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July 8, 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:

On behalf of Philadelphia Gas Works (“PGW”), below are responses to the Commission’s request for additional information as set forth in its June 27, 2014 Secretarial Letter. As discussed with staff from the Bureau of Consumer Services, PGW is still in the process of analyzing its billing system to provide a complete answer to a portion of question number 1 and respectfully requests an opportunity to supplement the response to provide additional, responsive information on or before July 15, 2015.

I. Estimated costs to implement program changes to PGW’s current arrearage forgiveness program

The Commission requested that PGW provide programming cost estimates that would be incurred to revise its current arrearage forgiveness program to apply arrearage forgiveness either: (1) for each on-time and in-full monthly payment, regardless of existing CRP arrears; or, (2) retroactively for months missed once the CRP account is paid in full. The Commission specifically requested a breakdown of the programming costs for each method as well as the cost effect on all customers of expanding PGW’s arrearage program.

The estimated programming costs to apply forgiveness for each in-full monthly payment that equals the required monthly asked to pay amount, regardless of existing CRP arrears, is approximately \$22,000. PGW again notes that such payments would not be “on-time” since pursuant to the Commission’s regulations, payments are applied to the oldest debt first. 52 Pa Code § 56.24.

The estimated programming costs to apply retroactive forgiveness for months missed once the CRP account is paid in full is approximately \$31,000.

The Commission also requested that PGW estimate the projected amounts by which these two options would: (1) increase annual write-offs for the CRP program; and, (2) increase the CRP annual budget through 2016. PGW does not write off the amounts covered through the arrearage forgiveness program; rather, it recovers the cost of the amounts forgiven through a Universal Service and Energy Conservation charge that is assessed on all firm customers.

The cost effect on non-CRP customers of PGW revising its arrearage forgiveness program could be to increase PGW's annual CRP arrearage forgiveness budget – since defaulting/defaulted CRP customers may receive arrearage forgiveness faster than would have been provided under PGW's current program. PGW has been working diligently with its system to analyze and obtain an estimate of the arrearage forgiveness budget increase that might occur pursuant to each option. At this point, PGW has been able to estimate that the cost effect of option number 2 (retroactive forgiveness for months missed once the CRP account is paid in full) could be approximately \$6,000,000. This amount was determined by performing an analysis of CRP accounts from 2013 where – at some point in the year – the customer brought their arrears current. Then, PGW calculated the forgiveness actually provided to the customer over the year versus the forgiveness they could have received for the total payments made over the year. This additional amount of approximately \$6,000,000 would be credited to customers' accounts and thus added to PGW's CRP arrearage forgiveness budgets – assuming CRP customers' payment practices, and related arrearages, in the future are consistent with PGW's experience in 2013.

However, PGW is still in the process of calculating a projected amount for option number 1 (forgiveness for each on-time and in-fully month payment, regardless of existing CRP arrears and whether the account is brought current). Estimating this projected increase is a substantial undertaking that – despite significant effort – PGW has not yet been able to complete. The analysis requires pulling the data regarding PGW's historical application of its arrearage forgiveness program for customers who made payments in 2013, unwinding the existing data related to the current program, and recalculating how application of the option would have impacted the arrearage forgiveness program. PGW expects to be able to provide the results of this analysis on or before July 15, 2014.

II. PGW's recovery of Company Hardship Fund donations

The Commission has asked for additional information about PGW's recovery of Company Hardship Fund donations through its base rates. Through PGW's Hardship Fund, it matches grants provided by the Utility Emergency Services Fund (“UESF”) and applies the matching credit by writing off the designated amount; this write-off is, in turn, accounted for in PGW's uncollectible (or “bad debt”) expense. PGW is a municipal utility regulated on the Cash Flow Method of ratemaking¹ and its only “shareholder” is the City of Philadelphia. As such, all

¹ See 66 Pa. C.S. § 2212(e).

expenses incurred or revenues forgone affect PGW's cash flow and are reflected in its revenue requirement. Thus, the uncollected amount for the Company Hardship Fund donation is included as a part of the overall uncollectible expense which is factored into PGW's rates that are approved by the Commission in PGW's base rate cases. While adjustments have been made to PGW's proposed bad debt expense amounts during PGW's rate cases before the Commission,² no specific adjustments have been proposed by other parties or addressed by the Commission relating to PGW's recovery of Company Hardship Fund donations as part of its uncollectible expense.

In PGW's last base rate case (R-2009-2139884) – consistent with prior rate cases – PGW's claimed uncollectible expense was calculated to include an adjustment to account for the amounts foregone as part of its Hardship Fund program. That rate case was settled and no finding with respect to PGW's claimed uncollectible expense (or any other expense item) was made.

III. Updated projections for CRP enrollment and budget through 2016

In order to respond fully to this question, given the length of time between PGW's submission of its Universal Service and Energy Conservation Plan ("Plan") and the current date, PGW has re-examined its projections in light of more recent participation levels and proposes related revisions to participation levels. Since May 31, 2013 when the Plan was originally filed, PGW has continued to experience a decline in CRP enrollment which has impacted the previously submitted projections of 76,042 participants with an annual spending of \$66,482,907. In order to more accurately align the company's expected future enrollment, PGW has adjusted its internal projections to reflect a more conservative count than originally reported. PGW's current enrollment and budget projections through 2016, not including the additional outreach, are as follows:

	Avg. Monthly Customer Count	Total Annual CRP Discount	Total Annual Forgiveness
CY14	70,236	\$59,131,901	\$6,152,656
CY15	74,792	\$66,946,029	\$6,282,500
CY16	74,958	\$63,257,050	\$6,296,500

² See, e.g., *Pennsylvania Public Utility Commission v. Philadelphia Gas Works*, Docket No. R-00005654, Order entered November 22, 2000 at 20-22.

With respect to increases expected in connection with PGW's outreach campaign, PGW does not have detailed experience or data to support an increased estimate, as it has not recently engaged in such larger scale outreach. However, as a test and for comparison for these purposes, in early 2014 the company conducted a small scale outreach campaign which targeted approximately 5,000 potentially eligible CRP customers. When analyzing the subsequent enrollment rate of this group, approximately 7% of the customers who received PGW's outreach materials subsequently successfully enrolled in CRP. It is possible that not all of these enrollments were the direct result of the outreach. Regardless, based on this result, PGW estimates that on a larger scale outreach, the company may potentially obtain the same outcome. Therefore, provided below are adjusted projections that incorporate the company's planned outreach efforts. By developing a larger campaign designed to target potentially eligible customers, PGW projects that it could increase its enrollment as follows:

	Avg. Monthly Customer Count (with outreach)	Total Annual CRP Discount (with outreach)	Total Annual Forgiveness (with outreach)
CY14	70,586	\$59,426,567	\$6,183,316
CY15	75,842	\$67,885,880	\$6,370,700
CY16	76,008	\$64,143,145	\$6,384,700

This data reflects the Company completing outreach to an additional 5,000 customers for the remaining CY14 followed by targeting an additional 15,000 in CY15 and another 15,000 in CY 16, totaling 40,000³ customers by the year end of 2016.

Please feel free to contact me if you have further questions or require further clarification.

Sincerely,



Deanne M. O'Dell

DMO/lww

³ This number includes the 5,000 customers already provided with outreach in early 2014.

cc: Cert. of Service
Grace McGovern via email
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CERTIFICATE OF SERVICE

I hereby certify that this day I served a copy of PGW's Response to Commission's Request for Additional Information 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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