with other available programs such as the Weatherization Assistance Program (WAP), Heater Hotline, Basic System Repair Program (BSRP), and others. Furthermore, we will explore opportunities with PECO Energy to coordinate conservation and weatherization services.

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<sup>1</sup> If the Commission were to remove certain disincentives or barriers to a broader conservation program and if PGW had the resources, PGW would examine how it might increase substantially its investment in conservation.

**Philadelphia Gas Works**  
**Universal Service and Energy Conservation Plan – 2008 to 2010**

| <b>Conservation Works Program (CWP)</b>     |               |                     |
|---|---------------|---------------------|
|   | <b>FY07</b>   | <b>FY08 to FY10</b> |
| <b>Expenditure (Admin &amp; Production)</b> | \$2.2 Million | \$2.3 Million       |
| <b>Participation Level</b>                  | 2,700         | 2,500               |

The above table shows the estimated annual expenditure and the participation level (number of treated units for the CWP program). The expenditure includes cost of production, administration, and evaluation.

**3) LIHEAP Outreach**

**Current Program:**

PGW conducts an intensive LIHEAP Outreach program each year during the LIHEAP season. Our goal is to encourage each customer to apply for and assign a LIHEAP grant to PGW in order to, among other things, provide PGW customers with financial assistance in meeting their gas bill needs this coming winter. PGW's outreach program includes:

- Mailing of post cards to all potentially eligible customers;
- Distribution of flyers (English and Spanish) to many organizations throughout the City;
- Outbound and Inbound phone campaigns;
- LIHEAP Cash intake at PGW's Customer Service Centers;
- Field Visits;
- Information on PGW's Website;
- Radio and newspaper ads;
- Participation in Community Events; and
- Public Announcements & Press Releases.

**4) Hardship Fund:**

**Current Program:**

PGW provides hardship funds through the Utility Emergency Service Fund (UESF). PGW directs company and customer contributions to UESF in order to match grants of up to \$500 to eligible customers whose household income is at or below 175% of the FPL. Other requirements for receiving a grant are:

- Has not received assistance from UESF in the past 24 months;
- Has applied for LIHEAP Cash and Crisis grants if the programs were open;
- Has had his/her service terminated or has received a service termination notice from their utility;
- The \$500 grant will completely eliminate the customer's arrearage.

Through the PGW Dollar Plus program, PGW also solicits contributions of \$1 from its customers. PGW solicits contributions to UESF and to the Dollar Plus program at least two times per year via bill inserts; yearly events such as Book Sale and Bowling Tournament; and through customer contact. These contributions are forwarded to UESF to provide additional grants.

**Philadelphia Gas Works**  
**Universal Service and Energy Conservation Plan – 2008 to 2010**

| <b>Hardship Fund – UESF</b>                |             |                     |
|--|-------------|---------------------|
|  | <b>FY07</b> | <b>FY08 to FY10</b> |
| <b>Utility Grant Contribution</b>          | \$ 265,000  | \$265,500           |
| <b>UESF Grant Contribution</b>             | \$ 265,000  | \$265,500           |
| <b>Customers Contribution</b>              | \$2,000     | \$2,000             |
| <b>Utility Administrative Contribution</b> | 169,398     | 170,000             |
| <b>Participation Level</b>                 | 1,300       | 1,300               |

The table above provides an estimate of the contributions towards the Utility Emergency Services Fund (UESF). The Customers Contribution component refers to customers' contribution to PGW's Dollar Plus program.

**5) CARES**

PGW began offering the Customer Assistance Referral and Evaluation Program ("CARES") in September 2003. CARES is designed to help customers with special needs, such as those who have recently experienced a family emergency, unemployment, or age related issues. This program provides the customer with a variety of referrals to internal or external existing assistance programs. Information on CARES is provided through various outreach programs.

There are two types of assistance:

- **Quick-Fix:** assistance offered by customer service representatives in the call center or Customer Service Centers. When customers are identified as special need or need referral for a particular program, the representatives refer customers to both internal and external assistance programs.
- **Case Management:** case is escalated to PGW's Universal Services department when the customer needs assistance above and beyond referrals provided by Customer Service. When necessary, the Universal Service representatives will work directly with the customer to attain assistance from outside agencies.

**6) Senior Citizen Discount Program**

**Current Program:**

The Senior Citizen Discount program offers up to 20% bill discount to eligible senior citizen participants. To receive the discount under this program, the customer of record must have been enrolled before September 1, 2003 or have been 65 year old and a member of a household that received the discount as of that same date. No income eligibility is required. There are currently 46,000 participants in this program. The program has been grandfathered as of August 31, 2003 and no new members have been added since that date.

**Philadelphia Gas Works**  
**Universal Service and Energy Conservation Plan – 2008 to 2010**

| <b>Senior Citizen Discount Program</b> |                |                     |
|--|----------------|---------------------|
|  | <b>FY07</b>    | <b>FY08 to FY10</b> |
| <b>Discount</b>                        | \$14.1 Million | \$13 Million        |
| <b>Participation Level</b>             | 46,000         | 39,000              |

The table above shows the Senior Citizen discounts and participation level for fiscal years Fiscal years 2007 to 2010.

**V. Conclusion:**

PGW's Universal Services is designed to address the needs of its low-income customer base. It provides a variety of services that meet the requirements of 66 Pa. C.S.A 2203(8) and 52 Pa Code Chapter 62. PGW respectfully requests that the Commission approves this Universal Service and Energy Conservation Plan.

# EXHIBIT B



COMMONWEALTH OF PENNSYLVANIA  
**DEPARTMENT OF PUBLIC WELFARE**  
P.O. BOX 2675  
HARRISBURG, PENNSYLVANIA 17105-2675

**LINDA T. BLANCHETTE**  
Deputy Secretary for  
Income Maintenance

**MAY 06 2009**

PHONE: (717) 783-3063  
FAX: (717) 787-6765

Steven P. Hershey  
Vice President, Regulatory and External Affairs  
Philadelphia Gas Works  
800 West Montgomery Avenue  
Philadelphia, PA 19122

Dear Mr. Hershey:

I am writing in response to the April 7, 2009 letter from Robert B. Hoffman to Allen Warshaw describing how Philadelphia Gas Works (PGW) proposes to apply Low-Income Home Energy Assistance Program (LIHEAP) cash grants to Customer Assistance Program (CAP) customers.

We received guidance from the U.S. Department of Health and Human Services, Division of Energy Assistance on PGW's proposed payment methodology. They have reiterated that LIHEAP statute, regulations, and Pennsylvania's approved state plan require that LIHEAP funds must be applied in full to the account of those households determined LIHEAP eligible. The proposed payment methodology outlined in the April 7, 2009 letter does not comply with federal and state requirements.

Therefore, in order to assure compliance with federal regulations, going forward and retroactive for all cash grants issued during the 2008/2009 program year, PGW must apply LIHEAP cash grants to a CAP customer's account in the following manner:

- Apply the LIHEAP cash grant to any past due CAP bills ('asked to pay' amount).
- Apply any remaining LIHEAP funds to future CAP bills.
  - This will reduce pre-CAP arrearages for each month to which the LIHEAP cash payment is applied based on the 1/36<sup>th</sup> forgiveness formula.
- No LIHEAP funds may be applied to actual usage amounts while enrolled in CAP because the CAP customer is not obligated to pay this amount.

No later than June 30, 2009, PGW will identify CAP customers who received a cash grant during the 2008/2009 program year and re-apply the cash grant consistent with this formula. Any excess LIHEAP funds must be returned to the Department by that date.

Please provide confirmation to DPW by May 15, 2009 that PGW agrees to follow the above requirements.

Thank you for your attention to this matter. Please direct any questions to Edward J. Zogby, Director, Bureau of Policy, at (717) 787-4081.

Sincerely,



Linda T. Blanchette

cc: Robert B. Hoffman, Esq., for WolfBlock, LLP  
Allen Warshaw, Esq., Chief Counsel, DPW  
Edward J. Zogby, Policy Director, OIM

# EXHIBIT C

## Philadelphia Gas Works

Cristina Coltro  
Vice President, Customer Affairs



800 W. Montgomery Avenue, Philadelphia, PA 19122  
Phone: (215) 684-6785 – Fax (215) 684-6974  
Email: [cristina.coltro@pgworks.com](mailto:cristina.coltro@pgworks.com)

June 2, 2009

### VIA EMAIL AND FIRST CLASS MAIL

Linda T. Blanchette  
Deputy Secretary  
Office of Income Maintenance  
Department of Public Welfare  
PO Box 2675  
Harrisburg, PA 17105

Re: LIHEAP Cash Grants and CAP

Dear Linda:

As was requested at our meeting on May 27, 2009 at DPW's offices ("meeting"), below is a PGW-proposed timeframe for the DPW-required changes to PGW's application of LIHEAP Cash funds for 2009-10. As DPW requested, we also provide an alternative for 2008-09 which we believe both individualizes the application of the grant and ensures non-discriminatory treatment of all LIHEAP Cash recipients. This alternative appears to meet the requirements set forth in the letter May 27, 2009 Department of Health and Human Services ("HHS") letter from Nick St. Angelo to Linda Blanchette ("Letter"). Consistent with our prior communications to you, this timeline and the final agreed-upon application are wholly contingent upon Pennsylvania Public Utility Commission ("PUC") approval. *See* 52 Pa. Code §62.1 *et seq.* While we hope this does not become an issue of contention, PGW's PUC-approved CAP ("CRP" or "CAP") plan covers the application of LIHEAP cash grants to CAP accounts and requires the PUC to approve modifications.

Additionally, PGW's agreement to proceed in this fashion is contingent upon HHS approval. As you can imagine, PGW does not want to revise its system, particularly with the costs involved, if there is not complete agreement that it is acceptable and if this does not result in closure for all outstanding prior years. DPW agreed at our meeting to provide HHS' written confirmation approving our final agreed-upon Cash grant application.

#### I. Proposal and Timeframe

In light of DPW's statements that if PGW does not comply with DPW's directives, DPW will stop utilizing PGW as a vendor and pay grants directly to PGW customers and look for retroactive recovery/application of monies beyond one year, PGW will comply with DPW's directives. Specifically, PGW will seek from the PUC the right to modify its present system of applying LIHEAP Cash funds for the 2009/2010 LIHEAP season, and retroactively for the 2008/2009 season, to apply these funds in full to the amount the CAP participant is obligated to pay (commonly referred to as the "asked to pay" monthly amount). For as long as the customer is an active customer, the Cash grant will remain on the account and continue to be applied to the "asked to pay" amount(s) until the grant has been depleted. It is our understanding that DPW

finds the above application wholly acceptable. More specifically, we understand from our meeting that DPW agrees that posting the LIHEAP grant as a credit on the account constitutes a benefit to the customer so as to allow PGW to maintain the funds for so long as the customer remains a customer and in the CAP program. A hypothetical showing such application is set forth below:

Hypothetical for CAP/CRP recipient of \$800 LIHEAP Cash grant

\$3,000 actual usage  
\$400 pre-CAP arrearage  
\$300 asked to pay arrearage  
\$100/mo CAP asked to pay rate

PGW would apply the \$800 LIHEAP payment to pay off the \$300 "asked to pay" arrearage and then apply the rest - \$500 - to the future "asked to pay" amounts as incurred in the amount of \$100 monthly.

PGW would apply for PUC approval of the above plan this month and, if approved, expects it could make required system modifications by September 30, 2009 (for both retroactive and prospective application).

At our meeting you indicated that DPW would support PGW in its required PUC filing related to these program changes. As support for PGW's application to the PUC, we again request that DPW provide its written legal support for such changes. In this respect, the Letter specifically states on page 2 that "grantees are considered the primary interpreters of the [federal LIHEAP] law. The LIHEAP law is silent on the issue of the [use of LIHEAP funds for] payment of arrearages and, therefore, it is the State's responsibility to define policy on this issue." This suggests that LIHEAP funds could be used, at least in part, for pre-CAP arrearages if DPW were to authorize doing so. We note that doing so would, in our view and as explained further in our alternative proposal below, make substantial sense for the 2008-09 heating season particularly since it would provide the relevant customer with an individualized benefit. Regardless, it would be very helpful for us to have written support from DPW on the changes PGW must request from the PUC and we appreciate your agreement to provide assistance.

II. Alternative Proposal for 2008/2009 Season

Since DPW's decision on the application of LIHEAP funds to arrearages appears to be a policy decision, we request that DPW allow us to apply LIHEAP funds for the 2008-09 season, at least in part, to pre-CAP arrearages. Below are several points that DPW should consider in making its decision.

First, as we have discussed, the changes set forth above will likely cost several million dollars or more to PGW's Philadelphia ratepayers this year and possibly on a going forward basis. Although PGW intends to attempt to revise its CAP plan in the near future (since the LIHEAP funds will no longer be subsidizing the actual usage amount) so as to mitigate the financial impact, there is no guarantee PGW will be successful. PGW ratepayers, including LIHEAP recipients who are not on CAP, already shoulder the burden of subsidizing actual usage by the LIHEAP Cash recipient CAP population and PGW does not want to increase that burden.

Second, it was simply impossible for PGW to have made the requested changes in time for the 2008-09 hearing season. PGW's first notice that there was a DPW concern with PGW's application of Cash grants was on receipt of emails on October 20 and 28, 2008 from Edward Zogby to Steven Hershey, forwarding letters to DPW of August 28 (from Mr. Geller) and September 23 (from HHS). Mr. Zogby's emails were fundamentally informational in nature and did not impose any timeline or sense of urgency. The HHS letter did not reference PGW but rather "utility companies". Given that DPW had to investigate the issue and obtain instruction from HHS, as well as the time required for PGW to change its system once such instruction was provided to PGW, there was no possibility that this could be accomplished prior to the hearing season, even aside from issues of obtaining PUC approval.

Third, the funds benefitted all LIHEAP recipients who were in the CAP program, most quite substantially. Some persons have suggested that the "pooling" of LIHEAP grants means that CAP consumers received *no benefit* from the LIHEAP funds and that their accounts and circumstances are not changed under that application of LIHEAP funds. That seems to assume that the "asked to pay" amount would be unchanged if the funds were "un-pooled." That is wrong. The "asked to pay" amount is at its current low level because of the pooling of funds, and un-pooling them will simply mean that the CAP program, having been deprived of one funding source, will have to be revised in response to provide a higher asked to pay amount intended to produce the lost revenue.

Fourth, the process that PGW and other utilities used were both long-standing and approved by the only governmental agency that expressed a view on the matter.

Finally, PGW has not violated a vendor agreement. The vendor agreement does not, in general, address the current issues. It does require vendors to adhere to policy and procedures in the State Plan, but the State Plan does not address the issue here either. The vendor agreement also allows PGW to charge the household the difference between the amount normally charged for the energy delivered and the amount PGW has received from the Commonwealth.

Assuming DPW accepts the request above as to retroactive application, PGW proposes the following individualized application for the 2008-09 season. Funds will be applied first to the recipient's "asked to pay" arrearage; then to the pre-CAP arrearage; and then maintained as a credit against future "asked to pay" amounts as incurred. The following hypothetical, assumes a CAP/CRP recipient of \$800 LIHEAP Cash grant:

- \$3,000 actual usage
- \$400 pre-CAP arrearage
- \$300 current (asked to pay) arrearage
- \$100/mo CAP (asked to pay) rate

PGW would apply \$300 to the current "asked to pay" arrearage; then apply \$400 to pay off the pre-CAP arrearage; and then apply any remainder - \$100 in this hypothetical - to the future "asked to pay" amounts as incurred.

Our reading of the Letter and the LIHEAP statute indicate this application of funds is lawful and that DPW has authority to allow application of the funds to arrearages, including pre-CAP arrearages. We believe that you would agree that this process would not produce any form of improper disparate treatment. As recognized in the Letter, LIHEAP funds are applied to the entire billed amount, calculated at standard rates and based on actual usage, for a LIHEAP

customer who is not in CAP. Similarly, a CAP customer's pre-CAP arrearage is for actual usage billed and the customer remains responsible for payment of this arrearage. (The only way the customer can avoid the obligation to pay the pre-program arrearage is by agreeing to the terms and conditions of PGW's CAP program (including assigning a LIHEAP grant to PGW) and making regular monthly payments. Notably, pre-CAP forgiveness is not provided under the LIHEAP statute or by DPW regulations – it is provided under PGW's Tariff and PUC regulations and is essentially consideration for the customer's agreement to pay monthly.) In order to assure that there is no adverse treatment of non-CAP LIHEAP customers (who already pay a subsidy that pays for the arrearage forgiveness of CAP customers) LIHEAP Cash grants should be applied to a CAP customer's pre-CAP arrearage as well as the asked to pay amount. Otherwise, non-CAP LIHEAP Cash recipients are being held responsible for all bills while LIHEAP CAP customers are not. PUC regulation, 52 Pa. Code § 56.24, provides that payments are to be applied to the oldest debt first. Please let us know in writing as soon as possible if this alternative proposal is acceptable to DPW.

Finally, as you confirmed at our meeting, DPW will require all Pennsylvania regulated utilities to make the same modifications requested of PGW, including but not limited to a retroactive application of these modifications to the 2008/2009 LIHEAP season.

Sincerely,



Cristina Coltro  
Vice President Customer Affairs

cc: Theodore Dallas  
Niles Schore  
Edward J. Zogby  
Allen Warshaw  
Mary Beth Osborne  
Denise Adamucci  
Robert B. Hoffinan

# EXHIBIT D



COMMONWEALTH OF PENNSYLVANIA  
**DEPARTMENT OF PUBLIC WELFARE**  
P.O. BOX 2675  
HARRISBURG, PENNSYLVANIA 17105-2675

**LINDA T. BLANCHETTE**  
Deputy Secretary for  
Income Maintenance

**JUN 18 2009**

PHONE: (717) 783-3063  
FAX: (717) 787-6765

Cristina Coltro  
Vice President of Consumer Affairs  
Philadelphia Gas Works  
800 West Montgomery Avenue  
Philadelphia, PA 19122

Dear Ms. Coltro:

I am writing in response to your letter of June 2, 2009 regarding Low Income Home Energy Assistance Program (LIHEAP) Cash Grants and Customer Responsibility Program (CRP).

The Pennsylvania Department of Public Welfare (DPW) has consulted with federal authorities around the methodology presented by Philadelphia Gas Works (PGW) to come into compliance with federal law and finds it to be acceptable. As per previous discussions, this methodology will be applied prospectively and retroactively for the 2008/2009 program year. DPW has discussed the change in methodology with the Public Utility Commission (PUC) and they are anticipating a request from PGW to modify the CRP plan to bring it into compliance with federal law.

The Department's support of PGW's request to modify the CRP is limited to the specific issue of how LIHEAP cash grants are applied to customer accounts. DPW will oppose the plan if it includes any changes that result in impediments to enrollment into CRP by LIHEAP customers or that in any way disadvantage LIHEAP cash or crisis grant recipients.

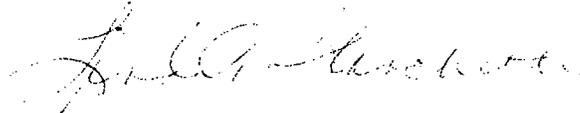
Your response included an alternative to resolve concerns around how LIHEAP cash benefits were applied during the 2008/2009 LIHEAP season. The Department of Public Welfare has reviewed the proposal and declines the suggested methodology for two primary reasons:

1. Federal law requires LIHEAP customers to be treated the same as other customers, and
2. LIHEAP funds should be granted to help meet a household's immediate home energy needs.

If LIHEAP cash payments are applied to pre-program arrearages, as proposed by PGW, the LIHEAP customer does not benefit from this arrangement in the same manner as do other CRP customers since the pre-program arrearages are forgiven even if an individual is not eligible for LIHEAP. The LIHEAP customer would get no direct benefit from the LIHEAP grant provided on her behalf. Also, the grant does not meet the household's immediate heating needs. Therefore, the proposal does not comport with federal law and guidance and cannot be accepted by DPW.

While PGW's proposed methodology for application of LIHEAP cash grants is acceptable to DPW, we are requesting written assurance from you that the required system changes will be completed by or before September 30, 2009. Final approval for PGW's continued participation in the LIHEAP program is contingent upon completion of these changes and any other internal operational protocols necessary to implement the change. Please provide this assurance in writing to my attention by June 24, 2009.

Sincerely,

A handwritten signature in cursive script, appearing to read "Linda T. Blanchette".

Linda T. Blanchette

cc: Steve Hershey  
Denise Adamucci  
Ted Dallas  
Allen Warshaw  
Edward J. Zogby  
Niles Schore