

OCA STATEMENT NO. 6

R-973954 Hbg  
8/29/97 JZ

**COMMONWEALTH OF PENNSYLVANIA  
PUBLIC UTILITY COMMISSION**

*Application of:*

**PENNSYLVANIA POWER & LIGHT COMPANY  
FOR APPROVAL OF ITS RESTRUCTURING  
PLAN UNDER SECTION 2806 OF THE  
PUBLIC UTILITY CODE**

\*  
\*  
\* Docket No.  
\* R-00973954  
\*  
\*

DOCUMENT  
FOLDER

**DIRECT TESTIMONY AND EXHIBITS OF**

**NANCY BROCKWAY**

**CONCERNING UNIVERSAL SERVICE ISSUES**

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Prepared for

Pennsylvania Office of Consumer Advocate  
1425 Strawberry Square  
Harrisburg, PA  
July 1997

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## INTRODUCTION

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. My name is Nancy Brockway. My business address is Suite 400, 18 Tremont  
3 Street, Boston, MA.

4 **Q. FOR WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?**

5 A. I am testifying on behalf of the Pennsylvania Office of Consumer Advocate.

6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

7 A. The purpose of my testimony is to recommend a Universal Service program for  
8 Pennsylvania Power & Light Company's restructuring plan. My testimony will cover  
9 5 areas: Universal Service generally and under the Competition Act, the Company's  
10 CAP proposal (OnTrack), the Company's LIURP proposal (WRAP), cost recovery  
11 and allocation issues, and the experience of other states with universal service in  
12 electric industry restructuring.

13 **Q. PLEASE DESCRIBE YOUR QUALIFICATIONS.**

14 A. I am an attorney and utility analyst with over 20 years of experience in the fields of  
15 poverty issues, public utility regulation, low-income affordability programs, and low-  
16 income conservation. I have been employed by the National Consumer Law Center  
17 since 1991. In this capacity, I have testified numerous times on issues related to

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1 universal service, including specifically low-income bill affordability programs and  
2 usage reduction programs. I am invited frequently to speak to national and regional  
3 forums on universal service issues, and have written extensively on electric industry  
4 restructuring and low-income electric consumers. I am the primary author of  
5 *Stranded Benefits in Electric Industry Restructuring*, a publication of the National  
6 Council on Competition and the Electric Industry. A copy of my resume and vitae  
7 is attached as Exh. NB-1.

8 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

9 A. Yes. I presented testimony on behalf of low-income intervenors in the Bell Atlantic  
10 Chapter 30 Alternative Regulation docket, Docket No. P-930715 , and on behalf of  
11 the Office of Consumer Advocate in the Universal Service docket, Docket No. I-  
12 00940035. I recently filed testimony in Docket No. R.-00970034, the PECO Energy  
13 Company's restructuring docket.

14  
15 **PART I:**

16 **ESSENTIAL ELEMENTS OF A UNIVERSAL SERVICE PROGRAM.**

17  
18 **Q. WHAT IS A UNIVERSAL SERVICE PROGRAM?**

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1 A. A Universal Service Program is an effort to make electricity service available on  
2 affordable terms to all households in a particular service area, regardless of  
3 income. There are two aspects to the concept of universal service: the extent  
4 households have affordable access to service, and the level of service to which  
5 households have affordable access.

6 The ordinary meaning of the word "universal" is: including or covering all or  
7 a whole collectively or distributively *without limit or exception*" (Webster's New  
8 Collegiate Dictionary)(emphasis supplied). Thus, the goal of a universal service  
9 program is that service be extended to every household, regardless of income.

10 The word "service" should also be considered in light of its ordinary meaning.  
11 The legislature did not qualify the types of services as to which it intended low-  
12 income Pennsylvania families to have universal access. Thus, we should  
13 understand the concept to refer to the kinds of electricity services the average  
14 household receives. Today, PP&L offers single phase, 60 mHz, alternating current,  
15 delivered to the home on an all-requirements basis, with certain standards for  
16 distribution reliability, billing based on energy measured by monthly kWh meters,  
17 and associated customer services. This basic energy and delivery service (with its  
18 implicit capacity commitment) is the core of the service definition, and should be  
19 the basic service to which all Pennsylvania households have affordable access.

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1 In Pennsylvania, the General Assembly has specifically defined universal  
2 service to include services "that help low-income customers to maintain electric  
3 service." 66 Pa.C.S. § 2803, 2804(9). These services may include a Customer  
4 Assistance Program (CAP) and Low Income Usage Reduction Program (LIURP).  
5 The Electric Generation Customer Choice and Competition Act states as a  
6 declaration of policy that:

7 The public purpose is to be promoted by continuing universal service and  
8 energy conservation policies, protections and services...  
9 66 Pa.C.S. §2802(17).

10  
11 To carry out this public purpose, the General Assembly declared that

12  
13 The Commonwealth must, *at a minimum*, continue the protections, policies,  
14 and services that now assist customers who are low-income to afford electric  
15 services.  
16 66 Pa.C.S. §2802(10)(emphasis supplied).

17  
18  
19  
20 **Q. WHAT ARE THE KEY BARRIERS TO ACHIEVING UNIVERSAL SERVICE?**

21  
22 **A.** As the legislature has indicated, by its choice of universal service program features,  
23 the primary barrier to achieving universal service is the inability of households of  
24 low income to afford their essential electricity service. As Pennsylvania moves from  
25 a monopoly structure for its electricity system to a mixed system, with competitive  
26 provision of electric energy and capacity, additional factors will come to the fore as  
27 determinants of access to service. Electricity vendors will have greater choice of  
28 customers than the monopoly utilities have had up until now. Vendors are likely to

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1 be reluctant to supply customers whom they perceive to pose greater risks or  
2 present fewer profit opportunities than other customers.

3 Some of this reluctance is rational, as in the case of customers who use little  
4 electricity. In that example, the cost of marketing to such a customer and handling  
5 the account may be high relative to the profits possible, given the thin margins  
6 expected from energy sales in the future. In other cases, the reluctance is  
7 irrational, as in the case of racial or ethnic bias. In either case, customers sharing  
8 the perceived risk factor will have a more difficult time securing energy supplies on  
9 reasonable terms and conditions.

10 Inability to navigate the more complicated waters of electricity choice may  
11 be an additional barrier to universal service under competition. Ignorance, fear,  
12 confusion, lack of education, lack of simple bases for comparison, high information  
13 costs relative to low or unclear benefits, and other factors, can contribute to a  
14 failure of many customers to be able to do meaningful comparison shopping. To  
15 the extent this results in at-risk customers purchasing energy that is more  
16 expensive than need be, the extra cost will put additional pressure on low-income  
17 families seeking basic electricity service.

18 **Q. WHAT ARE THE MAJOR TOOLS FOR ACHIEVING UNIVERSAL SERVICE?**

19 B. The major tools for achieving universal service include the following:

- 20 1. Low-Income bill assistance.

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- 1                   2.     Low Income Usage Reduction
- 2                   3.     Strong customer service (credit, billing and termination) protections.
- 3                   4.     Effective, low-cost suppliers of last resort, or default, service.
- 4                   5.     Effective competition for supply sales, particularly in the residential
- 5                         class.
- 6                   6.     Consumer education.
- 7                   7.     Low residential rates, including "standard offer" and default service.

8                   In addition, utilities have traditionally offered voluntary services, such as  
9                   LIHEAP outreach, stockholder contributions to fuel funds, and CARES (counseling  
10                   and referral services). These programs and services help at-risk customers secure  
11                   resources to pay their bills, and identify options to prevent termination. They will  
12                   continue to be useful in these ways under a competitive system.

13     **Q.   DO THESE TOOLS ALL ADDRESS THE SAME BARRIERS TO UNIVERSAL**  
14     **SERVICE?**

15                   No. For example, enforcement of anti-discrimination laws and of the credit  
16                   and termination provisions of Chapter 56, together with the provision of reasonably  
17                   priced default service, are tools for overcoming the "perceived-risk" barriers to  
18                   universal service under a competitive regime. Reasonable residential rates,  
19                   together with low-income targeted CAP and LIURP are the major tools for  
20                   addressing the unaffordability barrier to universal service. My testimony will focus

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1 on the issue of unaffordability. It is my understanding that other OCA witnesses will  
2 address some of the other more generic universal service concerns.

3 **Q. PLEASE COMPARE THE GOALS OF A UNIVERSAL SERVICE PROGRAM AND**  
4 **THE GOALS OF THE CAP AND LIURP PROGRAMS RUN BY UTILITIES UNDER**  
5 **COMMISSION GUIDANCE IN THE PAST**

6 A. CAP and LIURP are each programs that have developed historically to serve a  
7 specific set of purposes under traditional regulation. In large part, CAP grew out  
8 of the concerns of the Commission and some utilities about the growing level of  
9 uncollectible accounts, and the need to determine if there were a more cost-  
10 effective way to manage credit and collection activities, especially in relation to low-  
11 income payment-troubled households. LIURP has shared this emphasis on credit  
12 and collection cost reduction, but has had the added objective of managing energy  
13 use wisely. The Commission has also recently noted the broader societal benefits  
14 of LIURP, including improved community relations for utilities, economic  
15 development, improving the condition of Pennsylvania's housing stock, and several  
16 worthwhile benefits from the perspective of low-income customers.

17 These purposes are consistent with the objective of universal service.  
18 Indeed, the reduced threats of disconnection and greater sense of mastery over  
19 high utility bills are benefits from a CAP program whether its purpose is to achieve  
20 universal service or to lower uncollectible costs. Similarly, LIURP expenditures

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1 produce improved comfort levels, safer living conditions, more moderate and  
2 manageable utility bills, and increased availability of affordable housing, whether  
3 they are made to reduce uncollectible costs or to achieve universal service.

4 **Q. PLEASE EXPLAIN THE RELATIONSHIP BETWEEN THE TOOLS USED IN A**  
5 **UNIVERSAL SERVICE PROGRAM, AND THE HISTORIC COMPONENTS OF CAP**  
6 **AND LIURP PROGRAMS.**

7 A. A universal service program will likely use the same tools as CAP and LIURP,  
8 because in each case one objective is to lower the bill of the customer to an  
9 affordable level. CAP and LIURP promote this goal to achieve more cost-effective  
10 credit and collections activities, and to ensure wise energy use. The broader  
11 universal service goal will also concentrate on affordability, and as a tool to  
12 enabling all residential households to afford access to essential electric service.  
13 In the process, payment patterns are improved, energy is used wisely, and  
14 resources of different kinds are more efficiently used, and these are welcome  
15 benefits.

16 **Q. HOW SHOULD SUCCESS BE DETERMINED IN A UNIVERSAL SERVICE**  
17 **PROGRAM?**

18 A. The measure of success of a universal service program is the extent to which low-  
19 income households are not denied service, offered service only on unreasonable  
20 terms or conditions, threatened with loss of service, or disconnected from service,

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1 on account of lack of income. These results should be achieved in the most cost-  
2 effective way possible, achieving the maximum savings in credit and collection  
3 costs, as well as resource costs.  
4

## 5 **PART II - CUSTOMER ASSISTANCE PROGRAM ISSUES**

6 **Q. PLEASE DESCRIBE THIS SECTION OF YOUR TESTIMONY.**

7 A. This section of my testimony covers the following topics:

- 8 1. The purpose of the Customer Assistance Program component of a  
9 universal service program.
- 10 2. The associated design parameters of a successful CAP.
- 11 3. The budget requirements of a successful CAP in the PP&L service  
12 area.
- 13 4. The extent to which PP&L's proposed CAP (which it calls the "ON-  
14 Track Programs) meets the design requirements and budget  
15 requirements of a successful CAP.
- 16 5. Recommendations for improvements in PP&L's On-Track program.

17 **Q. WHAT IS THE PURPOSE OF THE CUSTOMER ASSISTANCE PROGRAM**  
18 **COMPONENT OF A UNIVERSAL SERVICE PROGRAM?**

19 A. The primary purpose of the CAP component of a universal service program is to  
20 lower the bills of income-limited residential households to the point where the

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1           burden the bill places on the household budget is affordable. An important related  
2           purpose of CAP is to enable credit and collection costs to be reduced or  
3           reprogrammed into more productive uses.

4           **Q.   WHAT KIND OF CUSTOMER ASSISTANCE PROGRAM WILL BEST ACHIEVE**  
5           **THE AFFORDABLE BURDEN OBJECTIVE OF UNIVERSAL SERVICE?**

6           A.   In my opinion, a program that addresses the percentage of income that low-income  
7           households must devote to electricity costs is the most efficient approach. While  
8           discount rates, customer charge waivers, and other forms of low-income bill relief  
9           contribute to lowering the burden of electric bills to affordable levels, some form of  
10          percentage of income payment program (PIPP) will best achieve the universal  
11          service objective of reducing the burden of electricity bills for low-income customers  
12          to an affordable level. PIPPs by definition seek to reduce burdens to a target  
13          percentage of the customer's income. To the extent the program is designed to  
14          reduce the burden to an affordable percentage of income, the customer should,  
15          under ordinary circumstances, be able to afford to make current, timely and  
16          complete payments of their copayment responsibilities.

17          **Q.   IS THERE ONLY ONE FORM OF PIPP THAT CAN ACHIEVE UNIVERSAL**  
18          **SERVICE GOALS?**

19          A.   No. There are a number of forms of Percentage of Income Payment Plan, and all  
20          can be effective in achieving universal service goals. In fact, PIPPs per se are not

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1 the only forms of bill assistance that can be useful in pursuing universal service  
2 goals. Low-income rates, such as National Fuel Gas' Low Income Rate (marginal-  
3 cost based rate) can be effective in bringing low-income customers' bills closer to  
4 affordable levels. However, the less a CAP builds a percentage of income focus  
5 into its design, the less effective, and cost-effective, it is likely to be. Also, there are  
6 some program design elements that will likely work against the overall goal of  
7 universal service.

8 **Q. PLEASE LIST THE NECESSARY ELEMENTS OF A SUCCESSFUL UNIVERSAL**  
9 **SERVICE CAP COMPONENT.**

10 A. A CAP program that effectively promotes the goal of universal service should  
11 contain the following elements:

- 12 1. A copayment calculated to require only what is affordable, e.g. 5%  
13 of income from general use customers, and 8% of income from  
14 primary electric heating customers.
- 15 2. Optimal use of low-income community-based organizations for  
16 outreach, intake, and service delivery.
- 17 3. Responsiveness to, and interaction with, participants in the CAP,  
18 particularly during the first year of any given program.
- 19 4. Reasonable efforts to achieve a 50% participation rate of the eligible  
20 low-income households.

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- 1 5. Overall CAP billing deficiency budget sufficient to meet the need.
- 2 6. Eligibility generally limited to customers with incomes at or below
- 3 150% of the Federal Poverty Guidelines.
- 4 7. Targeted program offering and program to payment-troubled
- 5 households among the eligible population.
- 6 8. Coordination with effective LIURP services to achieve potential usage
- 7 (and related bill) reduction via persistent savings measures.
- 8 9. Benefits available regardless of the supplier of generation to the
- 9 customer.
- 10 10. Incentives for customers to maintain on-time, full payments of their
- 11 copayment obligations.
- 12 11. Advisory input from key stakeholders on an ongoing and effective
- 13 basis.
- 14 12. Coordination and cooperation with stakeholders in other service
- 15 areas, to achieve cross-fertilization of design concepts and evaluation
- 16 material, and efficiencies in service delivery.
- 17 13. Periodic evaluation against the goals of universal service

18 **Q. PLEASE DISCUSS EACH OF THESE PROGRAM ELEMENTS AND HOW**  
19 **PP&L'S ONTRACK PROGRAM INCORPORATES THEM.**

20 **A. PP&L's program incorporates most of these elements, as follows:**

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1           1.     *A copayment calculated to require only what is affordable, e.g. 5% of*  
2                     *income from general use customers, and 8% of income from primary*  
3                     *electric heating customers.*

4           PP&L uses a flexible approach to determining the customer's copayment  
5           amount. The intake counselor works up a sheet that computes three different  
6           copayment possibilities: minimum payment, percent of bill, or percent of income.  
7           The intake process also takes into account the customer's historic average  
8           payments. The percent of bill and percent of income calculations call for a greater  
9           contribution from eligible customers whose incomes are at higher percentages of  
10           the federal poverty guidelines. For example, the copayments calculated based on  
11           the straight "percent of income" method are 2%, 4% and 6% respectively for non-  
12           electric heat customers, and 5%, 7% and 9% respectively for electric space heat  
13           customers (OnTrack Payment Worksheets, OCA XII, Q. 8, Attachment 1).  
14           Copayments are at or below my recommended percentages of income, on average.

15           2.     *Optimal use of low-income community-based organizations for*  
16                     *outreach, intake, and service delivery.*

17           In four of the five PP&L regions, intake has been contracted out to  
18           caseworkers employed by independent social services agencies. PP&L staff have  
19           indicated their confidence in these field staff, and in their understanding of the client  
20           population and customer circumstances.  
21

22           3.     *Responsiveness to, and interaction with, participants in the CAP,*  
23                     *particularly during the first year of any given program.*  
24

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1           The impact evaluation of the OnTrack program reveals that caseworkers  
2           "easily established and maintained rapport with clients." The customers who  
3           dropped from the program showed circumstances typical for other such programs:  
4           "utter poverty, short-term emergencies, deteriorating financial conditions, and  
5           personal disorganization."<sup>1</sup> Additional, affirmative follow-up has been  
6           recommended by the process evaluator, with the caveat that given these changing  
7           circumstances of the clients, "it may be difficult to achieve." The evaluator has  
8           made a number of recommendations in the past about more effective  
9           communication with customers who are falling into default, and to the extent these  
10          have not yet been adopted, the Company should incorporate these  
11          recommendations in its expanded program, particularly the suggestion to include  
12          evening calls, short and to-the-point phrases opening letters ("HELP WITH YOUR  
13          ELECTRIC BILL") to get customers' positive attention, and stand-alone  
14          communications. The Company should also continue to experiment with  
15          improvements to program design, that have been recommended by the evaluator.

16                   4.     *Reasonable efforts to achieve a 50% participation rate of the eligible*  
17                             *low-income households.*

18                   As a pilot, the purpose of OnTrack has not been to achieve full penetration  
19                   among the eligible population. The Company in this docket has proposed making  
20

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<sup>1</sup>RPM Systems, Inc., "A Program On Track," process evaluation of PP&L's ON TRACK  
affordable payment program, January 1995, at 43.

1 the program a full-scale effort. The Company's proposed expansion of the program  
2 from a pilot to a full-scale program does not seek to reach 50% of the eligible  
3 population. I therefore recommend below a modest addition to the Company's  
4 expansion goals.

5 5. *Overall CAP billing deficiency budget sufficient to meet the need.*

6  
7 The Company's CAP budget, if implemented, would not meet the need.  
8 While participants would achieve affordable bills on the whole, the program would  
9 not reach a great enough proportion of the eligible population. I recommend below  
10 an increase in the budget to 0.5% of gross operating revenues.

11 6. *Eligibility generally limited to customers with incomes at or below*  
12 *150% of the Federal Poverty Guidelines.*

13  
14 This guideline is met by the program. Some intake staff and the evaluator  
15 have recommended that consideration be given to raising the maximum gross  
16 income in the case of self-employed persons or elders with high medical bills and  
17 mortgages. Because the program will not be expanded to meet the full need, such  
18 increases should not be mandated by the Commission at this time, but the  
19 Company should be allowed to incorporate such changes if the need arises.

20 7. *Targeted program offering and program to payment-troubled*  
21 *households among the eligible population.*

22  
23 The pilot program used selected referrals to create a client base. The  
24 Company will continue to solicit participation from its payment-troubled customers.

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1                   8.     *Coordination with effective LIURP services to achieve potential usage*  
2                    *(and related bill) reduction via persistent savings measures.*  
3

4                   The LIURP activities (WRAP) and the OnTrack activities of the Company are  
5 run separately. At least at the time of the OnTrack process evaluation, a direct  
6 referral to WRAP was not part of the intake process for OnTrack. If WRAP is  
7 expanded to include a baseload component, as I recommend, a referral to WRAP  
8 should be made, at least in the case of high-use OnTrack customers. The  
9 evaluation also revealed that payment amount adjustments and intake counseling  
10 did not have an impact on usage. Usage did not go up as a result of participation,  
11 but neither did the program's financial incentives of benefit reduction in the case of  
12 increased usage appear to have much influence on customer behavior. While this  
13 could be improved by increased energy education, it is likely that only direct energy  
14 efficiency assistance will make a perceptible difference in usage patterns.

15                   9.     *Benefits available regardless of the supplier of generation to the*  
16                    *customer.*  
17

18                   PP&L indicates uncertainty about whether benefits should be available  
19 regardless of the supplier of generation. I discuss this issue later in my testimony.

20                   10.    *Incentives for customers to maintain on-time: full payments of their*  
21                    *copayment obligations.*  
22

23                   PP&L provides an opportunity to make payments towards arrearages to clear  
24 a customer's debt balance, and this component of the program appears to be  
25 appreciated by customers, and to motivate continued participation in the program.

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1 Probably the biggest incentive for customers to maintain positive payment  
2 behaviors is the tailored and affordable copayment level computed by the  
3 Company's flexible payment amount approach. The Company's program has  
4 achieved a payment pattern improvement record at the upper end of programs  
5 surveyed by RMP Systems, Inc., as reported in the second impact evaluation.

6 11. *Advisory input from key stakeholders on an ongoing and effective*  
7 *basis.*

8  
9 PP&L has no ongoing stakeholder advisory group.

10  
11 12. *Coordination and cooperation with stakeholders in other service*  
12 *areas, to achieve cross-fertilization of design concepts and evaluation*  
13 *material, and efficiencies in service delivery.*

14  
15 PP&L works closely with Working Groups and other statewide forums  
16 sharing information on program design and implementation.

17 13. *Periodic evaluation against the goals of universal service*

18 PP&L has conducted a process evaluation and two impact evaluations in the  
19 short time it has operated the OnTrack pilot.

20 **Q. PLEASE DISCUSS THE IMPORTANCE OF THE AFFORDABLE BURDEN**  
21 **ASPECT OF A RECOMMENDED UNIVERSAL SERVICE ON TRACK PROGRAM.**

22 **A.** The essential concept of the percentage of income approach to bill affordability is  
23 the reduction of a customer's actual bill to an amount that represents an affordable  
24 percentage of the household income. Regardless of the rate design or OnTrack  
25 program design, translating the impact of the effective bill into the burden that bill

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1 presents as a percentage of the household income permits a fair scaling of the  
2 relative difficulty of making timely and complete payments, depending on the  
3 income (and household size) of a family.

4 Today, the median income household in the PP&L service area spends  
5 about 2.3% of its income on electricity in the case of a general use customer, and  
6 4.5% in the case of a customer who heats with electricity. By contrast, low-income  
7 families without electric space heat spend as much as 20% of their income on  
8 electricity, and those with space heat can spend over 46% of their income for  
9 electricity alone. These extremely high burdens are a function of the level of  
10 income and the typical bills of such customers.

11 Even for the upper levels of the low-income range (100% to 150% of the  
12 Federal Poverty Guidelines), the percentages spent on general use and electric  
13 space heat respectively are 4% and over 9%. Thus, even the least at-risk of the  
14 low-income households in PP&L's service area carry almost twice the burden of  
15 electricity costs as their median income neighbors on average.

16 If a median income household in the PP&L service area (earning \$30,000  
17 per year), without electric space heat, had to bear the burden of the customer at the  
18 high end of the poverty range spends, that median income household would spend  
19 an average of \$500 *per month* for electricity. That same household with electric

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1 space heat would have to spend an average of \$13,000 per year (the equivalent of  
2 a payment of \$1,150 each month, summer and winter) for electricity.

3 These examples show that, from the perspective of the low-income  
4 household, the average residential bill places an enormous burden on the  
5 household, and places affordable service in jeopardy. A universal service program  
6 that seeks to achieve bills for low-income participants pegged to an affordable  
7 percent of income is the best way to address this problem directly.

8 **Q. DOES PP&L'S CUSTOMER ASSISTANCE PROGRAM MEET THE OVERALL**  
9 **CRITERIA YOU RECOMMEND?**

10 A. PP&L has one of the more sophisticated CAP programs among the electric utilities,  
11 and has plans for significant expansion of the program. But there is room for  
12 improvement in the Company's proposals.

13 **Q. PLEASE DISCUSS SOME OF THE POSITIVE FEATURES OF THE PP&L**  
14 **ONTRACK CUSTOMER ASSISTANCE PROGRAM.**

15 A. The *OnTrack* pilot run by PP&L has achieved significant improvements in the  
16 payment patterns of customers offered the opportunity to participate. The second  
17 impact assessment, conducted by RPM Systems, Inc., notes that "OnTrack has  
18 been accompanied by and almost certainly causes a marked increase in payment  
19 frequency." Of 815 customers who joined in the summer of 1994, for example, RPM  
20 Systems found that 66% made 5 or more payments the following winter, compared

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1 to only 24% the winter before joining the program. In addition, before joining, only  
2 29% of customers paid their full bills more than 75% of the time. After joining, more  
3 than twice that percentage, or 65%, paid their full bills over 75% of the time.

4 There was also a drop in the percentage who paid less than 25% of the time.  
5 Indeed, "a substantial majority of the poorest payers in the pre-join period made it  
6 into the most frequently [sic] payer categories in the post period." RPM Systems  
7 noted that these improvements in payment frequency far surpassed any  
8 improvement that occurred in comparison groups, suggesting that the program can  
9 be credited with this payment history improvement.

10 RPM Systems also compared the OnTrack program to similar sliding scale  
11 discount programs. As would be expected, RPM has found that "Multiple  
12 evaluations confirm that there is an inverse relationship between the amount asked  
13 and payment regularity." RPM Systems found that the OnTrack program's  
14 performance compares favorably to similar discount programs. OnTrack has a  
15 retention rate of 63% of joiners, and a compliance rate of 73%, and a (\$77) shortfall  
16 figure for evaluation purposes [as much as 50% of this shortfall may have occurred  
17 in the absence of the program, as the result of changed circumstances]. This  
18 places OnTrack above what RPM Systems describes as the "best practice frontier,"  
19 or the line on the graph of various programs' results where shortfalls are minimized  
20 while payment frequency is maximized. RPM credits the flexible approach to

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1 payment determination with this success, compared to a rigid percent of income or  
2 percent of bill formula used in most such CAPs to determine payment amount.

3 PP&L has apparently taken seriously the Commission's mandate to examine  
4 ways of reducing credit and collection costs, and improve low-income customer  
5 payment patterns. The Company has implemented its program according to plan,  
6 and used a program design and operation that are largely consistent with the  
7 guidelines set out by the Bureau of Consumer Services for CAP programs. The key  
8 variation from those guidelines is the introduction of the flexible payment amount  
9 approach, which has largely been a positive innovation. While there has been  
10 some inconsistency from region to region or intake counselor to intake counselor  
11 in application of the flexible approach, overall the result of the flexibility has been  
12 to better match customer ability to pay with the program payment amount.

13 PP&L has conducted two impact evaluations and one process evaluation,  
14 and has changed its practices to some extent in response to the findings of its  
15 independent evaluator. In this case, it has proposed to expand the pilot to a full-  
16 scale program, which makes sense in light not only of the statutory universal  
17 service provision, but the positive findings of the evaluations.

18 **Q. GENERALLY, WHAT DO YOU RECOMMEND CONCERNING PP&L'S ON**  
19 **TRACK PROGRAM?**

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1 A. PP&L's OnTrack component needs to be expanded, even beyond the PP&L  
2 expansion target of 10,000, to include a larger percentage of at-risk, eligible  
3 customers. Generally, I would urge the Company to increase funding for the  
4 program to the 0.5% of revenues level suggested in the Commission's Tentative  
5 Order on Universal Service. This target would amount to approximately \$11.7  
6 million per year at current revenue levels. To the extent that relatively high per-  
7 customer benefit levels restrict the ability of the Company to respond to the  
8 payment difficulties and unaffordability problems of a larger number of customers,  
9 the Company should consider revising its payment amount formula. However, this  
10 step would require the exercise of considerable care, as the current success of the  
11 pilot is due in no small part to the substantial discounts that participating customers  
12 receive.

13 The program should also incorporate the more aggressive and creative  
14 follow-up measures recommended in the process evaluation to help participants  
15 avoid dropping out of the program. I also recommend that the Company explore  
16 the reasons for the 25-30% rate of OnTrack customers leaving the program, and  
17 determine if improvements to program design could reduce this level of program  
18 departures.

19 I recommend that the program strengthen referrals to the LIURP program,  
20 and rely on direct usage reduction assistance in lieu of payment amount

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1 adjustments to encourage prudent usage. I recommend that the Company institute  
2 regular contacts with stakeholders and interested parties within its service area, to  
3 obtain ideas and feedback on an ongoing basis. As I discuss below, I recommend  
4 that PP&L take all reasonable steps to ensure that benefits are provided via  
5 discounts on the PP&L portion of the bill, so that portability is achieved without  
6 requiring the development of a separate accounting and payment system to credit  
7 a competitive supplier's separate bill. Finally, I recommend that customers not be  
8 barred from the program if they have not fallen into payment delinquency.

9 **Q. PLEASE DISCUSS THE ROLE OF PAYMENT DIFFICULTIES IN DEFINING**  
10 **ELIGIBILITY FOR ON TRACK.**

11 **A.** Customers should not be denied affordability assistance solely because they have  
12 not been delinquent in their bills. Such a limitation on program eligibility ignores the  
13 burden of high bills on customers who go without food, clothing, medical care or  
14 other necessities to pay for essential electricity. It also creates the potential for an  
15 incentive on the part of a customer to fall into delinquency in order to qualify for the  
16 OnTrack component of a universal service program.

17 While payment delinquency should not be an absolute requirement of  
18 participation, it makes sense to include payment delinquency as a factor in outreach  
19 and enrollment. The goal of maximizing cost efficiency in the implementation of  
20 OnTrack, is served by targeting payment-troubled households for participation.

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1 PP&L proposes to concentrate its full-scale program on serving customers  
2 "who have a demonstrated inability to pay and may be subject to service  
3 termination." (PP&L Statement 16, p. 19). While these two factors are definitely  
4 associated with at-risk customers, it would be best for the Company not to restrict  
5 eligibility only to customers who meet both criteria, if for no other reason than that  
6 limiting eligibility to customers in default may have the unintended consequence of  
7 giving incentives to low-income customers to position themselves in a default  
8 circumstance. Thus, in expanding its program the Company could actively solicit  
9 participation from its customers in default, while not denying OnTrack eligibility to  
10 other low-income customers.

11 **.Q. PLEASE DISCUSS YOUR RECOMMENDATION THAT A HIGHER**  
12 **PARTICIPATION RATE SHOULD BE A GOAL FOR THE PP&L ON TRACK**  
13 **PROGRAM.**

14 A. OnTrack efforts should strive for a reasonable rate of participation among the  
15 total group of customers potentially eligible for assistance. It is not necessary that  
16 100% of the eligible customers participate. However, a low participation rate is an  
17 indication that the program is not reaching its fair potential. Participation rates for  
18 low-income rate programs vary, with successful programs running at a rate around  
19 50% of the target population. It is not unreasonable to expect that the benefits of  
20 the program be extended to half the eligible group.

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1 **Q. IF THE PARTICIPATION IN THE PROGRAM IS EXPANDED, AND THE BURDEN**  
2 **ON PARTICIPATING CUSTOMERS IS BROUGHT TO AN AFFORDABLE LEVEL,**  
3 **WHAT WILL BE THE IMPACT ON THE COSTS OF THE PROGRAM?**

4 A. The costs of the program will increase, but the benefits of the program will increase  
5 as well. The main cost to increase is what we can call the "gross billing deficiency."  
6 I explain this term below. The main benefits to increase, besides the expansion of  
7 affordability to a larger portion of the at-risk low-income population, are the savings  
8 in credit and collection costs, and the retargeting of uncollectible dollars from write-  
9 offs to affordability subsidies.

10 **B. PLEASE EXPLAIN THE TERM GROSS BILLING DEFICIENCY.**

11 A. I use the phrase "gross billing deficiency" to refer to the dollars of revenue that  
12 would have been billed at the regular residential rate, but are not billed to OnTrack  
13 participants. The term "billing deficiency" highlights the fact that the difference  
14 being discussed is a difference in billings, not necessarily in revenues. Further, the  
15 qualification of these deficiencies as gross, rather than net, emphasizes the fact  
16 that the figure does not take into account the offsetting savings in avoidable credit  
17 and collection costs from the program. The 1994 impact evaluation of the PP&L  
18 OnTrack program of the time showed that, even on a "bottom-up" basis, without  
19 taking into account overhead allocations, the OnTrack rate came close to producing  
20 sufficient savings in credit and collection costs to offset the gross billing deficiency.

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1 The Equitable Gas Company EAP pilot evaluation, using a "top down" methodology  
2 (which does reflect the overheads and other allocated costs) demonstrated that a  
3 properly designed and run OnTrack program can in fact produce sufficient savings  
4 to offset the billing shortfall of the program.

5 Thus, a gross billing deficiency tells you how many dollars in billings will not  
6 be billed to OnTrack customers that would have been billed under ordinary  
7 residential rates. It overstates, however, the *net* cost of the OnTrack program.

8 **Q. WHAT IS PP&L'S ESTIMATE OF THE COSTS OF A FULL-SCALE ON-TRACK**  
9 **PROGRAM?**

10 A. PP&L estimates that a full-scale On-Track program serving 58,500 "level 1 and 2"  
11 low-income customers would cost about \$35 million (OCA-XII, Q.19, Attachment 1,  
12 p. 3 of 3). For a program serving only such customers who are behind on their bill  
13 payments (about 18,500 customers), PP&L estimates a cost of about \$11 million.  
14 However, to get a full picture of the amounts PP&L might cost-effectively expend  
15 on low-income customer bill affordability, we also need to consider the \$23 million  
16 in write-offs the Company estimates it makes on accounts of low-income customers  
17 (OCA II, Q. 1). If such funds were directed towards bill reductions *before the fact*,  
18 rather than write-offs *after-the-fact*, the customers would be able to pay the resulting  
19 lower bills with greater timeliness and completeness, the Company would save

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1 credit and collection costs, and customers would also enjoy the sense of self-  
2 respect and responsibility that comes with the ability to pay bills on time and in full.

3 **Q. WHAT IS THE SCALE OF PP&L'S CURRENT CAP PROGRAM?**

4 A. PP&L's OnTrack pilot program in 1996 served about 1,300 households and the  
5 Company's expenditures totaled \$1.7 million (RP-P.1., p. 2 of 2).

6 **Q. WHAT SCALE OF PROGRAM HAS PP&L PROPOSED IN THIS DOCKET?**

7 A. PP&L proposes to increase enrollment in OnTrack participation to about 10,000  
8 customers by the year 2001, and then to maintain enrollment at that level, by  
9 replacing departing customers with new enrollees (PP&L Statement 16, pp. 18-19).  
10 The Company expects its billing deficiencies to increase to about \$9.6 million in  
11 2001, and drop back to an ongoing level of \$9.1 million thereafter.

12 **Q. HOW DOES THE COMPANY ESTIMATE THE PARTICIPATION RATE AND COST  
13 FOR THE PROGRAM?**

14 A. The Company does not describe its calculation in its filing. I have been unable to  
15 determine precisely how PP&L arrived at its cost estimate. The Company  
16 estimates its costs for its proposed 10,000 customer program to be \$9,100,000.  
17 Aside from administrative expenses, this level of funding would imply an average  
18 per-customer shortfall of over \$75 per month. However, in discovery, the Company  
19 stated that it uses an average per-customer gross billing deficiency of about \$50  
20 per month. If the \$50 per month gross billing deficiency average were used, a

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1 \$9,100,000 program, assuming 5% for administrative costs, would cover roughly  
2 14,400 customers [ $\$8,645,000 / (50 * 12)$ ]

3 **Q. HOW DOES PP&L'S GROSS BILLING DEFICIENCY COMPARE TO THE 0.5% OF**  
4 **REVENUE TARGET INCLUDED IN THE COMMISSION'S APRIL 24, 1997**  
5 **TENTATIVE ORDER ON UNIVERSAL SERVICE?**

6 With an annual direct expense of \$1.7 million, PP&L presently expends  
7 0.07% of its revenue on OnTrack. This level is consistent with the fact that the  
8 Company has fielded OnTrack as a pilot program to date.

9 Total proposed OnTrack spending of \$10 million would represent 0.4% of  
10 PP&L's gross operating revenues. A program at the target 0.5% of revenues would  
11 cost \$11.7.

12 **Q. HOW MANY CUSTOMERS COULD BE SERVED FOR A PROGRAM WITH A**  
13 **BUDGET OF \$11.7 MILLION, OR 0.5% OF REVENUES?**

14 A. The Company estimates that the average gross billing deficiency for participating  
15 new customers would be \$50.50 per month. (OCA XII, Q. 19, Attachment 1, p. 3 of  
16 3). Assuming again a 5% administrative cost, a program budget of \$11.7 million  
17 would serve about 18,500 low-income customers [ $\$11,115,000 / (50 * 12)$ ].

18 **Q. WHAT IS YOUR RECOMMENDATION FOR THE PP&L ONTRACK PROGRAM?**

19 B. I recommend that the Company ramp up its OnTrack program a bit more quickly  
20 and to a modestly higher resulting level. Specifically, I would utilize the

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1 Commission's tentative target level of 0.5% of revenues as a reasonable goal at this  
2 time.

3 Once the new program level is attained, the Company should determine the  
4 average percentage of income paid by low-income households in its service area,  
5 track the number of customers without service, and identify the circumstances of  
6 this inability to get or maintain service. Based on this information, the Company  
7 should come back to the Commission with its proposal for any needed refinements  
8 or changes to the program.

9  
10 **PART III - LOW INCOME USAGE REDUCTION PROGRAM ISSUES**

11 **Q. PLEASE DESCRIBE THIS SECTION OF YOUR TESTIMONY.**

12 **A.** This section of my testimony covers the following topics:

- 13 1. The role of LIURP in achieving universal service.
- 14 2. The PP&L LIURP plan and how well it serves the General Assembly's  
15 universal service goals.
- 16 3. A recommended overall budget level, and program design change  
17 proposals.
- 18 4. A low-income renewables pilot proposal.

19 **Q. WHAT IS THE ROLE OF USAGE REDUCTION IN ACHIEVING UNIVERSAL**  
20 **SERVICE?**

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1 A. Usage reduction is an integral component of the efforts of the distribution utility and  
2 other market participants to assist low-income customers to achieve the same level  
3 of service as non-low-income customers. Usage reduction is particularly valuable  
4 because it not only helps lower bills, and thereby improve payment patterns, it also  
5 saves electricity resource costs, such as fuel and capacity costs. In addition, it has  
6 environmental benefits. Thus, low-income usage reduction is a beneficial  
7 proposition to all concerned (affordable bills, lower credit and collection costs to the  
8 utility, lower credit and collection costs passed on to other customers, lower  
9 electricity resource costs, and lower environmental costs).

10 **Q. PLEASE BRIEFLY DESCRIBE THE PP&L LIURP PROGRAM, WRAP.**

11 A. PP&L runs a low income usage reduction program it calls WRAP, or Winter Relief  
12 Assistance Plan. This is a free weatherization and energy education program,  
13 delivered to eligible clients (incomes below 150% of the federal poverty guidelines)  
14 by community-based organizations within PP&L's service territory.

15 **Q. DOES PP&L OFFER SERVICES TO NEAR-LOW-INCOME CUSTOMERS, TOO?**

16 A. Yes. For customers with incomes between 151% and 200% of the federal poverty  
17 guidelines, PP&L offers its Keep Warm Plan program. Keep Warm Plan services  
18 are also delivered for PP&L through 13 area CBOs. Both programs are delivered  
19 to electric space heating customers. The budget for WRAP is just over \$3 million

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1 per year, and the Keep Warm Plan budget is \$1 million per year. The Company  
2 does not propose to increase these budgets.

3 **Q. HOW HAS THE PP&L LIURP EFFORT PROGRESSED OVER THE LAST**  
4 **SEVERAL YEARS?**

5 A. The Bureau of Consumer Services in its July 1995 LIURP report noted  
6 encouraging progress in the PP&L LIURP efforts in the early 1990's.

7 **Q. DO ALL LOW-INCOME CUSTOMERS IN PP&L'S SERVICE AREA HAVE**  
8 **ACCESS TO LIURP SERVICES TODAY?**

9 A. No. PP&L targets electric space heat customers for its WRAP and Keep Warm  
10 Plan services. Customers with neither space heat nor electric hot water do not  
11 have LIURP services at this time.

12 **Q. HOW DOES THE COMPANY'S LIURP SPENDING COMPARE TO THE**  
13 **COMMISSION'S TENTATIVE 0.2% OF GROSS REVENUES TARGET LEVEL?**

14 A. The Company is presently spending at the rate of about 0.17% of gross operating  
15 revenues on WRAP and Keep Warm Plan combined. If the expenditures for the  
16 low-income (under 150% of federal poverty guidelines) customers are isolated, the  
17 Company's LIURP commitment today is more like 0.13 % of operating revenues.

18 **Q. DO YOU RECOMMEND ANY CHANGES TO THE COMPANY'S LIURP**  
19 **PROPOSAL?**

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1 A. Yes. I recommend that the Company be required to augment its LIURP efforts in  
2 the following four ways:

- 3 1. Begin a Baseload Use Reduction component of WRAP, to assist non-space  
4 heat and non-water-heat customers in reducing their usage.
- 5 2. Conduct a Request for Proposals to obtain proposals for a low-income  
6 renewables pilot.
- 7 3. Devote a higher proportion of overall LIURP funding to the lower income  
8 customers and others with incomes below 150% and 100% of the federal  
9 poverty guidelines.
- 10 4. Consider and pilot the use of special copayment procedures, especially for  
11 higher-income participants, to lower attrition, engage customers to "buy-in"  
12 to conservation benefits, and spread scarce program dollars.
- 13 5. Increase the overall level of spending to the target 0.2% of operating  
14 revenues, or \$4.7 million.
- 15 6. Create an Advisory Committee of stakeholders and interested parties to give  
16 the Company feedback on its LIURP activities on an ongoing basis.

17 **Q. PLEASE EXPLAIN YOUR PROPOSAL FOR A BASELOAD USE REDUCTION**  
18 **COMPONENT OF WRAP.**

19 A. The Company explains its WRAP target limitations by noting, quite accurately, that  
20 PP&L has a disproportionately high penetration of electric space heat usage among

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1 all its customers (31%, compared to penetrations ranging from 5% to 21% for the  
2 other electric companies in the state)(OCA XII, Q. 6). It is also true that high-usage  
3 low-income customers are most likely to be at risk for non-payment. However, there  
4 is a need to devote resources to assist non-space-heat customers in reducing  
5 usage as well. Non-space heat customers, who make up over two-thirds of the  
6 Company's low-income customers, also have opportunities for usage reduction that  
7 are barred to them for lack of resources. If these inefficient uses could be switched  
8 to more efficient uses, the customers would benefit, and so would the Company and  
9 all the customers in its distribution area. Cost-effective baseload use reduction  
10 would assist in making bills more affordable, thereby saving credit and collection  
11 costs, and would also save generation resource costs, ultimately borne by the  
12 entire system.

13 Other utilities in Pennsylvania, notably Duquesne, have successfully  
14 targeted baseload usage. Utilities in other states have similarly been successful  
15 at cost-effective baseload usage reduction. Thus, both equity and economics  
16 suggest that a significant portion of LIURP costs be devoted to assisting non-space-  
17 heat customers with usage reduction.

18 **Q. WHAT LEVEL OF FUNDING DO YOU PROPOSE FOR BASELOAD USAGE**  
19 **REDUCTION?**

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1 A. I propose that the Company ramp up to spending as much as \$750,000 per year on  
2 baseload usage reduction.

3 **Q. PLEASE DESCRIBE YOUR PROPOSAL FOR A RENEWABLES PILOT.**

4 A. The General Assembly in the restructuring bill specifically noted that applications  
5 of renewable technology can be included in the universal service programs of  
6 electric utilities. 66 Pa.C.S. §2803. I recommend that a pilot renewables program  
7 be fielded by PP&L along the following lines:

- 8 1. Issue an RFP to solicit proposals of contractors to install 35 units of  
9 photovoltaic electricity panels at 1 kW in 1999, and 75 units of PV in  
10 2000, on the dwellings of low-income PP&L customers.
- 11 2. Seek bids in a price range of \$5.00 per Watt (this is an aggressive  
12 target, but may well be achievable, especially if the PP&L payment is  
13 packaged with grant funding to lower unit costs).
- 14 3. In the same or a different RFP, seek proposals to install up to  
15 \$150,000 worth of passive or active solar hot water heating on low-  
16 income PP&L customers' dwellings.
- 17 4. In each case, require a diversity of building types, locations (including  
18 a significant number in densely-settled, older urban neighborhoods,  
19 with network distribution systems and plans for distribution upgrades,  
20 if possible), land tenancies (e.g. customer as owner vs. renter), sizes,

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1 and metering arrangements (including some net metering on larger  
2 units relative to the load of the subject dwelling).

3 5. Conduct a process and impact evaluation of the installations,  
4 capturing such features as customer acceptance of the measures,  
5 landlord acceptance in the case where the customer is a renter, cost  
6 per unit, payback per unit, Total Resource Cost on a present value  
7 basis per unit, and the like.

8 6. Involve the LIURP Advisory Committee (recommended above) at all  
9 stages of pilot development and evaluation.

10 7. Submit a report to the Commission in 1999 and 2000 concerning the  
11 status of the pilot and the findings of any evaluations, together with  
12 recommendations as to whether to renew or extend the pilot.

13 **Q. WHAT IS THE PROPOSED BUDGET FOR THIS RENEWABLES PILOT?**

14 A. I propose that the Company budget \$150,000 over two years for the solar hot water.  
15 commencing in 1999, and \$175,000 in 1999 for the 35 PV units, and \$375,000 in  
16 2000 for the 75 PV units. In addition, the Company will require some administrative  
17 expense to develop the RFP, conduct the proposal process, select winning  
18 proposals, enter into contracts, conduct data tracking, and prepare an evaluation.  
19 Assuming a 5% administration factor, the cost for 1999 would be \$225,000 plus  
20 \$11,250, and the cost for 2000 would be \$525,000 plus \$26,000.

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1           These amounts should be part of the overall LIURP budget.

2     **Q.   WHAT IS THE BASIS FOR THIS RENEWABLES PILOT BUDGET PROPOSAL?**

3     A.   Today, 1000 Watt PV units can be obtained for \$6.00 per kW, and bulk purchases  
4       can push the cost down towards \$5.00 per kW. With DOE grant funding or other  
5       contributions to the project, the cost can be expected to remain at \$5.00 per kW.  
6       PV has a useful life of 30 years. A simple present value calculation shows that the  
7       payback for a unit that costs \$5.00 per kW can be as low as 14 years. This is very  
8       close to the 12 year limit in the pre-restructuring LIURP regulations for specified  
9       measures.

10           There are a number of reasons why the Commission should allow the pilot  
11       to go forward, despite the fact that a projected payback under optimistic price  
12       conditions will be slightly longer than the current payback limit for LIURP. First, the  
13       project is important. The General Assembly highlighted the importance of testing  
14       the viability of renewable generation when it included renewables in its list of  
15       possible universal service measures.

16           Second, when PV can reach the necessary critical mass for reducing the  
17       cost and thus the payback time, it promises to address not only environmental  
18       concerns, nor even only affordability concerns, but concerns about the cost of  
19       distribution upgrades as well. This is particularly important in densely packed  
20       urban neighborhoods, with underground, network-style, distribution systems.

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1 Southern California Edison has already shown the value of PV in heading off  
2 expensive buried-cable replacements in Pasadena, California.

3 Third, PV is a low-maintenance installation. It does not require complex  
4 interactions between customers and machines to deliver its benefits. It does not  
5 readily break down. If these qualities persist in the densely-populated low-income  
6 neighborhoods where many low-income PP&L customers reside, the ease of  
7 maintenance will be a significant value to this resource. There is precedent for  
8 such installations, in the Rheinhardt Street Townhouses in South Philadelphia,  
9 funded partially by a "PV In Buildings" grant from the Department of Energy.

10 With respect to the solar hot water, these technologies are proven. What is  
11 not yet understood as well is the viability of these installations in rental situations,  
12 urban neighborhoods, and existing low-income housing of various kinds. As in the  
13 case of the PV pilot, the use of an RFP process can permit the Company to obtain  
14 the insights of solar experts, while maintaining significant control over the prices it  
15 will incur for these installations.

16 **Q. YOU HAVE RECOMMENDED THAT PECO ENERGY ALSO CONDUCT A PILOT**  
17 **RENEWABLES PROGRAM. SHOULD THESE PROGRAMS BE COORDINATED?**

18 **A.** Yes. To achieve the maximum economies in the purchase of the PV units, it would  
19 be best to pool the purchases of all the electric utilities, and run a single state-wide

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1 pilot. Alternatively, separate pilots could be run, but purchase of the units could be  
2 pooled.

3 **Q. PLEASE DESCRIBE YOUR RECOMMENDATIONS FOR SPECIAL COPAYMENT**  
4 **PROVISIONS WITH RESPECT TO LIURP PROGRAMS.**

5 A. The received wisdom among many DSM program designers has been that  
6 copayments eliminate participation among residential consumers, particularly low-  
7 income consumers. I do not believe this to be necessarily the case. A copayment,  
8 if structured properly, and if levied at the proper amount, can actually increase the  
9 engagement of the customer with the service delivery of conservation.

10 To be effective, a copayment in a low-income residential program must have  
11 the following characteristics:

- 12 1. Collected on the bill - a separate loan from a bank or other agency,  
13 with separate payments, creates not only the barrier of a separate set  
14 of transactions, but the barrier of a separate payment to be processed  
15 every month (a particularly high barrier where many low-income  
16 households lack checking accounts).
- 17 2. Immediate positive payback - the monthly charge for the copayment  
18 must, in the first month and for every month, be less than the savings  
19 in each such month from the usage and corresponding bill reduction.

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1           With these factors in mind, it is possible to charge a "lease fee" for compact  
2 fluorescent bulbs, room airconditioning, ceiling fans, and replacement refrigerators.  
3 The lease fee, or copayment, is charged monthly and calculated to be an amount  
4 that, over the period of the "lease" and leaving aside the time value of money, is  
5 somewhat less than the installed cost of the measure. At the end of the "lease"  
6 period, the device or appliance belongs to the customer.

7 **Q. HAS SUCH A COPAYMENT APPROACH BEEN USED BY OTHER UTILITIES?**

8 A. Yes. Cleveland Electric Illuminating Company, a Centerior subsidiary, used a lease  
9 fee to charge low-income customers 10 cents per month for compact fluorescent  
10 bulbs. Texas Utilities Electric Company has used lease-fees for a low-income  
11 baseload usage program, including refrigerator replacement. Central Power & Light  
12 in Corpus Christi, Texas, has also used the lease fee copayment approach. Two  
13 other Texas utilities are planning to institute a refrigerator lease-fee program on  
14 January 1, 1998.

15 **Q. YOU HAVE SAID THAT A COPAYMENT CAN ENGAGE THE CUSTOMER MORE  
16 FULLY IN THE CONSERVATION EFFORT. PLEASE EXPLAIN.**

17 A. Where the lease fee is not a barrier to participation, it can actually be a spur to  
18 active participation in the conservation process. Instead of the Company and its  
19 installers saying, in effect, "Here is a free service for you," a leased-measure  
20 proposal to a customer is in effect the statement "Here is a valuable service, that

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1 is worth your time to understand and your money to have us install." The customer  
2 then takes or does not take the measure, but if the customer takes the measure, the  
3 customer has made a greater commitment to the success of the savings. Of  
4 course, I must repeat that especially for very low income customers, even the  
5 smallest copayment can be an insurmountable barrier to participation.

6 **Q. PLEASE DESCRIBE YOUR PROPOSAL TO DEVOTE A GREATER PORTION OF**  
7 **THE LIURP FUNDING TO LOWER INCOME ELIGIBLE CUSTOMERS.**

8 A. While a Company should have flexibility to serve customers with incomes above  
9 150% of the federal poverty guidelines, there should be a stress on usage reduction  
10 among lower income customers in a Low Income Usage Reduction Program. This  
11 is so because such customers are at greater risk of losing service, have fewer  
12 resources to obtain energy efficiency services on their own, and experience higher  
13 burdens on their disposable income from inefficient usage and the resulting  
14 unnecessarily high bills. If there were no limit on funding, then all cost-effective  
15 usage reduction should be pursued. However, there is both a practical and a  
16 regulatory limit to the amount of funding that will be devoted to distribution utility  
17 efforts to lower usage among low-income customers. In this event, it is not possible  
18 to meet the entire need in any given year, and priorities must be set.

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1 **Q. HOW DO YOU PROPOSE THE COMPANY ADJUST THE BALANCE AND**  
2 **BETTER TARGET ITS LOWEST INCOME CUSTOMERS WITH ITS LIURP**  
3 **EFFORTS?**

4 A. First, the increase in the overall budget from the Company's \$4 million proposal to  
5 the target 0.2% of revenues will enable funds to be targeted to baseload customers  
6 who tend to be among the lower income customers. Second, the Company's  
7 proposed increase in the Keep Warm Plan portion of the LIURP budget should be  
8 reconsidered. The Company presently spends about \$534,000 on Keep Warm  
9 (RP-P.11). It proposes to increase this amount to \$1,000,000 by 1999 (Statement  
10 16, p. 18). Instead of expanding the Keep Warm Program using LIURP dollars, the  
11 Company should institute the lease-fee approach, to expand the Keep Warm  
12 program. The Company should develop a Baseload Component to WRAP, to serve  
13 non-space heat, non-hot-water customers with incomes at or below 150% of the  
14 federal poverty level. Priority should be given to the lowest income customers from  
15 this group. For higher-income customers, such as Keep Warm Program customers,  
16 a lease-fee can be used to expand the number of participants without expanding  
17 the budget beyond acceptable limits.

18 **Q. PLEASE DISCUSS YOUR PROPOSAL FOR THE OVERALL LIURP BUDGET.**

19 A. I recommend that the target for LIURP expenditures be 0.2% of gross operating  
20 revenues. In the case of PP&L, with revenues of \$2.3 billion (Future Test Year Cost

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1 Allocation, year ending 9/30/95, p. 7), this would suggest a LIURP budget of \$4.7  
2 million today, or about \$700,000 larger than the PP&L current and projected LIURP  
3 budget. I would generally propose that the increase in LIURP funding be utilized  
4 for base load funding and for the Renewables Pilot Program.

#### 5 **PART IV - COST ALLOCATION AND COST RECOVERY**

6  
7 **Q. WHAT ISSUES DO YOU ADDRESS IN THIS SECTION OF YOUR TESTIMONY?**

8 A. In this part of my testimony, I address the proper cost allocation for Universal  
9 Service costs, and the proper form of cost recovery for these costs.

10 **Q. PLEASE ADDRESS THE ISSUE OF COST RECOVERY FIRST. HOW DOES THE**  
11 **COMPANY PROPOSE TO ALLOCATE THE COSTS OF ITS UNIVERSAL**  
12 **SERVICE PROGRAMS?**

13 A. The Company proposes to allocate its universal service costs on a per customer  
14 basis.

15 **Q. WHAT IS THE EFFECT OF A PER-CUSTOMER ALLOCATION OF UNIVERSAL**  
16 **SERVICE COSTS?**

17 A. If universal service costs are allocated on a per-customer basis, the customers  
18 taking service at primary and subtransmission voltages will effectively bypass this  
19 cost. The primary and subtransmission voltage customers together account for  
20 more than one third of the Company's sales. However, with a per-customer

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1 allocation of universal service costs, they will together pay only about \$5000 out of  
2 the \$6 to \$7 million in universal service expenditures, or less than one tenth of one  
3 percent of the costs ( $\$5,000/\$6,200,000 = 0.00081$ ). The PP&L proposed tariff  
4 (below stated in \$/kWh) shows that such a token cost allocation is equivalent to  
5 exempting these two classes from universal service costs:

<u>Customer Group</u>	<u>Universal Service Fund Charge</u>
Residential	\$0.00048/kWh
General Service	\$0.00008/kWh
Primary	\$0.00/kWh
Subtransmission	\$0.00/kWh

6  
7  
8  
9  
10  
11  
12 **Q. IS A PER CUSTOMER COST ALLOCATION CONSISTENT WITH THE**  
13 **STATUTORY DIRECTIVE THAT UNIVERSAL SERVICE COSTS BE COLLECTED**  
14 **IN A NON-BYPASSABLE CHARGE?**

15 **A.** No. The Act provides that universal service expenditures be recovered by a charge  
16 that is non-bypassable. The Company's proposed per-customer allocation in effect  
17 permits customers with large kWh purchases to bypass the costs, because such  
18 customers represent a very small fraction of the number of customers.

19 **Q. HOW SHOULD THE COSTS OF UNIVERSAL SERVICE PROGRAMS BE**  
20 **SPREAD TO THE CUSTOMERS?**

21 **A.** The General Assembly requires that universal service program costs be recovered  
22 via a non-bypassable charge in the distribution utility's rates (§ 2804). The common  
23 understanding of the bypass problem is the risk that some customers will leave the

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1 distribution utility's facilities entirely, and leave their share of system costs behind.  
2 Thus, in choosing the word "non-bypassable," the General Assembly was  
3 incorporating the concept that all customers should cover the Universal Service  
4 costs. Further, to the extent that Universal Service is a public good that benefits all  
5 of society, the benefits accrue to all customers and classes. Finally, the costs of  
6 Universal Service (even without netting out the offsetting cost reductions) are  
7 extremely small per customer in relation to the benefits to society of the universal  
8 availability of essential electricity.

9 In keeping with the requirement that universal service charges be  
10 non-bypassable, I propose that universal service costs be allocated on a  
11 fixed per-kWh basis, equally applied to all kWh received by PP&L end-use  
12 customers. Such an allocation comports with the General Assembly's  
13 determination that all customers share responsibility for universal service  
14 costs. Once the class share of such costs is determined (by dividing the  
15 total universal service cost by the ratio of class kWh throughput to total  
16 Company throughput), the rates can then be designed to collect the revenue  
17 requirement for that class.

18 **Q. THE COMPANY PROPOSES TO INCLUDE UNIVERSAL SERVICE COSTS AS A**  
19 **COMPONENT OF ITS DISTRIBUTION RATES. DO YOU AGREE WITH THIS**  
20 **PROPOSAL?**

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1 A. Yes. Universal service costs are like any other ongoing responsibility of the  
2 distribution utility. Separating out such a cost on the bill creates the (inaccurate)  
3 impression in the mind of the customer that this component deserves attention and  
4 scrutiny that is not appropriate for other, often larger, costs that are included in the  
5 larger bill.

6 I agree that it is appropriate, however, for the Company to state the universal  
7 service fund charge component as a separate item in the tariff (see, e.g. PP&L  
8 Proposed Tariff, Electric Pa. P.U.C. No. 201, Original Page No. 13B, for effect  
9 1/1/99). This is consistent with the requirements of the universal service sections  
10 of the Pennsylvania Electric Choice Act.

11 **Q. PLEASE DESCRIBE PP&L'S PROPOSAL REGARDING PORTABILITY OF CAP**  
12 **AND LIURP BENEFITS.**

13 A. The Company states that its goal is to make these programs available "at least in  
14 some form" to customers who purchase generation from alternative suppliers.  
15 However, its witness also states that "these programs were developed for and are  
16 applicable to a bundled bill for electricity," and goes on to state that "[d]ifficult  
17 issues regarding pro-ration and participation by alternative energy suppliers will  
18 have to be resolved" before a final determination can be made "as to whether and  
19 how specific programs will be fully or partially available to those customers who do  
20 not purchase energy from PP&L."

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1 **Q. WHAT ISSUES REQUIRE RESOLUTION BEFORE CAP AND LIURP BENEFITS**  
2 **CAN BE MADE AVAILABLE TO CUSTOMERS TAKING GENERATION SUPPLY**  
3 **FROM ALTERNATIVE SUPPLIERS?**

4 A. I believe there are no insurmountable problems in making CAP (OnTrack) and  
5 LIURP (WRAP) available to customers taking competitive generation supplies.  
6 With respect to CAP, the major issue to be determined is the actual bill of the  
7 customer. As it will be made up of a component under PP&L's control, and an  
8 independent component that may not be billed by PP&L, it may be necessary to  
9 develop a source of information on the level of that bill independent of PP&L's  
10 billing system. But customers can be asked to present their bills, and various  
11 approaches can be used to make sure that an estimate of the generation  
12 component of the bill is reasonably accurate for developing the PIPP part of the  
13 Company's eligibility and benefit calculation.

14  
15 **Q. PLEASE EXPLAIN HOW ON TRACK BENEFITS CAN BE MADE PORTABLE IN**  
16 **A COMPETITIVE MARKET, WITH UNBUNDLED DISTRIBUTION,**  
17 **TRANSMISSION AND GENERATION CHARGES.**

18 A. If all customers are to have the benefit of the competitive markets for electricity  
19 supply, then they must not be locked into one supply arrangement solely because  
20 of their need for OnTrack assistance to be able to make timely bill payments, or

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1 their receipt of WRAP services. If the OnTrack bill reduction is achieved by  
2 reducing the distribution utility component of the bill, the customer will be able to  
3 shop in the competitive market for electricity on a competitively neutral basis, and  
4 the total that the customer can spend for electricity will be increased by the  
5 Distribution utility discount. As has been recommended by the Massachusetts  
6 Department of Public Utilities, and incorporated in settlements filed by major  
7 Massachusetts utilities with the DPU, the discount applied on the Distribution utility  
8 portion of the bill will be increased proportionately under competition so that it  
9 provides a level of bill reduction equivalent to that provided when the bundled bill  
10 is discounted today under regulation. The WRAP services are simply directly  
11 provided to the customer, and do not require such an adjustment of current practice  
12 for implementation.

13 The only case in which this method might not work is one in which the bill  
14 reduction warranted by the OnTrack bill payment calculation is high enough that the  
15 resulting distribution service balance is less than zero. The Company should  
16 evaluate the likelihood of this eventuality, and submit a plan to the Commission that  
17 will handle this special case. The OCA will be happy to support the Company's  
18 efforts to achieve such a solution.

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1 Q. WON'T THE CUSTOMER BE DENIED THE CHANCE TO OBTAIN COMPETITIVE  
2 SUPPLIES IF THE ONTRACK DISCOUNT APPLIES ONLY TO THE  
3 DISTRIBUTION UTILITY PORTION OF THE BILL?

4 A. It is conceivable that suppliers will be reluctant to serve low-income customers  
5 unless they receive a portion of the bill discount benefit. However, that remains to  
6 be seen. Even if the benefit is not divided, suppliers will receive benefits from  
7 OnTrack bill reductions. The program will increase the affordability of the *entire* bill,  
8 not just the Distribution utility component, so long as it is designed to produce an  
9 affordable burden when the combined Distribution utility and competitive supply  
10 portions of the bill are taken into account. Thus, the supplier will get the benefit of  
11 the customer's improved ability to afford electricity, without having to make any  
12 direct contributions to that affordability. Further benefits to the suppliers should not  
13 be necessary. However, the Commission should watch the development of the  
14 market carefully. If access to competitive electric supply among low-income  
15 customers is limited and remains so, the desirability of splitting the bill discount to  
16 the two separate portions of the bill could be explored, along with other possible  
17 remedial actions.

18 Q. WHAT IS YOUR RECOMMENDATION FOR THE PROPER COST RECOVERY,  
19 COST ALLOCATION AND RATE DESIGN OF PP&L UNIVERSAL SERVICE  
20 COSTS?

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1 A. PP&L should recover its universal service cost in rates on a nonbypassable basis  
2 of an average unit cost for all kWh. The costs to be recovered should include CAP  
3 costs, LIURP costs, and CARES costs.  
4

## 5 **PART V - EXPERIENCE OF OTHER STATES**

6 **Q. HOW HAVE OTHER STATES HANDLED THE UNIVERSAL SERVICE ISSUES**  
7 **YOU DISCUSS IN YOUR TESTIMONY?**

8 A. States that have passed restructuring legislation or developed final plans for  
9 implementation of restructuring in the electric industry have provided for bill  
10 reduction assistance and management similar to that contemplated by the General  
11 Assembly in Pennsylvania.

12 In Massachusetts, the Commission's proposed restructuring regulations, and  
13 the settlements with major electric companies on plans for introducing competition,  
14 provide for a continuation of the low-income discounts (which range from 20% to  
15 35% of base rates) and a ramping up of the low-income conservation efforts of  
16 electric distribution utilities. In particular, baseload use is targeted in expanded  
17 low-income DSM programs, budgets will be increased, and greater use of  
18 Community Action Agencies will be made.

19 California, Rhode Island, Maine, and Montana preserve the low-income  
20 programs that have historically been provided by electric utilities in those states

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1 The Montana statute specifies that at least 17% of the systems benefits moneys  
2 collected be devoted to low-income bill assistance and low-income conservation.  
3 The Montana systems benefits fund ("Universal Service") will be funded by a charge  
4 at 2.4% of retail sales revenues in Montana. In Maine, the legislature has  
5 mandated that low-income bill assistance continue at its current level (0.5% of  
6 revenues), and that efficiency (including low-income usage reduction) continue at  
7 1995 levels.

8 California specifies that the budget for such programs must be based on  
9 need. Traditionally the low-income rate program in California has provided for a  
10 15% discount, and direct assistance to help low-income consumers take advantage  
11 of efficiency opportunities. The Commission also has set up the California Low  
12 Income Governing Board, of which I am a member, to implement the statute's  
13 provision for transfer of utility programs to an independent administrator.

14 In New Hampshire, the statute provides that programs to help low-income  
15 families "manage and afford" their electric service must be instituted. The  
16 Commission was directed to establish a restructuring plan to carry out the overall  
17 restructuring statute. On February 28, 1997, the Commission issued its Final Plan,  
18 in which it ordered that a new statewide percentage of income payment program be  
19 established to carry out the statute's mandate for low-income universal service  
20 protection. The Commission accepted the recommendation of a task force of  
21 stakeholders that the budget for such assistance would be up to \$13.2 million, for

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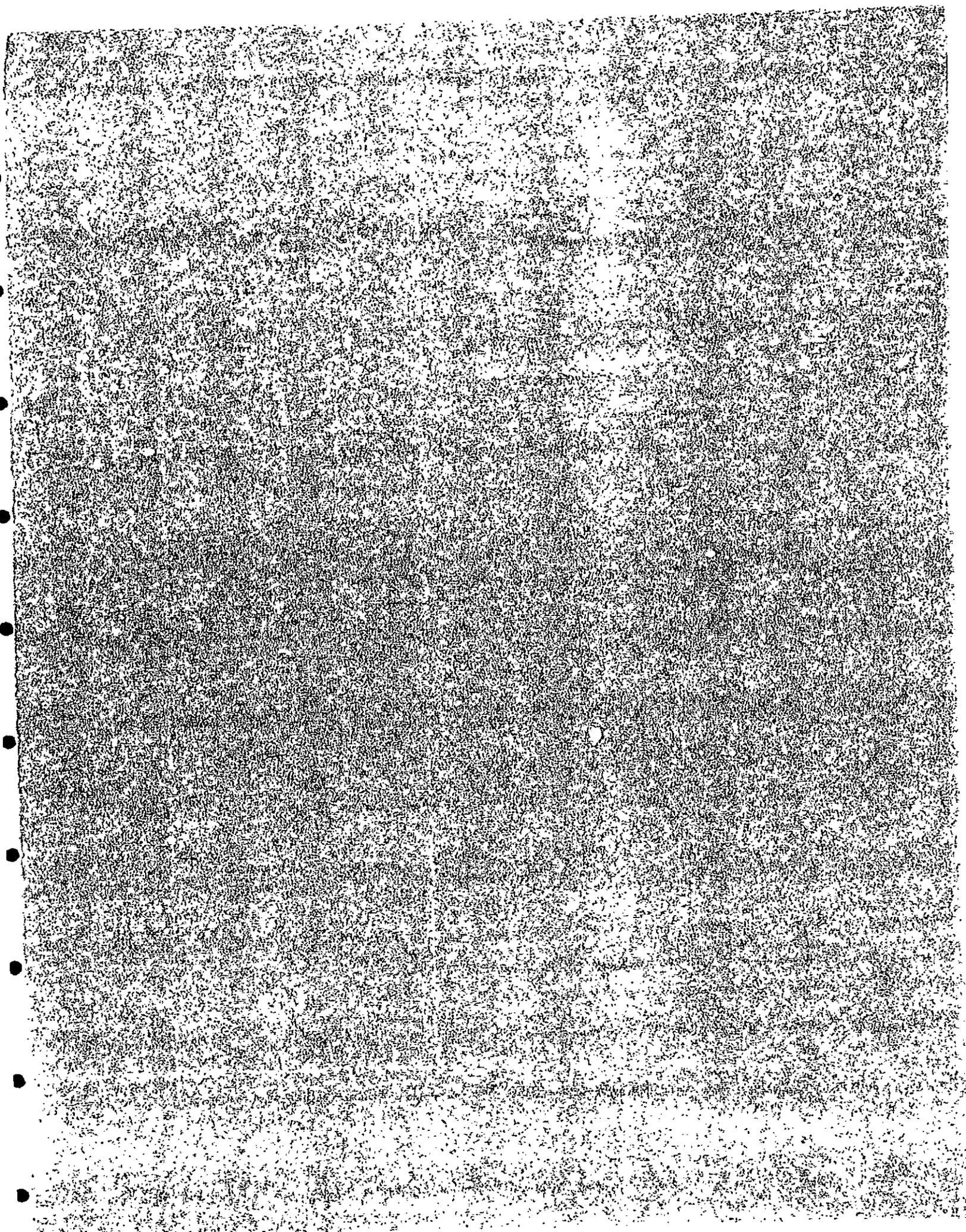
1 a state with 500,000 electric consumers. New Hampshire had never had low-  
2 income rate assistance under regulation, and the Commission's action recognized  
3 that the new industry structure posed particular risks for low-income customers.

4 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

5 **A. Yes.**

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- 1991- Utility Analyst/Attorney, National Consumer Law Center  
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- 1988-91 General Counsel, Massachusetts Department of Public Utilities  
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- 1986-1988 Staff Counsel; Assistant General Counsel  
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Staff Attorney, Senior Staff Attorney
- 1979-1982 Legal Services for the Elderly, Inc.  
Augusta, Maine  
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- 1977-79 Pine Tree Legal Assistance, Inc.  
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GRANT AND CONTRACT PROJECTS**

June 18, 1997

AGENCY	WORK PRODUCT	TOPIC	DATE
Regulatory Assistance Project	Report	Consumer disclosure in restructuring	Ongoing
Boston Bar Foundation	Training	Massachusetts utility consumer rights	June 1996
Action, Inc (Department of Energy)	Technical assistance	New England restructuring and low-income households	Ongoing
Rhode Island CAP Director's Association	Technical assistance	Universal Service in Rhode Island electric restructuring	Ongoing
Pennsylvania Office of the Consumer Advocate	Testimony and consultation	Universal Service Components of Electric Utility Restructuring Plans	Ongoing
Governor, State of Illinois	Report and consultation	Impact of Restructuring on Residential Consumers	Spring, 1997
Oak Ridge National Laboratories	Report with appendices	DSM Programs for Low-Income Customers in Restructuring	Ongoing
Spratley Associates; Legislative Energy Assistance Project	New England Consumer Advocate regional meeting; summaries of deliberations.	Consumer Issues in Restructuring: Integrating the Green Agenda.	October 28, 1996
Regulatory Assistance Project	Report with appendices	Consumer Issues in Restructuring: Specific Regulatory and Legislative Options to Address Consumer Protection Issues	Ongoing
Spratley Associates; Legislative Energy Assistance Project	Report	Consumer Issues in Restructuring: Scoping the Need for Legislation	August, 1996
U.S. Department of Energy (subcontracted by Action, Inc.)	Letter reports on New England restructuring activities	Utility Restructuring	1996
Urban Consortium, via Cape Cod (MA) County Commissioners	Parts of Report and draft contract, RFP, regulations and statutes	Biddable Franchise as a form of industry restructuring	1996

AGENCY	WORK PRODUCT	TOPIC	DATE
Pennsylvania Office of Consumer Advocate	Testimony	Rate rebalancing and universal service.	1996
National Association of Regulatory Utility Commissioners and National Council of State Legislatures	Report	Strandable Benefits in Utility Restructuring, and Techniques for Preventing Stranding	August, 1996
Massachusetts Executive Office of Communities and Development (now Division of Housing and Community Development) (subcontracted by Action, Inc.)	Represent low-income consumers in regulatory proceedings seeking additional DSM to leverage Weatherization Assistance. Filed comments on behalf of clients in Mass. D.P.U. 95-30, generic electric industry restructuring docket.	Leveraging WAP, electric industry restructuring	Ongoing
The Energy Foundation	Project Director, The National Low-Income DSM Project. Coordinate national efforts to respond to challenge of retail restructuring on low-income customer programs.	Electric industry restructuring and impacts on low-income customers.	Ongoing
Joyce Mertz-Gilmore Foundation	Supports various activities in field of electric industry restructuring and impact on low-income customers' access to affordable, efficient energy.	Electric industry restructuring and impacts on low-income customers.	Ongoing
National Energy Assistance Directors' Association	Report and technical assistance	Utility restructuring and options for low-income participation to protect low-income customers	Reports submitted 10/95, 5/96, 9/96.
American Association of Retired Persons	Comments for filing with Federal Communications Commission	Universal Service rulemaking proposals	Comments filed September 27, 1995

**NANCY BROCKWAY  
PUBLICATIONS/ARTICLES/REPORTS LIST  
NATIONAL CONSUMER LAW CENTER, INC.  
June 18, 1997**

**BOOKS**

1. Access to Utility Services (with Margot F. Saunders), National Consumer Law Center, 1996. Comprehensive manual for low-income advocates and others on the legal bases for consumer protections enabling customers to obtain electric, gas, water and telephone service. Includes treatment of regulatory jurisdiction, unregulated deliverable fuels, protections from shut-off, the right to service, payment issues, terminations, third-party liability, tenants' rights, rights of mobile home residents, bankruptcy, master-metering, erroneous billing/unauthorized use, LIHEAP, payment assistance, weatherization, subsidized housing, telecommunications under the 1996 Act, and intervenor funding.
2. Tenants' Rights to Utility Service (with Margot F. Saunders and Roger D. Colton) (1994). A manual for practitioners covering all aspects of a tenant's relationship to providers of utility service, including sources of law, grounds for denial of service or termination, deposits, remedies in the event of landlord default, mastermetering, weatherization, public housing utility allowances, and bankruptcy.

**OTHER PUBLICATIONS**

1. Regulatory Jurisdiction to Enforce Consumer Protections Against Competitive Electricity Suppliers: The Case of New England, in Barbara R. Alexander and NCLC, "Consumer Protection Proposals for Retail Electric Competition: Model Legislation and Regulations," October 1996, The Regulatory Assistance Project. This report reviews the various factors that have typically been used by legislatures to attach regulatory jurisdiction to public utilities (e.g. ownership or control of certain facilities, performance of certain functions, etc.), and concludes that new legislation, clarifying the role of regulation in controlling abusive practices of competitive electricity suppliers, is necessary to avoid gaps in jurisdiction and litigation over the proper scope of statutes written for a monopoly, vertically-integrated electric industry.
2. Public Goods of the Electric Utility Industry: Will They Be Stranded and How Can We Preserve Them?, with Mike Sherman, October 1996, National Council on Competition in the Electric Industry. Identifies the major benefits of the current vertically integrated monopoly electricity industry at risk of being stranded in the move to retail competition. Public Goods include such benefits of the current system as consumer protections, low-income affordability and energy-efficiency programs, fuel diversity, energy efficiency, renewable energy investments, high-paying jobs, and the like. The report identifies four Types of mitigation strategies: (I) require competition participants to provide these benefits, (II) raise a fund to pay for the above-market costs of such activities, (III) bring customer demand together in a value-

driven aggregator to purchase these goods, and (IV) remove market imperfections that create barriers to customers obtaining these goods.

3. **A Low-Income Advocate's Guide to the Telecommunications Act of 1996**, March 1996, National Consumer Law Center. The Telecommunications Act of 1996 will put in place the most sweeping changes in the telecommunications industry in half a century. This paper analyzes the 100 page Act, explaining the basic changes the Act will make in the industry, and the specific provisions that affect low-income consumers. The report focusses on the Act's provisions: (a) making Universal Service the law of the land, and explicitly including the concept of affordability, (b) requiring comparable rates and services in urban and rural areas, (c) fostering expansion of distance learning and medicine, and (d) tightening up anti-slamming and 900 number protections.
4. **Deregulation of the Electricity Market: Implications for Captive Customers, and Options for Mitigation** (June 1995). Analyzes the degree to which different electric industry restructuring options imply deregulation of the industry, with the associated adverse impacts on captive customers. Lays out the viable options for mitigating these impacts (e.g. obligation to serve, provider access fees to fund discounts and DSM, wires charges for the same purpose, all-provider service obligations (with or without "Net-Trans" accounts to trade obligations among suppliers), energy/utility stamps. Discusses pros and cons of each method for providing maintenance and improvement in ability of low-income customers to get service in deregulated markets.
5. "Intervenor Funding in Public Utility Rate Cases," *Clearinghouse Review*, June 1995, Chicago, Illinois. Catalogues the statutes and rules in effect nationally (e.g. the Public Utility Regulatory Policy Act of 1978) and by state, that provide for reimbursement of the costs of intervening in regulatory proceedings on behalf of consumers. Discusses subject matter of fundable interventions, criteria for reimbursement, barriers to reimbursement, and legal basis for reimbursement in the various states.
6. **Electric Industry "Restructuring": Can the Small Consumer Afford It?** (March 9, 1995)(with Texas R.O.S.E.). Explains the proposals for electric industry restructuring for a lay audience. Discusses impact of restructuring proposals on planning for future energy needs, with particular emphasis on fuel diversity, siting, plant performance, and DSM. Explains concept of stranded assets and stranded benefits. Analyzes 3 restructuring proposals: wholesale competition, retail competition, and transitional or quasi-competitive proposals (e.g. incentive regulation). Identifies winners and losers under competition, and advances 10 elements of a program to protect captive ratepayers. Includes a Consumer Bill of Rights.
7. **The Low-Income Advocate's Introduction to Electric Industry Restructuring and Retail Wheeling** (Rev. January 1995). Analyzes the impact on low-income customers of retail wheeling and electric industry restructuring. The report reviews the history of the issue, describes the adverse impacts of many of the proposals being advanced by proponents of retail competition, and outlines several alternative forms of industry restructuring that would better

serve the needs of low-income customers and ratepayers as a whole. (available in summary version).

8. **Redefining and Safeguarding Universal Telecommunications Service, Part I: What is Universal Telecommunication Service?: Standards for Defining and a Definition for 1994** (January 1994). Reviews the history of American telecommunications and the concept of universal service. Posits that universal service is both a fundamental and an evolving policy objective. Sets out 4 criteria for determining whether a service element should be provided on a ubiquitous basis as an element of universal service. Applies those criteria to a modern state with large cities, major suburbs, and considerable rural population. Goes beyond mere dial tone to incorporate concept of affordability in concept of universality. Posits that unlimited local calling, a basic package of long-distance calling, 911, call-trace, and privacy blocks, are all part of the modern understanding of universal service elements (available, together with Parts II, III and IV, in an updated and summary format, as well).
9. **Redefining and Safeguarding Universal Telecommunications Service, Part II: Do We Have Universal Service in America Today?** (January, 1994). Reviews census and other demographic data to describe a world of information haves and have-nots. Shows that low-income households, Blacks, Hispanics, and other disadvantaged groups lack basic dial tone to a significant degree. Overall average rates of phone penetration, thus, do not reveal true picture. Shows that lack of access to other tools, such as credit cards, will hamper low-income access to benefits of information superhighway (available, together with Parts I, III and IV, in an updated and summary format, as well).
10. **Redefining and Safeguarding Universal Telecommunications Service, Part III: The Impact on the Poor of the Lack of Telephone Service** (January 1994). Examines survey results that demonstrate importance of telephone service in acquiring and keeping jobs, social services, medical care, and contact with friends and family. Discusses failure of payphones to fill the gap for those without in-home phones (available, together with Parts I, II and IV, in an updated and summary format, as well).
11. **Redefining and Safeguarding Universal Telecommunications Service, Part IV: Necessary Steps to the Achievement of Universal Service** (January, 1994). Lays out variety of policy alternatives designed to increase telephone penetration, including enhanced Lifeline, Universal Telephone Access Fund, performance standards for phone companies, and the like (available, together with Parts I, II and III, in an updated and summary format, as well).
12. **The Impact of Rising Water and Sewer Costs on the Poor: The Case of Eastern Massachusetts** (November 1990). Examines the reasons that water and sewer rates are projected to rise to the level of home heating costs by the end of the decade in eastern Massachusetts, where the Boston Harbor clean-up will be paid for 95% by rate increases. Looks at the impact of the federal Clean Water Act and Safe Drinking Water Act on water and sewer rates nationally. Reviews Census and HUD data to develop an estimate of households currently unable to pay for minimum family needs, and projects the impact of additional burdens of water and sewer rates. Reviews possible means of relieving the burden.

13. "Utility Demand-Side Management and Low-Income Customers," *Clearinghouse Review*, Vol. 27, No. 3 (July 1993).
14. COM/Electric C&LM Task Force, *Report of the Independent Conservation and Load Management Expert*, Boston, MA. (Nov. 1992).
15. How Rates are Set for the Regulated Utility: A Quick Overview (1994). A précis of traditional regulatory mechanisms for the beginning student, with reference to new emerging techniques for setting rates.
16. Utility Demand-Side Management Programs for Elders: Changes in the Last Five Years (October 1993). Examines the changes in DSM programs targetted to elders in the five years since the 1988 ORNL study on the same topic. Notes expansion of measures (e.g. lighting, appliances) and broadening scope of "special needs" groups by utilities. Finds that utilities do not track demographic data on participation, and concludes that goals for subsector participation should be developed and participation tracked to ensure meeting goals. Also recommends program design features to overcome barriers to elder participation.
17. Model DSM Programs Targetted to Low-Income Households (November 1993). Four programs designed for the residential class that have program features intended to ensure adequate low-income participation. Drawing also on recognized program designs from other experts around the country, these models provide for comprehensive DSM services in a cost-effective manner for electric (and gas) utilities. The programs include Energy Fitness/Gas Piggyback (a neighborhood "blitz" low-use electric general use and hot water program), Residential Electric Space Heat (which can be adapted to gas, and focusses on shell measures), High-Use Pilot (to target those residential customers with persistent and unexplained high use), and Hot Water/General Use (an on-site, low-to-medium-use program that runs in tandem with the Fitness and ESH programs).
18. The Low Income Customer as Non-Participant in DSM: What is to be done? (October 1992). Examines usage data that shows low-income customers tend to use electricity and other energy sources less intensively than other customers, and that with low avoided costs, and high barriers to participation in DSM programs, low-income customers tend not to receive DSM assistance in lowering their energy burden proportionate to their numbers in the customer base. Examines cost allocation of cost of "saved kWh" as technique to overcome cross-subsidy by low-income customers. Discusses program designs and other techniques to overcome barriers to participation.
19. "Bridging the Gap: Addressing the Conservation and Equity Needs of Low-Income People," *PowerLine*, Vol. 18, No. 2 (March/April 1993).

## **RELATED BRIEFS AND FILINGS**

1. **In Re: Boston Gas Company Unbundling Proposal and Proposed Increase in Rates**, D.P.U. No. 96-50, Initial Brief of Low-Income Intervenors (November 1996).
2. **In Re: Massachusetts Electric Company Proposed Increase in Rates and Incentive Ratemaking Plan**, D.P.U. No. 95-40, Initial Brief and Reply Brief of Low-Income Intervenors (with Jerrold Oppenheim)(July and August 1995).
3. **In Re: Massachusetts Electric Company Proposed Increase in Rates and Incentive Ratemaking Plan**, D.P.U. No. 95-40, Direct Testimony and Exhibits of Jerrold Oppenheim (incentive plan, rates and fees), and Elliott Jacobson (low income DSM) (co-author with witnesses), June 9, 1995.
4. **In Re: Electric Industry Restructuring**, Comments of the Low-Income Intervenors, Mass. D.P.U. 95-30, filed March 31, 1995. Reply comments May 25, 1995.
5. **In Re: Recovery of Stranded Costs by Public Utilities and Transmitting Utilities**, Comments of Direct Action for Rates and Equality, Docket No. RM94-7-004, Federal Energy Regulatory Commission, December 8, 1994.
6. **In Re: Texas Utilities Electric Company**, Initial Brief (DSM) (with Deidre Smith, Esq.), Docket No. 11735, Texas Public Utilities Commission, July 26, 1993.

## **NANCY BROCKWAY TESTIMONY:**

1. Comments: The Low-Income Affordability Mandate: Setting Rates to an Affordable Percentage of Income, and Energy Efficiency Investments Targetted to Low-Income Households (December 6, 1996), Before the New Hampshire Public Utilities Commission, In the Matter of the Electric Industry Restructuring Plan. Argues that a Percentage of Income approach is the logical way to determine an affordable bill for low-income households, and that accordingly it is the best way to meet the legislative mandate in the restructuring act to extend universal service to all households in New Hampshire. Describes a proposed Percentage of Income/Fixed Credit plan sponsored by low-income advocates, that would bring bills for low-income consumers down so that such customers pay no greater portion of their income towards electric service than the median New Hampshire customer, and shows that the impact of such a program on other ratepayers is modest. Also describes the value of energy efficiency investments in achieving universal service and resource savings, and explains the best way to administer such a program.
2. Direct, Rebuttal and Surrebuttal Testimonies of Nancy Brockway (Rate rebalancing and Universal Service) (January and February, 1996), In Re: Formal Investigation to Examine and Establish Updated Universal Service Principles and Policies for Telecommunications Services In the Commonwealth, Docket No. I-00940035 (Pennsylvania Public Utilities Commission). Testimony on behalf of Office of Consumer Advocate. Shows importance of telecommunications to low-income consumers, data showing that universal service has not yet been achieved in Pennsylvania, elasticity of demand for local telephone service, and potential loss of subscribership from increases in local exchange service rates contemplated under rate rebalancing proposed by major local exchange companies. Includes color maps of telephone penetration, low-income
3. Direct Testimony and Exhibits of Nancy Brockway (Customer Service and Rate Design (January 1995), and Direct Testimony and Exhibits of Nancy Brockway (Demand Side Management and Revenue Requirements)(November 1994), Complaint of Kenneth Williams, et al., v. Houston Lighting and Power Co., Docket No. 12065 (Texas Public Utilities Commission). Proposal for elimination of various customer charges, and for institution of low-income DSM program, on behalf of low-income intervenors.
4. Direct Testimony and Exhibits and Surrebuttal Testimony of Nancy Brockway (December 1994, March 1995), Bath Water District. Proposed Increase in Rates, Docket No. 94-034 (Maine P.U.C.). Critique of District's cost of service study and cost of service study presented by Staff witness, analysis of proposed rate designs, proposal for low-income affordability program consisting of waiver of customer and other fixed charges for very low-income customers.
5. Direct Testimony and Exhibits of Nancy Brockway (May 1994), Application of Ohio Bell Telephone Company for Approval of An Alternative Form of Regulation (Ohio PUC). Prepared on behalf of the Legal Aid Societies of Dayton and Cleveland. Discusses the

evolving definition of universal service, in the context of a price cap proceeding. Demonstrates that Bell has not yet achieved universal service, particularly among low-income and minority Ohioans. Proposes Universal Service Access (USA) program, to go beyond Lifeline to a set of affordable rates for low-income customers. Also proposes Universal Telephone Access Fund, like a fuel fund, to raise contributions from ratepayers through a voluntary check-off. Proposes performance-based adjustments to price cap growth factor if Bell fails to make satisfactory progress towards achieving universal service. Proposes neighborhood telecomputing centers to assist inner-city youth acquire "driving skills on the information superhighway." Proposes greater public input in modernization decisions.

6. Direct Testimony and Exhibits/Surrebuttal of Nancy Brockway (December 1993/January 1994), Pennsylvania Public Utilities Commission v. The Bell Telephone Company of Pennsylvania (Penna. PUC). Prepared on behalf of Pennsylvania Public Utilities Law Project. Discusses the evolving definition of universal service, in the context of a state pursuing modern telecommunications investments.
7. Direct Testimony and Exhibits of Nancy Brockway, Revenue Requirements (April 1993). Re: Application of Texas Utilities Electric Company for Authority to Change Rates (Texas PUC). Prepared on behalf of Texas Legal Services Center. Discusses barriers to low income customers' participation in energy efficiency (DSM) programs, the value of reducing the bills of low-income customers (avoided credit and collection costs, and avoided societal externalities), cost-effectiveness of low-income DSM.
8. Direct Testimony and Exhibits of Nancy Brockway, Rate Design (April 1993). Re: Application of Texas Utilities Electric Company for Authority to Change Rates. Prepared on behalf of Texas Legal Services Center. Proposes pilot Maintenance of Effort rate to test whether lowering energy burden of poor enables them to make more consistent payments of electric bills, thus reducing utility credit and collection costs.
9. Direct Testimony and Exhibits of Nancy Brockway. (1992) Philadelphia Water Department rate case. Prepared on behalf of Philadelphia Public Advocate. Discusses costs of unrepaired system leaks.
10. Direct Testimony and Exhibits of Nancy Brockway (1991). New England Telephone Company Rate Case. Prepared on behalf of Rhode Island Legal Services. Discusses DNP for non-basic service, and procedures to make voluntary tollblocking more secure from toll use by non-customer residents.
11. Direct Testimony and Exhibits of Nancy Brockway. (July 1991). In Re: Kentucky Power Company Request for Increased Rates. Prepared on behalf of Low Income Residential Customers, Lexington Kentucky. Proposes pilot Low Income Rate based on short run marginal cost.

**NANCY BROCKWAY: TESTIMONY AND REPRESENTATION**

Case name	Client Name	Topic	Juris. & Docket No.	Date
Boston Edison Company	Mass. Senior Action, others	Electric industry restructuring	Massachusetts Department of Public Utilities	Ongoing
Eastern Edison Company	Mass. Senior Action, others	Electric industry restructuring	Massachusetts Department of Public Utilities, D.P.U. 96-24	Ongoing
Massachusetts Electric Company Restructuring Company Settlement	Individual low-income customers	Electric industry restructuring	Massachusetts Department of Public Utilities, D.P.U. 96-25	Ongoing
In the Matter of the Electric Industry Restructuring Plan	New Hampshire Legal Services	Low-income rates and DSM, impacts of restructuring on low-income consumers	New Hampshire Public Utilities Commission, D.R. 96-150	Nov., Dec. 1996
Boston Gas Company Unbundling and Rate Case	named Low-Income Intervenors	Gas industry unbundling, gas DSM for low-income customers, low-income rates	Massachusetts Department of Public Utilities, D.P.U. 96-50	Order 12/96
Notice of Inquiry/ Rulemaking...establishing the procedures to be followed in electric industry restructuring...	Mass. CAP Directors Association, Mass. Energy Directors Association, named Low-Income Intervenors	Electric industry restructuring	Massachusetts Department of Public Utilities, D.P.U. 96-100.	ongoing
Universal Service Docket	Pennsylvania Office of Consumer Advocate	Rate rebalancing, universal service, telephone penetration.	Pennsylvania Public Utilities Commission Docket No. I-00940035	1996
Massachusetts Electric Company Proposed Increase in Rates and Incentive Ratemaking Plan	Named Low-Income Intervenors	Incentive ratemaking plan, low-income discount rates and fees, low income DSM.	Massachusetts Department of Public Utilities, No. 95-40	1995

**NANCY BROCKWAY: TESTIMONY AND REPRESENTATION**

Case name	Client Name	Topic	Juris. & Docket No.	Date
In Re: Electric Industry Restructuring	Named Low-Income Consumers	Electric industry restructuring	Massachusetts D.P.U. Docket No. 95-30	ongoing
In Re: Complaint of Kenneth D. Williams v. Houston Lighting and Power Co.	Named Low-Income Consumers	Customer service, rate design, demand-side management, revenue requirements	Texas Public Utilities Docket No. 12065	1994-5
Open Access Non-Discriminatory Transmission Services ... and Recovery of Stranded Costs	Direct Action for Rates and Equality, Providence, Rhode Island	Open transmission access in interstate commerce, and stranded costs recovery.	FERC, Nos. RM95-8-000, RM94-7-000.	1994-5
Bath Water District, Proposed Increase in Rates	Maine Office of Public Advocate	Water district rate design, low-income water affordability	Maine Public Utilities Commission, Docket. No. 94-034	12/94, 3/95
Application of Ohio Bell Telephone Co. for Approval of Alternative Form of Regulation	Legal Aid Society of Cleveland and Dayton	Definition of universal telecommunications service, proposal for Universal Service Access program (USA).	Public Utilities Commission of Ohio, Case No. 93-487-TP-ALT	5/4/94
Pennsylvania PUC vs. Bell Telephone of Pennsylvania	Pennsylvania Public Utility Law Project	Definition of "universal telecommunications service"	Pennsylvania PUC No. P-930715	filed 12/93
Joint Application for Approval of Demand-Side Management Programs, etc.	LG&E; Legal Aid Society of Louisville, other Joint Applicants	Cost-effective DSM programs for low-income customers; collaborative process to design DSM programs; cost allocation and cost recovery.	Kentucky PSC No. 93-150	11/8/93
Texas Utilities Electric Company	Texas Legal Services Center	Costs and benefits of DSM targeted to low-income customers	Texas PUC No. 11735	1993
Texas Utilities Electric Company	Texas Legal Services Center	Proposed Maintenance of Effort Rate for low-income customers	Texas PUC No. 11735	1993
Philadelphia Water Department	Philadelphia Public Advocate	Costs of Unrepaired System Leaks	Philadelphia Water Comm'r.	1992

**NANCY BROCKWAY: TESTIMONY AND REPRESENTATION**

Case name	Client Name	Topic	Juris. & Docket No.	Date
New England Telephone	Rhode Island Legal Services	DNP for non-basic service	Rhode Island PUC, No. 1997	1991
Kentucky Power Co.	Kentucky Legal Services	Low Income Rate	Kentucky PSC No. 91-066	1991
Investigation into Modernization	Invited by Commission	Impact of modernization costs on low income telephone users	New York PSC	1991

**NANCY BROCKWAY: RECENT PRESENTATIONS**

Forum	Topic	Date
NARUC and NCEEI Regional Disclosure Workshops	Consumer Disclosures in Restructuring	June 6, 1997
DOE Regional Restructuring Conference, Portland, ME.	Low-income restructuring issues in New England	May 23, 1997
Prairie States Legal Services	Utility Law: Customer Service Rules	May 19, 1997
Vermont State House of Representatives	History and Purpose of Public Utility Regulation	April 18, 1997
NASUCA Electric Restructuring Conference, Washington, D.C.	Consumer Issues in Restructuring	March, 1997
National Rural Electric Cooperative Assn Annual Meeting	Low-Income Issues and Cooperatives in Electric Industry Restructuring	March, 1997
National Consumer Law Center Annual Energy Affordability Conference	Restructuring the Electric and Gas Industries: Issues for Low-Income Consumers	February 26, 1997
Pennsylvania Public Utilities Commission - RAP Workshops on Electricity Restructuring	Universal Service, Default Suppliers, Metering and Reliability Issues in Restructuring	March 4, 1997
Oak Ridge National Laboratories Advanced Training	State Legislative Treatment of Low-Income Issues in Utility Restructuring	December 9, 1996
Electricité de France: Les Engagements Solidarité 1996-1997	Panorama des Utilities des USA vis-a-vis les Démunis (Overview of USA Utility Practice vis-a-vis Disadvantaged Customers)	November 25, 1996

**NANCY BROCKWAY: RECENT PRESENTATIONS**

Forum	Topic	Date
Indiana PSC Restructuring Roundtable	Impact on Low-Income Consumers of Electric Industry Restructuring	November 1, 1996
Indiana CAP Directors Association Training	Potential Avenues for Protecting Low-Income Customers in Electric and Gas Restructuring	October 31, 1996
NARUC/DOE Fourth National Electricity Forum: Toward a New Market Structure	Stranded Benefits: Support for Universal Service	October 21, 1996
United States Department of Energy, Regional Hearings on Electric Industry Restructuring	Impact of Restructuring on Low-Income Customers, and Options for Achieving Universal Service	October 10, 1996
Indiana Electric Association	Impact of Restructuring on Low-Income Customers, and Options for Achieving Universal Service	October 4, 1996
New Hampshire Restructuring Roundtable	Impact of Restructuring on Low-Income Customers, and Options for Achieving Universal Service	October 3, 1996
Massachusetts CAP Directors Association	The Massachusetts Electric Company Restructuring Settlement - Treatment of Low-Income Issues	October 1, 1996
New England CAP Directors Association	The Treatment of Low-Income Issues in the Legislation Passed in 1996 By Rhode Island, New Hampshire, and California	September 29, 1996
New England Public Power Association	The Role of Public Power in Achieving Universal Service in a Restructured Electric Industry	August 19, 1996
NARUC Annual Regulatory Training Institute	Consumer Protection Issues Arising Under Utility Deregulation	August 5, 1996
National Council on Competition in the Electric Industry	Public Benefits at Risk in the Move to Competition and Four Strategies to Preserve Them	July 25, 1996
Wisconsin Energy Policy Center	Impact of Restructuring on Low-Income Customers, and Options for Achieving Universal Service	July 18, 1996

**NANCY BROCKWAY: RECENT PRESENTATIONS**

Forum	Topic	Date
National Low Income Energy Coalition	Impact of Restructuring on Low-Income Customers, and Options for Achieving Universal Service	June 4, 1996
National Fuel Funds Network	The Cost of Achieving Affordable Electric and Gas Bills for All Americans	June 3, 1996
Consumer Federation of America	Achieving Universal Service in a Competitive Local Telephone Market	May 31, 1996
Minneapolis Department of Economic Services	The Role of Low-Income Energy Advocates in Achieving Universal Service	May 22, 1996
National Peoples Alliance	Impact of Restructuring on Low-Income Customers, and Options for Achieving Universal Service	April 25, 1996
Federal Communications Commission Joint Board on Universal Service	The Telecommunications Act of 1996: Universal Service Provisions and How to Implement Them	April 12, 1996
Executive Enterprises	Gas Unbundling: Implications for Captive Customers and Options for Mitigation	April 1, 1996
U.S. House of Representatives, Committee on Commerce, Subcommittee on Energy and Power	Protecting Low-Income Consumers in Electric Industry Restructuring: The Roles of Congress and the States	March 28, 1996
National Association of State Utility Consumer Advocates	Protecting Low-Income Consumers in Electric Industry Restructuring	March 1, 1996
National Association of Regulatory Utility Commissioners	Low-Income Protections in the Telecommunications Act of 1996	February 26, 1996
Maine Public Utilities Commission	Protecting Low-Income Consumers in Electric Industry Restructuring	February 2, 1996
Energy Coordination Association	Protecting Low-Income Consumers in Electric Industry Restructuring	January 23, 1996

COMMONWEALTH OF PENNSYLVANIA  
PUBLIC UTILITY COMMISSION

Application of:

**PENNSYLVANIA POWER & LIGHT COMPANY**  
FOR APPROVAL OF ITS RESTRUCTURING  
PLAN UNDER SECTION 2806 OF THE  
PUBLIC UTILITY CODE

\*  
\*  
\* Docket No.  
\* R-00973954  
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DOCKETED

SEP 18 1997

SURREBUTTAL TESTIMONY OF

NANCY BROCKWAY

CONCERNING UNIVERSAL SERVICE

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Prepared for

Pennsylvania Office of Consumer Advocate  
1425 Strawberry Court  
Harrisburg, PA  
August, 1997

1 **SURREBUTTAL TESTIMONY OF NANCY BROCKWAY**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Nancy Brockway. My business address is Suite 400, 18 Tremont  
4 Street, Boston, MA.

5 **Q. FOR WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?**

6 A. I am testifying on behalf of the Pennsylvania Office of Consumer Advocate.

7 **Q. ARE YOU THE SAME NANCY BROCKWAY THAT FILED DIRECT AND**  
8 **REBUTTAL TESTIMONY IN THIS DOCKET?**

9 A. Yes.

10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

11 A. The purpose of my testimony is to respond to the rebuttal testimony of PP&L  
12 witnesses Dahl, Kleha, Tierney and Krall, and PP&L Industrial Consumers Alliance  
13 witness Baron, on the topics of (a) general adequacy of PP&L universal service  
14 programs, (b) program budget and participation levels, (c) LIURP program design  
15 issues [specifically renewables pilot, baseload services, and copayments], (d) CAP  
16 program design issues [specifically use of term "percentage of income," overdue  
17 balance criterion elimination, and benefits in case of competitive supply to CAP  
18 participant], and (e) allocation and rate design for recovery of universal service  
19 costs.

1 Q. PP&L WITNESS TIERNEY ARGUES IN HER REBUTTAL TESTIMONY THAT  
2 PP&L'S UNIVERSAL SERVICE PROGRAMS NEED NO FURTHER  
3 IMPROVEMENTS. DO YOU AGREE?

4 A. No. As I testified (OCA Statement 6), there is still room to improve PP&L's  
5 universal service programs, so that they better meet the requirements of the  
6 Competition Act. In addition, changes are needed so that the resource savings and  
7 affordability benefits of the programs are available to a sufficient number of at risk  
8 low-income customers. Ms. Tierney does not rebut the specific proposals I made  
9 in my direct testimony for program improvements. Mr. Dahl affirms PP&L's desire  
10 to continue its leadership role in universal service in Pennsylvania. My program  
11 suggestions, if followed, would enable PP&L to do just that.

12 Q. MR. DAHL ARGUES THAT UNDER THE ACT, NO INCREASES SHOULD BE  
13 ORDERED IN THE PP&L PROGRAM SCOPE AND BUDGET BEYOND THOSE  
14 RECOMMENDED IN HIS TESTIMONY. PLEASE COMMENT.

15 A. All the parties who have proposed a specific universal service package for PP&L,  
16 including PP&L itself, have proposed a program with a scope (and associated  
17 budget) that is larger than PP&L's current program. The parties are disagreeing  
18 over the size of the expansion, not whether there should be an expansion. Mr.  
19 Dahl rightly points out that in a competitive electric generation market "the needs  
20 of low-income households may be ignored or underserved." The Act requires  
21 universal service efforts, to be continued by distribution utilities and funded by all

1 customers, in order to protect low-income customers from these unique market  
2 barriers to universal and affordable service.

3 **Q. MR. DAHL STATES THAT UNIVERSAL SERVICE PROGRAMS SHOULD BE**  
4 **USED TO SUPPORT THE COMPANY'S COLLECTION ACTIVITIES. DO YOU**  
5 **AGREE?**

6 A. Not as Mr. Dahl has stated the issue. It is quite true that CAP and LIURP programs  
7 should continue to provide means to retarget credit and collection costs to more  
8 productive activities (reducing bills to affordable levels, and introducing energy  
9 efficiency). It is another thing altogether to say that CAP and LIURP program scope  
10 issues should *only* consider the impact on a company's credit and collection needs.  
11 The Competition Act is quite clear that the purpose of continuing CAP, LIURP (and  
12 the other "policies, protections and services" the General Assembly includes in the  
13 definition of universal service program) is to "help low-income customers maintain  
14 electric service." Nowhere does the General Assembly seek the continuation of  
15 *these programs* in order to assist the utilities in their collection activities. From the  
16 point of view of the Act, then, improvements in credit and collection experience and  
17 costs are a side-benefit of well-designed universal service programs, not the core  
18 benefit.

19 **Q. THE COMPANY APPEARS TO ARGUE THAT PROPOSED HIGHER CAP**  
20 **PARTICIPATION LEVELS WOULD INCLUDE TOO MANY CUSTOMERS WHO**  
21 **ARE NOT AT RISK OF LOSING ELECTRIC SERVICE (STATEMENT 16R, at 7,**  
22 **10). PLEASE COMMENT.**

1 A. The Company's argument does not apply to my proposal. I propose the Company  
2 ramp up its program to the level of 18,500 participants in its OnTrack customer  
3 assistance program. Although I suggest that delinquency not be a bar to program  
4 participation, my proposed participation level in fact covers only low-income  
5 customers who are behind on their bill payments. The Act does not require such  
6 a limitation, and good reasons can be made for not limiting participation only to  
7 those who are currently delinquent. However, the scope of the program I propose  
8 assumes that program services will as a practical matter be focused on payment-  
9 troubled customers, not all low-income customers.

10 **Q. THE COMPANY OBJECTS TO EXPANSION BEYOND ITS PROPOSED CAP**  
11 **CUSTOMER PARTICIPATION LEVEL CITING PROBLEMS OF PRACTICALITY.**  
12 **PLEASE COMMENT.**

13 A. The Company is proposing a major ramp-up of its program on its own initiative.  
14 Thus, the Company expects that the infrastructure for program delivery services  
15 either exists, or can be brought into existence in a timely fashion, to multiply its  
16 program size 5 to 6 fold from today's levels. Once a program is at this significantly  
17 larger size, the Company will have already addressed and solved the practical  
18 problems of managing a full-scale program.

19 I am proposing an expansion of the Company's goals, and do not propose  
20 that the Company serve "tens of thousands" of CAP customers (although  
21 presumably it would be feasible to expand the program to accommodate as many

1 customers as are deemed eligible, especially if the Company follows a prudent  
2 ramp-up path).

3 I note finally that the Company does not argue against my LIURP expansion  
4 programs on the grounds that the sheer magnitude makes them impractical.

5 **Q. THE COMPANY OBJECTS TO EXPANSION OF ITS CAP PROGRAM BEYOND**  
6 **THE PROPOSED \$9 MILLION BUDGET ON THE GROUNDS OF COST. PLEASE**  
7 **COMMENT.**

8 A. I propose a CAP (OnTrack) budget for PP&L of \$11.7 million. This is only \$2.7  
9 million above the Company's proposed budget. My proposal is well below the dollar  
10 value of uncollectibles associated with low-income customers. It represents a  
11 modest portion of today's revenues. It is targeted to low-income customers whose  
12 payment-trouble gives concrete evidence of their struggle to afford their bills.

13 **Q. PP&L ARGUES THAT CONSIDERATION SHOULD NOT BE GIVEN TO THE**  
14 **OPPORTUNITY TO TRANSFER PRESENT UNCOLLECTIBLE EXPENSES TO**  
15 **THE CAP EFFORT (STATEMENT 16R, at 12). PLEASE COMMENT.**

16 A. Mr. Dahl says low-income uncollectibles are "unrelated to the ... rate cap" and can  
17 not "free up" funding available for OnTrack (customer assistance program). The  
18 Company's position on this issue is not clear. My direct testimony referenced the  
19 \$21.5 million in uncollectible accounts the Company has booked relative to the  
20 accounts of non-CAP low-income customers. The costs these customers cannot  
21 pay are now booked as "uncollectible" amounts. If instead, the Company drew  
22 more of these customers into its CAP program, it would not book these amounts as

1 uncollectible, but rather would reduce its billings to these customers. That in itself  
2 would not improve the bottom line. However, customers who have hope that their  
3 bills are within reach, and who are engaged by the Company in a positive bill-  
4 paying relationship, with counseling help to marshal other resources, not only pay  
5 more regularly, in some cases they pay a higher dollar amount than before entering  
6 a CAP program.

7 Thus, I am proposing that the Company forego these "revenues", which are  
8 now uncollectible, and instead issue a bill to the customers who are producing  
9 these uncollectibles that is in fact affordable by them. Even if *no* associated  
10 benefits of lowered collection costs or improved dollar payment amounts were  
11 realized by the Company, the customer would benefit from this transfer from a  
12 delinquent debt posture to one of a reasonable opportunity to make complete  
13 payments.

14 **Q. PP&L WITNESS DAHL STATES THAT YOU RECOMMEND A PERCENTAGE OF**  
15 **INCOME PAYMENT METHOD FOR DETERMINING THE CAP CUSTOMER'S**  
16 **BILL (PP&L STATEMENT 16-R AT 21). PLEASE CLARIFY YOUR TESTIMONY**  
17 **ON THIS POINT.**

18 **A.** Mr. Dahl misunderstands my testimony. I use the term "percentage of income" at  
19 this point of my testimony to describe the family of customer assistance programs  
20 that determine the customer's bill (or "copayment") based on one or more measures  
21 of an affordable burden, or percentage of income. In fact, PP&L uses a system  
22 with a heavy emphasis on burden (percentage of income), and I essentially agree

1 with the Company's method, as meeting the test of using percentage of income as  
2 a guide to setting copayments.

3 To clarify, I do not recommend that the so-called "straight PIPP" be used by  
4 all companies to determine payment amounts. The "straight PIPP" is the prototype  
5 or original percentage of income payment program. However, PIP program design  
6 has matured since that first model was introduced. PP&L uses a sophisticated  
7 approach under which the intake interviewer develops information to calculate  
8 burden in two ways, and also determines the historic payment level. The  
9 designated copayment can then be any one of these three figures (two PIP-based  
10 and one historic actuals), or a figure based on some combination of them. While  
11 it would be easier to evaluate how this approach works if there were a more clear  
12 algorithm for the choice of specific copayment, PP&L's approach is evidently  
13 successful in bringing the burden on the customer to within affordable ranges in  
14 most cases.

15 **Q. MR. DAHL NOTES THE COMPANY'S WILLINGNESS TO ELIMINATE THE**  
16 **REQUIREMENT THAT ONTRACK (CAP) APPLICANTS BE DELINQUENT IN**  
17 **THEIR BILLS BEFORE ACCEPTANCE INTO THE PROGRAM (STATEMENT 16R,**  
18 **AT 21). WHAT IS YOUR RESPONSE TO THE COMPANY'S PROPOSED LIST**  
19 **OF EXCEPTIONS TO THE REQUIREMENT.**

20 **A.** I agree with the Company's focus on extending eligibility to customers whose  
21 circumstances indicate that they are at risk of inability to maintain service. The list  
22 suggested by the Company includes most of the circumstances that come to mind

1 in which particular financial stress places extraordinary pressure on a household's  
2 ability to afford service (injury or illness of primary wage earner, high medical bills,  
3 loss of job or other reduction in income, abandoned spouse with young children,  
4 very low income elderly). To these categories, I would propose adding the  
5 following: very low-income households with children under school age, and very  
6 low-income households with a permanently disabled person residing in the house  
7 and requiring personal care for daily living. These two additional, narrow,  
8 categories, describe households where the adult(s) are unable to take on jobs  
9 outside the house to increase the family income sufficiently to afford service, and  
10 are locked into their very low-income situation so long as these constraints persist.  
11 With these two narrow additions, I recommend the adoption of the Company's  
12 revision to its CAP eligibility guidelines.

13 **Q. THE COMPANY PROPOSES THAT NON-UTILITY GENERATION SUPPLIERS**  
14 **PROVIDE PRO-RATA DISCOUNTS OFF THEIR ENERGY BILLS TO**  
15 **PARTICIPATING CAP CUSTOMERS WHO TAKE SUPPLY FROM A FIRM**  
16 **OTHER THAN PP&L IN ITS ROLE AS SUPPLIER OF LAST RESORT**  
17 **(STATEMENT 16R, PP. 22 FF.; STATEMENT 9R, PP. 40-42). DO YOU AGREE**  
18 **WITH THIS PROPOSAL?**

19 **A.** Not entirely. The Competition Act makes it clear that the distribution company shall  
20 provide universal service programs, and that it shall recover its costs directly from  
21 end-users (customers). I have on many occasions stated that universal service  
22 costs ought to be borne in the first instance entirely by suppliers. I believe this

1 would be not only an acceptable "price" for entry into the market, but a proper  
2 allocation of the responsibility for maintaining universal service (understanding, of  
3 course, that such firms could and likely would include these costs in their rates, thus  
4 passing them on to end-users for ultimate payment). However, given that the  
5 Competition Act requires universal services cost to be recovered via a non-  
6 bypassable charge on distribution utility customers, requiring suppliers to share  
7 cost responsibility would require a complicated accounting. It is more straight-  
8 forward to have distribution utilities fund universal service programs with the funds  
9 they collect under the Competition Act. The legislature's decision does not create  
10 an anti-competitive situation, in that the charges are placed on the monopoly  
11 regulated distribution portion of the bill, and do not affect the Company's ability to  
12 price its competitive power according to the market. Also, this matter would have  
13 to be taken up in the licensing proceedings, and there has been no consideration  
14 of this concept in the Commission's licensure docket or the Working Group, to my  
15 knowledge.

16 **Q. THE COMPANY OPPOSES YOUR PROPOSED RENEWABLES PILOT**  
17 **(STATEMENT 16R at 11, ff; STATEMENT 10R at 22). HOW DO YOU**  
18 **RESPOND?**

19 A. The Company makes several arguments: first, that with PP&L's relatively low  
20 residential rates, photovoltaics and solar installations would be uneconomic;  
21 second, that the benefits would not outweigh the costs of developing and  
22 implementing the pilot; third, that there are practical problems in implementing a

1 photovoltaic pilot; fourth, that such a pilot would be an RD&D pilot, not a proper  
2 low-income program, and finally, that a renewables program is actually a  
3 generation-side measure, and the Act would not permit requiring a distribution utility  
4 to undertake such measure.

5 The last argument is perhaps the simplest to dispose of. Not only does the  
6 Act not prohibit the Commission from requiring distribution utilities to undertake  
7 renewables measures, it actively encourages renewables installations as part of  
8 low-income energy efficiency. Section 2803 includes in the term universal service  
9 program the following: "customer assistance programs, termination of service  
10 protections and policies and services that help low-income customers to reduce or  
11 manage energy consumption in a cost-effective manner, such as the low-income  
12 usage reduction programs (LIURP), *application of renewable resources* and  
13 consumer education." Emphasis supplied.

14 With regard to benefit/cost considerations, Mr. Dahl rightly observes that  
15 photovoltaics have a long payback period before costs are outweighed by savings,  
16 even in a program such as the one I recommend, which will involve grant funding  
17 to help lower the initial cost of installation. However, the benefits of the PV  
18 installations will last for many years after the cross-over point is reached. PV is a  
19 stable technology with no moving parts. It is installed on houses away from foot  
20 traffic and other forms of interference. PV installations have, on average, very long  
21 useful lives. It also must be remembered that PV is capital-intensive, but has  
22 practically no running costs. It is comparing apples to oranges to contrast PV to

1 other resources, which cost less initially, but also require annual fuel and  
2 maintenance budgets to deliver their benefits.

3 In the case of PP&L, it is true that the average residential price is low enough  
4 that the payback period in the average installation will be well beyond the simple  
5 payback standard of the LIURP regulations. However, I do not conclude that PV  
6 should be abandoned for PP&L's low-income customers. Instead, I recommend that  
7 PP&L direct its renewables pilot to areas where distribution constraints create  
8 opportunities for more cost-effective installations. Here, while the simple payback  
9 from the customer perspective may not be different (given continued use of average  
10 distribution costs in pricing), the avoided costs will be considerably higher.

11 Mr. Dahl observes that some landlords will not allow PV installations to be  
12 made on their buildings. This is not a reason to eliminate the entire pilot. Indeed,  
13 one of the things to be learned from a pilot is the level and reasons for landlord  
14 resistance, and possible ways to persuade landlords of the benefits of permitting  
15 such installations. Mr. Dahl also worries that tenants will move frequently, and the  
16 benefits of the installation in these cases will be hard to evaluate. Again, Mr. Dahl  
17 makes too much of this factor. Housing occupied by low-income tenants is likely  
18 to continue to be occupied by low-income tenants, even if the particular households  
19 change. And there will be many opportunities to install the measures on homes  
20 owned by low-income customers.

21 Mr. Dahl's final objection, that it will be difficult to find sufficient "highly  
22 specialized and sophisticated" contractors to perform PV installations, ignores

1 current information about PV. Today, PV units can be installed by any electrician.  
2 The industry has been working hard to make PV units easy to install. The RD&D  
3 on these units has been done. A pilot would test program delivery and payback  
4 issues, not technological readiness. Further, one of the objectives of the pilot will  
5 be to determine the interest of electricians and contractors in this work, and to  
6 familiarize these resources with PV as an option.

7 Finally, Mr. Krall objects to the PV pilot, saying that it would require a  
8 distribution utility to undertake supply-side measures. The short answer to Mr.  
9 Krall's objection is that the General Assembly has decided this question, and  
10 determined that renewable measures should be considered part of the universal  
11 service programs, policies and services distribution utilities offer to aid low-income  
12 customers in maintaining service. Also, however, it should be noted again that  
13 distributed measures such as PV can be useful in relieving distribution constraints,  
14 thus avoiding the need for expensive distribution upgrades.

15 **Q. WITH REGARD TO BASELOAD ENERGY EFFICIENCY MEASURES, MR. DAHL**  
16 **ARGUES THAT THE COMPANY'S PRESENT LEVEL OF EFFORT IS**  
17 **SATISFACTORY, GIVEN THE HIGH PENETRATION OF ELECTRIC SPACE**  
18 **HEAT IN PP&L'S SERVICE AREA (STATEMENT 16R, pp. 17 ff). DO YOU**  
19 **AGREE?**

20 **A.** No. PP&L is right to concentrate on the remaining electric heat low-income  
21 customers who have not yet received WRAP services. However, of the 177,000  
22 low-income households in the PP&L service area, only 55,000, or less than one

1 third, have electric space heat. The balance, 122,000 have baseload or water heat  
2 only. PP&L's baseload program has so far been insignificant to date, with only  
3 1,700 baseload installations out of the total of all three types of installations (4% of  
4 the total installations). There are thousands of baseload electricity users in the  
5 PP&L service territory, then, who use needlessly high levels of electricity because  
6 they cannot install the measures needed to use electricity more efficiently.

7 PP&L's decision to implement water bed replacement is sound, because  
8 water beds require (electric) heaters to prevent hypothermia, and these resistance  
9 heaters draw large amounts of electricity, but this fact is poorly understood by most  
10 households.

11 With regards to PP&L's refrigerator replacement efforts, however, I  
12 recommend that the Company proceed directly to fullscale implementation, rather  
13 than conduct a pilot. Refrigerator replacement is technologically straightforward,  
14 and the program issues have been worked out by numerous utilities, including a  
15 number in Pennsylvania. It should not be necessary to pilot such a program,  
16 although a ramp-up period might be appropriate. Refrigerators are often the  
17 highest single electricity end-use in a non-electric-water-heat household, and  
18 models in use in low-income households are disproportionately the older, less  
19 efficient models. Replacement would save large amounts of energy, and help  
20 participating WRAP baseload customers manage their energy bills.

21 **Q. MR. DAHL ARGUES THAT ONLY DELINQUENT CUSTOMERS SHOULD BE**  
22 **ELIGIBLE FOR ENERGY EFFICIENCY SERVICES, GIVEN THE RATE CAP AND**

1           **THE NEED TO PRIORITIZE SERVICES (STATEMENT 16R, PP. 19-20). DO YOU**  
2           **AGREE?**

3           A.    No. As in the case of CAP customers, delinquency should not be the only indicator  
4           of difficulties with affordability, nor a hard-and-fast precondition to receipt of LIURP  
5           services. I recommend that the same list of special circumstances developed by  
6           the Company for use in determining CAP eligibility (injury or illness of primary  
7           wage earner, high medical bills, loss of job or other reduction in income, abandoned  
8           spouse with young children, very low income elderly), with the two additional narrow  
9           circumstances I suggest in the CAP case (very low-income households with  
10          children under school age, and very low-income households with a permanently  
11          disabled person residing in the house and requiring personal care for daily living),  
12          be used to determine potential eligibility of LIURP (WRAP) customers who are not  
13          delinquent in their bills.

14          **Q.    FINALLY, ON ENERGY EFFICIENCY PROGRAMS, MR. DAHL QUESTIONS**  
15          **YOUR PROPOSAL TO USE A MODIFIED COPAYMENT MECHANISM TO**  
16          **ENGAGE LIURP PARTICIPANTS IN MEASURE CHOICE, AND TO HELP**  
17          **EXTEND THE BUDGET FOR THE PROGRAM (STATEMENT 16R, P. 26). CAN**  
18          **YOU ADDRESS HIS CONCERNS?**

19          A.    Yes. The idea of charging low-income customers a copayment is not a typical  
20          approach to low-income energy efficiency, but as I stated in my direct testimony, it  
21          has been done in a number of cases, with positive results that bear out the theory.  
22          The objective is not to cover all costs with the copayment, but to have able

1 participants make a contribution towards the costs, while obtaining net bill savings  
2 from the first month, and being given a choice about whether to accept the  
3 measure. The method is most workable in the case of lightbulbs, refrigerator  
4 replacement, and other appliance measures (rather than weatherization, although  
5 it could be applied there in theory). The calculation of copayment amounts is  
6 actually relatively straightforward, as it is not necessary to achieve the kind of  
7 costing precision to which Mr. Dahl alludes, given the focused purpose of the  
8 copayment.

9 I should also clarify that I would apply the copayment only in the case of the  
10 Keep Warm Program, which is for customers with incomes above 150% of the  
11 federal poverty level. This limitation would simplify the administration of the  
12 copayment, and make it more equitable.

13 **Q. PP&L WITNESSES TIERNEY, KLEHA AND KRALL, AND PPLICA WITNESS**  
14 **BARON, STATE THAT UNIVERSAL SERVICE COSTS IN THIS DOCKET**  
15 **SHOULD BE RECOVERED WITH A CUSTOMER ALLOCATOR. DO YOU**  
16 **AGREE WITH THEIR ANALYSES?**

17 **A.** No. Despite the Company's proposal to include the actual decimals for the primary  
18 and subtransmission customers in the tariff (rather than rounding these small  
19 factors to zero), the Company's proposed per-customer allocator still produces a  
20 disproportionate allocation of universal service costs to the residential classes.

1           The factors for per-customer assessment to primary and subtransmission  
2 customers are so low as to produce a negligible contribution to universal service  
3 costs.

4           The Commission in its Final Order on universal service guidelines noted that  
5 "[a]ll customer classes should share in providing funding of universal service..."

6           The General Assembly provided for a non-bypassable charge for universal  
7 service and energy conservation programs. Sections 2804(9) and 2802(17) use  
8 this term. In the jargon of restructuring, the term "non-bypassable" has usually  
9 been used in a case where some customer classes (particularly those made up of  
10 larger customers with greater competitive options) are in a position to secure  
11 competitive supplies, and, by leaving the bundled electric utility's service, by-pass  
12 any public benefits obligations such as universal service. Thus, use of the term  
13 "non-bypassable" by the General Assembly should be understood in this light as  
14 implying that all customers share in the costs.

15           Also, contrary to Mr. Baron's suggestion, the use of the word "permitted" in  
16 Section 2802(17) should be understood in its ordinary sense to modify cost  
17 recovery, not non-bypassability. Thus, Section 2802(17) reads in plain language  
18 that the EDCs must be permitted to recover their universal service costs, and that  
19 the costs shall be recovered from all customers via a non-bypassable charge. The  
20 statute provides:

21           The public purpose is to be promoted by continuing universal  
22 service and energy conservation policies, protections and

1 services; and full recovery of such costs is to be permitted  
2 through a non-bypassable rate mechanism. Section 2802(17).

3 **Q. HOW ARE OTHER STATES HANDLING UNIVERSAL SERVICE COST**  
4 **ALLOCATION?**

5 Other states have determined that universal service costs should be allocated to  
6 all classes, for example California (a kWh charge), Massachusetts (class allocation  
7 by relative rate base), New Hampshire (kWh charge), New Jersey (non-bypassable  
8 charge to all customers), Oklahoma (fund through rates charged to "consumers  
9 receiving electric service in Oklahoma"), Montana (all classes, with offsets allowed  
10 to largest customers), and Rhode Island (per kWh charge for energy efficiency and  
11 renewables).

12 **Q. MESSRS. KLEHA AND BARON ARGUE THAT THE ACT'S RATE CAP, COST-**  
13 **SHIFTING LIMITS, AND RATEMAKING PRINCIPLES REQUIRE ASSIGNMENT**  
14 **OF COSTS TO CLASSES USING THE SAME ALLOCATORS AS IN THE LAST**  
15 **RATE CASE. DO YOU AGREE?**

16 A. No. The rate cap provisions of Section 2804(4) do not imply that all allocation  
17 schedules used in the last rate case must be followed in this docket, or for that  
18 matter throughout the rate cap period. The Act is clear that the generation rates  
19 and the non-generation rates for each class cannot exceed present rates during the  
20 period of the cap. That is quite different from saying each allocator must be the  
21 same as it was whenever the Commission last looked at a Company's rates.

1           Aside from the Act's limitation on shifting CTC costs from one class to  
2 another, the statute is not intended to lock the Commission into any particular form  
3 of cost allocation, but rather to limit the rates for each class. So long as rates for  
4 each class (broken out separately into generation and non-generation) do not  
5 exceed the cap, the Commission is free to apply sound ratemaking principles, and  
6 to follow the statutory mandate that all classes contribute to a non-bypassable  
7 universal service cost recovery.

8   **Q. DO SOUND RATEMAKING PRINCIPLES, AS INCORPORATED IN THE**  
9   **COMPETITION ACT, REQUIRE ALLOCATION OF UNIVERSAL SERVICE COSTS**  
10 **ALL OR PRIMARILY TO THE RESIDENTIAL CLASSES?**

11   A. No.

12   **Q. PLEASE EXPLAIN.**

13   A. Mr. Baron resists allocation beyond the residential class on the grounds of two  
14 ratemaking concepts, cost-causation and costs following benefits. However, relying  
15 solely on cost-causation would lead to illogical results, as explained below. And  
16 while costs should follow benefits, benefits should be understood comprehensively,  
17 not in the narrow way these witnesses portray them.

18           Mr. Baron argues that sound ratemaking would not permit a kWh allocation,  
19 on the grounds that there is no cost-causation relation between energy use of  
20 customers/classes and the incurrence of USF costs by PP&L. Taking this argument  
21 to its logical conclusion, Mr. Baron would have the Commission directly assign all  
22 universal service costs to universal service recipients. This would eliminate the bill

1 reductions associated with CAP and LIURP, as well as the benefits of any other  
2 universal service program.

3 Such a result negates the purpose of universal service programs, and the  
4 argument that leads to this result cannot be correct. Also, cost-causation would not  
5 lead to assignment to non-low-income residential customers any more than it would  
6 lead to assignment to non-residential customers, thus undermining the proposals  
7 of Messrs. Baron, Xander and Kalcic.

8 Mr. Baron also argues that all costs should be assigned to residential  
9 classes because only residential customers, that is low-income customers, benefit.  
10 First, the argument proves too much, even accepting for purposes of argument the  
11 premise that only low-income customers benefit. Again, if we assume that only low-  
12 income customers benefit, and we follow the rule that costs in this case should be  
13 allocated only to those who directly benefit, we are brought again to the conclusion  
14 that universal service costs should be directly assigned to CAP and LIURP  
15 participants, pro rata. However, again this would produce an absurd result, and  
16 one that could not logically have been intended by the legislature.

17 Second, there is again no more reason to allocate costs to non-low-income  
18 residential customers under this reasoning than there is to allocate them to non-  
19 residential customers. Non-low-income residential customers benefit, as they do,  
20 exactly and only in the ways and to the extent that non-residential customers  
21 benefit.

1 Third, and perhaps most importantly, all customers of all classes benefit from  
2 the provision of universal service and energy conservation programs to low-income  
3 customers. The General Assembly's requirement of universal services funded with  
4 non-bypassable charges reflects the legislature's determination that ensuring  
5 essential electric service for all households in Pennsylvania serves the "public  
6 purpose" (Section 2802(17)). Benefits that all enjoy when no family goes without  
7 electricity include (a) economic stability, (b) secure and stable neighborhoods, and  
8 (c) better public health and safety. These benefits inure to all customers. As the  
9 Commission determined in its universal service final order, all customer classes  
10 should share in providing the funding for universal service.

11 **Q. DO YOU CONCLUDE THAT A KWH ALLOCATOR IS THE ONLY PROPER**  
12 **ALLOCATION OF UNIVERSAL SERVICE COSTS?**

13 A. While a kWh allocator would be a sound basis for allocating universal service  
14 costs, it is not the only proper basis. The Commission stated in its Final Order on  
15 Universal Service and Energy Conservation Programs that it did not consider a  
16 kWh allocator to be appropriate. The Commission was equally clear that universal  
17 service costs should be allocated to all classes. There are other allocators that will  
18 fit these parameters and provide a sound basis for allocating such costs.

19 **Q. HAVE YOU DEVELOPED ANOTHER ALLOCATOR THAT YOU WOULD**  
20 **RECOMMEND FOR ALLOCATION OF UNIVERSAL SERVICE COSTS?**

21 A. Yes. I have developed an allocator based on each class' relative non-production  
22 revenues.

1 **Q. PLEASE EXPLAIN THE BASIS OF YOUR NON-PRODUCTION REVENUE**  
2 **ALLOCATOR.**

3 A. My non-production revenue allocator takes the revenues to be collected from each  
4 class, exclusive of that part of the revenue requirement that has been functionalized  
5 as production-related. Thus, the allocator is based on each class' relative  
6 combined transmission and distribution revenue requirement.

7 I use a revenue allocator, because such a general allocator is appropriate  
8 for costs, such as universal service costs, that are associated with generalized  
9 benefits and should not be directly assigned.

10 I exclude production-related costs in deference to the statutory requirement  
11 that the recovery of universal service costs be competitively-neutral. Production-  
12 related costs will soon be determined in the competitive market, and "allocated" to  
13 classes and customers by market forces. By eliminating these costs from the  
14 allocator, the intent is to base the allocator on costs that remain subject to price  
15 regulation. Thus, only monopoly and jurisdictional costs are included in the  
16 allocator.

17 **Q. HAVE YOU PREPARED AN EXAMPLE OF HOW SUCH A NON-PRODUCTION**  
18 **REVENUE ALLOCATOR WOULD WORK?**

19 A. Yes. Exhibit NB-Surrebuttal-1 shows the results of such an allocator, using the  
20 recommended universal service and energy conservation costs for the first year of  
21 the transition, and developing the allocation factors from the Company's cost of  
22 service study, Exhibit JMK-1, submitted by Mr. Kleha. This study will have to be

1 revised in the compliance phase of this case in the event that any modifications to  
2 the Company's allocations (such as those proposed by OCA witness Smith) are  
3 adopted by the Commission).

4 I used pro forma revenue requirements, as I do not have actual revenues  
5 functionalized by production, and non-production. The cost of service study is in  
6 effect a forecast of functionalized revenues, assuming rates are set to recover such  
7 costs. In the future, to the extent the Commission requires separation of accounts  
8 for competitive generation and monopoly transmission and distribution, it will be  
9 possible to construct a revenue allocation based on historic actual postings, if the  
10 Commission prefers that approach. Also, I was unable to determine  
11 functionalization for certain components of the revenue structure, but as these  
12 appear to be minor, I do not believe the results would vary significantly if they were  
13 included in the analysis.

14 **Q. WHAT DOES YOUR NON-PRODUCTION REVENUE ALLOCATOR SHOW?**

15 A. As can be seen in Exhibit NB-Surrebuttal-1, a non-production revenue allocation  
16 produces an allocation to the residential classes of 56% of the universal service  
17 costs (as opposed to an allocation of about one third using a kWh allocator). The  
18 allocation to the non-residential classes is correspondingly lower using the non-  
19 production revenue allocator than using a kWh allocator.

20 **Q. WHAT DO YOU RECOMMEND CONCERNING ALLOCATION OF UNIVERSAL**  
21 **SERVICE COSTS?**

1 A. First, costs should be allocated to all classes. Second, a kWh allocator would be  
2 appropriate, but in the event such an allocator is rejected, following the Final Order,  
3 I recommend that the Commission adopt a non-production revenue allocator for  
4 such costs, as shown in my Surrebuttal exhibit.

5 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

6 A. Yes.

7 43479

Source:

Future Test Year Revenue Requirements by Function (\$1000)  
Exh. JMK-2, p. 4

ITEM	PA JURIS	RS	RTS	GS-1	GS-3	LP-4	ISP
TRANSMISSION	121,017	40,527	455	8,695	30,567	15,421	1,484
DISTRIBUTION	423,289	256,535	3,082	49,098	66,562	17,538	1,700
TOT.NON-PROD.	544,306	297,062	3,537	57,793	97,129	32,959	3,184
<b>Relative %</b>	100%	55%	1%	11%	18%	6%	1%

ITEM	LP-5,6	IST	LPEP	ISA	STANDBY	GH	SL/AL
TRANSMISSION	9870	8591	468	2036	106	2470	327
DISTRIBUTION	1847	2144	185	598	15	7458	16527
TOT.NON-PROD.	11717	10735	653	2634	121	9928	16854
<b>Relative %</b>	2%	2%	0%	0%	0%	2%	3%