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April 23, 2014

Via Hand Delivery

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

Re: Philadelphia Gas Works Universal Service and Energy Conservation Plan for 2014-2016
Submitted in Compliance with 52 Pa. Code § 62.4 – Docket No. M-2013-2366301

Dear Secretary Chiavetta:

Enclosed for electronic filing please find Response of Philadelphia Gas Works to Tentative Order Entered April 3, 2014 Regarding the Enhanced Low Income Retrofit Program with regard to the above-referenced matter. Copies to be served in accordance with the attached Certificate of Service.

Sincerely,

A handwritten signature in cursive script that reads "Deanne M. O'Dell".

Deanne M. O'Dell

DMO/lww
Enclosure

cc: Joseph Magee w/enc. via email
Louise Fink Smith w/enc. via email
Cyndi Page w/enc. via email

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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Philadelphia Gas Works Universal Service :
and Energy Conservation Plan for 2014- : Docket No. M-2013-2366301
2016 Submitted in Compliance with 52 :
Pa. code § 62.4

**RESPONSE OF PHILADELPHIA GAS WORKS TO
TENTATIVE ORDER ENTERED APRIL 3, 2014
REGARDING THE ENHANCED LOW INCOME RETROFIT PROGRAM**

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I. INTRODUCTION

On May 31, 2013, Philadelphia Gas Works (“PGW”) filed its proposed Universal Service and Energy Conservation Plan for 2014-2016 (“2014-2016 USEC Plan”). By Tentative Order dated April 3, 2014, the Commission, *inter alia*, proposed that the Enhanced Low Income Retrofit Program (“ELIRP”) be brought “back into alignment with the rest of the Universal Service programs.”¹ While PGW appreciates the Commission’s tentative proposal to streamline the 2014-2016 USEC Plan review process by including review and continuation of ELIRP in this docket, PGW respectfully requests that the Commission reconsider this tentative proposal and permit ELIRP to continue as part of PGW’s Commission approved Demand Side Management (“DSM”) plan pursuant to the Order entered July 29, 2010 at docket number R-2009-2139884 and any subsequent, related orders at that docket.

As explained further below, a flash cut now – before the current five-year term expiration of the DSM plan – circumvents the review processes approved by the Commission in its July 29, 2010 Order and disrupts the processes contemplated there. One expectation was for PGW to submit a new comprehensive DSM plan (including a low income retrofit program) for review and approval upon expiration of the current plan if the program was to be continued. Removal of ELIRP from the DSM docket, or a dual-review process in the DSM docket and this docket, could result in ELIRP requirements for PGW’s USEC plans that conflict with requirements of the DSM proceeding. In addition, removal of ELIRP from the DSM docket will also potentially disturb the cost efficiencies that PGW has been able to achieve because ELIRP is an integral part of the DSM plan. Coordinating the details of how to disrupt the current reporting and functioning of the ELIRP within the DSM plan would create additional costs and more complications for customers and other interested stakeholders. Finally, the DSM plan, including

¹ Tentative Order at 6.

ELIRP, functions on a fiscal year basis (September 1 through August 31) while the 2014-2016 USEC Plan functions on a calendar year. Multiple reporting cycles on the same program for different reporting cycles will create additional inefficiencies in terms of staff and consultants' time and labor. Thus, efficiently coordinating these program terms will require careful consideration and logistical planning that should be undertaken (if at all) only after the Commission makes a final determination on how it will proceed. For all these reasons, PGW respectfully requests that the Commission permit ELIRP to continue as part of the already established Commission-approved DSM process.

As an alternative to making a determination now that ELIRP should remain part of the already established and Commission approved DSM process, PGW requests that the Commission defer considering whether to "extract" ELIRP from the rest of the DSM plan until it considers PGW's proposal for the future of the DSM programs, which PGW anticipates filing this summer. To the extent that PGW determines that it will not continue ELIRP under the DSM docket or to the extent that such continuation is not approved by the Commission, PGW would propose an amendment of the 2014-2016 USEC Plan.

Finally, while the Tentative Order references a plan for ELIRP from September 2014 through the 2016 program year to presumably effectuate the proposal to remove ELIRP from the DSM plan as well as regularly submitting future plans as part of the USEC plan filings, the directive to "file ELIRP enrollment and budget estimates for the 2015 and 2016 program years" within 20 days is the only clear directive contained in an ordering paragraph.² The requested enrollment and budget estimates are provided below; other comments regarding the other ELIRP requests as well as the other specifically identified topics in the Tentative Order will be provided

² Tentative Order at Ordering ¶ 4.

with PGW's comments to be filed on or before May 13, 2014. However, filing a new plan for ELIRP would only be relevant and/or necessary upon issuance of the Commission's final determination regarding how ELIRP will be assessed and reported going forward. Given the need to coordinate between two separate dockets and proceedings, PGW respectfully submits that the additional time to develop the plan is necessary, if the Commission decides to continue to require it.

II. COMMENTS REGARDING THE TENTATIVE CONCLUSION TO REMOVE THE CURRENT ELIRP PROCESS FROM DSM PLAN TO THIS DOCKET

A. Background Of PGW's DSM Plan And Effectiveness Of ELIRP

PGW's DSM plan was approved by the Commission as part of a global settlement involving PGW's proposed general rate increase³ and its request for approval of its Energy Conservation and Demand Side Management Plan⁴, both filed in compliance with the Commission's Order entered December 19, 2008 at Docket No. R-2008-2073938. By Commission order entered July 29, 2010, the DSM Plan was approved for a five-year term, which will expire on August 31, 2015, with the implementation periods based on PGW's fiscal year, which runs from September 1 through August 31.

The DSM plan includes the following six programs:

- ELIRP;
- Residential Heating Efficiency Rebate Program;
- Commercial and Industrial Retrofit Program;
- Commercial and Industrial Equipment Rebate Program;
- High Efficiency Construction Incentives Program; and,
- Comprehensive Residential Retrofit Incentives Program.

³ *Pennsylvania Public Utility Commission v. Philadelphia Gas Works*, Docket No. R-2009-2139884.

⁴ *Philadelphia Gas Works' Revised Petition for Approval of Energy Conservation and Demand Side Management Plan*, Docket No. P-2009-2097639.

The purpose of this portfolio of DSM programs is to capture energy efficiency and conservation opportunities available through three distinct types of market transactions. The first source of gas savings is to upgrade the efficiency of new gas-using appliances and equipment when purchased in the normal course as those appliances and equipment require replacement. The second source of efficiency savings is to increase the energy efficiency of existing buildings by retrofitting them with supplemental measures (like air sealing and attic insulation). The third type of opportunity to improve efficiency is before a building or renovation is designed and constructed. PGW's DSM plan portfolio has been explicitly designed and planned to achieve cost-effective savings through all three types of market transactions for both low income and non-low income residential customers as well as non-residential customers by introducing programs to address each in the three-part design.

Also included as part of the DSM plan settlement, as approved by the Commission, is the requirement that PGW file implementation reports on an annual basis setting forth the progress of implementing the DSM plan as well as describing its future operational plans and budget for the upcoming program period. Pursuant to the Commission's approved DSM plan, this on-going process is utilized for parties to comment on future implementation plans and budgets, and modifications proposed by the parties would be addressed at that docket.⁵ Additionally, in PGW's first DSM Implementation Plan, filed for the FY 2011 program year, PGW also proposed to prepare and file an annual report four months after each approved program year ends (December 31). Consistent with these reporting requirements, PGW has filed the following reports:

- September 21, 2010: FY 2011 Implementation Plan
- May 2, 2011: FY 2012 Implementation Plan
- May 3, 2012: FY 2013 Implementation Plan

⁵ DSM Order at 12.

- January 10, 2013: FY 2012 Annual Report
- May 7, 2013: FY 2014 Implementation Plan
- January 3, 2014: FY 2013 Annual Report

These reports include comprehensive data about the DSM plan including quantitative tables and qualitative discussions of portfolio operations and outcomes for all six DSM programs.

Notably, both the overall DSM program and ELIRP have been cost effective and continue to demonstrate ongoing trending of increasing cost-effectiveness while at the same time completing additional projects and accruing additional net benefits. PGW's most recently filed *FY 2013 Annual Report at the DSM docket* showed an achieved Benefit Cost-Ratio ("BCR") for the ELIRP program of 1.22, based on all program activity from the FY 2011 launch through the FY 2013 reporting period.⁶ The BCR includes all actual program costs and projected lifetime gas savings based on actual work performed. The costs and savings are converted to present value real 2009 dollars to account for inflation and the time-value of money. This metric provides an effective comparison of ELIRP program costs against ELIRP program benefits. PGW's projected ELIRP BCR of 1.22 implies that for every \$1 spent on the program, \$1.22 is saved in terms of gas costs avoided.

The BCR metric, based on industry standard energy savings formulas, provides a real-time analysis of ELIRP's effectiveness and avoids the delays needed for actual gas savings analyses. However, this metric does rely on the use of projections through formulas for future gas savings. PGW also will have third-party Impact Evaluations performed for ELIRP, including analyses of actual gas savings achieved.

⁶ See PGW DSM FY 2013 Annual Report at 13.

The Impact Evaluation for the ELIRP 2011 calendar year has been performed and will soon be final. PGW is currently finalizing the response, and expects to have this process completed by May 1, 2014 for filing with the PGW DSM FY 2015 Implementation Plan. The actual gas savings analysis within this Impact Evaluation has been completed, and found actual gas savings for that program year to be 30 percent greater than PGW's calculated projections.

This focus on Total-Resource-Cost Test cost-effectiveness of the ELIRP program within the DSM portfolio has enabled PGW to pursue the current program design resulting in these greater savings and cost-effectiveness results than would be encouraged through LIURP program structures alone. Additionally the DSM structure serves to encourage ongoing improvements in those regards as the entire portfolio depends, in part, on the performance of each of the programs within it.

Although the current program term for the DSM Plan will expire August 31, 2015, PGW expects to address the continuation of the DSM plan – including ELIRP – this summer consistent with the process of the DSM docket.

B. The Commission Should Reconsider Its Tentative Proposal To Include ELIRP As A Part Of This Proceeding And Permit It To Continue Consistent With Already Established Commission-Approved DSM Process

In its Tentative Order, the Commission proposed that ELIRP should be brought “back into alignment with the rest of the Universal Service programs.”⁷ PGW respectfully requests that the Commission reconsider its tentative proposal to separate ELIRP from the DSM plan, or include it in both the DSM and Universal Service Plan dockets, for the following reasons.

First, ELIRP was approved as part of the broader DSM Plan and was only approved through August 31, 2015. While PGW is in the process of evaluating continuation of ELIRP

⁷ Tentative Order at 6.

beyond August 31, 2015, and preliminarily expects to recommend its continuation as part of the DSM plan, such decision is still currently under evaluation and a final determination is not required until Spring 2015. There are a significant number of factors to be taken into consideration as part of this evaluation process and PGW is not in a position at this time to effectively separate ELIRP from the overall DSM program.

Second, the Commission has already approved a review process for the DSM plan at Docket No. R-2009-2139884 which provides substantial information about ELIRP as well as the other programs within the DSM plan. This process has been in place since July 2010 and has resulted in regular reports filed by PGW evaluating the DSM programs and providing details about upcoming implementation years. Accordingly, PGW has submitted four comprehensive implementation plans and two filed annual reports to date.⁸ These detailed reviews and assessments are materially greater than the reviews that are required for LIURP and Universal Service Plan filings. This process has worked well to provide a transparent and established process for all the parties who participated in the DSM proceeding – as well as the Commission – to monitor the approved DSM plan and provide input and feedback regarding all the DSM programs, including ELIRP. As explained above, ELIRP is an integral part of the DSM Plan – a plan that was developed with the input and agreement of a number of stakeholders, and approved by the Commission. None of those parties has raised any concerns about the current process whereby ELIRP is a part of the overall DSM program. For all these reasons, PGW submits that removing ELIRP from the DSM process at this point in time would create unnecessary confusion and administrative difficulties.

⁸ Three annual reports have been provided to the DSM settlement parties (i.e. FY11, 12 and 13) and two of those reports have been filed at the DSM docket (FY12 and 13).

Third, requiring the separation of ELIRP from the DSM plan at this point will disturb the cost efficiencies that PGW has been able to achieve because ELIRP is an integral part of the DSM Plan and will likely result in greater costs to customers. The DSM plan is planned and implemented as a package of inter-related programs. As such the costs of marketing, technical assistance, management, planning, reporting, and other program functions are efficiently allocated among the DSM programs. This is both cost-effective and economically beneficial to PGW's customers. If PGW is required to find a way to extricate ELIRP from the comprehensive DSM program, that will require PGW to spend time and money ascertaining how to best achieve this result and how to allocate the costs of doing so while protecting overall portfolio cost-effectiveness performance that has been planned to incorporate the ELIRP program up to this point.

Moreover, the timing of reporting and program periods is not the same for the DSM program as the USEC plan. The DSM Plan implementation periods are based on PGW's fiscal year from September 1 through August 31. The 2014-2016 USEC Plan, however, is based on a calendar year. All of the planning, budgeting and costs involved in implementing the DSM plan – including ELIRP – are based on the fiscal year cycle. Therefore, either a flash cut to a different program year or the requirement of a dual-review process in the DSM docket and this USEC docket would be significant undertaking that would result in inefficiencies and ongoing additional costs due to the parallel and overlapping reporting processes. PGW would have no choice but to seek recovery of these additional costs from PGW customers via its surcharge

mechanisms,⁹ which would necessarily take away financial resources that could be better spent delivering energy retrofit services to low-income, CRP customers.

C. Alternatively, The Commission Should Defer A Final Conclusion On The Issue Until After Or As Part Of The Process Of Approving PGW's New DSM Program Term

As explained in the prior section, PGW urges the Commission not to disrupt the DSM process prior to its expiration of August 31, 2015 and, instead, allow ELIRP to continue as part of the DSM process. As an alternative to this preferred approach, however, the Commission should defer consideration of this issue until after, or at the very least, as part of the process of adjudicating PGW's proposed new DSM program which PGW contemplates filing this summer. Importantly, the Commission noted in its Tentative Order that it "sees merit in allowing PGW to continue to operate its ELIRP program as it does now through the targeted DSM program expiration of August 2015."¹⁰

Deferring this decision until after approval of a new DSM plan will permit the Commission to consider the costs and benefits (if any) of such a restructuring after it has considered PGW's overall DSM proposal and whether extracting ELIRP from that overall plan will affect the success of that part of the DSM plan.

⁹ Costs for the DSM programs (excluding ELIRP) are recovered through the Efficiency Cost Recovery Surcharge. Costs associated with ELIRP, CRP and a senior citizen discount are recovered through the Universal Service and Energy Conservation Surcharge.

¹⁰ Tentative Order at 23.

III. RESPONSE TO COMMISSION'S SPECIFIC INFORMATION REQUESTS REGARDING ELIRP

Notwithstanding PGW's request that the Commission reconsider its proposed approach to incorporate ELIRP into the 2014-2016 USEC Plan now, PGW recognizes that the Commission identified the following issues directed to PGW: (1) file a plan for ELIRP from September 2014 through the 2016 program year, to reflect and realign the ELIRP program with the time period of the 2014-2016 USEC plan;¹¹ (2) explain its method of accumulating a 12-month period for ELIRP reporting purposes since its program year and reporting year do not coincide;¹² (3) provide enrollment and budget estimates for the 2015 and 2016 program years for ELIRP;¹³ (4) regularly submit future plans for ELIRP as part of PGW's USEC plan filings; (5) seek waivers of 52 Pa. Code §§ 58.11(a) and 58.5; and, (6) provide an explanation of administrative costs associated with ELIRP and the steps PGW has taken to minimize the increase.

Only the directive to "file ELIRP enrollment and budget estimates for the 2015 and 2016 program years" within 20 days is contained in an ordering paragraph.¹⁴ Therefore, the requested enrollment and budget estimates are provided below. Comments regarding the other requests appear to be due consistent with the 40 day time period and, therefore, PGW will provide comments at that time regarding numbers 2, 5, and 6 above. Regarding the filing of a new plan to incorporate ELIRP into the 2014-2016 USEC Plan as well as including ELIRP in future USEC plans, such requirements would only be relevant and/or necessary upon issuance of the Commission's final determination regarding how ELIRP will be assessed and reported going

¹¹ Tentative Order at 23.

¹² Tentative Order at 6.

¹³ Tentative Order at 33. The Commission also directed PGW to address other specific issues related to its 2014-2016 USEC Plan that will be provided on May 13, 2014, consistent with the forty (40) day comment period established.

¹⁴ Tentative Order at Ordering ¶ 4.

forward. Once that determination is made, PGW will comply with the Commission’s final determinations.

A. Enrollment And Budget Estimates For The 2015 And 2016 Program Years For ELIRP

Below is estimated enrollment and budget for ELIRP for program fiscal years 2015 and 2016. This budget has been based on an expectation of a continuation of ELIRP as currently approved at the DSM docket and as described in the most recent fiscal year 2014 Implementation Plan filed on May 7, 2013. This recently filed Implementation Plan included the updated fiscal year 2015 data below within portfolio designs and summary reports. However, these specific figures were not provided by themselves. In future DSM filings, PGW will provide program nominal budgets and enrollment projections for all program years within an implementation period. The fiscal year 2015 DSM Implementation Plan is not yet finalized, but will include updated data as described when filed.

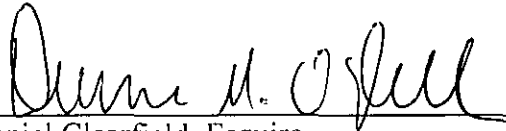
	FY 2015	FY 2016
Budget	\$7,600,000	\$7,600,000
Enrollment	2,108	2,108

IV. CONCLUSION

While PGW appreciates the Commission’s apparent effort to streamline the 2014-2016 USEC Plan review process by including review and continuation of ELIRP in this docket, PGW respectfully requests that the Commission reconsider this tentative proposal and permit ELIRP to continue as part of PGW’s Commission approved DSM plan. As an alternative to maintaining ELIRP as part of the already established and Commission approved DSM process, PGW requests that the Commission defer considering whether to “extract” ELIRP from the rest of the DSM plan until it considers PGW’s proposal for a DSM plan which PGW anticipates filing this this

summer. To the extent that PGW determines that it will not continue ELIRP under the DSM docket or to the extent that such continuation is not approved by the Commission, PGW would propose an amendment of the 2014-2016 USEC Plan.

Respectfully submitted,



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Date: April 23, 2014

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CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of PGW's Response to Tentative Order Entered April 3, 2014 Regarding the Enhanced Low Income Retrofit Program upon the persons listed below in the manner indicated in accordance with the requirements of 52 Pa. Code Section 1.54.

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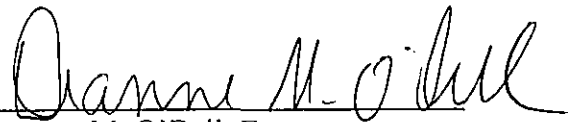
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