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May 13, 2014

Via Electronic Filing

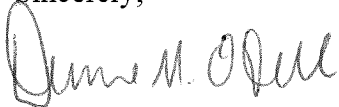
Rosemary Chiavetta, Secretary
PA Public Utility Commission
PO Box 3265
Harrisburg, PA 17105-3265

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 Comments of Philadelphia Gas Works to Tentative Order Entered April 3, 2014 Regarding the Universal Service and Energy Conservation Plan For 2014-2016 with regard to the above-referenced matter. Copies to be served in accordance with the attached Certificate of Service.

Sincerely,



Deanne M. O'Dell

DMO/lww
Enclosure

cc: Joseph Magee w/enc. via email
Louise Fink Smith w/enc. via email
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CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of PGW's Comments 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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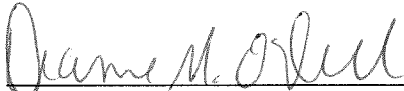
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Date: May 13, 2014

**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 :

**COMMENTS OF PHILADELPHIA GAS WORKS TO
TENTATIVE ORDER ENTERED APRIL 3, 2014 REGARDING THE
UNIVERSAL SERVICE AND ENERGY CONSERVATION PLAN FOR 2014-2016**

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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 directed PGW to file its Enhanced Low Income Retrofit Program (“ELIRP”) enrollment and budget estimates for the 2015 and 2016 program years within 20 days. PGW included this information – in addition to its request that the Commission permit ELIRP to continue as part of PGW’s Commission approved Demand Side Management (“DSM”) plan – in its April 23, 2014 Response to the Tentative Order (“PGW Response”). In the Tentative Order, the Commission also directed PGW to provide comments regarding ELIRP and other issues. The information requested and PGW’s comments are provided below.

II. COMMENTS

A. Method of Accumulating A 12-Month Period For LIURP Reporting Purposes Given That ELIRP And LIURP Reporting Years Are Different

As noted by the Commission, PGW’s DSM program – which includes ELIRP – is based on PGW’s fiscal year from September 1 through August 31. However, PGW’s USEC Plan is based on a calendar year from December 31 to January 1.¹ The Commission requested that PGW explain its method of accumulating a 12-month period for Low Income Usage Reduction Program (“LIURP”) reporting purposes and proposed that ELIRP be reviewed and continued in this USEC docket. As a preliminary matter, the requirement of a dual-review process for PGW’s Commission-approved ELIRP at both the DSM docket and this docket or the removal of ELIRP from the DSM docket would be a significant undertaking that would result in inefficiencies and ongoing additional costs. For these reasons, PGW respectfully requests that the Commission reconsider this tentative proposal and allow ELIRP to continue as part of the DSM process.²

¹ Tentative Order at 6.

² PGW Response to Tentative Order at 8-9.

In response to the Commission’s request for information, DSM program activity is tracked on a monthly basis. Although the program is budgeted and implemented on the PGW Fiscal Year (September–August) time-period, PGW tracks spending, work, and projected savings at the monthly level. When reporting on Calendar Year terms for LIURP reporting, PGW sums the individual monthly activity levels for January through December of the targeted Calendar Year.

B. Co-Payments of \$5 Made By CRP Customers Towards Pre-Program Arrearages

As part of the Customer Responsibility Program (“CRP”) enrollment process, a customer’s pre-program arrearage is “frozen” – or separated from their asked-to-pay portion of their bill. Once frozen, CRP customers are required to pay \$5/month to reduce the frozen amount. In addition, the frozen arrearage is forgiven at a fixed rate of 1/36th per month for each month the CRP customer pays the monthly CRP asked-to-pay amount on time and in full.³ In the Tentative Order, the Commission requests that PGW: (1) identify how it ensures that the \$5 monthly pre-program arrearage payments are not recovered as part of PGW’s Universal Service Surcharge; and, (2) explain whether the \$5 payment is in addition to or part of the 1/36th monthly pre-program arrearage forgiveness.

In response to the first request, PGW does not recover the \$5/month pre-program arrearage co-payments through its Universal Service and Energy Conservation Surcharge (“USECS”). The \$5/month co-payments made by CRP customers are applied towards the customers’ pre-program arrearage only and are handled differently than the 1/36th arrearage forgiveness in PGW’s systems for both accounting and tracking purposes. The \$5/month co-payment is directly applied against the customer’s pre-program arrearage but is not linked to the

³ PGW 2014-2016 USEC Plan at 10.

same general ledger account as the program forgiveness. In contrast, when the 1/36th forgiveness is applied on a customer's account, the transaction is linked to a specific general ledger account connected with the company's USECS. This process ensures that the company identifies and recovers only the 1/36th arrearage forgiveness through the USEC.

In response to the second request, the \$5/month co-payment is applied to a CRP account "in addition" to the 1/36th arrearage forgiveness. When a customer timely pays their full CRP monthly amount, which includes their \$5 co-payment, the \$5 is applied to the pre-program arrearage first and then the 1/36th forgiveness is provided on the remaining balance. As a result, if a CRP customer continuously pays their required agreement amount in a timely manner, and in its entirety, he/she could satisfy the pre-program arrearage prior to the three year period.

C. Minimum Amount A CRP Customer Must Pay For Gas Service

In the Tentative Order, the Commission requests that PGW specifically identify the minimum payment amount for CRP customers.⁴ PGW requires a minimum CRP payment of \$25 for heating and non-heating customers consistent with the guidelines set forth in 52 Pa. Code § 69.265(3)(i).

D. CRP Application Procedures And Social Security Numbers

As a method of fraud prevention, PGW currently requests copies of social security cards for all household members of applicants for PGW's CRP. In the Tentative Order, the Commission expressed concern about this requirement stating that it may be potentially redundant or impose financial and logistical burdens on applicants.⁵ Accordingly, the Commission requests that PGW review its CRP application procedures and consider alternatives to requesting a social security card and alternatives to requiring a social security number at all.

⁴ Tentative Order at 12.

⁵ Tentative Order at 12-14.

PGW has reviewed its requirements and proposes to modify its procedures to require social security cards only as part of PGW's periodic review of CRP applications to prevent fraud (rather than requiring them on a regular basis). Further, if a household member does not have a social security number, or the customer refuses to provide the social security number, PGW's requirements will differ depending on the age of the household member, as follows:

(i) for an adult household member, PGW will agree to accept some other form of identification that can be documented, such as a state issued Driver's License number or an Individual Tax Identification Number. For fraud prevention purposes, PGW may require documentation supporting this number as part of our periodic review of CRP applications;

(ii) for a non-adult household member, PGW will accept a government/school issued form of identification showing residency, such as a school roster or public assistance benefits letter.

The social security number for those who have refused to provide it will be required only as part of a periodic fraud review.

E. Application of Arrearage Forgiveness

In the Tentative Order, the Commission identifies concerns that PGW's arrearage forgiveness policies as applied to CRP customers who fail to stay current on their CRP monthly bills limits the effectiveness of the program.⁶ The Commission identifies this as a concern because PGW applies arrearage forgiveness only for the months that a customer pays his or her CRP monthly bill on time and in full. If the customer misses any monthly payments, then arrearage forgiveness will not be applied until the month the customer has become current on his or her CRP monthly bills. PGW does not then retroactively apply arrearage forgiveness for the months when the customer had outstanding CRP payments due and failed to pay on time. Based on this, the Commission asks PGW to comment on: (1) whether it would apply arrearage

⁶ Tentative Order at 14-15.

forgiveness retroactively once a customer has become current; and, (2) the estimated cost of implementing this new approach.

PGW does not support changing its current arrearage forgiveness program to permit a customer to receive the benefit for months when they have not paid their monthly CRP bill on time and in full. PGW's arrearage forgiveness serves two primary objectives: (1) provide an affordable payment to low-income customers; and, (2) encourage on time and in full payment behavior. The first objective is achieved by eliminating the customer's need to pay any amount above \$5/month for the past due balance while he or she is enrolled in CRP. PGW achieves the second objective by incrementally forgiving 1/36th of the remaining past due balance with each on time payment and applying the forgiveness only if CRP payments are paid in full and on time. PGW has no limit on the amount of forgiveness provided, so the incentive to pay on time and in full can be significant. To offer arrearage forgiveness retroactively even though payments were not made timely or in full would undermine a key objective of the program.

Moreover, retroactive arrearage forgiveness could encourage risky payment behavior. For example, a CRP customer who understands that he or she will receive the full value of the arrearage forgiveness regardless of whether monthly payments are made in full and on time may be incited to push collection activity all the way to the point just prior to termination and then try to become current. Realistically, though, most customers who fall behind in the monthly CRP payments will have difficulty catching up on CRP asked to pay bills and their ability to remain in the CRP program will be in jeopardy. PGW views its current arrearage forgiveness program – which requires on time and in full payments – as a significant positive incentive to avoid these types of situations.

The Tentative Order cites a UGI proceeding for the proposition that the Commission “has previously directed that all UGI companies must apply arrearage forgiveness for each timely and

in-full CAP payment.”⁷ However, UGI’s prior process differed substantively from PGW’s current process. According to the filing, UGI provided forgiveness after the customer had been enrolled in their CAP program for six months and had made six full CAP payments; forgiveness occurred after six, eighteen and thirty months, provided that full CAP payments were made. Concerns raised in that proceeding were that this practice did not provide an incentive to encourage CAP customers to develop positive payment patterns and that balances should be forgiven on 1/36th basis. The Commission directed that the companies “implement the change to 1/36th monthly forgiveness with each timely, full payment . . .”⁸

PGW’s arrearage forgiveness program is different because it applies each time a customer pays the monthly CRP payment on time and in full. There are no other restrictions. In this way and, in contrast to the underlying UGI program addressed by the Commission in its prior order, PGW’s program encourages and rewards positive, consistent payment practices – including the necessity of staying current on the bill.

With respect to the costs to implement changes to the current arrearage forgiveness program to unlink forgiveness from timely and full payment and thus retroactively apply the benefit for months when the customer has not timely paid the bill, the estimated implementation cost is approximately \$22,000. Again, though, PGW believes that making this change would undercut the effectiveness and purpose of the arrearage forgiveness program by removing a positive incentive for customer to pay their CRP bills on time and in full.

⁷ Tentative Order at 15.

⁸ UGI 2011-2013 USECP Final Order, Docket No. M-2010-2186052 (October 31, 2011), at 33.

F. Proof Of Living Expenses From Households Reporting Zero Or Minimal Income

In its Tentative Order, the Commission asks PGW to explain what process it uses to request proof of living expenses from households who report zero or minimal income and whether a written statement could be acceptable instead of requiring customers to provide documentation of monthly bills.⁹

Currently, for customers who report zero income and for customers whose only income is financial support from a third-party, PGW provides a form that asks the customer to explain how they meet basic living expenses for housing, food, and utilities (e.g., housing costs and subsidy, SNAP benefits, LIHEAP, utility allowance). PGW requires documentation of housing costs and how those costs are being paid, because housing is usually the largest household expense and it is easier to document than other household expenses. PGW does not require documentation of other costs, such as food and utility costs. The form requires contact information and a signature by the person or persons who provide financial support, as well as the amount of support they provide monthly. There is no requirement that the signature be notarized. PGW believes that this process is not unduly burdensome for the customer and provides a measure of fraud prevention for CRP and the customers who financially support CRP. However, PGW would be amenable to modifying this process so that documentation of housing costs is only required occasionally – for applications selected as part of PGW’s periodic review of CRP applications to prevent fraud.

G. On-Going Monitoring of CRP Accounts

In its Tentative Order, the Commission directs PGW to explain how it monitors CRP accounts on an ongoing basis to determine whether the CRP rate continues to be the most

⁹ Tentative Order at 15-17.

affordable option for the customer.¹⁰ PGW compares the calculated CRP amount, based on household size and income, to other payment options each time a customer applies as a new CRP customer or recertifies their existing CRP agreement. PGW's representatives also complete a comparison analysis whenever a customer calls in or visits inquiring about his or her agreement amount or if the customer states that the household income or composition has changed. In these situations, PGW's representatives are trained to review the customer's account in order to determine if the program is still the most beneficial for the customer and what next steps (if any) are needed. This process ensures that PGW representatives offer the most financially beneficial payment arrangement. PGW maintains that comparison until the customer is required to recertify his or her CRP agreement or upon a representative's review as described above. Customers are required to recertify their CRP agreement annually unless a LIHEAP grant has been received, or any time the household size or income changes.

Requiring PGW to monitor CRP accounts on an ongoing basis to determine whether the CRP rate at that specific point in time is still the most affordable for the customer would be a substantial undertaking given that a customer's budget amount and past due amount – the factors used to determine whether enrollment in CRP is more beneficial – change numerous times over the course of a year. For example, a CRP customer's bill in the summer may be higher than an actual bill. However, in the winter, this CRP customer's bill would be lower than an actual bill. This leveled CRP approach, similar to budget billing, enables the CRP customer to avoid significant fluctuation throughout the year and unaffordable bills in the winter. An ongoing shifting of customers in and out of CRP would also place additional burdens on the customer who would have to reapply for CRP more frequently if removed because the CRP program was

¹⁰ Tentative Order at 18.

no longer beneficial at a specific point in time but – when the numbers change – may become more beneficial in the future.

For these reasons and in light of its current process, PGW proposes to continue to examine the financial benefits of CRP at application and recertification unless it is determined by a company representative that a further review is warranted.

H. Methods To Apply/Recertify For CRP

In its Tentative Order, the Commission asks PGW to: (1) address what alternatives it offers to accommodate customers who are unable or choose not to apply/recertify for CRP at a PGW district office; and, (2) what steps it takes to ensure that all CRP applications and recertifications are processed timely.¹¹ PGW accepts CRP applications at its District Offices or by mail for all customers and applications are processed by PGW, union-represented employees. PGW mails an application to any customer on request and makes applications available online for printing by customers. A visit to a PGW District Office is not required to apply for CRP. During peak application periods, which are usually in the fall and spring seasons, PGW works overtime to process the larger number of applications received.

When a customer applies for CRP by mail, their application is date stamped and reviewed in the order received. PGW's goal is to review applications within one week of receipt, although at peak application periods, the amount of time needed to review all applications received could be longer. The main cause for a delay in processing applications by mail is lack of supporting information provided by the customer, mostly income documentation. PGW has amended its CRP application to ensure that it obtains useful information about how the household meets everyday living expenses. PGW now provides instructions for completing the application and

¹¹ Tentative Order at 18-19.

provides a list of acceptable and unacceptable forms of income documentation to avoid incomplete applications in the first instance.

When a customer applies for CRP in person at a District Office, a determination of eligibility is made at that point. If the customer is eligible and has provided all required documentation, they are enrolled in CRP at that time.

I. Administrative Costs Associated With ELIRP

The Commission directed PGW to provide an explanation of administrative costs associated with ELIRP and the steps it has taken to minimize increases.¹² During the initial program design and contractor selection stage of the new ELIRP program launch, a substantial number of contractors informed PGW that they could not afford to implement the program as designed given the 15% cap on administrative fees. PGW attempted to refine this understanding through in-depth examinations of the contractors pricing structures. However, the primary finding was that every contractor maintains slightly different accounting methods, with various costs built into slightly different line-items as warranted by their particular businesses. Any attempt to impose a flat structure and cap would only result in the misleading reallocation of costs from one line-item to another.

To address this dilemma, PGW decided to focus on establishing a structure that would encourage contractors to report their true costs and then reward those that delivered the best product overall through the program's performance evaluation and funding reallocation model. The cap on fixed administrative costs was maintained at 15%, however PGW also introduced a variable administrative line-item for additional program costs (such as installation equipment and vehicle miles) which are impacted by the production levels assigned to each contractor.

¹² Tentative Order at 24.

Ultimately, PGW is most interested in two primary metrics: total savings and total cost-effectiveness. Administrative fees were deemed to be a proxy metric, which themselves are not useful in explaining total program performance. However, by focusing on the program's two primary metrics and reallocating funding to the best performing contractors, the program has increased total savings and total cost-effectiveness, which has also had the ancillary impact of reducing average administrative percentages from 38% for FY11 activities to 22% for FY13 activities.

PGW intends to maintain the current contractor performance evaluation and funding reallocation model through the duration of the existing DSM implementation period and at least into the forthcoming implementation period, which is expected to lead to further increased program savings and cost-effectiveness.

J. Administrative Costs Associated With Hardship Fund Programs

The Commission requested that PGW provide a description of the administrative costs associated with its hardship fund program.¹³ PGW currently contributes approximately \$220,148 to the Utility Emergency Services Fund ("UESF") for annual operating support.¹⁴ In addition to PGW's contribution, UESF receives a similar amount of operating support from two other local utilities. UESF uses these operating funds to maintain a network of intake sites throughout Philadelphia, where utility customers in need of emergency assistance can apply for a grant. UESF and the intake sites bear the responsibility for outreach, eligibility determination, case management, and grant administration.

¹³ Tentative Order at 26.

¹⁴ To clarify PGW Table 6, Proposed 2014-2016 Plan Projected Budgets and Spending, Hardship Fund donations made by PGW to customers are reflected in PGW's bad debt expense approved as part of its base rates. Hardship Fund voluntary donations made by customers and received by PGW are not recovered in base rates.

K. Trends Regarding CRP Enrollment

Regarding CRP enrollment, the Commission asks PGW to: (1) explain the decline of CRP enrollment over the past few years; (2) discuss any proposed changes; and, (3) explain why it anticipates the participant level or program budget of CRP to remain stagnant in light of the enhanced CRP outreach efforts.¹⁵ Historically, CRP enrollment has varied based on the season. Enrollment begins to increase in the fall, builds throughout the winter, peaks in the spring, and then falls throughout the summer. During its peak enrollment years of approximately 2009-2011, PGW maintained a steady pattern of peaks and valleys and an average of about 81,000 CRP customers from January 2009 to December 2011. Peak enrollment in 2012 was 83,750 customers in April. Thereafter, enrollment began to show a decline. Enrollment did begin to increase in the fall of 2012, but peaked at 77,321 the following May, which was more than 6,000 customers less than the peak in the prior year. At the time, it appears that this decline was similar to a decline in CRP enrollment experienced statewide. For comparison, in calendar 2012, CRP enrollment at PGW declined approximately 4.3 percent. Based on the 2012 Universal Service Programs and Collections Performance Report, CRP enrollment for Natural Gas utilities statewide (excluding PGW) declined approximately 10.5 percent, which is more than the rate of decline for PGW. The 2013 Universal Service Programs and Collections Performance Report is not available at this time, so PGW is unable to make a comparison to other Natural Gas utilities for last year. However, PGW had seen a continuation of the decline in CRP enrollment at PGW through the filing of the 2014-2016 USEC Plan and believes this decline may have several underlying causes.

First, recently there has been a decline in LIHEAP grants received by PGW CRP customers and other utilities statewide. Since CRP customers who receive a LIHEAP grant and

¹⁵ Tentative Order at 30-31.

assign the grant to PGW receive a one year waiver from our annual recertification requirement, LIHEAP is an important factor in maintaining CRP enrollment without the need to recertify. Therefore, we believe part of the decline in our CRP enrollment may be related to the decline in LIHEAP grants and a related failure of customers to recertify.

Second, the price of natural gas is lower than it was in 2009¹⁶ when CRP began to experience a surge in enrollment. Therefore, at times CRP may no longer provide the most affordable payment for a larger number of customers who apply/recertify.¹⁷ In addition, for those who would benefit and do apply, the process is more robust as PGW has since provided refresher training to its representatives on the value and requirements of CRP and the importance of properly examining applications.

Finally, unemployment has continued to decline. According to the Bureau of Labor Statistics, the unemployment rate in Philadelphia in December 2013 and February 2014 was 8.3 percent. The unemployment rate has not been that low since December 2008, over five years ago.

Regarding proposed changes, in addition to process improvements to increase CRP enrollment, PGW will identify and aggressively target existing customers for whom we believe CRP would provide a more beneficial payment arrangement. From PGW's experience with its LIHEAP outreach campaigns, efforts such as phone calls and direct mail can be very effective at yielding results.

¹⁶ The Gas Cost Rate ("GCR") in January 2009 was \$10.7007/MCF. In May 2013 when the 2014-2016 USEC Plan was filed, the GCR was \$6.3991/MCF. Additionally, the average GCR from March 2012 to the present has been significantly lower when compared to the average GCR from January 2009 to February 2012.

¹⁷ Within the last year, PGW created a simplified process for Customer Service Representatives to follow when a customer needs to recertify his or her CRP agreement and the agreement no longer provides the most affordable payment.

Regarding PGW's projections for stable CRP participation levels, PGW expects an increase in participants to result from our outreach efforts but, based for the same reasons discussed above, does not expect participation levels to reach the peak levels achieved historically.

III. LIURP REGULATIONS AND ELIRP

As part of its tentative proposal to bring PGW's program "back into alignment with the rest of the Universal Service programs," the Commission directs PGW to comment on requesting waivers of Section 58.11(a) and 58.5 of the LIURP regulations.¹⁸ At the time PGW sought Commission approval for its request to permit ELIRP to replace and expand PGW's prior LIURP Conservation Works Program, PGW specifically asked for approval pursuant to 52 Pa. Code § 58.17.¹⁹ Section 58.17 provides that a utility submitting a program pursuant to Chapter 58 must receive Commission approval. The Commission approved PGW's ELIRP pursuant to the Order entered July 29, 2010 at docket numbers R-2009-2139884 and P-2009-2097639. Therefore, by approving PGW's ELIRP, the Commission has already implicitly waived, to the extent necessary, 52 Pa Code §§ 58.5, 58.11(a) and any other Chapter 58 regulatory sections that may appear to be inconsistent with PGW's Commission approved ELIRP program. Based on this, PGW respectfully submits that there is no need to request waivers here.²⁰

To the extent the Commission still views waiver requests as necessary, PGW notes that 52 Pa. Code § 58.18 allows a utility alleging special circumstances to seek an exemption for its

¹⁸ Tentative Order at 6, 23-24

¹⁹ See Philadelphia Gas Works' Revised Petition for Approval of Energy Conservation and Demand-Side Management Plan, Docket Number R-2008-2073938; P-2009-2097639, filed April 20, 2009 at 17.

²⁰ Notwithstanding this, PGW provided a detailed explanation regarding its administrative costs above in section II.I. In addition, ELIRP is a pilot program which 52 Pa Code § 58.5 specifically exempts from the 15% cap.

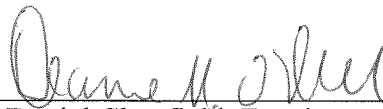
usage reduction program from the regulations. As already discussed at length in PGW's Response, the Commission approved ELIRP to replace PGW's prior LIURP as part of a global settlement involving PGW's proposed general rate increase and its request for approval of its DSM plan both of which were filed in compliance with a prior Commission Order.²¹ Significant time, effort and costs have been devoted to ELIRP as a part of the DSM plan with both the overall DSM program and ELIRP proving to be cost effective. They also demonstrate ongoing trending of increasing cost-effectiveness while at the same time completing additional projects and accruing additional net benefits. PGW submits that ELIRP – as it is currently structured and functioning – is consistent with the goals established by 52 Pa. Code § 58.1. ELIRP has also already been approved by the Commission. Therefore, PGW submits that special circumstances exist pursuant to 52 Pa Code § 58.18 for the Commission to exempt ELIRP from Chapter 58.

²¹ PGW Response to Tentative Order at 3-6.

IV. CONCLUSION

PGW appreciates this opportunity to provide additional input to the Commission regarding its Universal Service and Energy Conservation Plan for 2014-2016. PGW respectfully requests that the Commission approval the plan consistent with these Comments and PGW's Response to Tentative Order dated April 23, 2014.

Respectfully submitted,



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