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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

TESTIMONY OF
RANDALL GYORY

DOCUMENT

DOCKETED

JUL 13 2004

ON BEHALF OF
PHILADELPHIA GAS WORKS

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Philadelphia Gas Works
Testimony Concerning PGW
Collections Practices
and
Compliance Tariff Remand Issues

June 17, 2004

SECRETARY'S BUREAU

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1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Randall Gyory. My business address is 800 West Montgomery Avenue,

3 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

4 A. I am employed by the Philadelphia Gas Works in the capacity of Vice President –

5 Customer Affairs.

6 Q. WHAT ARE YOUR PRINCIPAL RESPONSIBILITIES AS VICE PRESIDENT?

7 A. My principal responsibilities include the oversight of PGW's Call Center Operations,

8 Credit and Collections, Customer Service Centers, Account Management Department,

9 Billing System, Bill Preparation & Mail Receipts, Universal Services and Customer

10 response as required by PUC regulations.

11 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
12 PROFESSIONAL EXPERIENCE.

13 A. I attended the University of Pittsburgh and graduated with a Bachelor of Science degree

14 in Engineering in 1979. I originally accepted a job at PGW shortly after graduation as an

15 Engineering Assistant in the Distribution Department. Since that time, I have held the

16 following positions: Assistant Supervisor (1981), Staff Engineer (1984), Senior Staff

17 Engineer (1988), Major Accounts Manager – Marketing Department (1999) and Manager

18 – Program Management Office (2000). Finally, in June of 2001, I took my current

19 position as Vice President of Customer Affairs.

20 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE THE
21 PENNSYLVANIA PUBLIC UTILITY COMMISSION ("PUC")?

22 A. Yes. I submitted testimony in PGW's Restructuring Proceeding (M-00021612). I also

23 submitted testimony in PGW's CRRC Petition proceeding on the Company's Collections

24 Initiative.

25 Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.

1 A. The purpose of my testimony is two-fold. First, I will provide an overview of PGW's
2 collections activities and efforts over the last several years with emphasis on the
3 management and implementation of its current collections program in order to respond to
4 the PUC's request for a review of the adequacy, cost effectiveness and management of
5 PGW's collections practices. I will show that the Company's present program is
6 adequate, reasonable and cost-effective. Second, I will present support for two tariff
7 provisions that had been included in PGW's proposed and compliance tariff in its
8 Restructuring Proceeding, but were removed in the Commission's final compliance order.

9 **Collections Practices**

10 **Q. PLEASE PROVIDE SOME BACKGROUND ON PGW' COLLECTIONS**
11 **EFFORTS OVER THE LAST SEVERAL YEARS.**

12 A. PGW has been continuously working to improve its billing and collections programs
13 since 1999 when its entire billing system collapsed, leaving it with very limited ability to
14 conduct collections efforts. As the Commission is aware from past submissions, PGW's
15 Billing, Collections and Customer Service ("BCCS") system went on-line in July 1999.
16 Start-up of the BCCS revealed a number of serious programming and employee training
17 problems that resulted in an initial backlog of 55,000 billing exceptions and over 70,000
18 estimated or unbilled accounts. These problems adversely impacted customer service and
19 collections in several ways. PGW was not only without assurance that non-paying
20 customers had indeed received accurate bills that were accurate, but the BCCS failure
21 also robbed PGW of several collections capabilities and dramatically eroded customer
22 confidence in PGW, which still affects every aspect of our relationship with our
23 customers and our customer service representatives.

4 Since that time, PGW has worked almost continuously to identify and correct the

1 BCCS problems. The current level of billing exceptions was reduced to less than 300 per
2 day in 2001 and has been reduced further to an average of 150 per day, which, we
3 believe, is within the norm in the industry. Other systems and capabilities were recently
4 brought back. For example, the Company, just recently, has been able to put on line
5 systems that communicates customer payment history to credit bureaus.

6 During this period, the Company also took steps to improve customer service in
7 the Call Center and reduce the number of estimated bills. As the Commission is aware,
8 in the last few years, PGW has been able to correct its poor past performance in its
9 customer call center. It now regularly shows improved Call Center performance metrics
10 which, on average, are consistent with others in Pennsylvania utilities.

11 Through an aggressive program to install automatic meter reading devices
12 (AMR), PGW has reduced its number of estimated bills from 15% in 2001 to less than
13 1% in 2004. This has greatly improved the accuracy of the bills which has led to a
14 reduction in billing accuracy complaints and an improved level of customer service.

15 PGW plans to continue to cost-effectively increase the functionality of the BCCS,
16 to provide necessary management reports and to provide timely support to the customer
17 service and collections operations. These steps were all required precursors to PGW
18 being able to implement and sustain enhanced collections activities.

19 **Q. PLEASE EXPLAIN STEPS THAT PGW HAS TAKEN TO INCREASE**
20 **EMPLOYEE EFFICIENCY IN THE COLLECTIONS AREA.**

21 A. PGW's collections efforts were also held back by antiquated union work rules. In April
22 2003 collections operations were strengthened through a flexibility agreement negotiated
23 with the PGW union employees. The major change that this agreement provides is
24 complete cross-functionality across all areas of Customer Affairs, permitting

1 management to reassign employees between collections and customer service when
2 needed. The agreement also permitted PGW to hire 30 new employees, at a greatly
3 reduced starting salary, to assist in the collection effort. The hiring of the additional 30
4 employees was the result of union/management negotiations after an RFP had been
5 issued for the outsourcing of all inbound and outbound Collection Call Center work.
6 These new hires are assigned to a Noon to 8:30 PM work shift and after normal work
7 hours they are making dunning calls to all delinquent customers.

8 **Q. HAS PGW RECEIVED ANY ASSISTANCE FROM OUTSIDE CONSULTANTS**
9 **IN ADDRESSING ITS COLLECTIONS ISSUES?**

10 A. Yes. In December 2003 Accenture Consulting was brought on board to provide major
11 assistance in the development and implementation of a Collection Renewal Initiative.
12 Accenture is one of the foremost experts on utility collection practices. It actively
13 advises or participates in the management of utility collection efforts for scores of major
14 energy utilities, both in Pennsylvania and around the country. Accenture played a major
15 role in formulating PGW's Collections Renewal Initiative, including a major revision of
16 its collections practices.

17 **Q. PLEASE DESCRIBE PGW'S STRATEGY TO IMPROVE COLLECTION**
18 **PERFORMANCE.**

19 A. In November 2003 PGW launched the Collection Renewal Initiative to address the
20 decline in cash receipts. The strategic objectives of the program were to:

- 21 • Create focus and dedication to quickly drive improvement initiatives
- 22 • Enhance our Credit and Collections staffing and capabilities to address current
23 cash flow needs
- 24 • Revise processes and capabilities based on principles of sound root cause analysis
25 to improve our capacity and results
- 26 • Build a sense of partnership to strengthen our customer and Commission
relationships

- Sustain and continue to build upon results for the long term

12 **Q. WHY WAS THE INITIATIVE REQUIRED?**

3 A. In June 2003 it was becoming evident to management that a formalized program had to
4 be initiated to address the decline in collections in comparison to our 10 year historical
5 rates of 92%. We also needed to determine how best to respond to the effect on customer
6 payment patterns that we expected in light of the projections that natural gas costs --
7 already at all time highs -- were expected to stay at these levels in the upcoming winter.
8 PGW decided to conduct a study to determine what the best approach would be to try to
9 reverse the precipitous decline in collections and then implement those measures in a
10 timely manner.

11 **Q. WHY DID PGW INITIATE THIS STUDY IN JUNE, 2003?**

12 A. Examining the results from the prior winter, it was clear that if natural gas costs were
13 going to continue to stay at record high levels PGW was going to continue to be faced
14 with collections results that were significantly lower than historic averages. It was more
15 important than ever, therefore, for the Company to do all that it could to make sure that it
16 was collecting every possible dollar, recognizing that the high gas costs could very well
17 make completely reversing the trend very difficult if not impossible.

18 **Q. WHAT ARE THE LONGER TERM GOALS FOR THE COLLECTIONS**
19 **INITIATIVE?**

20 A. PGW's longer term goal for the Collection Renewal Initiative is to accomplish substantial
21 and sustainable improvements in receivable collections. The financial objective of the
22 CRI is to collect 92 percent of fiscal years billed revenues and to continue incremental
23 percentage improvements.

4 **Q. HOW WAS THE CRI DEVELOPED?**

1 A. Accenture and senior PGW staff responsible for credit and collections were assigned the
2 task of designing and implementing a multi-pronged approach to evaluating and revising
3 PGW's collections program. The first stage of this process was a "Review and
4 Diagnosis" process, in which the review team reviewed PGW's then existing processes
5 and identified program changes, new initiatives and performance goals for each initiative
6 and program. These new steps were all based upon an assessment and evaluation of
7 industry leading practices, as Accenture is intimately familiar with the collections
8 activities of most utilities throughout the Country.

9 After identifying appropriate new or revised initiatives and programs,
10 "Development" and "Renewal" phases were formulated and implemented which
11 developed and carried out the new programs. The "Renewal" phase included the
12 completion of the design of the new credit and collections processes, the launch of
13 training of PGW staff, the modification of supervisor goals to be consistent with the
14 collection program changes and monitoring the performance and revising the various
15 strategies as needed. Part of the Initiative also includes identifying barriers to sustaining
16 collections results and the developing a 5 year plan and return on investment goals to
17 improve and sustain collections results. A complete summary of this collections renewal
18 process is shown on Exhibit CP/RG-1. This exhibit also details progress on the plan at
19 the time the documents were prepared.

20 **Q. WHAT SPECIFIC STEPS DID PGW TAKE TO CARRY OUT THE GOALS AND**
21 **OBJECTIVES OF THE CRI?**

22 A. The goals and objectives were accomplished by:

- 23 • Reviewing existing credit & collections processes and capabilities to identify
24 potential gaps and opportunities to improve efficiency and/or reduce receivables;

- 1 • Developing a credit scoring model to guide credit & collections customer
2 interactions (in progress); and
3 • Modifying existing plans and identifying goals for individual collections
4 programs and opportunities to improve management controls.

5 Again all of these steps were designed and implemented jointly by PGW and
6 Accenture. As one can see, the CRI initiative is quite extensive and deals with every
7 possible aspect of PGW's collections activities.

8 **Q. IS THERE A SPECIFIC MANAGEMENT PLAN FOR THE CRI?**

9 A. Yes. Exhibit CP/RG-2 sets out a summary of the management process that the Company
10 has implemented at the recommendation of Accenture.

11 **Q. PLEASE DESCRIBE SOME OF THE IMPLEMENTATION RESULTS THAT
12 PGW HAS EXPERIENCED SINCE LAUNCHING THE CRI.**

13 A. A myriad of initiatives and tracking mechanisms have been implemented and the PGW
14 Collections team regularly receives and evaluates these metrics. For example,

15 -- Individual collection office employee productivity has almost doubled since
16 December 2003.

17 -- Collection of past due bills using a pay by phone product has increased from
18 \$800,000 collected in the month of January 2003, to over \$2.5 million in April 2004.

19 -- PGW has strengthened the business processes associated with abstract companies
20 to improve collection unpaid balances at the settlement table. This effort in association
21 with the filing of Municipal Liens has resulted in over \$8 million in collections this fiscal
22 year.

23 -- Commercial and Industrial Accounts – The Commercial Resource Center (CRC),
24 which focuses on the high use customers, was improved. The CRC concentrates its
25 personnel on making dunning calls, responding to billing inquires and, as a last resort,

1 having the gas service shutoff for non payment as well as collection actions.

2 -- Written-Off Accounts – PGW has assigned written-off accounts to outside
3 collection agencies. The commission structure has been changed to a tiered rate where
4 the more dollars collected the more money they will make. PGW is using this as an
5 incentive to promote collections.

6 -- Slow Paying Accounts -- These accounts represent Residential Accounts which
7 are overdue less than 91 days. Collection evidence suggests that, without PGW
8 monitoring or intervention, a large number of these accounts will tend to become non-
9 paying over time. PGW intervention includes increased bill collection efforts
10 coordinated with the Call Center and field operations. PGW has 13 distinct dunning
11 campaigns during which it attempts to contact every slow paying customer.

12 -- Payment Agreements – Placing customers on payment arrangements and keeping
13 them paying is another campaign objective. PGW is trying to do this contacting
14 customers when they miss their first payment. As of the end of March 2004 over, 52,000
15 delinquent customers were actively participating in payment agreements. Through an
16 aggressive outbound calling campaign in January thorough March 2004, PGW was able
17 to enroll an additional 11,000 customers on payment-arrangements. Over 150,000
18 delinquent customers were contacted during this time frame which resulted in an average
19 weekly increase of over \$350,000 in payments over the phone.

20 -- CRP customers – A dunning campaign reminds the participants they must keep
21 paying their bills in order to remain on the program. Of the over 62,000 participants
22 approximately 80 percent are remaining current with their bill payments.

23 -- Increasing the use of field collections – Beginning April 1, 2004 the field

1 collection staff was augmented by 20 additional employees from the Field Services
2 Department. These employees are working in concert with the collection staff collecting
3 past due accounts balances and shutting off gas service. Field initiatives for this fiscal
4 year have collected over \$11 million in delinquent collections. Additionally, during April
5 2004, approximately 2,000 customers were terminated when they did not respond to
6 PGW collection efforts.

7 PGW has been able effectively to implement the collections program because the
8 *credit and collection modules in the BCCS are fully functional allowing PGW to*
9 *effectively move customers through the collections process as their accounts age.*

10 These efforts are so important that additional functionality, originally planned for
11 the FY2005 budget, has been advanced and will be implemented in this fiscal year. This
12 includes functionality which will enable PGW to automatically assess deposits on
13 customers when they do not pay promptly. PGW is also adding functionality to
14 automatically place written-off accounts with collection agencies. It is also modifying
15 payment arrangement functionality to permit PGW to collect more effectively. PGW will
16 also be providing on-line payment capability through its website and will allow
17 customers to receive their bill on-line and enroll in a program where payments are
18 automatically deducted from their bank account.

19 **Q. HAS THE PUC MONITORED THE CRI?**

20 A. Yes. PGW meets monthly with BCS, OCA and CLS to provide progress reports and
21 other data and to answer questions about its collections practices. To our knowledge, no
22 other major utility conducts such meetings.

23 **Q. DO YOU EXPECT THE INITIATIVE TO BE SUCCESSFUL?**

1 A. We are hopeful that the execution of the initiative will result in PGW collecting every
2 dollar that is within its ability to collect; however we are concerned that if current
3 circumstances (i.e., high gas costs) continue and if such factors as the income levels of
4 our customers continue to deteriorate, PGW's unique operating environment will make
5 reversing the current trend extremely difficult if not impossible. In spite of the fact that
6 natural gas costs have increased significantly this year the Company, nonetheless has
7 improved its collection rate by 4%. However, gas prices in FY 2005 are expected to
8 increase still more -- by some \$77 million. It will be very difficult to continue that
9 momentum at these higher prices. Therefore, there are no guarantees that without
10 additional tools, such as Chapter 56 waivers, PGW will be able to achieve the required
11 collection rates to maintain financial viability in the near-term.

12 **Q. THE COMMISSION'S CONSOLIDATION ORDER INDICATED THAT IT WAS**
13 **INTERESTED IN DEVELOPING EVIDENCE ON THE "ADEQUACY, COST**
14 **EFFECTIVENESS AND MANAGEMENT OF PGW'S COLLECTIONS**
15 **PRACTICES. DO YOU HAVE AN OPINION ON WHETHER PGW'S**
16 **PRACTICES ARE ADEQUATE AND COST EFFECTIVE?**

17 A. Yes. The descriptions, data and information I have presented above should establish
18 without doubt that PGW's current program is adequate and reasonable. The program has
19 *been designed with the substantial assistance of Accenture Consulting, who are the*
20 *preeminent utility collections management consulting firm in the nation. Each initiative*
21 *is based upon a through review of industry best practices and literally thousands of hours*
22 *of experience adapted to PGW's circumstances.*

23 **Q. IS EACH INITIATIVE EVALUATED TO DETERMINE WHETHER IT IS COST**
24 **EFFECTIVE?**

25 A. Absolutely. The Commission can be confident that each aspect of our Collections
26 Initiative is designed to produce a net benefit to the Company. Each step is evaluated by

1 PGW and Accenture after consideration of the costs and benefits of the action, based
2 upon PGW experience and performance or, when that is not available, the experience of
3 other comparable utilities.

4 **Q. IS THIS TRUE OF THE PRESENT INITIATIVE AS WELL AS PGW'S**
5 **REQUEST FOR CHAPTER 56 WAIVERS AND MODIFICATIONS?**

6 A. Yes. Each of the Chapter 56 modifications requested were considered in that same way.
7 Each were collaboratively developed with Accenture and were proposed after a
8 determination that, on net, PGW would realize greater collections or cost savings than
9 any offsetting losses or costs.

10 **Compliance Filing Issues**

11 Payment of Liens and Judgments to Restore Service

12 **Q. IN THE PENNSYLVANIA PUBLIC UTILITY COMMISSION'S OCTOBER 10,**
13 **2003 ORDER, THE COMMISSION STATED WITH REGARD TO THE PGW'S**
14 **RESTRUCTURED TARIFF SECTION 2.4.C.6. THAT "PGW SHOULD**
15 **COLLECT LIEN AND JUDGMENT AMOUNTS THROUGH THE LEGAL**
16 **PROCESS" AND, THEREFORE, THE COMPANY SHOULD NOT BE**
17 **PERMITTED TO REJECT AN APPLICATION FOR GAS SERVICE IF THE**
18 **APPLICANT FAILS TO ENTER A PAYMENT AGREEMENT FOR AN**
19 **OUTSTANDING LIEN OR JUDGMENT OF RECORD IN FAVOR OF PGW AND**
20 **AGAINST THE APPLICANT. WILL THE PUC'S DECISION ON THIS ISSUE**
21 **NEGATIVELY AFFECT CONSUMER INTERESTS?**

22 A. Yes. If this decision is instituted, PGW will not be able to collect on any account for
23 which an amount has been liened or for which a judgment has been entered unless the
24 Company enforces the lien or judgment. As a result, the Commission's rejection of
25 PGW's tariff provision will have the effect of forcing PGW to execute on its judgments
26 and liens against consumers. PGW's tariff provision basically targets those applicants
27 who: (i) have a judgment or lien for an amount due to the Company; and (ii) want
28 service but refuse to enter into a payment plan for those amounts. As the Company

1 cannot reject these applicants and will be forced to provide them with service, despite
2 their refusal even to try and pay the amounts due, PGW will have no other alternative but
3 to execute on the applicants' property, seize it, and have it sold at sheriff sale. This
4 means that thousands of consumers will lose their homes (and, obviously, be denied gas
5 service in the process) if a property is seized. If a judgment is enforced, the customer
6 stands to lose their personal property and/or their home. It will also impose additional
7 costs on PGW to implement this approach.

8 **Q. WHY HAS PGW TRADITIONALLY AVOIDED EXECUTING ON LIENS AND**
9 **JUDGMENTS?**

10 A. PGW has used the lien and judgment program successfully as a means to secure payment
11 at the point in time that title to a lien property is changed (e.g. a sale or refinancing of a
12 property) or when a customer desires to clear a judgment from his or her credit history.

PGW, as a matter of policy, does not want to have property seized for many reasons.

14 First and foremost, PGW does not want to force customers from their homes or force the
15 loss of personal property. Second, executing liens and judgments is a costly procedure.

16 As a result, PGW will incur additional costs in this process and often ends up with less of
17 a payment than can be secured through a payment plan due to lack of assets on which to
18 execute. Finally, restructured tariff Section 2.4.C.6. fosters a possibility that the customer
19 will enter a payment plan whereas execution on a lien or judgment absolutely forecloses
20 that possibility.

21 **Q. PLEASE BRIEFLY EXPLAIN THE PROCEDURE FOR FILING LIENS AND**
22 **JUDGMENTS?**

23 A. The lien process is employed against customers who own the property for which gas
24 service was provided. PGW, as a collection of assets wholly owned by the City of
Philadelphia, is permitted to avail itself of the Municipal Claim and Tax Lien Law. 53

1 Pa.C.S.A. § 7101 et. seq. Pursuant to this law, the past due balances of PGW customers
2 are classified as municipal claims. Also pursuant to this law, municipal claims are
3 declared to be a lien on a customer's property when the claim is filed with the
4 Prothonotary's Office.

5 The civil judgment process is employed against customers who do not own the
6 property for which gas service was provided. PGW files civil lawsuits against customers
7 who have failed to remit past due balances that exceed \$300. If the lawsuit is resolved in
8 the Company's favor, it is at this point that PGW obtains a civil judgment for the past due
9 amount.

10 **Q. BY ADVOCATING THAT PGW BE ABLE TO REQUIRE PAYMENT OF**
11 **OUTSTANDING LIENS AND JUDGMENTS AS A CONDITION OF**
12 **SUCCESSFULLY APPLYING FOR SERVICE ARE YOU SUGGESTING THAT**
13 **THE PUC CAN ENFORCE OR INTERFERE WITH THE LIEN OR THE**
14 **JUDGMENT?**

15 A. No, not at all. PGW understands that the Commission does not have jurisdiction over a
16 lien or a judgment. For example, the Commission will not have the authority to hear
17 complaints from the customer that the amount of the judgment is not really owing or that
18 the lien should not have been entered. But PGW would adhere to the same payment
19 arrangement parameters that would apply to any other prior arrearage. For example,
20 PGW will only insist on the payment of amounts that are four years old or less. Once the
21 payment arrangement is arrived at (and as long as the agreement is not broken), PGW
22 will not seek to enforce the judgment or lien on its own. If the customer wishes to pay
23 off the amount associated with the judgment or lien prior to the time that the payment
24 arrangement would require (because, for example, he/she needs to clear the lien to sell
25 the property) PGW would accept the payment.

1 Q. DOES PGW'S TARIFF RULE VIOLATE CHAPTER 56 OR ANY PUC RULINGS
AS FAR AS YOU KNOW?

3 A. No. I have been informed that it does not.

4 Q. IN THE PENNSYLVANIA PUBLIC UTILITY COMMISSION'S OCTOBER 10,
5 2003 ORDER, THE COMMISSION STATED WITH REGARD TO THE
6 RESIDENTIAL FIELD CHARGE: "THE COSTS OF FIELD VISITS ARE
7 RECOVERED THROUGH LATE PAYMENT CHARGES, AND THE COMPANY
8 IS PERMITTED TO ASSESS A RECONNECTION FEE. PGW SHALL NOT
9 COLLECT AN ADDITIONAL CHARGE FOR FIELD VISITS THAT ARE PART
10 OF THE COLLECTION PROCESS." DO YOU AGREE WITH THIS
11 STATEMENT?

12 A. No, I do not agree with this statement for several reasons. First, the Commission assumes
13 that PGW's late payment charges and reconnection fees are designed to also recover the
14 costs relating to field collection. This is not correct. The Residential Field Charge, the
15 late payment charges and charges related to restoration of service are three distinct
16 charges with three separate sources of cost causation. Late payment charges offset the
17 losses the Company incurs from uncollectibles as well as the carrying costs of short-term
18 debt. Reconnection fees recover the costs associated with reconnecting customers after
19 termination. The cost of reconnecting a customer amounts to hundreds of dollars and the
20 fees do not come close to recovering the costs. On the other hand, the Residential Field
21 Charge covers the cost associated with pre-termination (and, therefore, pre-restoration)
22 collection activities of the field collection unit which is staffed by approximately 40 field
23 collectors. In addition to the field collectors' salaries, there are transportation costs and
24 overhead incurred by this unit. Moreover, as detailed below, the pro forma revenue from
25 the Residential Field Charge was included as a source of revenue in PGW's base rates:
26 therefore, PGW's cost recovery is deficient by over \$600,000 annually as a result of
27 denying this charge.

1 **Q. PRIOR TO RESTRUCTURING, DID PGW CHARGE ITS CUSTOMERS A**
2 **RESIDENTIAL FIELD CHARGE?**

3 A. Yes, in fact, pursuant to PGW's tariff before the Company came under the authority of
4 the PUC, Section 14.2 of this tariff not only provided for a Residential Field Charge, the
5 pre-restructuring tariff also provided for late payment charges and fees relating to the
6 restoration of service. The charge was deemed reasonable (and continues to be) because
7 it assigns costs to the cost-causer – the customer failing to pay their bill and/or responds
8 to a termination notice. Additionally, PGW proposed this same set of charges in the
9 restructuring tariff originally proposed in the restructuring proceeding in July 2002.
10 Furthermore, the Charge was not specifically opposed by any of the parties during the
11 restructuring proceeding and remained in subsequently filed compliance tariffs during
12 this proceeding. (CEPA did raise an issue regarding the way in which the Field Charge
13 was to be applied.) The Charge also survived both the ALJ's Recommended Decision
14 and the Commission's Final Order without comment. It was not until the October 10,
15 2003 compliance Order that PGW was instructed to remove this tariff provision.

16 **Q. WAS THE RESIDENTIAL FIELD CHARGE INCLUDED IN PGW'S LAST BASE**
17 **RATE CASE?**

18 A. Yes. In the Company's 2002 base rate case (*Pa. P.U.C. v. PGW*, R-00017034), the PUC
19 approved the Company's overall rate structure including the Residential Field Charge.
20 As a result of this approval, the annual revenue collected from the Residential Field
21 Charge, amounting to \$600,000 annually was counted as part of the Company's total
22 available revenue and base rates were set accordingly based upon the total available
23 revenue. (In FY 2003, PGW collected some \$1.5 million from this charge before the
24 PUC ordered it stopped.) Had the Residential Field Charge not been included as a source
of revenue in the last base rate proceeding, base rates would have been set higher in order

1 meet PGW demonstrated financial requirements. If the Commission adheres to its
2 position in its October 10, 2003 Order, PGW's base rates will be deficient and PGW will
3 lose a significant revenue source. Therefore, the Company would have to be permitted to
4 increase its delivery charge so it can maintains the same level of pro forma revenue the
5 PUC authorized in the last base rate proceeding.

6 **Q. DOES THAT COMPLETE YOUR DIRECT TESTIMONY?**

7 A. Yes it does.

EXHIBIT CP/RG-1

Collections Renewal Initiative

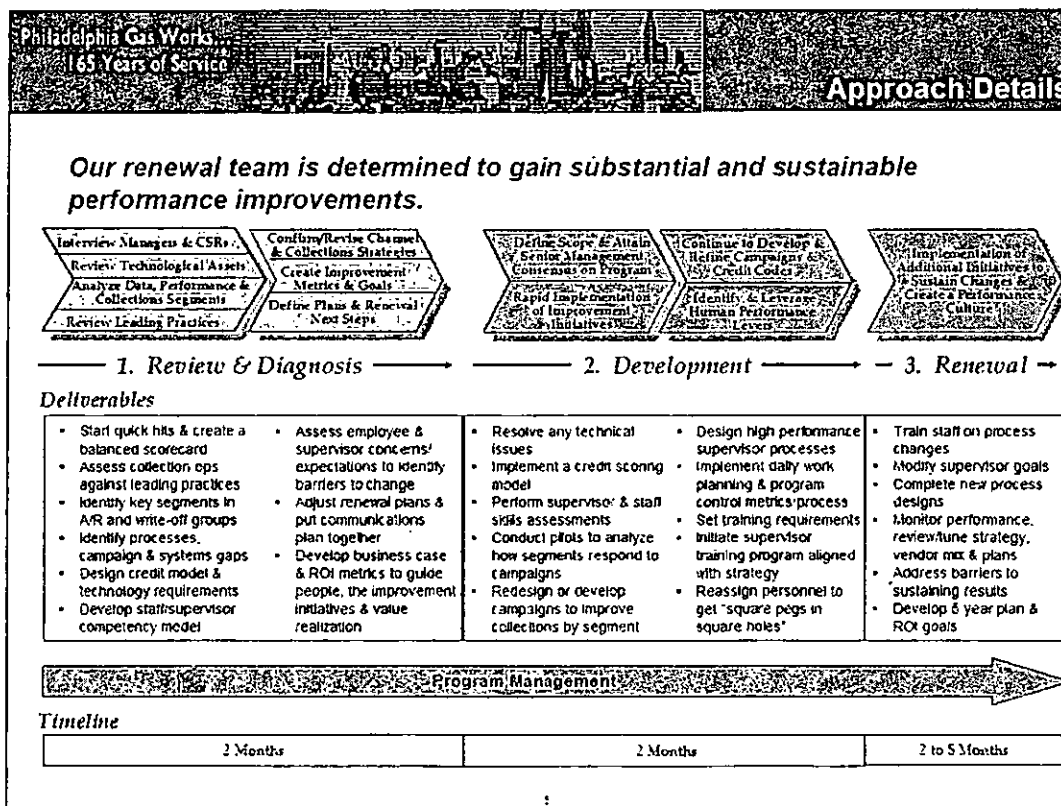
I. PROGRAM SUMMARY

PGW has launched its **Collections Renewal Initiative** to develop and implement credit and collections strategies to:

- Review existing credit & collections plans and capabilities to identify potential gaps and opportunities to improve efficiency and/or reduce receivables;
- Develop a credit scoring model to guide credit & collections customer interactions; and
- Modify existing plans and identify goals for individual collections programs and opportunities to improve management controls.

The **Collections Renewal Initiative** effort covers Customer Service operations involved in the collection of accounts receivable. Specific Project activities include, but are not necessarily limited to the following:

- Review and analyze PGW's current Collection Renewal Plan, policies and procedures, and collections systems. Perform Gap Analysis with leading practices.
- Revise or present new Strategic Plan based on the Gap Analysis.
- Design, streamline and implement individual programs to improve credit and collections efficiency, and reduce PGW's receivables.
- Develop and assist in implementation of management controls based on Gap Analysis.
- Launch quick hit initiatives and stabilize current operations.
- Assign 3, 6, 9 and 12 month recovery goals for individual programs.
- Provide training and assist in implementation of programs.
- Provide on-going program management consulting for the term of the contract.
- Develop five (5) year Collections Strategic Plan with measurable ROI.
- Develop internal credit scoring model.



The following is a summation of the task approaches to further the Credit & Collections Initiative:

A. The **Review & Diagnosis** tasks consist of:

- Organize and implement a CCI Program Management Office;
- Assess collection operations against leading practices;
- Identify key segments in A/R and write-off groups;
- Identify process, campaign and system gaps;
- Develop and start quick hits;
- Create program goals and a tracking balanced scorecard;
- Design a credit model and identify technology requirements;
- Develop a staff and supervisor competency model;
- Assess employee and supervisor concerns and expectations to identify barriers to change;
- Adjust credit & collections renewal plans and develop a supporting communications plan; and
- Develop business case and ROI metrics to guide people, the improvement initiatives and value realization.

The primary deliverables for **Review and Diagnosis** consist of:

- List of quick hits, estimated benefits and implementation schedule;
- Credit & collections renewal plan, including description of key gaps, recommendations for program changes and new initiatives, performance goals for each program and initiative, and a business case for the program of change;
- Competency model for collections staff and supervisors; and
- Requirements for a credit model.

The current list and status of quick-hit and long-term initiatives is as follows: (Checked items are complete)

Philadelphia Gas Works 165 Years of Service		CRI Initiative Summary	
While we have been implementing program enablement initiatives, we have nonetheless gotten a number of quick hits and other campaigns underway. Our focus since January has been relentless on collecting past due money.			
Enablers (Needed Operational Capabilities)		Long-Term (Confirm after Diagnosis)	
<ul style="list-style-type: none"> • Compliance Task Force ■ Collection Staff Optimization & Daily Work Planning ■ Program Scorecard (Weekly Steering Committee & Board) • Call Monitoring (Monthly Sessions) • Supervisor Development Program ■ Balanced Scorecard (Monthly for Function) ■ Real-time Metric Posting (Reader Board) ■ Matrix Matrix Survey • Outbound Campaign Coordinator • Outsource CRP Qualification & LIHEAP Application 	<ul style="list-style-type: none"> In-Progress Completed Completed On-Going On-Going Completed Completed Completed Completed Scheduled 3Q-04 	<ul style="list-style-type: none"> • Thanks to Good Payer Customer Program • Customer Segmentation - Late Payer Program ■ Outbound Scripts/Campaigns - High Balance • Outsource Final and Write-off accounts • Secondary Collection Agency Placements • Outbound Scripts/Campaigns - Disputes & Holds • Automated ANR Meter Shut-off Pilot Program • Inaccessible ANR Meter Shut-off Pilot Program • Payment Arrangement Programming Enhancement • IVR Tree Redesign • Tenant Landlord USTRA Posting • CSR Training Redesign • Geographic Segmentation of Calls Pilot • Tariff Reconnect Fees Pilot 	<ul style="list-style-type: none"> In-Progress Scheduled 3Q04 Completed Scheduled 3Q04 In-Progress Scheduled 3Q04 Scheduled 3Q04 Scheduled 3Q04 Scheduled 4Q04 Scheduled 2Q04 In-Progress In-Progress Scheduled 4Q04
Quick Hits (In-Flight, Improve Receivables & Write-offs)		Pilots (Design with BCS Input)	
<ul style="list-style-type: none"> ■ Delay Write-off on Shut-offs until EOY 2003 ■ City Employee Reconciliation • Large City Accounts - Get Outstanding Balances Current ■ Resolve PHA Outstanding Issues ■ Tiered Collection Agency Commission Contracts ■ Outbound Scripts/Campaigns - Unprotected/Collectibles ■ Customer Liens & Judgment Process Change ■ Meter Investigation/Theft of Service - Vacant Account • Payment Arrangement Process Improvement • Worker Interim Period Pilot • Reporting to Credit Bureau / Collections Communication ■ Outbound Scripts/Campaigns - NPSO customers • Large City Accounts - Prepaid/Advanced Billing • Referral to Agency Final/WO Notification Letter Campaign • Income Tax Credit • High Risk Desk ■ Outbound Calling Matrix 	<ul style="list-style-type: none"> Completed In-Progress On-Going Completed Completed Completed Completed In-Progress Scheduled 4Q04 In-Progress Completed On-Going On-Going In-Progress Scheduled 3Q04 Completed 	<ul style="list-style-type: none"> • Customer Segmentation - Chronic Delinquent Pilot • Bill Reminder Campaign Pilot • Credit Score/Pos ID Pilot 	<ul style="list-style-type: none"> Scheduled 3Q04 Scheduled 3Q04 Scheduled 4Q04

B. The **Development** tasks consist of:

- PGW resolves any technical issues, as it approves;
- Implement an internal credit scoring model, as approved by PGW;
- Perform supervisor and staff skills assessments;

- Conduct pilots to analyze how segments respond to campaigns;
- Redesign or develop campaigns to resolve gaps and improve collections by segment;
- Initiate design of supervisor processes to improve performance;
- Implement daily work planning and program control metrics;
- Develop requirements for staff training;
- Initiate supervisor training program aligned with the collections strategy; and
- Reassign personnel to get “square pegs in square holes”.

The primary deliverables for the **Development** tasks consist of:

- Pilot designs and initiation, as approved by PGW;
- PGW implemented credit scoring model;
- Supervisor and staff skills assessment and redeployment plan; and
- Identification of additional customer segments for collections.

C. The **Renewal** tasks consist of:

- Complete design of any new credit & collections processes;
- Launch PGW training of staff on collections process changes;
- Modify supervisor goals consistent with collections program changes;
- Monitor performance, review and tune strategy, vendor mix and plans, as appropriate;
- Identify and assist PGW in addressing barriers to sustaining collections results;
- Develop a 5 year plan and ROI goals to improve and sustain collections results.

The primary deliverables of the **Renewal** tasks consist of:

- Revised staff and supervisor performance goals consistent with the collections targets.
- Supervisor and staff collections training materials.
- Organization recommendations.
- Pilot assessments and process or segment recommendations.
- Five year collections program plan and ROI goals.

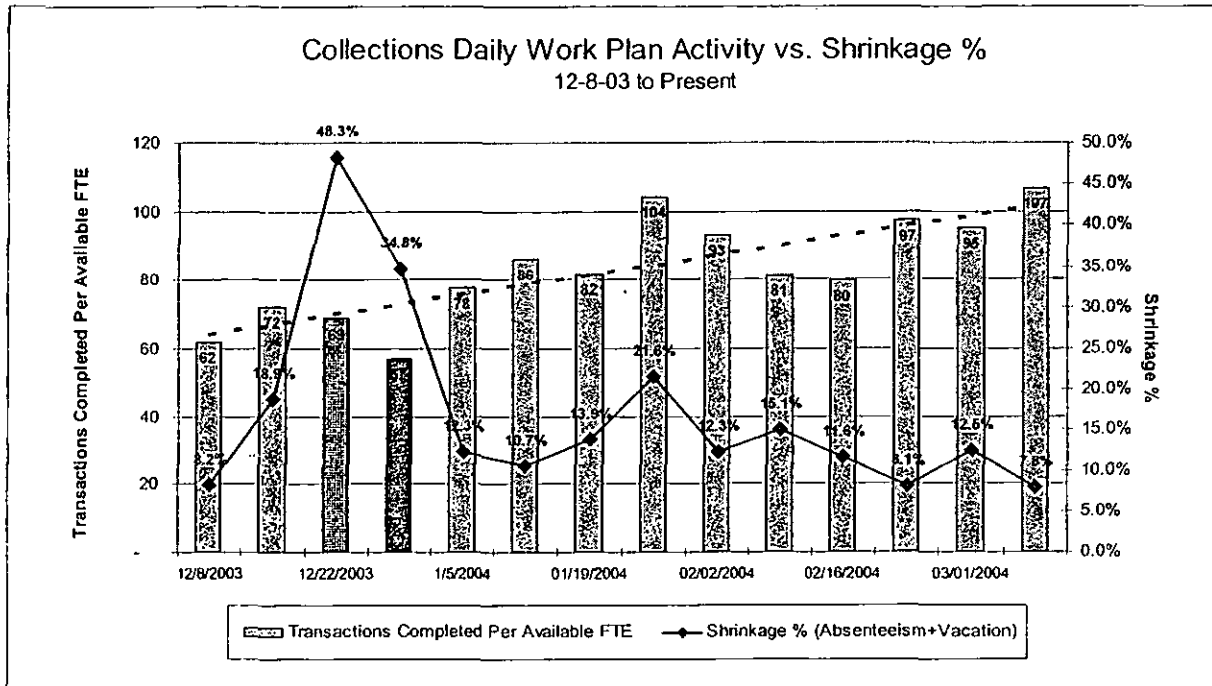
II. PROGRESS-TO-DATE

Over the initial months of the program, we have successfully rolled out mobilization activities and the development of a collections strategy to launch initiatives and pilots. The most significant progress was made through daily work planning which is already resulting in greater production in the Collections group. Perhaps even more importantly, the daily work planning process is helping the program team build trust and will enable us to move faster through our planned enhancements. Our achievements to date have included:

- Finalized a work plan and scope for Review and Diagnostic phase
- Organized program launch
- Catalogued quick hit, enabler and pilot/long term initiatives
- Developed and implemented daily work plan – engaged supervisors to sustain use
- Initiated staff planning and modeling effort
- Assisted with development of tiered agency rate card
- Drafted balanced scorecard and program tracking tool for the Board
- Designed outbound calling for unprotected and CWIP pilots
- Developed vacant account process and report requirements
- Cleared collections back office backlog work
- Completed outbound calling Unprotected pilot
- Launched Commercial 31-60 pilot to address late payers
- Organized outbound calling activity into 13 customer segment campaigns
- Authorized collection agencies to deal down to 50% of overdue money
- Documented all collections processes to identify opportunities for improvement
- Developed a CRI Road Map and related Current Bill Collections Effectiveness Index
- Finalized the collections staffing model and cost reduction strategy for current judgment and sheriff sale activities
- Drafted targets for a Collections balanced scorecard
- Revised collections training curriculum and timeline (first draft) to improve learning retention and deliver earlier uplift in service levels
- Launched supervisor change management and skills development workshops

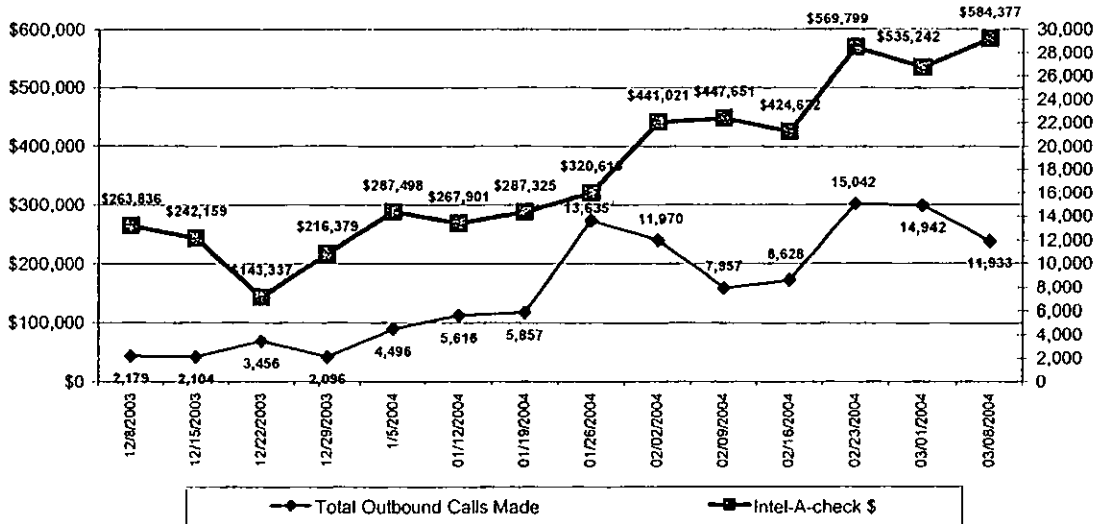
III. PERFORMANCE HIGHLIGHTS:

- Work completion performance per FTE continues to improve. Unexpected surges of Collections Back Office work have been removed from backlog. The collection group has become more adept at managing service levels and shifting resources between surges of inbound, outbound and back office activities. Shrinkage (absenteeism and vacation) has also continued to move down towards the desired 5-7% range.



- Intel-A-Check (over-the-phone) payment activity continues to remain the preferred payment option for inbound and outbound call customers. Segmenting outbound calls and customer groups has allowed PGW to stimulate later payer behavior towards current payments.

Intel-A-Check \$ Collected vs. Outbound Calls Made 12-8-03 to Present



- Receipts, on a weather and rate adjusted basis were most recently 8% greater than the Ask-to-Pay 30 Day Rolling Average for last week. A large part of this performance is due to the inbound staffing and shift changes, outbound calling and increased field collections activity.

Current Bill Campaign Effectiveness Index

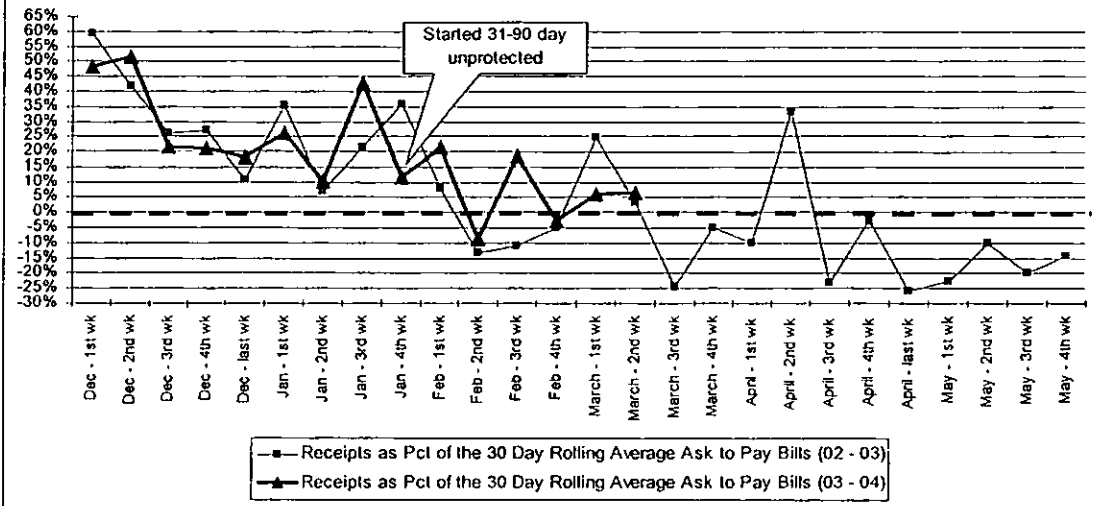


EXHIBIT CP/RG-2

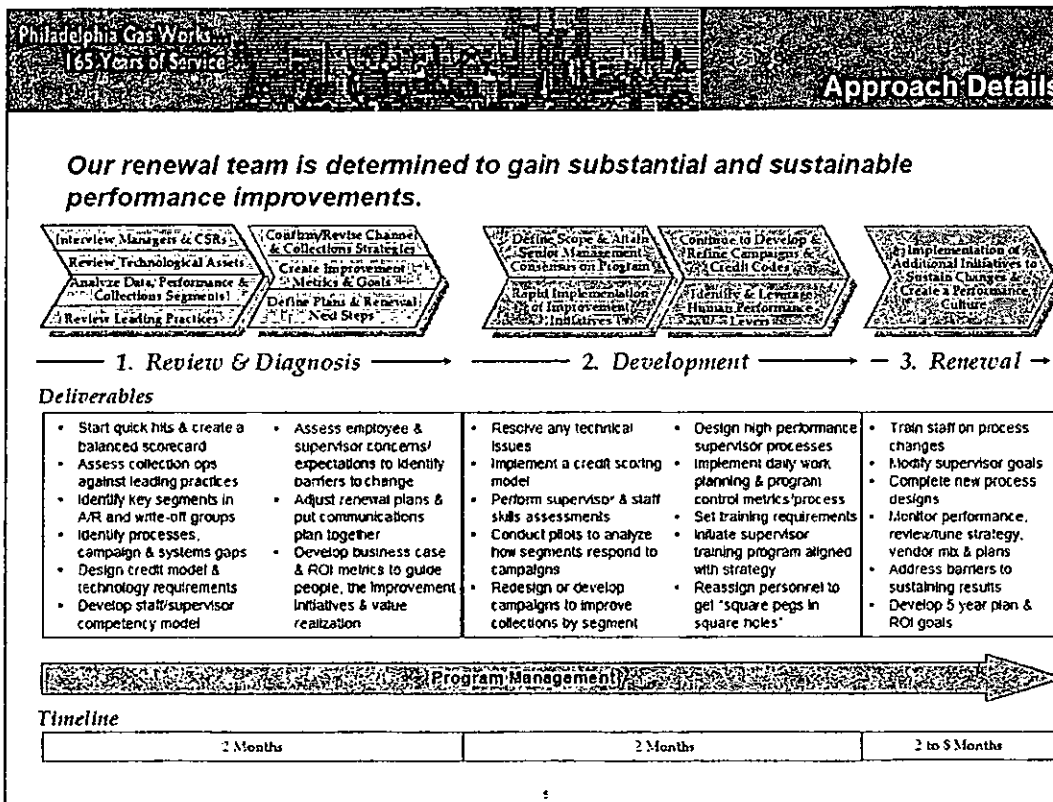
Managing the CRI Program

PGW has launched its **Collections Renewal Initiative** to develop and implement credit and collections strategies to:

- Review existing credit & collections plans and capabilities to identify potential gaps and opportunities to improve efficiency and/or reduce receivables;
- Develop a credit scoring model to guide credit & collections customer interactions; and
- Modify existing plans and identify goals for individual collections programs and opportunities to improve management controls.

The **Collections Renewal Initiative** effort covers Customer Service operations involved in the collection of accounts receivable. Specific Project activities include, but are not necessarily limited to the following:

- Review and analyze PGW's current Collection Renewal Plan, policies and procedures, and collections systems. Perform Gap Analysis with leading practices.
- Revise or present new Strategic Plan based on the Gap Analysis.
- Design, streamline and implement individual programs to improve credit and collections efficiency, and reduce PGW's receivables.
- Develop and assist in implementation of management controls based on Gap Analysis.
- Launch quick hit initiatives and stabilize current operations.
- Assign 3, 6, 9 and 12 month recovery goals for individual programs.
- Provide training and assist in implementation of programs.
- Provide on-going program management consulting for the term of the contract.
- Develop five (5) year Collections Strategic Plan with measurable ROI.
- Develop internal credit scoring model.



The following is a summation of the task approaches to further the Credit & Collections Initiative:

A. The **Review & Diagnosis** tasks consist of:

- Organize and implement a CCI Program Management Office;
- Assess collection operations against leading practices;
- Identify key segments in A/R and write-off groups;
- Identify process, campaign and system gaps;
- Develop and start quick hits;
- Create program goals and a tracking balanced scorecard;
- Design a credit model and identify technology requirements;
- Develop a staff and supervisor competency model;
- Assess employee and supervisor concerns and expectations to identify barriers to change;
- Adjust credit & collections renewal plans and develop a supporting communications plan; and
- Develop business case and ROI metrics to guide people, the improvement initiatives and value realization.

The primary deliverables for **Review and Diagnosis** consist of:

- List of quick hits, estimated benefits and implementation schedule;
- Credit & collections renewal plan, including description of key gaps, recommendations for program changes and new initiatives, performance goals for each program and initiative, and a business case for the program of change;
- Competency model for collections staff and supervisors; and
- Requirements for a credit model.

The current list and status of quick-hit and long-term initiatives is as follows: (Checked items are complete)

Philadelphia Gas Works 165 Years of Service		CRI Initiative Summary	
Enablers (Needed Operational Capabilities)		Long-Term (Confirm after Diagnosis)	
• Compliance Task Force	In-Progress	• Thanks to Good Payer Customer Program	In-Progress
✓ Collection Staff Optimization & Daily Work Planning	Completed	• Customer Segmentation - Late Payer Program	Scheduled 3Q04
✓ Program Scorecard (Weekly Steering Committee & Board)	Completed	✓ Outbound Scripts/Campaigns - High Balance	Completed
• Call Monitoring (Monthly Sessions)	On-Going	• Outsource Final and Write-off accounts	Scheduled 3Q04
• Supervisor Development Program	On-Going	• Secondary Collection Agency Placements	In-Progress
✓ Balanced Scorecard (Monthly for Function)	Completed	• Outbound Scripts/Campaigns - Disputes & Holds	Completed
✓ Real-time Metric Posting (Reader Board)	Completed	• Inaccessible AMR Meter Shut-off Pilot Program	Scheduled 3Q04
✓ Matrix-Matrix Survey	Completed	• Automated Transfer of Written-Off Accounts	Scheduled 3Q04
• Outbound Campaign Coordinator	Completed	• Payment Arrangement Programming Enhancement	Scheduled 3Q04
• Outsource CRP Qualification & LIHEAP Application	Scheduled 4Q-04	• IVR Tree Redesign	Scheduled 4Q04
Quick Hits/In-Flight (Improve Receivables & Write-offs)		• Tenant Landlord USTRA Posting	Completed
✓ Delay Write-off on Shut-offs until EOY 2003	Completed	• CSR Training Redesign	In-Progress
• Large City Accounts - Get Outstanding Balances Current	On-Going	• Geographic Segmentation of Calls Pilot	In-Progress
✓ Resolve PHA Outstanding Issues	Completed	• Tariff Reconnect Fees Pilot	Scheduled 4Q04
✓ Tiered Collection Agency Commission Contracts	Completed	Pilots (Design with BCS Input)	
✓ Outbound Scripts/Campaigns - Unprotected/Collectibles	Completed	• Customer Segmentation - Chronic Delinquent Pilot	Scheduled 3Q04
✓ Customer Users & Judgment Process Change	Completed	• Bill Reminder Campaign Pilot	Scheduled 3Q04
✓ Meter Investigation/Theft of Service - Vacant Account	Completed	• Credit Score/Pos ID Pilot	Scheduled 4Q04
• Payment Arrangement Process Improvement	In-Progress		
• Winter Interim Period Pilot	Scheduled 4Q-04		
✓ Reporting to Credit Bureau / Collections Communication	Completed		
✓ Outbound Scripts/Campaigns - NIPSCO customers	Completed		
• Large City Accounts - Prepaid/Advanced Billing	On-Going		
• Referral to Agency Final W/O Notification Letter Campaign	On-Going		
• Income Tax Credit	In-Progress		
• High Risk Desk	Scheduled 3Q04		
✓ Outbound Calling Matrix	Completed		

B. The **Development** tasks consist of:

- PGW resolves any technical issues, as it approves;
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- Perform supervisor and staff skills assessments;
- Conduct pilots to analyze how segments respond to campaigns;
- Redesign or develop campaigns to resolve gaps and improve collections by segment;
- Initiate design of supervisor processes to improve performance;
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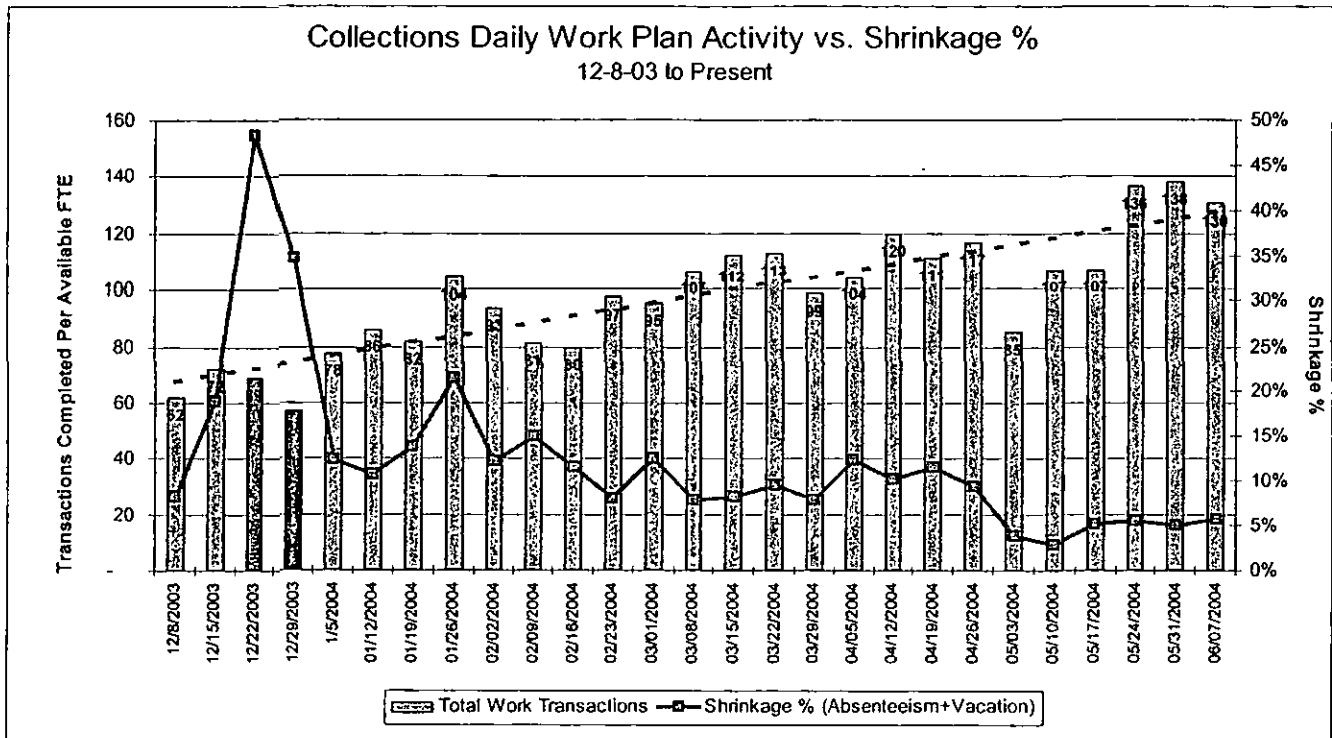
II. PROGRESS-TO-DATE

Over the first six months of the program, we have successfully rolled out mobilization activities and the development of a revised collection strategy timeline to launch initiatives and pilots. The most significant progress was made through daily work planning which is already resulting in greater production in the Collections group. Perhaps even more importantly, the daily work planning process is helping the program team build trust and will enable us to move faster through our planned enhancements. Our achievements to date have included:

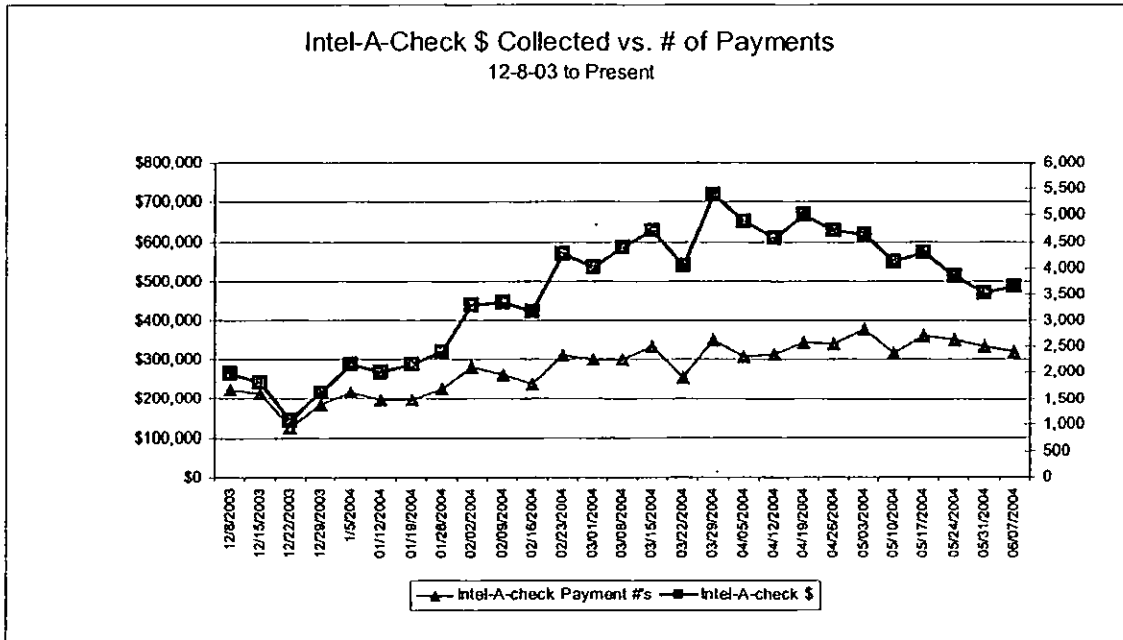
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- Organized program launch
- Catalogued quick hit, enabler and pilot/long term initiatives
- Developed and implemented daily work plan – engaged supervisors to sustain use
- Initiated staff planning and modeling effort
- Developed a tiered agency rate contract to save commission costs on \$ placed
- Drafted balanced scorecard and program tracking tool for the Board
- Developed vacant account process and report requirements
- Cleared collections back office backlog work
- Launched Commercial 31-60 outbound pilot to address late payers
- Organized outbound calling activity into 13 customer segment campaigns
- Documented all collections processes to identify opportunities for improvement
- Finalized the collections staffing model and cost reduction strategy for current judgment and sheriff sale activities
- Revised collections training curriculum and timeline (first draft) to improve learning retention and deliver earlier uplift in service levels
- Launched supervisor change management and skills development workshops
- Build business cases for long-term term initiatives
- Performed a skills assessment to identify customer representative strengths and areas of development
- Implemented field collections disconnect order selection criteria, revised productivity reports and launched field collections campaign
- Conducted detailed analysis of our unprotected customers to identify incentives and payment program campaigns; conduct proactive collection campaigns

III. PERFORMANCE HIGHLIGHTS & DAILY CONTROLS

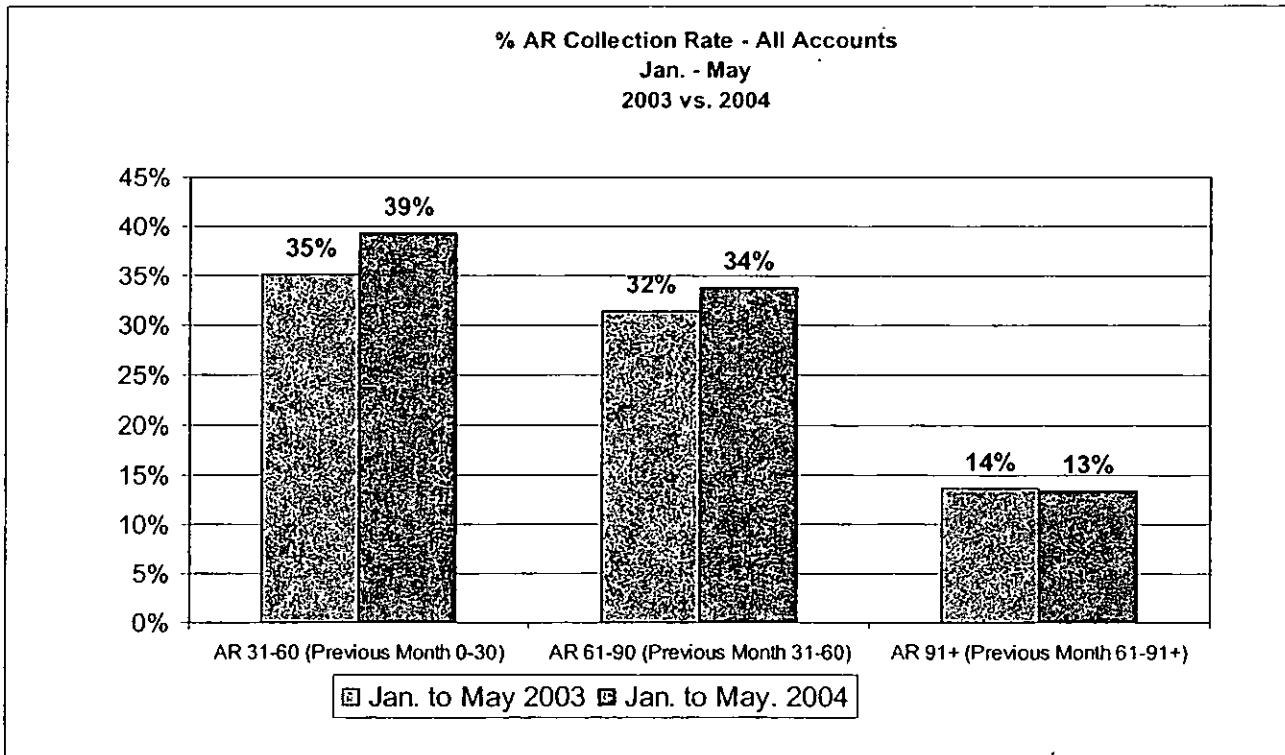
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- Intel-A-Check (over-the-phone) payment activity continues to remain the preferred payment option for inbound and outbound call customers. Segmenting outbound calls and customer groups has allowed PGW to stimulate later payer behavior towards current payments. We are averaging close to 2,100 payments per week through this channel on our outbound call campaigns.



- AR Collection of 30 day and 60 day money has improved significantly whereas the program is still committed to collected significantly old \$ AR>91 days through outbound calling, collection agencies and letter campaigns.



- Controls such as balanced and daily management control scorecards for collection front and back office operations allow us to monitor initiatives and track improvements throughout the program.

Collections Renewal Initiative - Monthly Balanced Scorecard April 2004

Legend: TR = Trend (+ Positive Trend, - Negative Trend, = Constant, LE/LG = Leading/Lagging Indicator)

Financial					Customer				
Metric	Actual Mon	Goal	FY-YTD	LE/LG	Metric	Actual Mon	Goal	FY-YTD	LE/LG
Write-offs as a % Total Revenue	6%	7%	8%	LG	% Customers Satisfied - Collections (MetrixMatrix)	87%	90%	65%	LG
Gross Write-off \$	\$ 3,924,411	\$4,597,999	\$5,886,103	LG	% Adjusted Bills	0.7%	< 1%	TBD	LE
Recovered Write-Off \$	\$ 535,491	\$8,382,915	\$3,853,898	LG	#% of New PARs Made	16,788	TBD	69,442	LE
Net Write-Offs	\$ 3,388,920	N/A	\$2,032,205	LG	#% of Broken PARs	5,648	TBD	35,746	LG
AR \$ 0-30 days	\$ 65,358,145	\$0	N/A	LE	# of Kept PARs	618	TBD	3,358	LG
AR \$ 31-60 days	\$ 53,647,561	\$0	N/A	LE	% of AMRs Not Read in Last 6 mths	1.5%	TBD	1.5%	LG
AR \$ 61-90 days	\$ 42,130,501	\$0	N/A	LE	% Justified Informal Complaints	TBD	TBD	TBD	LG
AR \$ > 91 days	\$ 226,320,262	\$0	N/A	LE	% of Justified PA Mediations	TBD	TBD	TBD	LG
Actual \$ vs. OLM \$ (+/- %)	-4%	0%	17%	LG					
\$ Cost per Calls Made (Inbound & Outbound)	\$15.87	\$13.00	\$23.42	LG					
\$'s Collected per Actual Cost \$	\$103.66	\$125	\$81.89	LG					
Total \$ Held Deposits	\$36,884	TBD	\$295,118	LG					

Operational					Employee				
Metric	Actual Mon	Goal	FY-YTD	LE/LG	Metric	Actual Mon	Goal	FY-YTD	LE/LG
% Service Level (win 30 sec.)	23%	80%	52%	LE	# of CRs Turnover	0	N/A	10	LE
% CR Occupancy	84%	80%	76%	LE	# of CRs Turnover (training)	0	N/A	2	LG
AHT per Supervisor (seconds)	7:26	6:30	6:14	LE	% Non-Exempt Shrinkage (CRs)	18.5%	7%	17.4%	LE
# Calls Ans (Inbound)	35,443	207,784	207,784	LE	% Exempt Shrinkage (Sup.)	1%	1%	0.4%	LG
# Calls Attempted (Outbound)	83,628	100,000	316,858	LE	# of CR Ongoing Training Hrs	4	40hrs. Per CR	9	LE
# Success Contacts (Outbound)	16,307	25,000	100,814	LE	# of new CRs	0	N/A	12	LG

Interest rate for Deposits: 1.28 % (APR)

Collections Renewal Initiative - Weekly Management Controls Report 6/7/04

Metric	Monday 6/7/04	Tuesday 6/8/04	Wednesday 6/9/04	Thursday 6/10/04	Friday 6/11/04	Sat 6/12/04	Sun 6/13/04	Total	Goal	%
# of 10 day letters mailed	-	2,128	-	-	-	-	-	2,128	-	-
Inbound collection calls handled	1,965	1,475	1,254	1,579	-	-	-	5,273	-	-
Inbound other calls handled	718	231	136	17	-	-	-	1,082	-	-
# completed and available 72 hour calls AM (outbound calls made)	-	4,034	5,323	4,196	4,197	2,182	2,185	2,172	10,812	11,877
# completed and available 72 hour calls PM (outbound calls made)	2,725	9,841	2,542	8,512	3,243	6,899	2,955	4,054	31,765	23,326
# of 48 hour notices authorized	100	153	253	-	-	-	-	406	-	-
# of outbound calls made and available to CRP defaults	-	-	-	92	92	14	14	94	116	210
# of outbound calls made and available to PAR defaults	-	-	-	-	-	-	-	-	-	-
# of Unregulated 30-60 outbound calls made and available	2,000	2,000	-	-	-	-	-	2,000	2,000	100%
# of Unregulated 60-90 outbound calls made and available	-	-	-	2,000	2,000	2,000	2,000	-	4,000	4,000
# of Unregulated 91+ outbound calls made and available	-	-	-	-	-	-	-	-	-	-
# of Settlement Table Payoffs	194	270	295	207	-	-	-	966	-	-
# / \$ in enrolled MEDCERTS	60	104,363	88,593	27	\$863,741	25	\$205,001	136	\$1,411,898	-
# / \$ in active UWACS	20	19,311	5	13	-	-	-	20	19,311	-
# commercial small outbound calls made / # planned	152	100	120	100	84	100	52	100	408	500
# commercial large outbound calls made / # planned	36	100	48	100	37	100	35	100	155	500
\$ collected via commercial small outbound calls	\$ -	\$ 200	\$ 12,794	\$ 15,318	\$ -	\$ -	\$ -	\$ 28,312	\$ -	-
\$ collected via commercial large outbound calls	\$ 115,867	\$ 17,920	\$ 61,194	\$ 145,180	\$ -	\$ -	\$ -	\$ 340,161	\$ -	-
\$ collected via Field Collections	\$ 118,059	\$ 160,374	\$ 84,526	\$ 68,631	\$ -	\$ -	\$ -	\$ 431,590	\$ -	-
\$ collected via Intellihack	\$ 136,405	\$ 90,631	\$ 90,414	\$ 99,827	\$ -	\$ -	\$ -	\$ 417,277	\$ -	-
File Completion %	-	-	-	-	-	-	-	20,547	22,623	90.8%

7/6/04 Phila
JK

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

REBUTTAL TESTIMONY OF

RANDALL GYORY

DOCUMENT

DOCKETED
JUL. 13 2004

ON BEHALF OF

PHILADELPHIA GAS WORKS

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JULY 5, 2004

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Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Randy Gyory. I am Vice President of Customer Affairs for the Philadelphia Gas Works ("PGW"). My business address is 800 Montgomery Avenue, Philadelphia, PA 19122.

Q. DID YOU SUBMIT DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. I submitted PGW St. No. CP-1 on June 17, 2004

Q. PLEASE INDICATE THE WITNESSES TO WHICH YOU WILL RESPOND.

A. I will respond to the testimony of OTS witness Mumford, Action Alliance et al. witness Harry Geller and OCA witness Rodger Colton. These three witnesses, with just a few exceptions, opposed every single one of the nine requests for waiver or modification of Chapter 56 rules or BCS guidelines PGW proposed in its Petition. I will also respond to OTS witness Mick's testimony regarding the effect on PGW of having to strictly comply with Chapter 56 starting on September 1, 2003.

Q. STARTING WITH THE TESTIMONY OF WITNESSES MUMFORD, GELLER AND COLTON REGARDING PGW'S CHAPTER 56 WAIVERS, DO YOU HAVE RESPONSES THAT APPLY TO ALL OF THESE WITNESSES?

A. Yes.

1. All of these witnesses oppose virtually every one of the waiver requests we have put forward raising a number of concerns. Mr. Colton states that we have not adequately demonstrated that the waiver requests address specifically identifiable problems and lack "evidentiary or data based analysis (Colton, p. 16)." Mr. Geller states that all of the waiver requests would take away or limit consumer rights, particularly for the working poor, and depart from the "equitable balance between the individual utility customer and the broad financial interest of the utility." (p.3) Mr. Mumford seems to reject all of the

1 waiver requests because we have not proven that PGW would suffer an "undue hardship"
2 in complying with them (p.4) and they are inconsistent with other provisions of Chapter
3 56 or the Gas Choice Act.

4 2. All of these testimonies seriously miss the point. For the most part, they approach
5 the petition as if it is a garden variety request for waiver from an investor owned utility.
6 But PGW presented these waiver requests not because it finds Chapter 56 to be
7 burdensome or difficult to comply with as a general matter (although it is), and not
8 without recognition that customer rights would be restricted from existing levels to some
9 extent if the waivers were granted.

10 These witnesses have completely ignored the reason we asked for these waivers:
11 The Company is on the brink of a complete financial meltdown and MUST find a way to
12 get more collections in the door in the short term or it is in serious danger of not being in
13 a position to be able to continue to provide adequate and reliable natural gas service at
14 all, let alone in a manner consistent with Chapter 56.

15 It is important for the Commission to understand that PGW's situation is not
16 getting any better right now. Just last week, we were informed that only 33% of the bond
17 issuance that PGW is planning for the fall (\$50 million of \$150 million planned) would
18 receive bond insurance. Bond insurance allows the bond to be issued as if it was AAA
19 rated which is considerably less costly than trying to issue the bond under our actual
20 BBB- rating. The reason given by the insurers is that PGW is far to shaky financially to
21 provide insurance for the full \$150 million. This means that we are either going to have
22 to try to issue the remaining \$100 million at our actual BBB- rating, which will increase
23 the financing costs by \$40 million (over 20 years), or forgo issuing the remaining amount

1 and hope that our financial situation improves. In the meantime, we would have to cut
2 back on capital improvements.

3 The question the ALJ and the Commission must ask itself is, given PGW's crisis,
4 what is the best way for PGW to garner the additional cash working capital and
5 collections it has been told it needs? It can raise the rates for existing customers or it can
6 try to make customers who have received service and who have not paid to pay to a
7 greater extent than under current rules. It does not appear responsible to simply "just say
8 no" to everything that PGW has suggested to try to avoid the financial catastrophe and
9 just hope for the best. This course would have PGW continuing to ask good paying
10 customers to shoulder the burden for those who, for whatever reason, do not pay for the
11 service they receive. We think that, under these circumstances, waivers to make it more
12 likely that those non-paying customers will remit what they owe is the far more
13 reasonable approach.

14 3. The Commission made clear that these financial issues were crucial in
15 considering PGW's request for waiver. In the Order inviting PGW to file its petition, the
16 Commission acknowledged that the standard for evaluating the waiver request is whether
17 the request balances consumer protection rights with PGW's financial integrity. Yet,
18 each of these witnesses have only analyzed how consumer rights would be affected
19 compared to the status quo and have completely ignored the second part of the analysis -
20 whether the reduction in a procedure or right is nonetheless the least restrictive means to
21 improve collections in light of PGW's acute need to improve its financial condition.
22 PGW's petition establishes that the Company needs to improve collections over historic
23 levels and to increase its cash working capital in the short term -- in the next 4-6 months -

1 - or it will in all likelihood be downgraded to junk status which will cause financial havoc
2 and raise costs for all customers. None of these witnesses have made any concerted
3 attempt to consider whether any or all of PGW's waiver requests could be justified, as a
4 means of avoiding these very negative consequences.

5 Moreover, the witnesses arguments are, in all material respects, arguments about
6 policy: how much leeway in paying their bills and continuing to receive gas service
7 should be extended in light of the acute financial needs of the Company? While the
8 witnesses can choose to ignore this balancing, the Commission can not. Its charge is to
9 make the decision that most advances the public interest. I continue to believe that
10 PGW's waiver requests are a reasonable and good faith attempt to balance the Company's
11 need to increase collections in the near term while continuing to permit customers
12 considerable leeway in their obligations. For example, PGW has suggested, where
13 appropriate, a different set of rules for lower income customers than for those with higher
14 incomes. Also, in no case has PGW advocated taking away the "functional alternatives
15 to termination" -- payment agreements -- that the PUC has sought to promote in Chapter
16 56.

17 4. Finally, the witnesses' policy arguments are not current, do not reflect today's
18 realities, and are based on stale assumptions. The witnesses frequently invoke the
19 purpose or intent behind Chapter 56 (e.g., Mumford) or note that Chapter 56's
20 requirements were developed over 25 years ago and provide an appropriate balance of
21 consumer and utility interests (e.g., Geller at 3). My first response to these arguments
22 would be that PGW was not under PUC jurisdiction when the provisions were formulated
23 and the interests were balanced. This record and the record of the CRRC proceeding are

1 replete with evidence of the unique and dramatic financial challenges facing PGW, as
2 well as the unique characteristics of PGW's service territory and the payment troubles of
3 its customers.
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22 **Q. DID THE OPPOSING PARTIES MAKE ANY SUGGESTIONS ABOUT WHAT**
23 **PGW SHOULD DO TO GARNER THE NECESSARY ADDITIONAL CASH**
24 **WORKING CAPITAL IT NEEDS?**

1 A. Primarily they claimed that our collections levels have improved and therefore we should
2 just continue the status quo, continue to proceed under Chapter 56, and let our
3 Collections Initiative continue to work. What they have failed to understand is that the
4 Collections Initiative that we instituted at the end of 2003 was an enormous special effort
5 that has required tons of resources and special efforts. Yet, with just a few months left in
6 the fiscal year, it appears that we will be successful in reaching only our historic levels of
7 collections -- just around 92% of billings. THAT'S NOT GOOD ENOUGH. The rating
8 agencies have made clear that they need to see a material improvement OVER such
9 historic levels.

10 We also can't wait to see if these opinions are right. The rating agencies will be
11 reevaluating our position throughout the fall and winter; if we do not show the material
12 improvement we will be downgraded. One of the agencies (Moody's) stated that we had
13 to show improvement or a plan that will lead to improvement, within 90 days! Our
14 waiver requests were all designed to be capable of being implemented relatively quickly,
15 without a great deal of software and systems changes and only the necessary amount of
16 training. They all have a reasonably good chance of improving our collections or cash
17 flow.¹ With these in place we are hopeful that the rating agencies will conclude that we
18 have a reasonable chance to make a material improvement in collections and cash
19 working capital, and thus stave off a downgrade to junk bond status.

¹ One opposing witness, Mr. Geller, has taken pains to criticize the calculations of additional collections or cost savings that I have put forward, suggesting that they are overstated. Our requests are not materially related to these exact value calculations. They were provided to give the Commission a general concept of the value of each proposal. There should be no question that they each will make some positive improvement in PGW's situation.

1 **Q. DIDN'T ANY WITNESS SUGGEST SOME ALTERNATIVE STEPS TO**
2 **IMPROVE COLLECTIONS?**

3 A. Yes, to his credit, Mr. Colton has put forth a couple of suggested alternatives to the
4 waiver requests that we have made. He suggests that we institute Electronic Funds
5 Transfer and require that all higher income customers with payment agreements use it to
6 make their payments. He also suggests that we institute mandatory budget billing for all
7 residential customers.

8 While we appreciate this effort to come up with some alternatives that might
9 address our crisis, unfortunately both of these steps are very novel and untested and
10 would require considerable study to make sure that on net they would provide positive
11 additional collections and cash working capital for PGW.

12 Even if they proved out -- and there are some serious issues involving each of
13 them, they couldn't possibly be put in place in the 2 months -- which, as we have said is
14 when PGW must implement any collections enhancements in order to show results
15 starting this winter.

16 **Q. WHY COULDN'T THESE TWO SUGGESTIONS BE IMPLEMENTED**
17 **IMMEDIATELY?**

18 A. With respect to EFT, we are already in the process of making the systems changes that
19 are needed to be able to offer an EFT payment option to customers. We currently accept
20 all payment options except debit of a checking account or credit card. The software to do
21 this will not be implemented until the Fall. It will take several months to conduct the
22 training and customer education that will permit us to roll out this option.

23 Similarly, to convert all of our residential customers to budget billing would be a
24 massive undertaking which would require not only systems changes, but also employee
25 training and a customer education and informational process. Such a conversion would

1 take a year, conservatively.

2 Before we could implement either one, however, we would have to carefully work
3 through several issues that could make these approaches less helpful or even unhelpful.

4 EFT - For this to work, a large number of customers entering into payment
5 agreements would have to end up using this option and we see no reason why that should
6 occur. First, some customers simply would not be able to use this channel. Those
7 customers without checking accounts would be excluded. Right now, 7% of our
8 customers regularly pay their bill at the District Office, which we assume is because they
9 are paying in cash. That percentage would likely be higher for customers entering into
10 payment agreements. Also, the number of applicable payment arrangements is small.

11 Also, there is no good evidence that we are aware of that using an EFT channel
12 for payments is going to reduce defaults materially. For this to work the customer still
13 has to have money in his/her checking account. While Mr. Colton points to reductions in
14 default rates for property tax payments in Minnesota and California, the results are not
15 particularly transferable to utility gas payments in Philadelphia, especially when one
16 recalls that once a default occurs, customers would still be subject to a relatively
17 extended termination procedure and a ban on winter shut-offs for most customers,
18 something that does not come into play with property taxes.

19 Moreover, I am not aware of one gas company that has been able to extensively
20 utilize EFT payment for the payment of payment agreements, leading me to believe that
21 this approach should be the subject of careful study before its relied on to assist PGW in
22 making a material improvement in its collections.

23 Universal Budget Billing - We are concerned that the fundamental assumption

1 made by Mr. Colton, that budget billing would improve our cash working capital by
2 getting customers to pay a uniform amount throughout the year (with a true-up in the 12
3 month) could actually be wrong. While budget billing would allow PGW to collect more
4 than it does now in the shoulder months (spring and summer), it would also drastically
5 reduce the Company's revenues in the winter (since most of our customers would be
6 paying a set amount). The problem is that a large portion of PGW's natural gas supply
7 bills come due in the winter. If the dollars aren't there to make those payments and we
8 default, the Company's ability to continue to provide reliable gas service ends. While one
9 could set the budget bill to account for projected gas price levels, it would leave the
10 Company completely vulnerable to natural gas price hikes during the year, such as we
11 experienced last year and expect to experience this coming fiscal year as well. For
12 example, in FY 2003 PGW's GCR factor went up EACH Quarter starting at \$3.0385 in
13 Sept. 2002 and increasing to \$7.6442 at Sept 2003 - a 150% increase. With mandatory
14 budget billing, all of these increases presumably would have to captured in the 11th
15 month -- which would result in an enormous increase for most customers. Moreover, it
16 would deprive PGW of the revenues it now receives from these GCR adjustments - which
17 while not covering the entire cash working capital and uncollectible effect, at least
18 provides some additional dollars to cover the actual cost. If the budget bill was adjusted
19 to account for these price hikes, there would be little difference from the current billing
20 arrangements.

21 The other issue is that, even if this would help the Company financially, there is
22 no evidence that customers would go along with it or that it would result in better
23 collections percentages. Right now, our delinquency rate for payment arrangement

1 customers is about the same for budget billers and non-budget billers (75% of non-budget
2 bill arrangements became delinquent while 62% of budget bill arrangements became
3 delinquent compared to an overall delinquency rate of 36.5%). Since almost 80% of our
4 budget billing customers voluntarily choose budget billing, these statistics militate
5 against Mr. Colton's conclusion that budget billing will materially improve our
6 collections.

7 In summary, the solutions offered by Mr. Colton certainly should be explored, but
8 they must be viewed as additional steps to potentially improve collections in the long
9 term -- not as replacements for the waivers we have requested.

10 **Q. DO YOU HAVE ANY OTHER GENERAL COMMENTS BEFORE DISCUSSING**
11 **THE RESPONSES TO THE SPECIFIC WAIVER REQUESTS?**

12 A. Yes, Mr. Mumford's testimony appears to be based upon a couple of misconceptions.
13 First, he states that PGW's waiver requests should be rejected because the Company has
14 not shown that the Chapter 56 provisions pose "difficulties for the utility." (pg. 5) But,
15 our Petition is not based on that. PGW is currently and can continue to operate under
16 Chapter 56, if it has to. The difficulties are financial difficulties, as I have already made
17 clear. Accordingly, Mr. Mumford has analyzed our entire request under the wrong test.

18 Second, Mr. Mumford continually judges each PGW waiver request on the basis
19 of whether it maintains the same rules that existed at the time of PGW's restructuring.
20 However, the PUC, in PGW's Restructuring Order, specifically rejected that notion,
21 stating that the Act "does not require every specific pre-Act practice to remain in force,
22 so long as the level of quality of services and consumer protections are not reduced."
23 (Reconsideration Order at 7). Certainly, on an overall basis, PGW's customer service and
24 procedures would be completely adequate and reasonable - they have improved

1 significantly. But more importantly, I am informed by counsel that the Commission is
2 authorized to waive that section of the Choice Act, to the extent necessary, at the request
3 of PGW. Thus, Section 2206(a) does not provide any relevant restriction.

4 Finally, Mr. Mumford frequently opposes a PGW waiver request on the ground
5 that, in his opinion, it conflicts with some other provision of Chapter 56. But PGW's
6 waiver petition is structured to gain approval of certain practices and to ask the PUC to
7 waive all provisions of Chapter 56 or the Public Utility Code (or BCS guidelines or
8 procedures) that would ordinarily conflict with or limit the PUC's discretion. Section
9 2212(c) gives the PUC the ability to do that. So, these comments by Mr. Mumford do not
10 act as a bar to any of PGW's requests.

11 **Q. TURNING TO THE FIRST PGW WAIVER REQUEST - REQUIRING THAT**
12 **CUSTOMERS WHO HAVE BEEN TERMINATED FOR NON-PAYMENT BE**
13 **REQUIRED TO PAY THE FULL BALANCE AND RELATED CHARGES**
14 **BEFORE BEING ABLE TO RESTORE SERVICE -- WHAT ARE THE**
15 **CONCERNS OF THE OPPOSING WITNESSES AND HOW DO YOU**
16 **RESPOND?**

17 A. Mr. Colton and Mr. Geller oppose the proposal on the ground that it erroneously assumes
18 that customers in BCS Income Levels 3 and 4 have the ability to pay their utility bills and
19 that, by requiring full payment, customers will be harmed because they will not be able to
20 come up with the full amount of payment. Mr. Mumford appears to oppose this proposal
21 on the assumption that it incorporates into regulations the BCS income guidelines (p. 30)
22 and would rob the guidelines of their flexible informal nature.

23 With respect to income levels, my statement about the ability of customers in
24 income levels 3 and 4 to pay their gas bills is based on the simple fact that the PUC and
25 the General Assembly have made a policy decision to that effect. Customers are
26 protected from the full extent of paying their gas bills if their income levels are no higher

1 than 150% of poverty. That is the standard for CAP programs and LIHEAP. If a
2 customer who has been terminated qualifies for CRP, we will enroll him/her into that
3 program (rather than requiring the full arrearage to be paid). Hence, by definition, the
4 remaining customers are deemed to have the responsibility to pay their gas bills.

5 Messrs. Colton and Geller would turn the existing Chapter 56 rules into a
6 "stealth" low income assistance program. There is no evidence that this is appropriate or
7 necessary. They are essentially arguing that PGW's remaining customers should have to
8 subsidize customers in these income levels, even though no policy decision exists saying
9 that is appropriate. This is exactly what PGW was criticized for in making its CRRC
10 proposal. Whether that outcome is appropriate generally, it cannot be justified for a
11 company that needs cash to prevent the equivalent of bankruptcy and has no other source
12 from which to secure the funds.

13 Moreover, while the witnesses focus on the low end of these income categories,
14 they do not mention the higher ends, even though they oppose requiring full payment
15 even for higher end customers. A family of 4 making 301% of poverty has an annual
16 income of over \$57,000. The question that the Commission must ask is if PGW must
17 obtain additional collections, is it not reasonable to attempt to collect such amounts from
18 customers who are not recognized as deserving energy assistance and who have already
19 received service and have failed to pay for it? We believe the answer is obvious.

20 In addition, Mr. Mumford's concern about incorporating guidelines into
21 regulations is not well founded; PGW is not proposing that these standards be built into

1 regulations² -- only that a specific set of procedures authorized especially and only for
2 PGW be approved by the PUC subject to the Commission's continued monitoring and
3 review. We envision that the Commission and the Company could identify and propose
4 changes to these rules if actual experience makes such revisions appropriate. PGW used
5 the guidelines because they are known to our service reps and the PUC and because, as
6 much as possible, it is important to eliminate individual reviews and investigations from
7 the credit/collections process for PGW. Unlike the other gas companies, PGW has the
8 unlucky combination of a huge number of customers who fall into the credit/collection
9 path -- some 250 THOUSAND customers are "payment troubled" on PGW's system -- far
10 more, we believe, than any other gas company or even the electrics.

11 As for the concern that adhering to strict income guidelines prevents individual
12 circumstances from being considered, PGW would be willing to modify its proposal to
13 permit customers subject to this rule to file an informal appeal with BCS if the customer
14 could show "extraordinary hardship" or some other tough standard. In such a
15 circumstance, the customer could be given one additional opportunity to pay off his/her
16 arrears under some schedule established by BCS. But, if that customer breaks that
17 agreement and is terminated, no further dispensation should be permitted.

² As Appendix B to PGW's Petition expressly stated, the "regulation" style changes set out therein were for illustrative purposes only and were not proposed for promulgation as formal regulations.

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Q. PLEASE COMMENT ON THE CRITICISMS OF PGW'S NEXT PROPOSED WAIVER -- THE LIFTING OF THE WINTER SHUTOFF MORATORIUM FOR LEVEL 3 AND 4 CUSTOMERS.

A. Mr. Colton makes the same point about customers in levels 3 and 4 not necessarily being able to pay their bills. He also contends that we are basing our proposal on an underlying assumption -- that the winter moratorium causes an increase in the nonpayment of bills during the moratorium period, which he claim is erroneous (p.26). Mr. Geller states that a uniform rule lifting the moratorium would threaten customers' health and welfare and is unnecessary because Chapter 56 already permits utilities to ask BCS to lift the moratorium in individual instances. Mr. Mumford appears to oppose PGW's request because the standards for lifting the winter moratorium have been set forth in a Secretarial Letter -- not in Chapter 56 itself. As indicated, this is not a valid basis for rejecting PGW's request.

Moreover, PGW proposed this blanket lifting for two reasons -- to eliminate the public perception that they cannot be terminated in the winter and to actually get to customers who are taking advantage of this rule to avoid paying all or some of their bill. While Mr. Colton claims that there is data that says that customers do not fail to pay in the winter, PGW's data contradicts that. For last winter, PGW had over 15,000 customers representing \$5.3 million who were on the system from December 1, 2003

1 through at least March 31, 2004 without paying a single cent towards their bill. Without
2 the winter moratorium these customers would either have been terminated or on a
3 payment agreement and PGW would be realizing at least some positive cash flow or
4 cutting its losses. Remember, because PGW has to go out and buy gas to supply these
5 non-paying customers, it is not just PGW that loses out -- its remaining customers also
6 end up subsidizing these non-payers. Moreover, we believe that the winter moratorium
7 also results in customers paying less and less of their total bills. Contrary to Mr. Colton's
8 suggestion,

9 It should be obvious that the PUC's winter moratorium "waiver" process cannot
10 work when these volumes of customers are at issue. PGW would have to hire an army of
11 lawyers and experts to process 15,000 waiver requests in four months. Moreover, the
12 exceptions to the PUC waiver process are so extensive that it is widely accepted in the
13 industry that winter moratorium exceptions are almost impossible to obtain.

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20 **Q. PLEASE EXPLAIN YOUR UNDERSTANDING OF THE WITNESSES'**
21 **POSITIONS REGARDING PGW'S DEPOSIT REQUIREMENT PROPOSAL**
22 **AND EXPLAIN WHY THOSE ARGUMENTS ARE NOT VALID.**

1 A. One of the most important proposals that PGW is suggesting is a uniform deposit
2 requirement for all new customers.³ We are proposing to set the requirement at twice the
3 average monthly bill -- \$250 for heating customers and \$100 for non-heating customers.
4 All of the witnesses have opposed this proposal, even though we project that it could
5 generate over \$7.6 million in additional cash working capital for the Company.

6 Mr. Colton, however, opposes this claiming that the sole purpose for a deposit is
7 to minimize the possible money loss due to nonpayment. That may be the only reason an
8 investor owned utility asks for a deposit, but it is not the only reason that PGW needs a
9 deposit. As a cash flow method regulated company, PGW gets most of its working
10 capital from the payments its customers make. As such, it is crucial that customers pay
11 on time. Unlike an investor owned utility, PGW does not get a special increment in its
12 rate base to compensate it for the lag in customers' paying their bills. Our deposit
13 requirement therefore, is designed to prevent loss BOTH from non-payment and from
14 slow payment.

15 Our current data demonstrates why Mr. Colton is wrong.⁴ PGW had some 68,369
16 customers initiate service since the beginning of this year who did not end up on CRP, in
17 some type of payment arrangement, or have some other reasons their account had a hold
18 on it (such as a complaint). Of that subset, 18,466 (27%) representing over \$10 million,
19 are now in arrears. Using current BCS rules, PGW only secured some 1500 deposits
20 from customers initiating service. If PGW's deposit requirements had been in place, it
21 would have been able to collect deposits from all of those customers who are now behind

³ Mr. Geller's suggestion (p.16) that this proposal would apply to transferring customers is incorrect.

⁴ This data is attached hereto as PGW Exh. CP/RG-4.

1 in their bills, which, if they were all heating customers, would have amounted to over
2 \$4.6 million. This amount would offset the cash working capital loss that the Company
3 is experiencing. That is a loss for which all the remaining customers will eventually have
4 to pay at some point. Therefore, Mr. Colton's concerns are misplaced.

5 Mr. Geller and Mr. Mumford express concerns that the waiver request will make
6 it harder for lower income families to obtain gas service and unfairly imposes a deposit
7 on customers who are not credit risks. Again, if the customer qualifies for assistance
8 under the current definition they will not be affected by this proposal (CRP customers are
9 exempt). For other customers, we believe that requiring a deposit to secure timely
10 payment for service rendered is not unfair; it in fact is an accepted method of securing
11 timely payment in a host of situations. If a customer cannot remit a deposit to secure
12 service it is highly questionable that he/she will be able to pay their bills at all. For those
13 who do, but never fall into arrears, the deposit will be returned with interest.

14 While Mr. Mumford criticizes this proposal because it does not allow for individual
15 determinations, he apparently fails to recognize the enormous volume of transactions
16 with which PGW must deal. Individualized deposits applicable to all customers would be
17 too hard to administer. However, PGW would be willing to amend its proposal to permit
18 customers to complain to the PUC if the deposit requirement would cause extreme
19 hardship under their unique circumstances.

20 Finally, Mr. Colton complains that our proposal to return the deposit after one
21 year via a bill credit is not good because it does not encourage regular payment patterns.
22 While Mr. Colton may be correct, he again completely ignores PGW's special
23 circumstances. Requiring PGW to actually refund this money to customers when their

1 collections and cash working capital needs are so acute is counter productive. PGW
2 would likely have to find some source of short term funds to finance such paybacks;
3 PGW has no available sources of short term funds. Certainly, the need to keep the
4 Company functioning outweighs the desire to establish regular payment habits for
5 customers.

6 **Q. DO ANY OF THE WITNESSES PROPOSE ANY ALTERNATIVES TO THE**
7 **UNIFORM DEPOSIT REQUIREMENT PROPOSAL?**

8 A. Yes, Mr. Colton suggests that PGW should adopt credit scoring as an alternative and
9 assign a deposit only to those who fail the credit score. Inexplicably, he fails to deal with
10 my testimony in which I already indicated that PGW cannot implement credit scoring
11 until the 3d quarter of 2005 at the earliest, and even then implement the concept only as a
12 pilot. I do not think that dismissing the physical impossibility of initiating this approach
13 until late next year and stating that PGW should drop everything else to implement his
14 preferred alternative is reasonable. PGW would have to stop several systems changes to
15 do that, including changes that will permit PGW to automatically request a deposit from
16 customers who are in arrears and several enhancements to its payment agreement
17 program. We are committed to going forward with a credit scoring pilot, but it is not a
18 solution to the current crisis.

19 **Q.**

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21 **Q. DO YOU HAVE A RESPONSE TO THE OPPOSITION EXPRESSED TO PGW'S**
22 **PROPOSAL TO PERMIT IT TO REQUIRE AS A CONDITION OF**
23 **ESTABLISHING SERVICE THE PAYMENT OF ARREARAGES BUILT UP AT**
24 **THE SAME LOCATION DURING THE TIME THAT PGW IS ABLE TO**
25 **ESTABLISH THAT THE APPLICANT RESIDED THERE?**

1 A. The responses consist of assertions that this request is legally impermissible. I am
2 informed that these opinions are not correct, and that these legal arguments are not
3 applicable. These will be explained at the proper time -- in PGW's brief. Neither I nor
4 the other witnesses are qualified to testify as to what legal principles should apply to this
5 request. However, I want to emphasize that the proposal is to seek to charge customers
6 who have received a benefit from PGW -- heating service -- and then, merely because
7 their name was not on the bill, seek to continue to receive service without paying for that
8 benefit. To me, this is plainly unfair to the remaining customers who pay for this "name
9 game" activity.

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21 **Q. WHAT ARE THE ARGUMENTS MADE IN RESPONSE TO PGW'S PROPOSAL**
22 **TO LIMIT CUSTOMERS TO ONLY ONE PAYMENT ARRANGEMENT AND**
23 **TO SET SPECIFIC PAYBACK REQUIREMENTS DEPENDING UPON THE**
24 **INCOME LEVEL OF THE CUSTOMERS ?**

1 A. Mr. Colton opposes the proposal because, in his view, it does not adequately take into
2 account a customer's "ability to pay." But, as I have already pointed out, providing
3 special dispensation to the working poor is not legally supportable or possible in the face
4 of PGW's extraordinary financial circumstances. Moreover, Mr. Colton's "alternative"
5 would reduce PGW's anticipated collections and provide additional payment periods to
6 customers whose income does not justify it. Again, to the extent that these non-payers
7 are permitted to "lean" on the Company, these costs must be recovered from the
8 remaining body of ratepayers, something that PGW was admonished for suggesting in the
9 CRRC context.

10 Mr. Mumford argues that our proposal does not adequately take into consideration
11 a customer's unique circumstances and does not comply with the Chapter 56's
12 requirement that the utility negotiate a payment agreement that reflects a "good faith
13 consideration of all factors and one that is mutually satisfactory." Here again, Mr.
14 Mumford does not appear to comprehend that PGW is asking for approval of a special
15 plan that does not follow the specific provisions of Chapter 56. PGW is asking the PUC
16 to determine a general rule that these payment arrangement requirements will apply in
17 order to adequately balance PGW's acute financial needs. The point of PGW's request is
18 to obtain pre-approval from the PUC that payment agreements that follow these rules are
19 authorized, so that BCS will be required to follow these rules in reviewing informal or
20 formal complaints. Only by establishing such general rules will PGW be able to realize
21 the additional collections and cash working capital benefits that it has calculated this item
22 will produce.

23 Nonetheless, PGW is willing to modify its original proposal to permit customers

1 to appeal their payment agreement determinations in the face of extraordinary
2 circumstances. BCS could then modify the length of the agreement or the payment terms
3 if the customer justified this special treatment, but only once.
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10 **Q. MR. GELLER STATES WITHOUT ANY BASIS THAT PGW HAS NOT SHOWN**
11 **THAT IT IS "FULLY UTILIZING" THE RULE RECENTLY ESTABLISHED BY**
12 **THE COMMISSION IN THE FRAYNE DECISION AND THAT FOR THIS**
13 **REASON ALONE PGW'S PROPOSAL SHOULD BE REJECTED. IS HE**
14 **CORRECT?**

15 A. No, Mr. Geller is not well informed.⁵ PGW has utilized the dictates of the Frayne
16 decision's "one payment agreement rule," but as Mr. Geller readily admits, that decision
17 has been interpreted to permit additional payment agreements whenever there is a host of
18 changed circumstances, including so many things that the "exception" has all but
19 eviscerated the rule. Again, Mr. Geller has completely ignored PGW's special
20 circumstances, its number of payment agreements (over 53,000), and the very small
21 number (9%) that are completed by customers. Unless a hard and fast rule is established,
22 customers can simply continue as now, going from broken payment agreement to broken

⁵ Mr. Geller also claims that PGW is not availing itself of current Chapter 56 rules to put a customer on the termination path after one missed payment. PGW currently calls a customer after one miss, and puts the customer on the termination path after two misses.

1 payment agreement for months or even years. Moreover, if PGW's request is consistent
2 with or similar to existing PUC policy, then it should not be controversial to grant it.

3 **Q. PLEASE EXPLAIN THE POSITION OF THE OPPOSING PARTIES**
4 **REGARDING PGW'S PROPOSAL TO PERMIT IT TO TERMINATE SERVICE**
5 **ON FRIDAYS, NOW PROHIBITED BY CHAPTER 56 AND THE PUBLIC**
6 **UTILITY CODE, AND RESPOND TO THOSE ASSERTIONS.**

7 A. The positions of the parties on this request are fairly uniform -- while PGW has agreed to
8 stay open on Saturdays to permit customers whose service is terminated on Friday to take
9 the necessary action to reinstate their account, and to reinstate service on that day, where
10 appropriate, and while admitting that customers have far greater access to banks and
11 other sources of funding on the weekends now than they did when this rule was enacted
12 in the '70's, they still oppose it because, they claim, other avenues that the customer might
13 wish to pursue are not (or may not be) open on Saturdays.⁶ While many of these
14 contentions are based on pure conjecture (e.g., doctors offices are frequently open on
15 Saturdays and are always available through their answering service, and hospitals --
16 another source of a medical certificate -- are always available), they make the erroneous
17 assumption that the first time customers have to respond to a termination is the day after
18 the termination. Of course, as Mr. Mumford discusses in detail in another context, by the
19 time that customers are terminated they will potentially have received at least 4 different
20 notices of delinquency (a bill showing overdue charges, a 10 day notice, a 72 hour call
21 attempt and a 48 hour personal contact or posting). If a customer waits until he/she is
22 terminated to take any action to respond, should he/she not at least be held responsible for

⁶ Mr. Colton states that this request could be granted if PGW "document[s] that consumers will have access to the full range of community and commercial services needed to allow a customer to appropriately respond the termination of the service" (p. 42). This is virtually impossible to do and certainly impossible in the short time available in this proceeding, and is tantamount to outright opposition.

1 the consequences if a desired response channel is closed the next day? It's about personal
2 responsibility. Again, this one change could mean additional collections of several
3 million dollars for PGW. In this instance, it would seem that PGW's acute financial
4 needs would more than outweigh the potential that a customer who has chosen to wait
5 until after termination to do anything about it might have to wait an additional few days
6 to exercise a particular response option.

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12 **Q. PGW'S NEXT WAIVER REQUEST IS THAT IT BE PERMITTED TO FORGO**
13 **THE PRESENT REQUIREMENT THAT THE COMPANY ATTEMPT TO**
14 **MAKE PERSONAL CONTACT WITH A CUSTOMER PRIOR TO**
15 **TERMINATION AND THAT, IF PERSONAL CONTACT ISN'T POSSIBLE,**
16 **THAT IT POST A NOTICE AT THE RESIDENCE INDICATING THAT**
17 **TERMINATION WILL OCCUR IN 48 HOURS ABSENT RESPONSIVE ACTION**
18 **BY THE CUSTOMER. ALL OF THE WITNESSES HAVE OPPOSED THIS**
19 **REQUEST. WOULD YOU EXPLAIN THE BASIS FOR THEIR OPPOSITION**
20 **AND WHY THE COMMISSION SHOULD NONETHELESS GRANT IT?**

21 A. Yes. Both Mr. Colton and Mr. Geller argue that the 48 hour is an "important consumer
22 protection" because customers need this last notice potentially to take various actions to
23 respond to the impending service cut-off and to take steps to avoid shut-off, such as
24 "signing up for a utility low-income program" or negotiating a payment plan or
25 "borrowing money from friends and family." (p. 47). What Mr. Colton does not explain
26 is why customers are not already given sufficient time to take all these actions when they
27 first receive an overdue notice in their bills. This is well before the time that the 10 day
28 notice is sent. Even after these two indicators, PGW now attempts to make contact by

1 phone (or in person if there is no phone) 72 hours before the termination is scheduled. As
2 a general rule, all customers should have to take personal responsibility for their
3 obligations and bear the consequences of not taking the necessary steps to avoid shut-offs
4 in a timely manner. The specific policy question for the Commission here, however, is
5 whether it is reasonable to force other customers to subsidize those who wait until the last
6 minute by requiring PGW to continue to provide service for an additional 2 days and to
7 incur the cost of an additional field visit, in light of PGW's serious financial problems.
8 We believe that the balancing weighs in favor of eliminating this additional requirement.

9 Mr. Mumford argues against this proposal on the ground that it would eliminate
10 personal contact prior to termination and thus "the ratepayer will have no opportunity to
11 exercise their options [authorized by Chapter 56 in response to a threat of termination]"
12 (p.17). In fact this statement is simply not true; as indicated, customers have multiple
13 opportunities to exercise their options to avoid shut-off prior to termination. Moreover,
14 the present Chapter 56 rule does not require or guarantee personal contact -- it simply
15 requires that personal contact be attempted (as Mr. Mumford paradoxically
16 acknowledges). If a customer is not home or, as frequently occurs, the customer refuses
17 to open the door for to the PGW employee, all that happens is that another notice is
18 posted. The fact is that the "personal contact" requirement has, for PGW, become simply
19 an extension of the termination period that customers now think is their right, but to
20 which they have no such right. Elimination will simply result in taking corrective action
21 earlier, reducing the burden that these non-paying customers are imposing on the rest of
22 the customer base.

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Q. WHAT IS PGW'S NEXT PROPOSAL, HOW HAVE THE PARTIES RESPONDED TO IT AND WHAT COMMENTS DO YOU HOW REGARDING THEIR POSITION?

A. PGW is proposing that the Commission clearly indicate that the rule imposed by the Bureau of Consumer Services -- that a termination process should be completed within 30 days -- be extended to permit terminations to take as long as 60 days if necessary. Mr. Colton actually supports this request, with conditions, while Mr. Mumford, while questioning why it is necessary for PGW to have a longer period, indicates that the rule sought to be revised is not in Chapter 56 and "technically" there is nothing to prevent PGW from doing what it proposes to do, regardless of any waiver." (p.34). Mr. Geller, on the other hand, opposes this request, as he did every other proposal, claiming that "[s]ome customers" might be confused about what they need to pay to avoid termination even though PGW has agreed that termination could be avoided by a customer if they paid the amount listed on the termination notice, regardless of whether additional past due amounts had accrued.

The reason that PGW needs this clear pronouncement from the PUC that

1 terminations that take up to 60 days will be valid is that the sheer volume of the problem
2 makes it virtually impossible for the Company to complete the process for all customers
3 in the shorter period. PGW has to date sent out 150,000 termination notices, but had to
4 restart almost 1/3 -- 47,000 -- because its resources did not permit it to complete the
5 termination within the BCS's 30 day period. This change is crucial to our ability to make
6 termination an effective threat and change a culture that has developed that suggests that
7 there is no consequence to not paying your gas bill. For this reason, I believe that Mr.
8 Mumford's speculation that customers may not take seriously the termination process if it
9 takes 59 days to terminate is exactly wrong; customers are much more likely to take
10 lightly a process that threatens termination and then never delivers until yet another round
11 of notices and contacts have occurred.

12
13 **Q. PLEASE RESPOND TO THE CONTENTIONS MADE BY THE PARTIES**
14 **CONCERNING PGW'S PROPOSAL TO ALLOW MORE TIME FOR**
15 **RESTORATION OF SERVICE FOR TERMINATED CUSTOMERS.**

16 A. First, to be clear, PGW's proposal is as follows: For periods outside of the winter
17 moratorium, permit PGW a longer period, up to seven days, for physical dig-ups, a
18 shorter period for other terminations (3 days) and require 24 hours whenever service has
19 been terminated and the initial determination of the Commission is that the termination
20 was inappropriate and in violation of PUC or PGW rules. In all cases, PGW will
21 prioritize restoration of service to homes where there is a senior citizen, young children,
22 or a medical necessity. (Petition, p.16).

23 Mr. Mumford raises several concerns about this proposal which I will address.
24 First, he expresses concern that the up to 7 day expansion could negatively affect
25 customers experiencing medical emergencies. PGW made clear that it intended to

1 prioritize restorations involving customers with medical emergencies. It is willing to
2 amend its proposal to make the commitment that restorations involving medical
3 certificates will be completed within 24 hours.

4 Mr. Mumford also questions why it should take up to 7 days to restore service at
5 locations that require "dig-ups," questioning why the Company does not install a curb
6 valve at the location when the service is terminated. PGW does not regularly install a
7 curb valve when service is terminated at a dig-up location for the simple reason that such
8 installations cost approximately \$2500 in time and materials to complete, while
9 terminations cost approximately \$500. (The installation of a curb valve takes more time
10 and requires more excavation.) Because of the extensive number of such "dig-up"
11 terminations, PGW simply cannot satisfy the state-wide "24 hour" (or next day) standard
12 applicable to companies that have a fraction of the number of dig-ups that PGW must
13 deal with. Without leeway on this item, PGW's ability to efficiently terminate customers
14 could be seriously threatened. Accordingly, this is an important change because of
15 PGW's special circumstances. PGW believes that, balancing its unique circumstances
16 and its need to increase collections in light of its financial crisis, the proposed rules
17 represent a reasonable level of service, contrary to Mr. Geller's conclusionary assertion.

18 (p.31).

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Q. TURNING TO THE TESTIMONY OF OTS WITNESS MICK, ON THE BASIS OF A COMPARISON OF CERTAIN STATISTICS INVOLVING CUSTOMER DEBT AND ARREARAGES FOR 2003 AND 2004, HE CONCLUDES THAT "THE COLLECTIONS PROBLEMS OF PGW HAVE [NOT] BEEN AGGRAVATED SINCE THE COMPANY CAME UNDER THE PROVISIONS OF CHAPTER 56." (P. 2-3) DO YOU HAVE A COMMENT?

A. Yes, Mr. Mick has rebutted an assertion that PGW has never made. It has never been PGW's contention that its formal conversion to the rules in Chapter 56 caused PGW's collections to fall. Indeed, the rules that it is following now are, in material respects the same as those that it followed when it was regulated by the Philadelphia Gas Commission, and those that it was following after PUC jurisdiction was initiated in 2000 (PGW voluntarily changed some of its practices to more conform to PUC approaches at that time). PGW has clearly stated that, while the present rules may permit us to achieve historic levels of collections (around 92%), this is not good enough. The waivers and modifications are necessary to permit PGW to increase collections and cash working capital beyond those levels, in order to prevent further downgrades. There is no doubt that additional steps must be taken if we are going to be able to reduce uncollectibles and increase cash receipts still further.

I would note, however, that Mr. Mick's comparison of 2003 and 2004 could lead to incorrect conclusions. For example, if he were to have compared 2002 (when our overall collection percentage was 97%), it might appear that formally adopting Chapter 56 had indeed hurt our collections badly. In fact, as I indicated, I believe that Chapter 56 on net did not make things worse, although it did not make them better either. The biggest driver is the level of natural gas costs, which in FY 2004 were dramatic.

1 Nonetheless, we have been able to offset the impact of those costs through extraordinary
2 collections efforts.

3 **Q. DOES THAT COMPLETE YOUR REBUTTAL TESTIMONY?**

4 **A. Yes.**

EXHIBIT CP/RG-3
(WITHDRAWN BY AGREEMENT)

EXHIBIT CP/RG-4

Accounts established in FY 2004 That are Currently Delinquent

PGW Exh. CP/RG-4

FY2004	
79,364	# of Accounts Setup
1,564	# of Deposits Requested
1,419	# of Unprotected
77,805	# of Non Deposits
66,977	# of Non Deposits Unprotected

# ACCOUNTS	FY2004 UNPROTECTED ACCOUNTS							TOTAL
	TOT ARS. 0:30	TOT ARS. 31:60	TOT ARS. 61:90	TOT ARS. 91UP	TOT ARS. 91UP	TOT ARS. 91UP	TOTAL	
49,930	73%	1,852,356.33	0.00	0.00	0.00	0.00	1,852,356.33	
6,091	9%	330,927.26	966,992.74	0.00	0.00	0.00	1,297,920.00	
3,456	5%	167,591.13	248,253.81	895,993.66	0.00	0.00	1,311,838.60	
8,919	13%	392,803.51	517,781.66	962,952.74	6,065,309.61	7,938,847.52	6,065,309.61	
68,396	100%	2,743,678.23	1,733,028.21	1,858,946.40	6,065,309.61	12,400,962.45	6,065,309.61	

Accounts set up in FY2004
 Unprotected Accounts
 Protected Accounts (CRP, PARS, Disputes)

79,364
 68,396
 10,968

86%
 14%

Delinquent Accounts
 Delinquent Accounts as a % of total
 Delinquent Accounts as a % of Unprotected

18,466 \$10,548,606.12
 23%
 27%
 85%

7/6/04 Phila
JK

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

TESTIMONY OF
CRISTINA COLTRO

DOCUMENT

DOCKETED

JUL 13 2004

ON BEHALF OF
PHILADELPHIA GAS WORKS

DOCKET NOS. P- 00042090
R-00049157
M-00021612
P-00032061

Philadelphia Gas Works'
Testimony Concerning
PGW Senior Citizen Discount and Universal Service Program

SECRETARY'S BUREAU

2004 JUL 11 PM 10:27

RECEIVED

June 17, 2004

1 I. QUALIFICATIONS & PURPOSE OF TESTIMONY

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Cristina Coltro and my business address is 800 W. Montgomery Avenue,
4 Philadelphia, PA 19122.

5 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

6 A. I am employed by the Philadelphia Gas Works ("PGW" or the "Company") as the
7 Manager of Universal Service Programs.

8 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
9 PROFESSIONAL EXPERIENCE.

10 A. My resume, which describes my educational background and work experience, was
11 admitted into evidence in Docket No. M-00021612 at Exhibit CC-1 and in Docket No. P-
12 00032061 as Exhibit SCD/CC-1.

13 Q. HAVE YOU EVER PROVIDED TESTIMONY TO THIS COMMISSION
14 BEFORE?

15 A. Yes, I provided direct and rebuttal testimony in PGW's Restructuring Proceeding, Docket
16 No. M-00021612, the record from which has been consolidated with this matter. In that
17 proceeding, I described PGW's existing low-income energy assistance programs and
18 explained how PGW planned to adapt its then-existing programs to meet the
19 Commission's Universal Service Guidelines under the Natural Gas Choice Act and the
20 Commission's Policy Statement at 52 Pa. Code § 69.265. My testimony also addressed
21 PGW's Senior Citizen Discount ("SCD").

22 I also submitted direct testimony in the additional proceedings on the Company's
23 proposed means tested SCD, at Docket No. P-00032061, which has also been
24 consolidated with this matter. In that proceeding, I discussed the change in
25 circumstances and the events that lead to PGW's proposing a means tested SCD for new

1 applicants, after September 1, 2003. I also addressed the need and justification for a
2 continuing, means tested SCD, and explained the specific proposal put forth by the
3 Company, after consultation with the City administration, Philadelphia City Council and
4 representatives of senior citizen advocacy organizations. Finally, I explained how PGW
5 planned to administer and monitor the program, and provided the Company's projected
6 costs for the program, both annually and through 2020.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY TODAY?**

8 A. First, my testimony will respond to the Commission's specific questions and concerns
9 about the means tested SCD. Second, my testimony will describe PGW's universal
10 service programs and their cost-effectiveness. Those programs are the Customer
11 Responsibility Program ("CRP") and the Conservation Works Program ("CWP"), both of
12 which are mandated by the Public Utility Commission and operate pursuant to PUC
13 regulations, but which existed in substantially the same form under the Philadelphia Gas
14 Commission. In addition, I will address our LIHEAP outreach program.

15 In general, with the exception of the SCD, PGW's program resembles the
16 programs of other utilities regulated by this Commission and has been thoroughly
17 reviewed and evaluated by the Commission and various parties in PGW's Restructuring
18 Proceeding. It was approved by this Commission during that proceeding. Since
19 September of 2003, when PGW's Restructuring Plan became effective, reports
20 concerning on-going operations have been submitted to the Commission.

1 **II. MEANS TESTED SENIOR CITIZEN DISCOUNT**

2 **Q. ARE YOU AWARE OF THE OUTCOME OF THE SCD PROCEEDING?**

3 A. Yes. I understand that the Commission entered an Order on May 18, 2004, which sent
4 the matter back to the Administrative Law Judge so that additional information could be
5 submitted on eight specific issues or questions raised by the Commission.

6 **Q. AS YOU KNOW, THE COMMISSION HAS CONSOLIDATED THE**
7 **REMANDED SCD PROCEEDING INTO THIS MATTER. HAVE YOU**
8 **REVIEWED THE COMMISSION'S QUESTIONS ON THE MEANS TESTED**
9 **SCD, AND ARE YOU PREPARED TO RESPOND?**

10 A. Yes, I have reviewed the issues raised by the Commission in their May 18 Order. Below,
11 I will restate the Commission's eight questions, and provide responsive information.

12 1) Does any utility regulated by this Commission (other than PGW) have a
13 program to provide discounts limited to senior citizens. If so, what percentage is the
14 discount and what are the income limitations, (i.e., percentage of Federal Poverty Level
15 ("FPL"))?

16 Answer: To my knowledge, there are no other utilities *regulated by this*
17 *Commission* that provide this type of discount. However, that does not mean that
18 assistance programs or discounts targeted at providing relief to senior citizens,
19 particularly needy seniors, are at all uncommon. In fact, it is likely a reflection of the fact
20 that those utilities are either (a) not facing a large, low to middle income senior citizen
21 customer population and/or (b) not a municipally owned, governed and managed utility
22 where elected representatives have made policy judgments that providing such assistance
23 to needy seniors is in the public interest and consistent with the desires of their
24 constituent citizens/customers.

1 As stated in my prior testimony, other utilities do, in fact, offer similar programs.¹

2 The Philadelphia Water Department and Consumers Power Company, a Michigan
3 electric utility, both offer an income based SCD. Additionally, discounts and assistance
4 solely for seniors have been endorsed by our state in other areas, including property tax
5 and rent rebates through the Pennsylvania Senior Citizen Property Tax Assistance Act,
6 prescription drug costs through the PACE and PACENET programs (with recently
7 increased income eligibility levels for PACE), public transportation, automobile
8 insurance, and governmental fees.

9 2) Does any other utility in Pennsylvania have a customer assistance program for
10 which customers above 150% of the FPL are eligible?

11 Answer: Yes, some utilities in Pennsylvania offer assistance to low-income
12 customers that are above 150% of the FPL. The LIURP program, for instance, allows
13 utilities to offer weatherization and conservation services to customers up to 200% of the
14 FPL. Also, utility involved fuel funds, such as the Utility Emergency Service Fund
15 (“UESF”) in Philadelphia, offer grants to customers up to 175% of the FPL. Yet another
16 example, the Philadelphia Water Department’s SCD allows customers above 150% of the
17 FPL to participate and receive assistance.

18 3) What does the average residential PGW customer pay a month to fund
19 customer assistance programs?

20 Answer: As indicated on the spreadsheet attached hereto as Exhibit CP/CC-1, the
21 average residential customer, using 87.8 Mcf annually, pays a yearly Universal Service
22 Charge (“USC”), inclusive of the SCD, of \$142.00. Obviously, that would translate to

¹ Docket Nos. M-00021612 and P-00032061 (“SCD Proceeding”), PGW St. 1 at 10-11. Ms. Coltro’s entire SCD Proceeding testimony, with exhibits, is attached hereto as Appendix “A.”

1 \$11.83 per month. For non-heating residential customers, the annual USC is \$51.00, and
2 residential heating customers pay a yearly USC of \$158.00. The Universal Service
3 administrative costs for FY 2003 are approximately \$3 million. This includes the
4 administrative costs of the CRP (collections, intake, recertification, phone calls, special
5 mailings, etc), LIHEAP (outreach campaign), and CWP (evaluation). The estimated cost
6 for FY 2004 is also \$3 million.

7 4) How was the 20% discount derived?

8 Answer: The 20% discount was authorized by Philadelphia City Council
9 Ordinance, as a policy judgment rendered by the elected representatives of the people of
10 Philadelphia, and approved by the Philadelphia Gas Commission when the program was
11 first instituted in the early 1970s. PGW did not think it would be appropriate to change
12 the level of discount that had historically been applied when it filed its petition to
13 implement a means tested program. Having different discounts for similarly situated
14 senior citizens, the only difference being those who turned 65 before September 1, 2003
15 and those who reached that age after that date, would seem ill-conceived and would be
16 administratively burdensome.

17 5) While the Settlement Petition states that the yearly cost of the means-tested
18 SCD would be between \$366,500 and \$371,316, it fails to estimate the total cost of the
19 Program for the general body of ratepayers in later years:

20 What is the estimated cumulative cost for the means-tested SCD
21 Program in each year through 2020?

22 What is the combined estimated cumulative cost of the means-
23 tested SCD Program and the non-means-tested SCD Program in
24 each year through 2020?

25 What are the anticipated costs of the proposed audit and efficacy
26 calculation of the means-tested SCD Program and how was this
27 amount developed?

1 Answer: The estimated total cost of the program was stated in Ms. Coltro's
2 testimony in the SCD Proceeding at page 2 of Exhibit SCD/CC-2.² The estimated total
3 cost is expressed in the "Option 4d" table for years 2005 through 2020. In that table, the
4 Company estimated the total cost of the means tested SCD program through year 2020.
5 This cost included the discounts applied to customers who had been grandfathered, as
6 well as those means tested customers. However, that total cost was based on a cost per
7 unit of gas that reflected the 2001 forecast, which did not foresee the rise in natural gas
8 costs that we are now experiencing.

9 In order to revise the figures to include updated gas costs and participation levels,
10 a revised exhibit, Exhibit CP/CC-2, was prepared and is attached hereto. The main
11 changes are:

12 On Table 1 of page 1, the participation level for the grandfathered
13 participants has been updated to reflect current figures. The SCD
14 participation level has been reduced due to the senior audit process
15 PGW implemented in February of 2004.

16 Line 7 of Table 2, page 1, the average estimated bill for FY 2004
17 has been updated to reflect current gas cost rates. Consequently,
18 lines 8, 9, and 13 were also changed.

19 Lines 2 to 8 of Table 3, page 1, were also changed to reflect the
20 updated estimated bill for FY 2004.

21 Line 5 of Table 3, page 1, was modified to exclude grants received
22 by non-heating customers. These customers are most likely not
23 eligible to receive a LIHEAP grant.

24 Based on these updates, the total yearly cost for the means tested program is now
25 \$365,421. That is \$357,651 for heating and \$7,770 for non heating customers.

² See Appendix A.

1 Tables "Option 3a and Option 4d," on page 2 of the Exhibit CP/CC-2, are also
2 revised from the prior exhibit. The main changes are:

3 Participation levels and costs are shown on a yearly basis rather
4 than a five year incremental. Also, participation levels for table
5 "Option 4d" have been adjusted to reflect more accurate levels, by
6 accounting for those customers who will either chose CRP over the
7 SCD or not apply, as detailed in my SCD Proceeding testimony
8 and in response to question 7 below.

9 The discount is not broken down by the GCR and Base Discount
10 components. PGW no longer recovers the discount via the GCR
11 and Base Rate. Rather, the discount is recovered entirely in the
12 USC.

13 In this table, the discount is a product of the program population by
14 the dollar per unit cost for 100 Mcf.

15 Table "Option 3a" shows the cost of the program if it is phased out
16 and no new participants are allowed into it. That means that only
17 grandfathered customers participate. By year 2020, the program is
18 estimated to cost approximately \$3.0 million.

19 Table "Option 4d" shows the total cost of the program if
20 grandfathered and means tested participants are allowed to receive
21 the discount. By year 2020, such a program is estimated to cost
22 approximately \$9.5 million.

23 As to the senior audit program, the out-of-pocket cost of the audit program to date
24 is approximately \$10,000. PGW has not quantified the remaining administrative cost of
25 implementing the audit, which is still ongoing, but believes the cost is not significant.

26 Although not complete, the audit process estimates that approximately 8,500 customers
27 will be removed from the SCD program in 2004. This decline in participation level could
28 represent a potential savings of \$2.5 million. The figures in Exhibit CP/CC-2 reflect this
29 reduction in participation level and in cost.

30 6) What is the estimated cost per mcf of the means-tested SCD and non-means-
31 tested SCD for each year through 2020? What is the monthly average consumption (Ccf)
32 per residential heating and non-heating customers?

1 Answer: For the first part of this question, please see Exhibit CP/CC-2 and my
2 response to question 5 above. The requested monthly average consumption data is set
3 forth in Exhibit CP/CC-1. Non-heating residential customers use on average 31.4 Mcf
4 annually, or 2.61 Mcf monthly. Residential heating customers use on average 97.8 Mcf
5 annually, or 8.15 Mcf monthly.

6 7) How did PGW determine that the new means-tested SCD would result in
7 1,300 applicants being enrolled each year?

8 Answer: The calculation of the 1,300 was described at page 6 of my SCD
9 Proceeding testimony and at Exhibit SCD/CC-2, page 1, table 2.³ This figure was
10 calculated based on H. Gil Peach's analysis of PGW's SCD program.⁴ In his study, Dr.
11 Peach estimated that there would be 37,398 new eligible participants added in the means
12 tested programs from 2002 to 2020. This represents about 2,078 customers for each of the
13 18 years. Of those customers, it is assumed that 30% are below 150% of the FPL and
14 would rather participate in the CRP program. Another 7% would choose not to apply for
15 the program. That would leave an estimated 1,309 customers who would enroll in the
16 means tested program each year on average basis.

17 8) In its Petition at Docket No. R-0004915 seeking to establish a "cash receipts
18 reconciliation clause" ("CRRC"), PGW asserts that:

19 It is in a "precarious financial position." (CRRC Petition at 2).

20 "[H]ousehold and business income levels continue to drop [in
21 Philadelphia], making it increasingly difficult for those customers
22 to absorb such increases [in the commodity price of natural gas]."
23 (*Id.*).

³ See Appendix A.

⁴ *Id.* at PGW Exh. SCD/CC-4.

1 “[P]rice levels are projected to remain at close to the current levels
2 for the foreseeable future.” (CRRC Petition at 3).

3 Due to these persistently high prices, an increasing number of
4 formerly “good paying” residential and small business customers
5 are now having difficulty paying their bills. (*Id.* at 8).

6 For the purposes of this proceeding, the foregoing assertions in the CRRC
7 Petition are relevant to whether the general body of customer can afford to pay for
8 the proposed means-tested SCD. The parties should either stipulate to these
9 assertions or develop a record setting forth their position on the allegations.

10 Answer: PGW has no problem stipulating to the assertions quoted by the
11 Commission, and firmly believes them to be true statements of fact. The Company
12 strongly disagrees, though, with the implied notion that the means tested SCD would be
13 beyond the ability of the general body of customers to absorb or that it will exacerbate the
14 Company’s uncollectibles and cash receipts problems.

15 First of all, as demonstrated in Exhibit CP/CC-2, Table 3, the estimated amount
16 of the means tested discount on an annual basis is slightly over \$365,000. This figure is
17 not a material amount in terms of the Company’s cash receipts and collections crisis,
18 from which it could be facing a cash deficit of up to \$47 million.⁵ Moreover, this amount
19 is not a material amount to have to spread over nearly 351,000 customers. The
20 incremental change in the general body of customers’ bills would be negligible.

21 Second, the SCD could actually enhance the Company’s receipts as a percentage
22 of amounts billed. This could occur because those customers receiving the 20% discount
23 may be more likely to pay a higher percentage of their total bills, while the total bill
24 payment percentage of the general body of customers would be largely unaffected given
25 the *de minimis* increase in their bills resulting from the \$365,000 in means tested senior

⁵ CRRC Proceeding, PGW St. CRRC-1, Exh. JRB-6.

1 discounts. The only way in which the means tested SCD could have any impact on the
2 Company's cash receipts and collections levels would be if the Commission *assumed* that
3 senior citizens as a general rule have a better payment record than non-senior citizen
4 customers. PGW has absolutely no evidence to prove such an assumption, and none
5 exists in any of the records incorporated into this proceeding. Moreover, such an
6 assumption is counter-intuitive considering the fact that senior citizens are typically on
7 fixed incomes, often disabled or in poor health and disproportionately low or lower
8 income.

9 Finally, even assuming that senior citizens do have superior payment habits *vis a*
10 *vis* non-senior customers, the degree of difference and the amount of dollars involved
11 would not impact, in any material way, PGW's cash working capital situation. Again, we
12 are talking about approximately \$365,000 at issue annually spread across the general
13 customer base. Further, using PGW's historic collections level of approximately 92% as
14 the level of payment to be expected from non-seniors, the assumed enhanced senior
15 citizen payment level (of which there is no evidence) could only be one or two
16 percentage points higher, or roughly 94%. So, under this *hypothetical*, if there were no
17 means tested SCD, PGW could expect to collect an additional 1–2% of \$365,000 each
18 year. Being without those funds can hardly be said to contribute to the Company's cash
19 receipts crisis. Moreover, as a policy matter, the cost/benefit analysis – already
20 performed on an initial level by the elected representatives of PGW's customers and the
21 citizens of Philadelphia – would clearly show that providing the discount to needy seniors
22 far outweighs the *de minimis* cost both to the Company and the remaining customers.

1 **III. COSTS, MANAGEMENT AND COST EFFECTIVENESS OF PGW'S**
2 **UNIVERSAL SERVICE PROGRAM**

3 **Q. PLEASE GENERALLY COMMENT ON PGW'S UNIVERSAL SERVICE**
4 **PROGRAM, AND STATE WHETHER IT IS DIFFERENT FROM OTHER**
5 **UTILITIES' PROGRAMS?**

6 A. In general format, the main elements of the program – CRP, CWP, and LIHEAP outreach
7 – are identical to the PUC-mandated programs offered by other Pennsylvania utilities.
8 The most significant difference is that the size and cost of PGW's program, which is
9 driven by the demographics and *need* of PGW's customer base, is substantially larger
10 than that of the other utilities. One cannot evaluate PGW's universal service program or
11 its relation to PGW's broader operations without understanding the broader context. As
12 described in the testimony of H. Gilbert Peach in PGW's CRRC Proceeding,
13 Philadelphia's demographics are unique among the service territories of Pennsylvania
14 utilities.⁶ PGW serves only the City, not the suburbs. We have few large commercial or
15 industrial customers, and have the largest low-income population in the state, including
16 fully one half of the welfare recipients in the state. As Dr. Peach testified, real income
17 among all sectors of the population is eroding and has been doing so for years.⁷ The level
18 of poverty in Philadelphia and the lack of a growing, wealthy customer base –
19 commercial or residential – place extreme pressure on the universal service programs, on
20 the Company, and on those customers who must provide the funds for the program.

⁶ See CRRC Proceeding, PGW St. CRRC-4 and CRRC-4R.

⁷ *Id.*

1 **Customer Responsibility Program**

2 **Q. PLEASE DESCRIBE THE CUSTOMER RESPONSIBILITY PROGRAM.**

3 A. The CRP is a percentage of income plan open to all residential customers with a
4 household income of 150% or less of the federal poverty standard. The specific details of
5 the program's design and requirements were addressed in my testimony in PGW's
6 Restructuring Proceeding. A copy of that testimony is attached hereto as Appendix B.
7 Originally designed in 1989 and modified in the early 1990s, the intent of the program
8 has been to provide low-income customers with an affordable payment while ensuring
9 that that payment was sufficient to pay for the variable cost of providing the service
10 (principally natural gas cost) and make at least a minimum contribution to the Company's
11 fixed costs. If the customer is able to make the payments consistently, PGW avoids the
12 costs of collection, shut-off and restoration. So long as the payments meet those goals,
13 all customers benefit when the low-income customer remains on the system.

14 **Q. DOES THE PROGRAM MEET THOSE GOALS?**

15 A. The program did meet its goals until the recent dramatic increase in the price of natural
16 gas. CRP customer payments, which remain as a percentage of the customer's income,
17 without regard to the price of gas, no longer meet those goals. While PGW is committed
18 to continuing the program, consistent with the Commission's universal service objectives,
19 it is clear that review and revision of the program is appropriate. I do not believe,
20 however, that such a complex task can be accomplished in the course of this proceeding.
21 PGW intends to conduct a full review of the program and propose to this Commission a
22 new design.

1 **Q. WHAT IS THE SIZE OF THE CRP?**

2 A. PGW's CRP is the largest gas customer assistance program in the State. Due to its
3 customer base, PGW has approximately 65,000 customers enrolled in the program at the
4 present time, though that number fluctuates between the current number of participants
5 and approximately 50,000. It is estimated that approximately 90,000 PGW customers
6 would qualify for this benefit if they applied.

7 **Q. IS IT APPROPRIATE TO REDUCE THE SIZE OF THE CRP?**

8 A. Reducing the CRP participation level is not a sound policy. Initially it would reduce the
9 burden of the Universal Service Charge, and therefore the bills of all other customers, but
10 bad debt would increase because low-income participants would not be able to afford the
11 bills, there would be more customers gaming the system (name game), an increase in the
12 number of shut-offs and social dislocation, and ultimately rates would go up dramatically
13 – assuming that those customers remained on the system or were able to restore service.

14 **Q. DESCRIBE THE BASIC MANAGEMENT COMPONENTS FOR OPERATION**
15 **OF CRP.**

16 A. Applicants must visit one of PGW's Customer Service Centers to apply for CRP. They
17 must bring identification, including social security numbers and proof of income for all
18 members of the household. The appropriate data must be entered in the billing system to
19 bill the account as CRP. All participants are required to recertify each year. The process
20 involves up to three mail notices and one phone attempt to remind the customer to
21 recertify. Customers have the option to recertify by mail or in person. Proof of household
22 income and social security numbers are required. Documentation and forms are stored as
23 records in the billing system and updated with revised information.

1 Collection activity occurs for all CRP customers who fall behind more than one
2 payment. The process is based on PUC guidelines and includes mail and field notices, as
3 well as phone attempts.

4 CRP training is offered frequently to all Customer Service Representatives.
5 Program monitoring and evaluation are performed according to PUC guidelines,
6 including quarterly and yearly PUC reporting requirements.

7 **Conservation Works Program**

8 **Q. PLEASE DESCRIBE THE CONSERVATION WORKS PROGRAM.**

9 A. The Conservation Works Program, PGW's LIURP program, provides cost-effective
10 conservation and weatherization services to those low-income heating customers who
11 qualify. PGW does not perform the actual weatherization work, but contracts with the
12 Energy Coordinating Agency, a respected non-profit organization, and the Honeywell
13 DMC Services Corporation to do the work. Annual cost for the program is \$2 million.

14 **Q. HAS THIS COMMISSION PREVIOUSLY REVIEWED THE PERFORMANCE**
15 **OF THIS PROGRAM?**

16 A. No. PGW has not submitted reports concerning the program since the approval of its
17 restructuring filing. Although some conservation and LIURP related reports were
18 submitted during the past few months, the major reports are not due until April of 2005.
19 Nonetheless, PGW has historically conducted evaluations of the program as required
20 under its previous tariff. These impact evaluations have been conducted by outside
21 professional evaluators. A copy of the latest CWP evaluation, conducted in 2001, was
22 submitted as an exhibit to my restructuring filing testimony.

1 **Universal Service Program Costs**

2 **Q. WHAT ARE THE ADMINISTRATIVE COSTS FOR THE UNIVERSAL**
3 **SERVICE PROGRAM?**

4 A. The Universal Service Program administrative costs for FY 2003 is approximately \$3
5 million. That figure includes the administrative costs of CRP for collections, intake,
6 recertification, phone calls, and special mailings. It also includes the cost of the LIHEAP
7 outreach campaign, and the Conservation Works Program (CWP) evaluation. The
8 estimated cost for FY 2004 is also \$3 million and includes the senior audit program.
9 PGW's average administrative cost for CRP alone is \$50 per participant (\$3
10 million/60,000, the average participation per year.) There were 65,000 participants as of
11 April 2004, but the average for the year is expected at 60,000. This cost is lower than the
12 costs of the gas CAP programs offered by the other top three Pennsylvania utilities. The
13 administrative costs for these other utilities range between \$62 and \$84 per participant.
14 This information can be obtained in the "Report on 2002 Universal Service Programs &
15 Collections Performance of the PUC."

16 **Q. CAN YOU PROVIDE A BREAKDOWN OF THOSE COST ELEMENTS?**

17 A. Most of the administrative costs associated with the CRP program include intake,
18 recertification, call center, system maintenance, and labor associated with these efforts.

19 **Q. WHAT HAS PGW DONE TO CONTROL THESE COSTS?**

20 A. PGW strives to reduce its Universal Service Program administrative costs, including
21 those for the CRP. PGW has streamlined and automated the CRP recertification process
22 in the past several months. This new process reduced the manual intervention previously
23 employed for mailing recertification notices and monitoring the outcome of the process.
24 It also allowed more customers to recertify via mail which reduced the overall time spent

1 on customers at the Customer Service Centers. PGW is looking at other means to further
2 reduce administrative costs for CRP intake and recertification. Currently, PGW is
3 working with the Department of Public Welfare to identify means of expediting the CRP
4 recertification process. This process would allow a precise, yet simpler, recertification
5 process for all CRP participants who also receive public assistance.

6 PGW has also streamlined the CRP collections process. Unlike in the past, PGW
7 has now a fully automated CRP collections process that selects and issues the appropriate
8 notices. In addition, PGW has an aggressive and successful LIHEAP outreach program.
9 Receipt of LIHEAP grants helps to reduce net costs of the program.

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

11 **A. Yes.**

CONSOLIDATED PROCEEDING

A. Senior Discount Remand A. (3)

	FY 05 Forecasted Customers *	Average Usage (Mcf)	Yearly Usage (Mcf)	USC Charge Effective 6/1/04	Yearly USC Charge	Yearly Administration Cost In Base Rate	Yearly Cost In Base Rate	Yearly Charge Per Customer	Average Monthly Charge Per Customer
Residential Non Heating Customer	52,906	31.4	1,661,498	\$ 1,6129	\$ 51	\$ 0.0508	\$	2	\$ 4.35
Residential Heating Customer	297,794	97.8	29,131,005	\$ 1,6129	\$ 158	\$ 0.0508	\$	5	\$ 13.56
Average Residential Customer	350,700	87.8	30,792,503	\$ 1,6129	\$ 142	\$ 0.0508	\$	4	\$ 12.17

* Excludes Senior Citizen and CRP customers.

EXHIBIT CP/CC-2

Senior Citizen Discount - Proposed Means Tested Program

Table 1: Program Population Scenario

Program Population Scenario				
	Year	Only Grandfathered	Grandfathered & Means Tested	Pop. of Means Tested (< 250% of FPL)
		(Option 3)	(Option 4d)	
1	2004	65,000	65,000	0
2	2005	64,000	70,229	6,229
3	2010	41,893	58,787	16,894
4	2015	23,735	51,676	27,940
5	2020	11,020	48,418	37,398

Notes: See page 2 of SCD/CC-2 for detailed data.

Table 2: Calculation of Proposed Program Participation Level

	Total
1 PGW Senior Discount Accounts (Current)	65,000
2 Estimated # of Incremental Seniors < 250% of the FPL by 2020	37,398
3 Maximum # of Yearly Participants	2,078
4 Assumes 30% is =< 150% of the FPL and may choose CRP	623
5 Assumes 7% does not participate	145
6 Estimated # of Yearly Participants	1,309
7 Estimated Avg. Bill (2004)	\$ 1,485
8 20% Discount	297
9 Total Discount	\$ 388,751
10 LIHEAP eligible (25%)	327
11 LIHEAP Funds (\$200 grant)	\$ 65,446
12 Expected LIHEAP grants	\$ 42,540
13 LIHEAP Expected LIHEAP/Total Discount	0.11

Notes:

- Line 1: The senior discount participation level has dropped due to the senior audit currently being performed.
- Line 2: Data from Table 1, line 5, the Population of Means Tested seniors in year 2020.
- Line 3: Yearly average population (Line 2 divided by 18 years)
- Line 7: Estimated average average yearly bill based on 100 Mcf per year for FY 2004
- Line 10: Estimated number of LIHEAP eligible (25% of population < 150% of the Federal Poverty Levels (FPL))
- Line 12: Estimated grant amount based on 65% LIHEAP participation level.

Table 3: Revised Calculation for Heat and Non-Heat

	Heating	Non-Heating	Total
1 Number of New Participants by heating and Non-Heating	1,204	105	
2 Estimated Avg. Bill (2004)	\$ 1,485	\$ 371	
3 20% Discount	297	74.2	
4 Total Discount	\$ 357,651	\$ 7,770	\$ 365,421
5 LIHEAP eligible (25%)	301	N/A	
6 LIHEAP Funds (\$200 grant)	\$ 60,211	\$ -	\$ 60,211
7 Expected LIHEAP grants	\$ 39,137	\$ -	\$ 39,137
8 LIHEAP Funds/Discount	0.11	-	0.11

Notes:

- Line 2: Estimated average yearly bill for 100 Mcf heating and 25 Mcf non-heating for FY 2004
- Line 5: Estimated number of LIHEAP eligible (25% of heating population < 150% of the Federal Poverty Levels (FPL))
- Line 7: Estimated grant amount based on 65% LIHEAP participation level.

Option 3a: Slow Phase Out	(1) Program phased out; no new participants are permitted to enter. (2) Program continues for current participants (grandfathered). (3) Revenue impact is calculated based on estimated sales of:			
		100 MCF/Year		
Year	Program Population	\$/Unit Cost*	Yearly Bill	Discount recovered in the USS
2004	65,000	\$ 14.84	\$96,481,450	\$19,296,290
2005	64,000	\$15.34	\$98,168,320	\$19,633,664
2006	59,579	\$14.53	\$86,568,803	\$17,313,761
2007	55,157	\$14.10	\$77,796,538	\$15,559,308
2008	50,736	\$13.88	\$70,405,424	\$14,081,085
2009	46,314	\$13.81	\$63,975,218	\$12,795,044
2010	41,893	\$13.77	\$57,690,373	\$11,538,075
2011	38,261	\$13.77	\$52,689,488	\$10,537,898
2012	34,630	\$13.77	\$47,688,603	\$9,537,721
2013	30,998	\$13.77	\$42,687,718	\$8,537,544
2014	27,367	\$13.77	\$37,686,833	\$7,537,367
2015	23,735	\$13.77	\$32,685,947	\$6,537,189
2016	21,192	\$13.77	\$29,183,858	\$5,836,772
2017	18,649	\$13.77	\$25,681,769	\$5,136,354
2018	16,106	\$13.77	\$22,179,679	\$4,435,936
2019	13,563	\$13.77	\$18,677,590	\$3,735,518
2020	11,020	\$13.77	\$15,175,501	\$3,035,100

* \$/Unit Cost includes the supply and delivery charges for 100 MCF/year usage.
USS is the Universal Service Surcharge.

Option 4d: Means Test New at Median	(1) Program continues for current participants (grandfathered). (2) New participants are means tested (<median income). (3) Revenue impact is calculated based on estimated sales of:			
		100 MCF/Year		
	Program Population	\$/Unit Cost	Yearly Bill	Discount recovered in the USS
2004	65,000	\$ 14.84	\$96,481,450	\$19,296,290
2005	67,927	\$15.34	\$104,191,867	\$20,838,373
2006	64,815	\$14.53	\$94,176,818	\$18,835,364
2007	61,702	\$14.10	\$87,027,971	\$17,405,594
2008	58,590	\$13.88	\$81,304,377	\$16,260,875
2009	55,477	\$13.81	\$76,632,391	\$15,326,478
2010	52,365	\$13.77	\$72,111,397	\$14,422,279
2011	50,042	\$13.77	\$68,913,140	\$13,782,628
2012	47,720	\$13.77	\$65,714,882	\$13,142,976
2013	45,397	\$13.77	\$62,516,625	\$12,503,325
2014	43,075	\$13.77	\$59,318,368	\$11,863,674
2015	40,752	\$13.77	\$56,120,111	\$11,224,022
2016	39,518	\$13.77	\$54,420,649	\$10,884,130
2017	38,284	\$13.77	\$52,721,188	\$10,544,238
2018	37,050	\$13.77	\$51,021,727	\$10,204,345
2019	35,816	\$13.77	\$49,322,265	\$9,864,453
2020	34,582	\$13.77	\$47,622,804	\$9,524,561

Data from H. Gil Peach, Ph.D., in his analysis of PGW's SCD. PGW Exh. CC-4
Revised based on current participation level, rates, and recovery mechanism (USS).

APPENDIX A

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

DIRECT TESTIMONY OF

CRISTINA COLTRO

**ON BEHALF OF
PHILADELPHIA GAS WORKS**

**PETITION FOR RESCISSION AND AMENDMENT
OF PHILADELPHIA GAS WORKS**

DOCKET NOS. M-00021612 & P-00032061

NOVEMBER 25, 2003

I. QUALIFICATIONS & PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Cristina Coltro and my business address is 800 W. Montgomery Avenue, Philadelphia, PA 19122.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by the Philadelphia Gas Works ("PGW" or the "Company") as the Manager of Universal Service Programs.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. My resume, which describes my educational background and work experience, is attached and marked as Exhibit SCD/CC-1.

Q. HAVE YOU EVER PROVIDED TESTIMONY TO THIS COMMISSION BEFORE?

A. Yes, I provided direct and rebuttal testimony in PGW's Restructuring Proceeding which is related to this matter. In that proceeding, I described PGW's existing low-income energy assistance programs and explained how PGW planned to adapt its then-existing programs to meet the Commission's Universal Service Guidelines under the Natural Gas Choice Act and the Commission's Policy Statement at 52 Pa. Code § 69.265. My testimony also addressed PGW's Senior Citizen Discount ("SCD").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony will discuss the change in circumstances and the events that lead to PGW's proposing a means tested SCD for new applicants, after September 1, 2003. In addition, I will address the need and justification for a continuing, means tested SCD, and explain the specific proposal put forth by the Company,

after consultation with the City administration, Philadelphia City Council and representatives of senior citizen advocacy organizations. I will also explain how PGW plans to administer and monitor the program.

II. BACKGROUND

Q. AS AN INITIAL MATTER PLEASE PROVIDE RELEVANT BACKGROUND ON PGW'S ENERGY ASSISTANCE PROGRAMS.

A. PGW has been in the forefront of providing services to low-income customers since the 1970's. For decades, PGW has offered payment assistance and energy conservation programs to its low-income customers. PGW's current energy assistance programs include the Customer Responsibility Program ("CRP"), a customer assistance program, the Conservation Works Program ("CWP"), a conservation and weatherization program, LIHEAP Outreach, the Hardship Fund, through the Utility Emergency Services Fund ("UESF"), and the Senior Citizen Discount Program.

Through these programs, PGW has been successful in keeping thousands of low-income residents on the system while maximizing the amounts collected from these customers. Over the past decade, the CRP has matured into one of the largest low-income customer assistance programs in the State.

In this regard, PGW is well ahead of other Pennsylvania gas distribution companies in implementing a CRP program, which under this Commission's parlance is known as a Customer Assistance Plan or CAP. While other Pennsylvania gas distribution companies are in the early stages of CAP development, PGW has vast experience in this area, given its mature program

with higher participation levels than any other comparable program in Pennsylvania.

Q. PLEASE PROVIDE SOME BACKGROUND ON THE SENIOR CITIZEN DISCOUNT.

A. PGW has been providing a Senior Discount since the early '70's when it was authorized by City Council Ordinance and approved by the Philadelphia Gas Commission. The SCD presently has some 77,000 participants who are receiving a discount on their total PGW gas bill of 20%. Customers who were in the program as of September 1, 2003 receive the discount on a non-means tested basis, that is, any customer 65 or older receives the discount. I am informed that, upon the passage of the Gas Choice Act, jurisdiction over new applicants for SCD (i.e., those who apply for service after September 1, 2003) was placed with the PUC. I am also informed that customers who entered the program prior to September 1, 2003 are grandfathered, that is only Philadelphia City Council can alter the terms and conditions of the program for grandfathered customers.

Q. WHAT WAS PGW'S POSITION IN THE RESTRUCTURING PROCEEDING REGARDING THE SCD?

A. PGW maintained that all senior citizen customers who were receiving the SCD as of September 1, 2003, the effective date of PGW's restructuring plan, would be grandfathered and continue to receive the SCD, but that the program would be closed to new applicants. PGW's initial proposal in this matter, to discontinue the current SCD as of September 1, 2003 (the restructuring implementation date), was driven by the concern that a non-means tested, generally available SCD increased the rates for non-senior residential, commercial and industrial firm customers without adequate justification. This was consistent with the recommendations of

the PUC's Management Auditors who had recommended that the SCD be eliminated and that any discounts be need-based.¹ PGW believed that, the neediest seniors, those at or below 150% of poverty, would receive adequate assistance via the CRP Program.

Q. HAS THE COMPANY'S POSITION REGARDING THE SENIOR DISCOUNT CHANGED?

A. Yes. After the issuance of the Commission's Restructuring Order, Philadelphia City Council passed two ordinances addressing the SCD. City Council called for the continuation of PGW's SCD for all seniors even after restructuring, and it also directed the Company, in any proposed rate filing with the PUC, to request approval of an SCD in its pre-restructuring form. While I understand that PGW is not directly governed by City Council, the Company recognized City Council's voice as the elected representatives of the people of Philadelphia, the vast majority of whom are PGW's customers, and desired to respond to it on this important issue for the welfare of the City's seniors.

As a result, PGW engaged in discussions on the SCD with City Council, members of the City Administration, and representatives of senior citizen advocacy groups. These discussions produced a negotiated solution that both provided assistance to needy seniors, and remained cognizant of the burdens imposed on other ratepayers. City Council subsequently passed a resolution making clear that it found the negotiated, means tested SCD acceptable.

¹ PUC Management Audit Report at VIII-38. The advantages of a needs based approach were also discussed by H. Gil Peach, Ph.D., in his analysis of PGW's SCD. PGW Exh. CC-4 at 21.

Q. PLEASE DESCRIBE THE PLAN THAT WAS ARRIVED AT WITH CITY COUNCIL, CITY ADMINISTRATION AND SENIOR ADVOCACY GROUPS.

A. The agreed upon plan is means tested: a 20% SCD would be available for newly applying seniors 65 years of age or older, whose household income regardless of family size does not exceed 250% of the federal poverty level for a two person family (currently \$30,300.00). Low-income seniors who qualify for PGW's CRP program, that provides discounts to people with income no higher than 150% of poverty, could, in the alternative, qualify to receive assistance through the CRP program. PGW plans to recommend that the senior customer enroll in the program that is the most affordable for the household. No customer will be required to enroll in one program verses another.

Q. HOW MANY SENIORS WOULD BE ELIGIBLE FOR ASSISTANCE UNDER THE PROPOSED SCD ANNUALLY AND OVER THE NEXT 15-20 YEARS?

A. We estimate that, with the appropriate publicity on the discount, an average of about 1,300 new participants would enroll in the means tested SCD each year. I estimate that we will experience this same level of new participants, on average, over the next 15 or so years. This figure recognizes that a percentage of the eligible participants will instead decide to participate in the CRP program or not participate all together. This estimate is shown on Exhibit SCD/CC-2.

Q. WHAT WILL BE THE ANTICIPATED COST TO PROVIDE THOSE CUSTOMERS WITH A MEANS TESTED SCD?

A. PGW estimates that keeping the discount open on this means tested basis would result in additional discounts of about \$366,000 annually. That calculation is also Exhibit SCD/CC-2 to my testimony. For the purposes of this testimony I have

✓ calculated a more precise estimate of the levels and associated costs for the program. The principal adjustment that I have made is to make a distinction between heating and non-heating customers and to thereby calculate a cost of the discount, recognizing that about 8% of PGW's residential customers are non-heating customers.

On a long term basis, we estimate that, by the year 2020, the program, in total, will have approximately 49,000 customers (compared to the present 77,000).

Over this period, switching to a means tested discount as we are now proposing will reduce the total amount paid by other customers if the program had remained open on a non-means tested basis from an estimated \$14.8 million to an estimated \$8.4 million. On the other hand, if the program remains closed to new participants as of September 1, 2003, the cost in the year 2020 is estimated to be \$2 million. The detail for these estimates are shown on Dr. Peach's earlier study of PGW's SCD options 1 and 3a. This study is attached hereto Exh. SCD/CC-4.

Q. HOW DOES PGW RECOVER THE DISCOUNTS PROVIDED UNDER THE SCD?

A. The discounts are funded by charges to all other firm customers on a dollar-for-dollar basis through its Universal Service Charge (USC). The USC was approved in PGW's Restructuring tariff (which went into effect on September 1st).² If the PUC approves the new means-tested SCD, the discounts will be recovered in the USC from all firm customers. I am informed that, as a result of this recovery mechanism, there is no earnings or cash flow effect on the Company.

² The Commission approved PGW's Restructuring Compliance Tariff at the September 18, 2003 Public Meeting. The USC appears on page 81 of Tariff No 2.

Q. DO YOU ANTICIPATE ANY SIGNIFICANT COSTS TO ADMINISTER THE MEANS TESTED SCD?

A. Some system costs will need to be incurred. We already administer an SCD for the grandfathered customers, and therefore the Company should be able to apply the discount through the billing system to eligible seniors without any material additional expense or effort and without any additional staffing needs. On the other hand, the Company plans to install a system that will permit service representatives to input data and determine eligibility for the discount on a mechanical basis. The cost of this system is estimated at \$30,000 in one time costs. In addition, there will be some incremental costs to process applications and verify income eligibility, but in all instances the incremental cost is very small as the Company will be interacting with these customers under any circumstances.

Q. HOW WILL PGW VERIFY AN APPLICANT'S INCOME ELIGIBILITY?

A. When a person applies, he or she will be asked to provide proof of income and social security numbers for all members of the household. If the Service Representative is able to verify the applicant's eligibility from those documents and information, the applicant will be placed in the SCD. PGW intends to utilize the Guidelines published by Commonwealth of Pennsylvania Low-Income Home Energy Assistance Program Fiscal Year 2004 Final State Plan. I have attached those Guidelines to my testimony as Exh. SCD/CC-3. The Service Representative will be able to request a further investigation of the income eligibility information if any of the data presented prompts concern about authenticity or eligibility. In order to establish an audit trail, PGW will make

copies of all income verification documents and maintain those documents for retrieval and review as necessary.

Q. HOW WILL PGW ENSURE THAT RECIPIENTS CONTINUE TO REMAIN ELIGIBLE

A. PGW is about to begin a quarterly survey of all SCD participants to determine whether they continue to live in the household and therefore whether the location continues to justify receiving the discount. This audit will also be applied to any new, means-tested SCD participants. PGW does not plan to require seniors to periodically recertify their income eligibility because the benefits would not appear to outweigh the costs of such a process. In our experience, a senior's income level doesn't change materially from year to year and there will be a relatively small number of seniors who will participate in the means-tested SCD.

Q. WILL SENIORS WHO ARE ELIGIBLE FOR THE CRP PROGRAM ALSO BE ELIGIBLE FOR THE MEANS TESTED SCD?

A. Not concurrently; they will be enrolled in either one or the other, depending on which produces the more affordable charges for the customer.

Q. DOES PGW HAVE ANY PLANS FOR OFFSETTING THE COSTS OF THE MEANS TESTED SCD?

A. Yes, we plan to apply any LIHEAP grants we receive from customers who participate in the means-tested SCD as an offset to the discounts resulting from the program. This is consistent with the design of the CRP program where LIHEAP cash grants are used to offset the discounts provided through that program. We estimate that 25% of the participants will be eligible for a LIHEAP cash grant. This would result in an additional \$65,000 in LIHEAP cash grants. Based upon historic evidence, approximately 60-65% of CRP customers apply for

and assign their LIHEAP cash grant to PGW. If the same percentage of SCD customers applied their grants to the company that would result in PGW collecting approximately \$42,500 in cash grants from these customers annually.

Q. HOW WAS IT DETERMINED THAT 250% OF THE FEDERAL POVERTY LEVEL WOULD BE THE CUT-OFF FOR THE MEANS TESTED SCD?

A. The figure was both a product of negotiation and an assessment of need. As I testified, the ordinances passed by City Council called for the full scale continuation of PGW's pre-restructuring SCD, which provided a 20% discount to every customer 65 and older regardless of need. The representatives of the senior citizen advocacy groups strongly supported the largest possible application of the SCD. As a counter-balance, PGW sought to address the needs of lower income seniors, while also remaining sensitive to the rates paid by non-seniors who would support the SCD. The result of these divergent views was the compromise eligibility figure of 250% of the federal poverty level for a two person household, regardless of household size. This figure was also supported by PGW's independent review of its universal service programs conducted for and used in the Restructuring Proceeding.

Q. IS THERE SUPPORT FOR PGW'S PROPOSAL IN OTHER STATE OR CITY ASSISTANCE PROGRAMS?

A. Yes, society has recognized the need to assist senior citizens in a variety of contexts. Most directly on point, I understand from published reports that Consumers Power Company, a Michigan electric utility, offers an income based SCD. Further, the proposed SCD is similar to the discount plan that is presently offered by the Philadelphia Water Department. (The Water Department's income

cut-off is \$23,600, however). Both PGW and the Water Department's Senior Discounts would direct the benefits to senior citizens who are still likely to be in need of assistance, but who would not qualify for existing low income assistance programs. I also understand that the proposed income limit is similar to the recently proposed increased income eligibility requirements for the PACE and PACENET Prescription Drug Discount Plan, although the PACENET eligibility level would be lower (\$22,800 for a one person household).

Generally speaking, other examples of subsidies for senior citizens exist in many areas. These examples include the Pennsylvania Senior Citizen Property Tax Assistance Act, which provides property tax or rent rebates to seniors 65 years or older, a Pennsylvania law mandating discounts on automobile insurance for persons age 55 or older, and discounts or reduced fees for motor vehicle registrations, public transportation, including SEPTA, and even dog licenses.

Q. AS YOU ARE AWARE, NO OTHER NATURAL GAS COMPANY IN PENNSYLVANIA HAS A SCD. CAN YOU PLEASE EXPLAIN WHY YOU BELIEVE THAT A MEANS TESTED SCD IS JUSTIFIED FOR PGW?

A. The most straightforward answer is that PGW is unique among natural gas distribution companies, given its municipal status, history and its customer base. By proposing this means tested SCD, PGW is really responding to the needs and desires of its customers. As I explained, Philadelphia City Council, the democratically elected, legislative representatives of PGW's customers, has expressed the people's desire to continue to provide financial assistance to those senior citizens who are needy and who have difficulty paying their gas bills. All of PGW's customers are either residents of Philadelphia or businesses located in the City. They all have access to their representatives on City Council to express

their opinions and views on a variety of issues, including the type of assistance the public should afford the City's needy seniors. The City Council gave voice to the concerns of those customers, and PGW has responded.

Additionally, PGW, unlike most if not all other natural gas distribution companies, has a significant senior citizen population that overlaps with the substantial level of poverty suffered by its customer base. As the City Council found, the vast majority of Philadelphia's seniors have difficulty affording the basic necessities of life and nearly 30% are at or below 150% of the federal poverty line.³ The 2000 Census data revealed that Philadelphia had approximately 214,000 senior citizens age 65 or older.⁴ Nearly 80% of Philadelphia's households with senior citizens are PGW customers.⁵ Significantly, 97,000 Philadelphia seniors have a disability, and are therefore more at risk to harm caused by insufficient heat.⁶ Less than half of Philadelphia's seniors have any retirement income, and for those that did, as per the Census data, the average retirement income was a mere \$14,751 per year.⁷

It is true that PGW's CRP Program will assist many of these low income senior citizens (assuming they enroll). However, there remains a sizeable senior population that, while still needing financial assistance, do not meet the strict financial eligibility criteria for CRP benefits. All of these factors demonstrate the

³ Bill No. 030123 (April 10, 2003) at § 1.

⁴ U.S. Census Bureau, Census 2000, Table DP-1.

⁵ Bill No. 030123 at § 1.

⁶ *Id.*; Census 2000, Table DP-2.

⁷ Census 2000, Table DP-3.

real and unique need for additional, means tested assistance for PGW's senior citizen customers.

Q. DOES PGW'S STATUS AS A MUNICIPAL UTILITY CREATE ANY OTHER SPECIAL JUSTIFICATION FOR THE SCD?

A. Yes, I believe so. First, PGW, as a municipally owned utility, has no shareholders or investors. It receives 100% of its funding from customers who are, in a real sense, the "owners" of the Gas Works. A discount program funded by remaining customers is the equivalent of an assistance program funded by an investor owned utility's shareholders. Second, PGW is an extension of the Philadelphia City government and it, like the City, is dedicated to trying to maintain and improve the quality of life of the City's citizens. Helping customers to maintain gas service will help keep customers in their homes, thereby improving their quality of life as well as the tax base of the City. While PGW's low income programs help with the poorest citizens, there is a core of seniors who do not qualify for the CRP but who clearly are not well off and need assistance with spiraling gas bills nonetheless. Assisting them through a means tested program is therefore not only socially responsible but helps the City, the Company and the businesses and industries that depend on those customers to buy their products and services.

Q. HAS PGW DEVELOPED TARIFF LANGUAGE FOR ITS PROPOSED SCD?

A. Yes. The proposed language is attached to my testimony as Exh. SCD/CC-5

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes it does.

Exhibit SCD/CC-1

CRISTINA COLTRO
Manager, Energy Assistance Programs

Philadelphia Gas Works (PGW), Philadelphia, PA.	
Manager, Energy Assistance Programs	7/99 - Present
Program Manager, Low Income Programs	7/96 - 7/99
Coordinator, Conservation Works Program	12/95 - 6/96
Temple University, Economics Department, Philadelphia, PA.	
Research Assistant	9/95 - 12/95
Usina Sao Martinho, Jaboticabal, Brazil.	
Consulting	6/95 - 8/95
U.S. Department of Energy, Philadelphia Regional Office, PA.	
Research Associate	10/93 - 5/95
University of Pennsylvania, Philadelphia, PA	
M.S., Energy and Environmental Management and Policy	May 1994
Hunter College, City University of New York, NY.	
B.A., Economics with a minor in Energy Policy Studies.	January 1992

Exhibit SCD/CC-2

Senior Citizen Discount - Proposed Means Tested Program

Table 1: Program Population Scenario

Year	Program Population Scenario			Pop. of Means Tested (< 250% of FPL)
	Only Grandfathered	Grandfathered & Means Tested	(Option 4d)	
	(Option 3)			
2002	82,000	82,000		0
2005	67,091	73,321		6,229
2010	43,916	60,810		16,894
2015	24,882	52,822		27,940
2020	11,552	48,950		37,398

Notes: See page 2 of SCD/CC-2 for detailed data.

Table 2: Calculation of Proposed Program Participation Level

PGW Senior Discount Accounts(Current)	Total
Estimated # of Incremental Seniors < 250% of the FPL by 2020	77,000
Maximum # of Yearly Participants	37,398
Assumes 30% is =< 150% of the FPL and may choose CRP	2,078
Assumes 7% does not participate	623
Estimated # of Yearly Participants	145
Estimated Avg. Bill (2003)	1,309
20% Discount	\$ 1,400
Total Discount	280
LIHEAP eligible (25%)	\$ 366,500
LIHEAP Funds (\$200 grant)	327
Expected LIHEAP grants	\$ 65,446
LIHEAP Expected LIHEAP/Total Discount	\$ 42,540
	0.12

Notes:

- Line 2: Data from Table 1, line 5, the Population of Means Tested seniors in year 2020.
- Line 3: Yearly average population (Line 2 divided by 18 years)
- Line 7: Estimated average yearly bill based on XX Mcf per year for FY 2004
- Line 10: Estimated number of LIHEAP eligible (25% of population < 150% of the Federal Poverty Levels (FPL))
- Line 12: Estimated grant amount based on 65% LIHEAP participation level.

Table 3: Revised Calculation for Heat and Non-Heat

	Heating	Non-Heating	Total
Number of New Participants by heating and Non-Heating	1,204	105	
Estimated Avg. Bill (2003)	\$ 1,500	\$ 480	
20% Discount	300	96	
Total Discount	\$ 361,264	\$ 10,053	\$ 371,316
LIHEAP eligible (25%)	301	26	
LIHEAP Funds (\$200 grant)	\$ 60,211	\$ 5,236	\$ 65,446
Expected LIHEAP grants	\$ 39,137	\$ 3,403	\$ 42,540
LIHEAP Funds/Discount	0.11	0.34	0.11

Option 3a: Slow Phase Out <i>Grandfathered</i>		(1) Program phased out; no new participants are permitted to enter.		(2) Program continues for current participants (grandfathered).		(3) Revenue impact is calculated based on estimated sales of:	
Year	Program Population	MCF/Year	Aggregate Discount	GCR Discount Component	GCR/MCF	Base Discount Component	MCF/YEAR
2002	82,000	\$17,296,227	\$8,821,076		\$0.15	\$8,475,151	\$0.14
2005	67,091	\$10,903,686	\$5,560,880		\$0.09	\$5,342,806	\$0.09
2010	43,916	\$7,362,127	\$3,754,685		\$0.06	\$3,607,442	\$0.06
2015	24,882	\$4,279,344	\$2,182,466		\$0.04	\$2,096,879	\$0.03
2020	11,552	\$1,986,823	\$1,013,280		\$0.02	\$973,543	\$0.02

Option 4d: Means Test New at Median		(1) Program continues for current participants (grandfathered).		(2) New participants are means tested (<median income).		(3) Revenue impact is calculated based on estimated sales of:	
Year	Program Population	MCF/YEAR	Aggregate Discount	GCR Discount Component	GCR/MCF	Base Discount Component	MCF/YEAR
2002	82,000	\$17,296,227	\$8,821,076		\$0.15	\$8,475,151	\$0.14
2005	73,321	\$11,916,074	\$6,077,198		\$0.10	\$5,838,876	\$0.10
2010	60,810	\$10,194,284	\$5,199,085		\$0.09	\$4,995,199	\$0.08
2015	52,822	\$9,084,703	\$4,633,199		\$0.08	\$4,451,505	\$0.07
2020	48,950	\$8,418,782	\$4,293,579		\$0.07	\$4,125,203	\$0.07

Data from H. Gil Peach, Ph.D., in his analysis of PGW's SCD. PGW Exh. CC4

Exhibit SCD/CC-3

COMMONWEALTH OF PENNSYLVANIA LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM FISCAL YEAR 2004 FINAL STATE PLAN

Income Determination for Cash and Crisis Benefits

§601.81. Income counted.

To determine the income level of an applicant household for cash and crisis benefits, the LIHEAP administering agency counts the gross annual income of the following persons:

1. The household members, regardless of relationship.
2. A roomer who is related by blood, marriage or adoption to a household member.
3. A person living with the applicant who, as a member of another household, has already received a LIHEAP cash benefit during the program year.

§601.82. Gross income defined.

Gross income is the total earned and nonearned income of the household and includes the following:

1. Employee earnings. Employee earnings are money, including wages, salaries, bonuses, commissions and tips, before taxes or other deductions, that a person receives for providing services on behalf of an employer.
2. Profit from self-employment. Profit of a self-employed person is gross receipts minus costs of operating a business or farm, practicing a profession, providing day-care for children in an approved family day-care facility, or renting nonresident real property.
 - i. The following expenses are among those that are not deductible from gross receipts:
 - A. Depreciation.
 - B. Personal business and entertainment expenses.
 - C. Personal transportation.
 - D. Purchase of capital equipment.
 - E. Payment on the principal of loans for capital assets or durable goods.
 - ii. A loss from one source of income cannot be used to offset another source of income.
3. Income from roomers, boarders or apartment renters. Gross income from providing room or board, or both, or from apartment rentals paid directly to a household member is computed under Chapter 183 (relating to income).
4. Unearned income. Unearned income includes, but is not limited to, the following:
 - i. Public assistance grants.
 - ii. Social Security benefits.
 - iii. Workers' compensation.
 - iv. Supplemental Security Income.
 - v. Unemployment compensation.

EXHIBIT SCD/CC 3

- vi. Support payments.
- vii. Cash gifts and contributions.
- viii. Pensions.
- ix. Interest and/or dividends from investments or bank accounts.
- x. Veterans benefits.
- xi. Funds withdrawn from Individual Retirement Accounts or Certificates of Deposit.

§601.83. Treatment of income.

- a. The applicant may choose whether the time period to be used in determining gross annual income shall be for the 12 months, 90 days, or the 30 days before the date of application. Regardless of the selected time period, income shall be converted to a yearly figure.
- b. If the total gross annual income of the household exceeds the established percentage of the poverty level for the current year, after all allowable exclusions, the household is ineligible.

§601.84. Income exclusions.

The following income will not be considered when determining gross yearly income for the purpose of establishing LIHEAP eligibility:

- 1. Educational assistance from scholarships, grants, and loans to an undergraduate student unless it is solely for basic living needs such as housing and food and the amount of income from other sources used to pay out-of-pocket expenses for books and other required educational fees.
- 2. All student financial assistance received from a program funded in whole or in part under Title IV of the Higher Education Assistance Act Amendments of 1992 (P.L. 102-325), or under the Bureau of Indian Affairs student assistance programs.
- 3. Payments for services or out-of-pocket expenses to volunteers serving as foster grandparents, senior health aids or senior companions, and to persons serving in other programs under Title II of the Domestic Volunteer Service Act of 1973 (42 U.S.C.A. §§5001-5024).
- 4. Payments to volunteers for VISTA, Service Learning Programs and Volunteer Programs under Title I of the Domestic Volunteer Service Act of 1973 (42 U.S.C.A. §§4951-4994).
- 5. The value of coupons received by a participant in the Food Stamp Program.
- 6. The value of donated foods -- surplus commodities -- from the United States Department of Agriculture.
- 7. The value of home produce of clients for household consumption.
- 8. Money received under the Senior Citizen Rebate and Assistance Act (72 P.S. §§4751-1 through 4751-12).
- 9. Money received as incentive or training-related expenses provided to persons involved in a work/training program sponsored by a Federal, State or local government agency.
- 10. Deductions for Medicare premiums deducted from Social Security benefit payments.
- 11. Amounts received as reimbursement for medical costs, medical transportation and special allowance items as defined under Chapter 138 (relating to allowances and benefits).

EXHIBIT SCD/CC 3

12. Cash or in-kind assistance with heating costs provided by private or public agencies or utility companies.
13. Personal loans, bank loans, other non-educational loans designated for a specific purpose from an established financial institution.
14. The portion of a Social Security lump sum death benefit designated for funeral expenses.
15. Up to the first \$50 of voluntary support from legally responsible relatives or court-ordered support that a household member actually receives in a given month, including support refunded during the month by the Department.
16. One share of income for each non-citizen who is temporarily ineligible as specified in 601.31(4) (relating to eligibility requirements.) Refer to sections 601.82(4) and 601.82(5).
17. Agent Orange Settlement payments.
18. EITC including anticipated monthly payments as well as year-end payments.
19. Income tax refunds.
20. Restitution payments made to individuals because of their status as victims of Nazi persecution.
21. Non-recurring lump sum payments.

Verification and Documentation

§601.101. Verification and documentation defined.

The applicant shall provide sufficient information regarding the household's circumstances to enable the LIHEAP administering agency to determine LIHEAP eligibility and the amount of a LIHEAP benefit.

1. Verification. The term refers to any form of convincing information, including oral statements or documentation.
2. Documentation. The term refers to written or printed evidence, such as fuel bills, rent receipts, or pay stubs, that is needed to determine LIHEAP eligibility and the type and amount of the LIHEAP benefit.

§601.102. Income.

- a. The applicant shall provide documentation of the amounts and sources of income of household members, including related roomers, as well as that of anyone in the household who received LIHEAP benefits during the current program year as a member of another household.
- b. The applicant shall report but is not required to document income of persons in the household whose income for at least 30 days before the date of application has already been documented and is available in a case record on file with the local CAO.

§601.103. Minimal or no income.

If the applicant states that the household has minimal or no income, the applicant may be required, as a condition of eligibility, to produce evidence that will satisfactorily explain how the household members are meeting their financial obligations and basic living needs.

Exhibit SCD/CC-4

C. Coltro

Exhibit CC-4

Gil Peach's Universal
Services Evaluation:

The Senior Citizen Discount
Program

Philadelphia Gas Works Universal Service Programs: The Senior Citizen Discount

Prepared for:

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Manager, Energy Assistance Program
Customer Affairs
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CONFIDENTIAL DRAFT

March 20, 2002

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Scan America® Vision Statement

To be a world leader in developing truthful measurement and useful results: to support development of efficient, ethical, and effective practices, sustained economically, to advance human development.

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- Awareness of human relevance and of the ethical core of research
- To go further, to find better ways

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With extensive experience in North America, Europe, and Asia, together we can provide the full range of management, planning, and evaluation services – wherever and whenever there is a need.

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*Philadelphia Gas Works Universal Service
Programs: The Senior Citizen Discount*

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Philadelphia Gas Works Universal Service: The Senior Citizen Discount

I. EXECUTIVE SUMMARY

This report is limited to analysis of the Philadelphia Gas Works (PGW) Senior Citizen Discount. Why a study of the Senior Citizen Discount? There are at least four primary reasons why a brief but focused report is timely. (1) Under provisions of the Natural Gas Choice and Competition Act, the City *must* secure approval of the Pennsylvania Public Utility Commission to continue or modify the Senior Citizen Program for *new* participants beyond the effective date of the final restructuring order. (2) Second, the "baby boomer" generation is approaching age 65 and other concerns have been raised regarding the changing age composition of the City. These concerns require review in the light of demographic projections. (3) Third, there are serious equity concerns regarding the Senior Citizen Program. These concerns have to do both with the criterion of reasonableness, and with racial equity. (4) Fourth, there is an explicit recommendation from the Pennsylvania Public Utility Commission audit of the Philadelphia Gas Works to discontinue the Senior Citizen Discount and the Philadelphia Gas Works has been directed by the Pennsylvania Public Utility Commission to prepare options for the City to address (Figure 11).

A. Background to the Program

In 1972, the City of Philadelphia and the Philadelphia Facilities Management Corporation established a provision for a Senior Citizen Rate in the fundamental enabling agreement for the management and operation of the Philadelphia Gas Works. The Senior Citizens rate discount was approved on December 14, 1973 (Bill No. 1021) pursuant to an ordinance of the City Council. PGW's Senior Citizen program was instituted immediately following the passage of the bill. In general, the program offers a 20% discount for participants. Eligibility is established by application, and requires residence in the City, responsibility for direct payment for service in one's own name, and an age of 65 years or above.

Recovery of the cost of the discount is accomplished through the GCR and base rate.

In addition to the need to periodically review programs, this context for this analysis is set by two developments. First, population projections for the United States indicate a substantial growth in the proportion of the population aged 65 and older as the "baby boomer" generation becomes older. Second, a recommendation of a recent audit of the Philadelphia Gas Works for the Pennsylvania Public Utility Commission recommended elimination of the Senior Citizens Program and its replacement by a program based on economic need (a means tested program rather than a universal program approach).

B. Options Considered

This study contrasts three options:

- (1) Continue the Senior Citizens Program, "as is."
- (2) Continue, but modify the Senior Citizens Program by introducing a means test: (a) Means test old and new participants. (b) Means test only new participants, with current participants "grandfathered" under the initial program.
- (3) Phase out the program (continue old participants under the initial program, but do not accept new participants). This is the "default" option, the option that will occur if no action is taken.

Under the provisions of the Natural Gas Choice and Competition Act, authority for any program design that involves accepting new participants following the final order in the restructuring hearings resides in the Pennsylvania Public Utility Commission (Option 1; Option 2). The City, however, retains independent authority to continue the current program for *current* participants only (Option 3) or to modify the program, consistent with Commission standards and guidelines for current participants (Option 3).¹

C. Findings

Projection of City demographics, with correction for the 2000 Census results, indicates that the projected increase in the proportion of Senior Citizens in relation to the total population of the City will not occur until about 2015, so there is no immediate need to implement a program change. In addition, due to the demographic make-up of the City, the size of this increase is likely to be smaller and more manageable than for the US as a whole, the State of Pennsylvania, or the outer counties. Looking out to 2020, the changing age composition of the City is not a practical or cogent reason for changing the Senior Citizen Program.

However, on considerations of fairness, reasonableness, and practicality the continuation of the Senior Citizen Program would require means testing, for material reasons detailed in this study.

D. Recommendation

The recommendation of this study is for the Philadelphia Gas Works to present options to the City, and to sponsor the auditors' recommendation to eliminate the Senior Citizen Program and replace it by a program with means testing. Specifically, we recommend replacement for those in most economic need by the Customer Responsibility Program. Grounds for this recommendation are detailed throughout this report.

¹ The City may, for example, independently introduce a means test for *current* participants.

II. THE SENIOR CITIZEN RATE: A TIME TO DEVELOP OPTIONS

Provisions of the Natural Gas Choice and Competition Act require the City to secure the approval of the Pennsylvania Public Utility Commission to continue or modify the Senior Citizen Program for *new* participants. Further, the Pennsylvania Public Utility Commission has directed the Philadelphia Gas Works to prepare options for the City to address (Figure 11). The Philadelphia Gas Works will develop options. This study for the Philadelphia Gas Works by H. Gil Peach & Associates, LLC/Scan America® is in support of this process. Three options are developed:

- (1) Continue the Senior Citizens Program, "as is."
- (2) Continue, but modify the Senior Citizens Program by introducing a means test: (a) Means test old and new participants. (b) Means test only new participants, with current participants "grandfathered" under the initial program.
- (3) Phase out the program (continue old participants under the initial program, but do not accept new participants). This is the "default" option, the option that will occur if no action is taken.

Thus, it is necessary for the Philadelphia Gas Works to develop a recommendation for the future of the Senior Citizen Program, in concert with Pennsylvania Public Utility Commission policies and standards, and City policy. The "default option" is Option 3, the automatic phase out of the program.

A. The Senior Citizen Program

Although the program is referred to as a "senior citizens rate" in the grant of authority (Figure 1), it is now often referred to as the "senior citizens program" or the "senior citizen discount" in PGW customer communications. The current text from the PGW website listing for the program (Figure 2), and the current PGW brochure available from neighborhood service centers (Figure 3) refer to the program as the "senior citizen discount."²

B. Initial Authorization

In 1972, the City of Philadelphia and the Philadelphia Facilities Management Corporation established a provision for a Senior Citizen Rate in the fundamental enabling agreement for the management and operation of the Philadelphia Gas Works (Figure 1). The Senior Citizens rate discount was approved on December 14, 1973 (Bill No. 1021) pursuant to an ordinance of the

²The Mayor's Commission on Services to the Aging lists the program as "Energy Assistance" on its web page.

City Council. PGW's Senior Citizen program was instituted immediately following the passage of the bill. The program has been in effect for approximately thirty years.

Senior Citizen Rate

The Gas Commission is authorized to establish rates for gas users authorizing a reduction in gas rates, in the amount of 20% of charges for non-heating and heating purposes to his residence, for any individual 65 years of age or older, residing in the City of Philadelphia, who directly makes payment to the operator of the Gas Works for gas services at his residence. In order to qualify for any rate reduction a person must first apply to the Philadelphia Gas Works for a rate reduction at least thirty days before the next scheduled meter reading. The reduction shall then take effect at the start of the succeeding billing period.

Figure 1: City Grants Authority for Senior Citizen Rate.

When regulatory oversight of the Philadelphia Gas Works shifted from the City Gas Commission to the Pennsylvania Public Utility Commission, the Natural Gas Choice and Competition Act, explicit provision was made for current participants in the Senior Citizen Program to continue under the terms of the initial tariff (Figure 4). Continuation and modification of the program for current participants is thus completely within the authority of the City. In addition, the Natural Gas Choice and Competition Act provides that the Pennsylvania Public Utility Commission may approve a Senior Citizen Program for a City natural gas distribution operation, but that it is not required to do so for new participants (Figure 5).

20% Senior Citizen Discount

PGW's Senior Citizen Discount Rate is 20% for all residential customers or applicants who are age 65 or older. Income is not a factor in eligibility.

To qualify, applicants must:

- Provide legal proof of age and residence.
- Be the customer of record.
- Provide proof of Social Security Number.
- Apply for the discount at a PGW Customer Service Center

Figure 2: Senior Citizen Discount (from PGW Website).

enable PGW to quickly locate your account and verify that you are a customer of record.

FIRST BILLING AT THE SENIOR CITIZEN DISCOUNT
At the time application is made, a PGW representative will explain the effective date of your Senior Citizen Discount which is based on your normal billing date.

WHAT TO DO IF YOU MOVE TO ANOTHER ADDRESS
If you move to a new address, you don't have to lose your Senior Citizen Discount. However, you must apply in person at a PGW Neighborhood Office to continue to receive the Senior Citizen Discount. When you do apply, you'll need:

- Proof of residency at your new address
- Personal identification, such as driver's license, etc.

FOR FURTHER INFORMATION...
about eligibility or required proofs for this special rate, please call 235-1000 or write to PGW Customer Relations Department, Correspondence Section, P.O. Box 3500 Philadelphia, PA 19122

Philadelphia Gas Works
CONSUMER
INFORMATION

PGW'S SENIOR CITIZEN DISCOUNT

If you are a senior citizen and use natural gas in Philadelphia, you may be eligible for PGW's Senior Citizen Discount. Here's how to apply.

PGW'S SENIOR CITIZEN DISCOUNT

A discount of up to 20% of the monthly gas bill is available to qualified senior citizens.

TO BE ELIGIBLE...

- PGW customer must
 - be 65 years of age or older.
 - reside in the City of Philadelphia.
 - directly make payment to the Philadelphia Gas Works for gas service in his or her name.

TO APPLY...
you must make application in person at a PGW Neighborhood Office, and take with you the following documents:

- Proof of age, such as:
 - a. Birth certificate
 - b. Baptismal certificate
 - c. Passport
 - d. Census Record
 - e. Other legal proof of age (Drivers licenses or other proofs of this nature are not acceptable. If you have no acceptable proof of age, you could contact the Social and Economic Statistics Administration
- Proof of your residential address such as:
 - a. A deed
 - b. Tax receipts
 - c. A lease
 - d. A rent book
 - e. Other acceptable identification proving residential address
- Personal identification showing address, such as:
 - a. A driver's license
 - b. A voter's certificate of registration
 - c. A wage and tax statement issued by your employer (W2 form)
 - d. U.S. Information Return Form 1099 issued by banks and corporations showing interest and/or dividends
 - e. Other acceptable personal identification showing address
- Your Social Security card or another document showing your Social Security number, such as:
 - a. A W2 form or U.S. Information Return Form 1099 (see item directly above)
 - b. A U.S. Savings Bond issued after October 1, 1973
- Your most current gas bill. This will

(continue on next page)

Figure 3: PGW Customer Brochure

Individual ratepayers who, as of the date of the initial tariff of a city natural gas distribution operation becomes effective pursuant to subsection (d), are properly receiving discounted gas rates pursuant to the terms of a program specifically designed to provide assistance to senior citizens contained in the prior tariff shall be entitled to continue to receive such discount under the terms of the prior tariff unless and until the program is modified by ordinance of the governing body of the city, in which event such individuals shall be entitled to receive only the discount provided under the terms of the modified program, as it may be further modified by ordinance from time to time thereafter.

Source: Natural Gas Choice and Competition Act, 66 Pa. C.S.A., §2212 City Natural Gas Distribution Operations, Part (r) Senior citizens, §2.

Figure 4: State Grants Authority for Continuation of Program for Current Participants.

(1) The commission may approve a program designed to provide discounted rates for natural gas distribution and supply services to senior citizens residing in the service territory of a city natural gas distribution operation provided that such rates and the terms of such program are just and reasonable.

(3) Nothing in this title shall require the commission to approve the continuation of the program identified in paragraph (2) in whole or part for any person other than an individual identified in paragraph (2).

Source: Natural Gas Choice and Competition Act, 66 Pa. C.S.A., §2212 City Natural Gas Distribution Operations, Part (r) Senior citizens. ¶1, ¶3.

Figure 5: State Reserves Power to Provide Program for New Participants.

C. Need for Recommendation

Thus, it is timely that the Philadelphia Gas Works consider a recommendation to the City, in concert with the policies and standards of the Pennsylvania Public Utility Commission, as to the constitution of the Senior Citizen Program. In summary, the City retains the authority to continue the current program (or to modify it) for current participants. However, continuation (or modification) of the Senior Citizen Program for new participants will require approval of the Pennsylvania Public Utility Commission.

This study develops information and recommendations for the Philadelphia Gas Works to consider in formulating a policy recommendation to the City and the State Commission.

III. THE DEMOGRAPHIC ISSUE

The demographic issue is, at root, an economic concern having to do with the age composition of the city. There are four trends that influence the proportion of persons 65+ in the City of Philadelphia. Two have to do with the increase in number and percentage of Senior Citizens: these are the "boomer bulge" and the long-term trend of gradual increase in life expectancy. The others are the trend for movement of population out of the City, and federal policy that supports globalization. All four, together, may influence the age composition of the City, over time.

A. The Boomer Bulge

First, there is the change in the age composition of the United States due to the post World War II baby boom. For the US, the demographic bulge of "baby boomers" will have a dramatic effect on the proportion of persons 65+. In 2010, boomers will be aged 46 to 64.³ Beginning in 2011, boomers will have a marked effect on the ratio of dependent elderly persons to persons of working age.⁴ A set of ratios, termed the "Support Ratios" or the "Dependency Ratios" indicate the relative burden of young and old persons on persons of working age. The "Youth Support Ratio" is projected by the US Bureau of the Census to be almost constant between 1990 (49.2) and 2050 (48.7). The "Elderly Support Ratio" is projected to increase from 21.3 in 1990 to 38.2 in 2050.⁵ However, this ratio somewhat understates the burden because it does not account for increasing intensity of support required as the "oldest old" portion of the Senior Citizen population increases.⁶

B. The Life Span Trend

There is a long-term trend of increasing life expectancy of "First World" populations. The boomer bulge is expected to arrive in the context of a general aging of the population, typical of nations having "first world" economies. For the United States, the percentage of persons 65+ was 4.1% in 1900, 8.1% in 1950, and 12.5% in 1990.⁷ The effect of the boomers, considered along with this background trend is a projected increase in this percentage for the US to 13.3% in 2010 and to 15.7% in 2020.⁸ For Pennsylvania, one of a few states with the largest percentage of Seniors, the percentage 65+ in 1980 was 12.9%. By 1990, the percentage had

³ U.S. Bureau of the Census, Current Population Reports, Special Studies, P23-190, *65+ in the United States*, Washington, D.C.: U.S. Government Printing Office, 1996, P. 2-7.

⁴ It is understood that the dependency ratios are inexact, and that, for example, many persons under the age of 20 or over the age of 65 are engaged in productive work in the economy. The ratios do, however, provide a fair approximation of the size of the change in dependency that may be expected.

⁵ *Ibid.*, Table 2-20, P. 2-23.

⁶ The US Bureau of the Census categorizes the Senior population as "Young Old" (65 to 74), "Aged" (75 to 84), and "Oldest Old" (85+). *Ibid.* P. 1-1.

⁷ *Ibid.*, Table 2.1, P. 2-3.

⁸ *Ibid.*, Table 5-3, P. 5-4.

increased to 15.3%.⁹ In 2000, the percentage was 15.6%.¹⁰ In 2010 it is projected to be 15.3% and in 2020, 18.2%.¹¹

C. The Shrinking City

A third trend that could influence the age composition of the City is Philadelphia's continuing loss of population. Philadelphia's population in 1980 was 1,688,210 and in 1990 the population was 1,585,577.¹² In 2000, the population was 1,517,550.¹³ The peak population in Philadelphia occurred in 1950.¹⁴ Putting the three trends together, it would be reasonable to assume that Philadelphia might be losing in terms of overall and working age population and gaining in Senior population. The Office of the City Controller has noted a loss in working age population as a "singular feature" of the recent past.¹⁵

D. The Tide of Globalization

The Office of the City Controller foresees diminished employment opportunities in Philadelphia relative to the US as a whole in coming years, and that this may have an effect on the age distribution of the City.¹⁶ To express this somewhat more directly than does the Office of the City Controller, Cities have "job structures" that can be considered as the set of jobs or

⁹ *Ibid.*, Table 5-3, P. 5-4.

¹⁰ U.S. Census Bureau, Quickfacts, 2000 Census. <http://quickfacts.census.gov/qfd/states/42/420101.html>. This 2000 Census figure of 15.6% is identical to the 15.6% projected in the tabled data projections in U.S. Bureau of the Census, Current Population Reports, Special Studies, P23-190, *65+ in the United States*, Washington, D.C.: U.S. Government Printing Office, 1996, Table 5-3, P. 5.4.

¹¹ U.S. Bureau of the Census, Current Population Reports, Special Studies, P23-190, *65+ in the United States*, Washington, D.C.: U.S. Government Printing Office, 1996, Table 5-3, P. 5.4

¹² U.S. Bureau of the Census, *County and City Data Book: 1994*, Washington, D.C.: U.S. Government Printing Office, 1994, Table C Cities – Area and Population, P. 806.

¹³ U.S. Bureau of the Census, State and County Quickfacts, Philadelphia County, Pennsylvania, <http://quickfacts.census.gov/qfd/states/42/42101.html>.

¹⁴ Ginsberg, Thomas, "Remaking Philadelphia: As Population Drops, Planners Think Small," Knight Ridder, *The Washington Post*, Sunday, February 4, 2001, P. A20.

¹⁵ Office of the City Controller, *Philadelphia: A New Urban Direction*, Philadelphia: Saint Joseph's University Press, 1999, P. 25.

¹⁶ *Ibid.*, P.25.

economic niches available to residents at any point in time.¹⁷ Over time, the composition of a City's job structure shifts. In many ways, due to changes in the national political economy - driven by globalization - Philadelphia is becoming a secondary city and its job structure is more and more that of a secondary city.

In theory, globalization eliminates barriers to the free movement of capital, enabling business to abandon higher labor cost and higher tax areas and shift production to lower cost areas anywhere in the world. On the plus side, the benefit is the potential for deflation of prices for all types of goods. This has been experienced over the last several years and is part of a structural deflation of the world economy. On the minus side, the price of globalization is a loss of jobs in advanced areas with high social overheads (such as Philadelphia). Also on the minus side is the weakening of social regulation, and a diminution in the potential for assessment of corporate contributions to common social overhead costs (such as funding City government and social programs). Globalization results in the centralization of capital. This occurs through associated systematic acquisitions and mergers - the concrete steps that centralize capital in the emerging new global economy. Thus, local and regional economic assets become owned by multi-state and multi-national enterprises headquartered in distant cities. Over time, this means the loss of executive level and higher level analytic jobs from cities that are becoming secondary (Philadelphia; Portland) or tertiary (Baltimore) to a decreasing number of primary cities (New York, Chicago, London).¹⁸ These changes *create* poverty,¹⁹ and more generally weaken the ability of most classes of labor in secondary cities to maintain income and quality of life expectations in the ways in which families have become accustomed. To the extent that employment opportunities in Philadelphia continue to diminish relative to opportunities in primary cities, younger workers may seek employment. At the same time, as local or regional corporations are purchased or merged into larger entities headquartered in distant cities, higher ranking jobs will disappear from Philadelphia and higher ranking workers may either be downsized or they may follow corporate promotional opportunities to headquarters cities. Such changes would tend to lower the working age population of Philadelphia relative to the proportion 65+.

¹⁷ Think of the job structure of the City at a particular point in time as if it were a listing from a staffing budget for a City agency or a corporation, with a line item for each position with certain positions filled and others unfilled and with turnover. For the job structure of a City, the main difference from an agency or a corporate structure is that the line items on the list are largely functions of socioeconomic forces and policy choices in the national political economy and the global political economy. The City is like a beach, the socioeconomic forces, such as those associated with globalization, are the ocean tides. Discussion of "Job Structure" and globalization follows from the work of economist David Gordon. Gordon, David M., *Fat and Mean, The Corporate Squeeze of Working Americans and the Myth of Managerial "Downsizing"*. New York: The Free Press, Martin Kessler Books, 1996. Gordon, David M., *Theories of Poverty and Underemployment*. Lexington, Massachusetts, Toronto, London: D.C. Heath and Company, 1972.

¹⁸ On the centralization of capital and implications for jobs, see Hymer, Stephen, *The Multinational Corporation*. Cambridge & New York: Cambridge University Press, 1979.

¹⁹ On the creation of poverty as an artifact of business and federal policy, see Goode, Judith and Jeff Maskovsky, *The New Poverty Studies*. New York & London: New York University Press.

However, to anticipate the analysis below, with all of these real changes Philadelphia actually exhibits a relative balance compared to the US as a whole and in comparison to the State of Pennsylvania.

E. Analysis

The Pennsylvania Data Center is the repository of data used in official analysis within the State of Pennsylvania. The Center has prepared detailed projections of age composition of counties from 1990 to 2020 (Figure 6).²⁰ Using this data, the proportion of the Philadelphia population 65+ can be calculated (Figure 7). However, we use the 2000 Census result to modify the results of Figure 7. In Figure 8, the 2000 Census result replaces the estimate for the year 2000. Then each succeeding estimate is developed using the year on year ratio established in Figure 7, but applied to each new estimate generated in succession (Figure 8).

The results (Figure 8) show that the ability to carry the Senior Citizen Discount as measured by the proportion of the Philadelphia population 65+ actually eases slightly through 2015, and returns to the level of 1990 in 2020. Thus, the demographic relation for the City is in approximate balance until 2020, and does not represent a major change from the status quo in considering the near future plans for the Senior Citizen Program.

²⁰ Pennsylvania Data Center, *Detailed County Projections 1990 to 2020*. Middletown, Pennsylvania: August 1998. P. 176.

PHILADELPHIA COUNTY: PENN DATA CENTER						
Age Group	1990	2000	2005	2010	2015	2020
Total	1,579,583	1,511,074	1,491,116	1,473,330	1,460,800	1,451,337
0-4	118,907	113,998	106,783	104,462	107,065	110,534
5-9	103,054	119,346	107,972	101,285	99,165	101,673
10-14	99,457	103,161	113,495	102,868	96,626	94,645
15-19	107,051	102,582	109,983	120,139	109,715	103,560
20-24	135,815	109,846	106,984	114,442	124,909	114,040
25-29	141,773	98,860	98,660	95,899	102,613	112,130
30-34	133,440	106,241	89,850	89,787	87,317	93,367
35-39	114,911	109,828	97,183	82,449	82,457	80,202
40-44	98,054	108,916	103,319	91,670	77,953	77,995
45-49	77,783	99,946	103,812	98,502	87,526	74,553
50-54	68,769	86,524	94,553	98,198	93,159	82,880
55-59	68,353	68,503	82,009	89,636	93,098	88,353
60-64	73,692	58,824	62,975	75,409	82,405	85,619
65-69	74,604	54,478	52,388	56,221	67,329	73,615
70-74	62,474	54,010	46,334	44,737	48,096	57,650
75-79	49,090	49,055	43,294	37,356	36,210	39,049
80-84	30,169	35,178	35,916	31,932	27,674	26,972
85+	22,187	31,778	35,606	38,338	37,483	34,500

Source: The Pennsylvania State Data Center, Detailed Population Projections: Pennsylvania 1990 to 2020. Middletown, Pennsylvania: August 1998, P. 176.

Figure 6: Philadelphia Age Composition 1990 - 2020.

PHILADELPHIA COUNTY (CALCULATION TABLE) - USING PDC DATA						
Age Group	1990	2000	2005	2010	2015	2020
Total	1,579,583	1,511,074	1,491,116	1,473,330	1,460,800	1,451,337
65+	238,524	224,499	213,538	208,584	216,792	231,786
20-64	912,590	847,488	839,345	835,992	831,437	809,139
Senior Dep. Ratio	26.1%	26.5%	25.4%	25.0%	26.1%	28.6%
Under 20	428,469	439,087	438,233	428,754	412,571	410,412
Child Dep. Ratio	47.0%	51.8%	52.2%	51.3%	49.6%	50.7%
Overall Dep. Ratio	73.1%	78.3%	77.7%	76.2%	75.7%	79.4%
65+ as % of Total	15.1%	14.9%	14.3%	14.2%	14.8%	16.0%

Figure 7: Calculation of 65+ as Percent of Total Philadelphia Population

PROJECTION USING PDC CORRECTED BY 1990 & 2000 CENSUS RESULTS							
Age Group	1990 Census	2000 Census	Ratio (to PDC)	2005	2010	2015	2020
Total	1,585,577	1,517,550	1.004	1,497,506	1,479,644	1,467,061	1,457,557
65+	241,007	213,975	0.953	203,528	198,806	206,629	220,920
% of Total	15.2%	14.1%		13.6%	13.4%	14.1%	15.2%

Figure 8: Best Philadelphia Projections

The reason Philadelphia will not have a problem in this area in comparison to the State (and the outer counties) is that it has different basic demographics. In spite of the boomer bulge, the general aging of the population, the shrinking of the City, and globalization, Philadelphia will show stability in this area until at least 2020.²¹

IV. THE AUDIT ISSUE

In conjunction with the shift of regulatory authority over the Philadelphia Gas Works from the City to the State of Pennsylvania, the Pennsylvania Public Utility Commission chartered an independent audit of the Gas Works. The audit was detailed and extensive, covering all functional areas of the Gas Works. The audit resulted in seventy-six recommendations. Among these is recommendation regarding the Senior Citizen Program.

A. The Audit Recommendation

Following review of the Senior Citizen Assistance Program, the auditor offered the following recommendation (Figure 9):²²

16. Eliminate the Senior Citizens Assistance Program and base any future bill reductions on an assessment of need. Elimination of the senior citizen assistance program could save PGW \$13.5 million per year based on the program's cost for 1999 (Refer to Conclusion 30).

²¹ An alternate projection by the Office of the Controller may be used to calculate the 65+ portion of the City population at 14.5% in 2015 (in contrast to the 14.1% in Figure 8). An alternate projection from the Delaware Valley Regional Planning Commission would indicate 14.7% in 2015, 15.6% in 2020. When adjusted using the 2000 Census results, these become 13.4% and 14.3% (in contrast to 14.1% and 15.2% in Figure 8). Each of these projections indicates that Philadelphia will experience only minor fluctuation through 2020. Office of the City Controller, *Philadelphia: A New Urban Direction*. Philadelphia: Saint Joseph's University Press, 1999, Table 1.8 - Philadelphia Population Forecast by Age (in thousands), P. 26; Delaware Valley Regional Planning Commission, forecast, 1997. "Elderly Population 1970 to 2025, Philadelphia Elderly," table provided by DVRPC, March 11, 2002.

²² Barrington-Wellesley Group, Inc., *A Stratified Management and Operations Audit of Philadelphia Gas Works*. New London, New Hampshire: Barrington-Wellesley Group, Inc., January 2001, P. VIII-42.

Figure 9: Text of Audit Recommendation to Eliminate Senior Program.

B. The PGW Response

The Philadelphia Gas Works accepted in full or in part seventy-three of the seventy-six audit recommendations. However, with regard to the recommendation for eliminating the Senior Citizen Program and replacing it with a needs-based program, PGW found it necessary to reject the recommendation, both because the auditor's stated economic basis was incorrect for a municipal utility and because the Senior Citizen Program was instituted by the City Council (Figure 10).²³

Figure 10: Rejection of Audit Recommendation VIII-16.

This recommendation is beyond PGW's legal authority to implement as it requires action by Philadelphia City Council. Moreover, PGW is constrained by the Natural Gas Act. In addition, the savings stated are inaccurate as the gas portion of the discount is recovered through the GCR and, as such, is billed to other customers. The Base Rate portion of the discount is also recovered through the base rates of other customers. Therefore, elimination of the discount will redistribute costs but will not result in any savings.

C. Commission Direction

In its letter notifying the Philadelphia Gas Works of receipt of the Implementation Plan, the Commission recognized "...that the City of Philadelphia, in its capacity as the 'owner' of PGW, would most likely make ultimate decisions on these matters." However, the Commission directed the Philadelphia Gas Works to prepare options for the City to address (Figure 11).²⁴

Figure 11: Directive to Prepare Options.

With regard to the elimination of the senior citizen discount, PGW is directed to prepare options for the City to address.

²³ Philadelphia Gas Works Implementation Plan for the Stratified Management and Operations Audit, March 2001, document transmitted to Thomas Sheets, Manager, Management Audit Division, Bureau of Audits, Pennsylvania Public Utility Commission by Thomas E. Knudsen, Philadelphia Gas Works, March 22, 2001.

²⁴ Letter of James J. McNulty, Secretary, Pennsylvania Public Utility Commission to Thomas Knudsen, Chief Financial Officer, Philadelphia Gas Works regarding the Stratified Management and Operations Audit of Philadelphia Gas Works (D-99M038 - to be closed).

D. Reasons & Grounds Supporting Audit Recommendation

To motivate the recommendation for discontinuance of the Senior Citizen Program, the audit report states the following reasons and grounds:

- (1) The participation levels for 1997, 1998, and 1999 were 93,583, 91,934, and 90,355. However, only 5.2%, 5.5%, and 6.0%, respectively were also participants in the Philadelphia Gas Works Customer Responsibility Program.
- (2) The auditor's calculation of cost to customers for the Senior Program is \$0.28, \$0.28, and \$0.26/MCF for the respective years.
- (3) Ability to pay is not a factor in qualifying for the Senior Discount. This means that wealthy Senior Citizens are subsidized by families who already have to contend with relatively high gas rates.
- (4) The Senior Program requires that staff ensure the participating customer remains the primary customer and remains alive. This requires periodic death certificate matches.
- (5) There are stories of some customers continuing to receive the Senior Discount long after the death of the Senior Citizen on record as directly responsible for the account.
- (6) Social programs will place the Company at a competitive disadvantage under deregulation.
- (7) Social programs should be a City expense rather than an expense of the distribution utility.
- (8) The cost savings to the Philadelphia Gas Works would be on the order of \$13.5 million per year based on the program's cost in 1999.

E. Analysis of Audit Reasons and Grounds

Reason Nos. 1, 2, and 3, considered together, are relevant and forceful. Due to trends outside the control of the City and City residents, higher ranking jobs are shifting disproportionately to other cities, while Philadelphia experiences the sustained negative effects of mergers and downsizing.²⁵ As well, the City is experiencing the cumulative impact of devolution of federal social welfare programs.²⁶ At the same time, income inequality is growing rampantly so that, for example, the poorest quintile of the City by income lost 54.2% of *real*

²⁵ Office of the Controller, City of Philadelphia. *1998 City of Philadelphia Economic Outlook*. Office of the Controller: Philadelphia, April 1998. Pp. 16-19.

²⁶ Office of the Controller, City of Philadelphia. *1996 Mid-Year Economic and Financial Report*. Office of the Controller: Philadelphia, January 22, 1996. Chapter 2. Pp. 11-13. Office of the Controller, City of Philadelphia, *1998 City of Philadelphia Economic Outlook*. Office of the Controller: Philadelphia, April 1998. Pp. 20-21.

income from 1986 to 1994, the middle three quintiles lost 24.5%, and the richest quintile lost 6.4%.²⁷

To put this directly, if all families were in roughly the same economic condition, then the Senior Discount could be looked at as merely a transfer of funds in time from younger workers to older former workers. The basic structure would be fair since everyone ages and most of those who pay the cost of the discount will eventually receive the discount. In this way, the Senior Citizen Discount would not be a transfer between classes, or even between parts of the same class, but a "transfer in time."

However, it is increasingly important over the next twenty years that poor and middle class families not be asked to provide monthly subsidy to that portion of Senior Citizens who are not in economic need. To put this another way, although the Senior Citizens Program as currently design may be reasonable in the abstract, current material economic conditions and economic trends require fairness to be defined in terms of meeting economic need, rather than in terms of age alone. *Although age can be an important factor in itself, and may be honored, in the material and specific historical context within the City, and with the economic projections for the next twenty years,*²⁸ *a program incorporating subsidization by middle class and poor families of that portion of Senior Citizens who are not in economic need appears neither wise nor fair.*

Reason No. 4, the need to fund and carryout a periodic check of records, is a necessary program reality. The cost is likely not high compared with other ongoing administrative tasks, and the task has been performed for many years. Also, a verification system can be creatively designed to minimize effort. Still, a periodic matching of death certificates is a separate administrative task, requiring time and effort. It is a reason, but it should not be assigned much force.

Reason No. 5 (stories of maintaining a discounted account long after the death of the person to whom the discount was legitimately assigned) sounds like an urban legend. However, it is a program reality for which periodic checks (see above) are required. As with any other quality control procedure, there will be an error rate, and some of these stories will be true. However, this reason should not carry much force.

Reasons No. 6 ("social programs put PGW at a competitive disadvantage") and No. 7 ("social programs should be a direct City expense") similarly fail to directly and fully take into account the role of a municipal utility, and of the nature of the distribution utility in the Pennsylvania regulatory context. First, since the Philadelphia Gas Works is owned by the City, the City may find it expedient to use the Philadelphia Gas Works as an instrumentality for carrying out City responsibilities. Second, in Pennsylvania, Universal Service programs are the responsibility of utilities, whether municipal or investor-owned; they are a part of doing business

²⁷ Office of the Controller, City of Philadelphia, 1997 *Mid-Year Economic and Financial Report*, Office of the Controller: Philadelphia, March 1997, Table 7.1, P. 67; Pp. 64-68.

²⁸ For the relevant projections and characterization of the economic trends and potentials of the coming decades, see Office of the City Controller, *Philadelphia: A New Urban Direction*, Philadelphia: Saint Joseph's University Press, 1999.

and providing service to all customers. The key distinction is between a Commission mandated program (like the Customer Responsibility Program) and a program the Commission would classify as voluntary. Looking forward, any program approved by the Pennsylvania Public Utility Commission and defined as a modality of Universal Service will be funded with a non-bypassable charge so that the distribution utility will not be placed at a competitive disadvantage. At the same time, however, it is correct that a voluntary program will be outside the current Universal Service provisions of the Pennsylvania Code and could put the Philadelphia Gas Works at a disadvantage in a hypothesized fully competitive market.

Reason No. 8 initially may seem a sound reason, since it is conveyed in language that would seem to indicate that the Philadelphia Gas Works could "free up" and return \$13.5 million of "freed up" funds to its bottom line by terminating the Senior Citizen Program. However, it is necessary to recognize that when auditors make this type of recommendation, they are following a typical specialized language and style associated with the world of audits, and when they move language that is appropriate to capitalist businesses to municipal companies, the application may be inappropriate. From a material evaluation perspective, it is more adequate to express this reason in terms that more realistically take into account the municipal nature of the Philadelphia Gas Works and the practical environment (especially regulatory provisions) within which the Philadelphia Gas Works operates.²⁹ Specifically, it is true that the Senior Citizen Program is reflected as a specific item in the Company's accounting system, and that the cost of this item is recovered through the Gas Cost Rate (GCR) and the Base Rate. Thus, in an abstract audit sense \$13.5 million per year of cost savings is available. But this would be a paper savings, not an actual savings in the material world. The manifestation of the Senior Citizen Program in the accounting system is more adequately understood as simply a "bin"; a place to "collect costs" in a *cost allocation* sense rather than as a material cost to the Philadelphia Gas Works. When the Senior Citizen Program is in effect, some costs are allocated and reflected in the Senior Citizen Program cost "bin," while costs for residential customers not in the Senior Citizen Program are allocated and collected in other bins (along with the 80% of Senior-Citizen cost that is not discounted). All of these binned costs are recovered through the GCR and/or the Base Rate. If the Senior Citizen Program were not in effect, the Senior Citizen cost bin would disappear, but the costs now allocated to this bin would simply be allocated to the other bins. With or without the program, full cost recovery through the GCR and Base Rate would proceed. Thus, the form of expression of Reason No. 8 could be misleading.

It is better to view the cost of the Senior Citizen Program as a *cost to families*; that is, a customer cost involving the allocation of costs among categories of customers. *In the material economy of the City, that is how the cost is experienced.* It is an additional amount per MCF paid each month by most families, and a reduced amount per MCF paid each month by participants in the Senior Citizen program. For the Philadelphia Gas Works, it is essentially an accounting transaction and the Philadelphia Gas Works should be indifferent from a cost perspective as to whether recovery is from either set of cost bins. In either case, the total dollars

²⁹ Pomerantz, Felix, *The Successful Audit*. Homewood Illinois: Business One Irwin, 1992, P. 40.

to be recovered is essentially identical, and there is no meaningful cost savings to the Philadelphia Gas Works from discontinuing the Senior Citizen Program.³⁰

In summary, Reasons 1, 2, and 3 provide key support to the audit recommendation, and are sufficient. Reasons 4, 5, 6, and 7 provide some support to the audit recommendation, but are not, as a set, highly persuasive. Reason 8 is not relevant to the audit recommendation.

V. THE PUBLIC UTILITY COMMISSION REASONABLENESS ISSUE

The Pennsylvania Public Utility Commission has the authority to grant continuation or modification of the Senior Citizen Program, *provided that such rates and the terms of such program are just and reasonable* (Figure 5). This principle reasonableness is more fully stated in Figure 12.³¹ The Commission may not make an unreasonable discrimination within a class.

No public utility shall, as to rates, make or grant any unreasonable preference or advantage to any person, corporation, or municipal corporation, or subject any person, corporation, or municipal corporation to any unreasonable prejudice or disadvantage. No public utility shall establish or maintain any unreasonable difference as to rates, either as between localities or as between classes of services....

Figure 12: The Principle of Reasonableness.

Reasonableness of rates is an administrative question for the Public Utility Commission to decide.³² A person may be given a rate preference as long as it is not unreasonable.³³ Structural situations in which there is demonstrated economic need may provide grounds for consideration in rate design. The Commission determined affordability is a consideration in designing rates. has permitted economic development rates for business customers and special rates and payment

³⁰ The discussion of cost allocation regarding Reason No. 8 follows the method of Kaplan, Robert S. and Robin Cooper. *Cost & Effect, Using Integrated Cost Systems to Drive Profitability and Performance*. Boston: Harvard Business School Press, 1998.

³¹ 66 Pa CS §501(a) Section 1304.

³² *Mobile Fone of Northeastern Pa., Inc. v. PA PUC*, 78 Commonwealth Ct. 336, 467 A.2d 902 (1983).

³³ *Rosemary Mill v. Commonwealth of PA*, PA PUC, 67 PA Commonwealth CT., 597, 44 A.2d 1100.

plans for low-income customers.³⁴ Also, different rates can be charged for different services as long as the differences are reasonable.³⁵

However, while Pennsylvania has a well developed and consistent history of making manifest the definition of reasonableness in relation to affordability in the development and codification of Universal Service programs, all such programs are needs-based (Figure 13).³⁶ Similarly, economic development (job-creation) programs have a consistent economic needs-related definition. However, we find no ground available in the record of the Pennsylvania Public Utility Commission for age in itself as a criterion of reasonableness.

“Universal service and energy conservation.” Policies, practices and services that that help residential low-income retail gas customers and other residential retail gas customers experiencing temporary emergencies, as defined by the commission, to maintain natural gas supply and distribution services. The term includes retail gas customer assistance programs, termination of service protections and consumer protection policies and services that help residential low-income customers and other residential customers experiencing temporary emergencies to reduce or manage energy consumption in a cost-effective manner, such as the low-income usage reduction programs and consumer education.

Figure 13: Universal Service Defined in Terms of Economic Need or Emergency.

There being no precedent for age alone as a criterion of reasonableness, and the Commission having established to the contrary a consistent record of including affordability and economic development as reasonable considerations to be taken into account in rate design; and, further, there being no question of different services involved with the Senior Citizen Program, we find a likelihood very near zero that a non means based Senior Program is approvable. In the State of Pennsylvania, such a proposal would, with virtual certainty, be classified as entailing unreasonably discrimination because it would require, to put it directly, subsidization of those without economic need by the poor. The Commission's principle of reasonableness, as operatively and consistently defined, would not permit approval.

VI. THE ISSUE OF DIFFERENTIAL LIFE EXPECTANCY

³⁴ PA PUC v. PECO, 54 PA PUC 220, 241, 37 Pur 4th 381, 403 (1980); PECO v. PA PUC, 79-Commonwealth Ct. 445, 470 A.2d 654 (1984).

³⁵ Philadelphia Suburban Transportation Co. v. PA PUC et al., 3 PA Commonwealth Court, 184, 281 A.2d 179 (1971).

³⁶ Natural Gas Choice and Competition Act, §2202 Definitions, 1999, June 22, P.L. 122, §3, effective July 1, 1999.

There is one other issue that bears on the design of the rate. It was alluded to at the end of the demographics section where it was stated that the reason Philadelphia will not have a problem in this [age composition] area in comparison to the State (and the outer counties) is that it has different basic demographics. In this section, we look at this problem directly: the problem is that life expectancy at birth in the United States is different for different racial groups.

Life expectancy at birth is defined as the average number of years a person would live given the age-specific mortality rates of a specified year or period. In 1991 the life expectancy of White males in the US was 72.9 years; of White females 79.6 years. In that same year the life expectancy for Black males in the US was 64.6 years and for Black females it was 73.8 years.³⁷ These life expectancies would mean that, considered collectively, *on average*, the benefit to Black males born in 1991 from the Senior Citizen would be zero, the benefit to Black Females would be about nine years of discount, to White males it would be approximately eight years of discounted rate, and to White females about fifteen years at the discounted rate.³⁸ Philadelphia is about half Black and half White, so on the face of it, and however good the intention of the original provision of the Senior Citizen Discount for honoring age in itself, the form of the discount is inherently discriminatory. Further, there is within social science some presumption that adequate income in childhood, adolescence, and working years may be reasonably related to longevity. If this presumption is correct, then a program that transfers funds from poor families to those Senior Citizens without economic need each month through natural gas bills would be socially regressive, that is, inimical to the principle of fairness.

VII. OPTION 1: CONTINUE THE SENIOR CITIZENS PROGRAM "AS IS"

A. General Aspects

This section discusses the effects if the current program is continued and operated as it currently is. It will also demonstrate the impact of the program on the company and on its ratepayers.

B. Advantages

- The cost of administration of the program is low since it covers all Senior Citizens households and does not carry any individual means testing.
- The system is stable and predictable and easy to understand for the customers.
- Every Senior Citizen could anticipate the gas costs as part of their personal budgets, which is of importance for various personal investments in housing, heating system etc.

³⁷ U.S. Bureau of the Census. Current Population Reports, Special Studies, P23-190, *65+ in the United States*. Washington, D.C.: U.S. Government Printing Office, 1996, Table 3-1, P. 3-1.

³⁸ Of course, some persons from each group show special longevity and would be exceptions in terms of this analysis of the average person.

- As the system is well established, a number of other entities in the City, for example, real estate developers, building constructors and other heating providers, may have come to expect the continuity of the Senior Citizen Discount and plan their continuing actions accordingly.

C. Disadvantages

- As income or need is not a basis for the assistance in the Senior Citizen Program, wealthy citizens over 65 years of age will benefit from this program and the expense of poor and middle income families, through their monthly payments of their natural gas bills.
- The Senior Citizen Assistance Program places some administrative burden on PGW to implement a system to check whether the customer is still the primary customer or that the person is still living. This is a minor burden, but it is a required activity.
- The aggregate discount will increase if the number of Senior Citizens increases over time. Accordingly it will be more costly for other customers to purchase gas from PGW. This will not be a significant factor through 2020.
- The Philadelphia Gas Works may experience a need to substantially increase its Universal Service Program in the current economy, especially if federal war spending is curtailed. It may be better to curtail the Senior Citizen Program in order to provide space to pick up these potentially increasing Universal Service costs, should it become necessary to do so.
- If the general aim of PGW's Universal Service Program is to reach the poorest households in the society, the most adequate group might not be the senior citizens in general. Apparently, only about six percent of the senior citizens' households in 1999 were below the Federal Poverty line, as evidenced by participation in the Customer Responsibility Program.

D. Cost Bin Profile

The financial profile of Option 1 (Continue "as is") is shown in Figure 14. As shown in this figure, the aggregate discount remains in the neighbourhood of \$19 million to \$20 million dollars through 2020, based on population projections.

Option 1: Continue "As Is"	(1) Program continues as is for current participants. (2) New participants are accepted; program continues as is for new participants. (3) Revenue impact is based on total sales of:					
	60,000,000	MCF/Year				
Year	Program	Aggregate Discount	GCR Discount	GCR/MCF	Base Discount	Base/MCF
2002	82,000	\$17,296,227	\$8,821,076	\$0.15	\$8,475,151	\$0.14
2005	79,550	\$12,928,462	\$6,593,516	\$0.11	\$6,334,946	\$0.11
2010	77,704	\$13,026,440	\$6,643,484	\$0.11	\$6,382,955	\$0.11
2015	80,762	\$13,890,062	\$7,083,932	\$0.12	\$6,806,130	\$0.11
2020	86,348	\$14,850,741	\$7,573,878	\$0.13	\$7,276,863	\$0.12

Figure 14: Option 1, Continue "As Is" for Current and New Participants.

VIII. OPTION 2: IMPLEMENT A MEANS TESTED PROGRAM

In this section the switch to a means tested program in place of the current Senior Citizen Assistance Program is discussed. Four levels of means-tested of current and future participants are being considered: 100 percent of the Federal Poverty Level, 150 percent of Federal Poverty Level, 200 percent and below, and median income. Full means testing of current and new participants is shown in Figures 2a through 2d. Testing of only new participants is shown in Figures 4a through 4d.³⁹

A. General Aspects

This section addresses introduction of a means tested program for current and future Senior Citizens. The number of Senior Citizens to be covered by the different poverty levels will determine the size and costs of the program.

B. Advantages

- If the main objective of the PGW Universal Service Program is to reach the poorest households in Philadelphia, means testing of Senior Citizens will help better target the poorest customers.
- The administration of the Senior Citizens Assistance Program might be aligned with the existing means test-based CRP program. No specific administration of a means tested Senior Citizen Assistance Program will therefore be needed, and there will be no appreciable additional cost for means-testing.
- Poor Senior Citizens could benefit a lot from a means tested program since their discount on the gas rates might increase compared to the current system.

C. Disadvantages

³⁹ The numbering sequence. Options 4a through 4d, was chosen to keep this set of Option 2 variants within the same patterning as Options 2a through 2d.

- Introduction of a means tested program might lead to higher administration costs compared to today since testing of individual households needs to take place. This depends, for example, on the number of potential participants and whether the administration of the program can be linked to administration of the Customer Responsibility Program.
- Suspension of the general Senior Assistance Program could lead to good-will losses for PGW among current participants as well as the population and actors in Philadelphia at large (children to senior citizens, housing constructors etc.).
- Senior Citizens with income above the different Federal Poverty Line levels will automatically loose since their gas bills will increase overnight.
- The number of unpaid bills might increase as well as the arrears. Current customers have adapted their household budgets to the prevailing system and might no be ready to pay larger bills. This will lead to lost income for PGW and higher administration costs in trying to retrieve the unpaid bills.
- Risk for gas-related accidents could increase due to worse maintenance and damage on property, caused by the lower number of participants in the program.
- Insurance costs for individual households as well as for PGW could increase due to the above mentioned causes.
- Housing constructors/investors/customers might choose other heating alternatives.

D. Cost Bin Profile

There are four cost profiles for this option. Under Option 2, the program continues with *both current and new participants* subject to a means test. Profiles for 100%, 150% and 200% of the Federal Poverty Level and for median income are shown in Figures 15-18, respectively.

Option 2a: Means Test All @ 100% FPL	(1) Program continues; current participants are means tested (<100% of FPL). (2) New participants are accepted; the means test is applied to all new participants. (3) Revenue impact is based on total sales of:					
	60,000,000	MCF/Year				
Year	Program	Aggregate Discount	GCR Discount	GCR/MCF	Base Discount	Base/MCF
2002	16,646	\$3,511,134	\$1,790,678	\$0.03	\$1,720,456	\$0.03
2005	16,149	\$2,624,478	\$1,338,484	\$0.02	\$1,285,994	\$0.02
2010	15,774	\$2,644,367	\$1,348,627	\$0.02	\$1,295,740	\$0.02
2015	16,395	\$2,819,683	\$1,438,038	\$0.02	\$1,381,644	\$0.02
2020	17,529	\$3,014,700	\$1,537,457	\$0.03	\$1,477,203	\$0.02

Figure 15: Option 2a – Means Test at 100% FPL for All Participants.

Option 2b: Means Test All @ 150% FPL	(1) Program continues; current participants are means tested (<150% of FPL).					
	(2) New participants are accepted; the means test is applied to all new participants.					
	(3) Revenue impact is based on total sales of:					
	60,000,000	MCF/Year				
Year	Program	Aggregate Discount	GCR Discount	GCR/MCF	Base Discount	Base/MCF
2002	24,600	\$5,188,868	\$2,646,323	\$0.04	\$2,542,545	\$0.04
2005	23,865	\$3,878,539	\$1,978,055	\$0.03	\$1,900,484	\$0.03
2010	23,311	\$3,807,932	\$1,893,045	\$0.03	\$1,914,887	\$0.03
2015	24,229	\$4,167,019	\$2,125,179	\$0.04	\$2,041,839	\$0.03
2020	25,904	\$4,455,222	\$2,272,163	\$0.04	\$2,183,059	\$0.04

Figure 16: Option 2b -- Means Test at 150% FPL for All Participants.

Option 2c: Means Test All @ 200% FPL	(1) Program continues; current participants are means tested (<200% of FPL).					
	(2) New participants are accepted; the means test is applied to all new participants.					
	(3) Revenue impact is based on total sales of:					
	60,000,000	MCF/Year				
Year	Program Population	Aggregate Discount	GCR Discount Component	GCR/MCF	Base Discount Component	Base/MCF
2002	32,800	\$6,918,491	\$3,528,430	\$0.06	\$3,390,061	\$0.06
2005	31,820	\$5,171,985	\$2,637,406	\$0.04	\$2,533,979	\$0.04
2010	31,082	\$5,210,576	\$2,657,394	\$0.04	\$2,553,182	\$0.04
2015	32,305	\$5,556,025	\$2,833,573	\$0.05	\$2,722,452	\$0.05
2020	34,539	\$5,940,297	\$3,029,551	\$0.05	\$2,910,745	\$0.05

Figure 17: Option 2c -- Means Test at 200% FPL All Participants.

Option 2d: Means Test All @ Median Income	(1) Program continues but current participants are means tested (<median income).					
	(2) New participants are accepted; the means test is applied to all new participants.					
	(3) Revenue impact is based on total sales of:					
	60,000,000	MCF/Year				
Year	Program Population	Aggregate Discount	GCR Discount Component	GCR/MCF	Base Discount Component	Base/MCF
2002	41,000	\$8,648,114	\$4,410,538	\$0.07	\$4,237,576	\$0.07
2005	39,775	\$6,464,231	\$3,296,758	\$0.05	\$3,167,473	\$0.05
2010	38,852	\$6,513,220	\$3,321,742	\$0.06	\$3,191,478	\$0.05
2015	40,381	\$6,945,031	\$3,541,966	\$0.06	\$3,403,065	\$0.06
2020	43,174	\$7,425,371	\$3,786,939	\$0.06	\$3,638,432	\$0.06

Figure 18: Option 2d -- Means Test at Median Income for All Participants.

Option 4a: Means Test New at 100% FPL	(1) Program continues for current participants (grandfathered).					
	(2) New participants are means tested (<100% of the Federal Poverty Level).					
	(3) Revenue impact is calculated based on estimated sales of:					
	60,000,000	MCF/YEAR				
Year	Program	Aggregate Discount	GCR Discount	GCR/MCF	Base Discount	MCF/YEAR
2002	82,000	\$17,296,227	\$8,821,076	\$0.15	\$8,475,151	\$0.14
2005	69,620	\$11,314,716	\$5,770,505	\$0.10	\$5,544,211	\$0.09
2010	50,775	\$8,511,983	\$4,341,111	\$0.07	\$4,170,872	\$0.07
2015	36,226	\$6,230,320	\$3,177,463	\$0.05	\$3,052,857	\$0.05
2020	26,736	\$4,598,198	\$2,345,081	\$0.04	\$2,253,117	\$0.04

Figure 19: Option 4a -- Means Test at 100% FPL for New Participants.

Option 4b: Means Test New at 150% FPL	(1) Program continues for current participants (grandfathered). (2) New participants are means tested (<150% of the Federal Poverty Level). (3) Revenue impact is calculated based on estimated sales of:					
	60,000,000	MCF/YEAR				
Year	Program Population	Aggregate Discount	GCR Discount Component	GCR/MCF	Base Discount Component	MCF/YEAR
2002	82,000	\$17,296,227	\$8,821,076	\$0.15	\$8,475,151	\$0.14
2005	70,829	\$11,511,119	\$5,870,671	\$0.10	\$5,640,448	\$0.09
2010	54,053	\$9,061,421	\$4,621,325	\$0.08	\$4,440,096	\$0.07
2015	41,646	\$7,162,560	\$3,652,905	\$0.06	\$3,509,654	\$0.06
2020	33,991	\$5,845,999	\$2,981,459	\$0.05	\$2,864,539	\$0.05

Figure 20: Option 4b – Means Test at 150% FPL for New Participants.

Option 4c: Means Test New at 200% FPL	(1) Program continues for current participants (grandfathered). (2) New participants are means tested (<200% of the Federal Poverty Level). (3) Revenue impact is calculated based on estimated sales of:					
	60,000,000	MCF/YEAR				
Year	Program Population	Aggregate Discount	GCR Discount Component	GCR/MCF	Base Discount Component	MCF/YEAR
2002	82,000	\$17,296,227	\$8,821,076	\$0.15	\$8,475,151	\$0.14
2005	72,075	\$11,713,597	\$5,973,934	\$0.10	\$5,739,662	\$0.10
2010	57,431	\$9,627,852	\$4,910,205	\$0.08	\$4,717,648	\$0.08
2015	47,234	\$8,123,631	\$4,143,052	\$0.07	\$3,980,579	\$0.07
2020	41,470	\$7,132,390	\$3,637,519	\$0.06	\$3,494,871	\$0.06

Figure 21: Option 4c – Means Test at 200% FPL for New Participants.

Option 4d: Means Test New at Median	(1) Program continues for current participants (grandfathered). (2) New participants are means tested (<median income). (3) Revenue impact is calculated based on estimated sales of:					
	60,000,000	MCF/YEAR				
Year	Program Population	Aggregate Discount	GCR Discount Component	GCR/MCF	Base Discount Component	MCF/YEAR
2002	82,000	\$17,296,227	\$8,821,076	\$0.15	\$8,475,151	\$0.14
2005	73,321	\$11,916,074	\$6,077,198	\$0.10	\$5,838,876	\$0.10
2010	60,810	\$10,194,284	\$5,199,085	\$0.09	\$4,995,199	\$0.08
2015	52,822	\$9,084,703	\$4,633,199	\$0.08	\$4,451,505	\$0.07
2020	48,950	\$8,416,782	\$4,293,579	\$0.07	\$4,125,203	\$0.07

Figure 22: Option 4d – Means Test at Median Income for New Participants.

IX. OPTION 3, PHASE OUT OF THE SENIOR CITIZEN PROGRAM

This section discusses what happens if the current Senior Citizens Assistance Program is phased out according to population mortality (Option 3a). In the case modelled, old participants as of the effective date of the final restructuring order may remain in the program, but no future entry is allowed. Also, an alternative five-year phase out is projected (Option 3b).

A. General Aspects

This will represent a change in a thirty-year Senior Citizens Program that may have become built into expectations of Senior Citizens, and other groups in the City.

B. Advantages

- Administration costs for PGW will theoretically decrease, but not noticeably: that is, not at a practical level that would show on the Gas Works' bottom line.
- The gas bills for non-senior citizens will gradually decrease since the costs to be covered for the Senior Citizens Assistance Program will decrease over the years due to mortality. Or, alternatively, over a five-year phase out.
- The inequity of poor and middle class families subsidizing the portion of Senior Citizens who are not in need will gradually cease to exist (or relatively quickly, if a five-year phase out).

C. Disadvantages

- Senior Citizens to-be, who have counted on to be part of the program, may be surprised to find that it is now closed to them.
- Poor Senior Citizens eligible for the Customer Responsibility Program but who choose not to be part of that program will find their alternative bill higher than if the Senior Citizen Program were continued.
- Closing program entry will discriminate between senior citizens who are part of the program and those who cannot enter into it. The cut-off date will be very decisive for the costs of the customers' future gas bills, and may be perceived to be inequitable to customers who have paid for others in the program over the past thirty years, and find that they are not now eligible in turn.
- PGW will need to explain the phasing out and might lose good will.
- It is possible that other heating providers might gain market share since more PGW senior citizen customers will bear the full cost of gas heating, and therefore will look for other heating alternatives.

D. Cost Bin Profile

Option 3a: Slow Phase Out	(1) Program phased out; no new participants are permitted to enter. (2) Program continues for current participants (grandfathered). (3) Revenue impact is calculated based on estimated sales of:					
	60,000,000	MCF/Year				
Year	Program	Aggregate Discount	GCR Discount	GCR/MCF	Base Discount	MCF/YEAR
2002	82,000	\$17,296,227	\$8,821,076	\$0.15	\$8,475,151	\$0.14
2005	67,091	\$10,903,686	\$5,560,880	\$0.09	\$5,342,806	\$0.09
2010	43,916	\$7,362,127	\$3,754,685	\$0.06	\$3,607,442	\$0.06
2015	24,882	\$4,279,344	\$2,182,466	\$0.04	\$2,096,879	\$0.03
2020	11,552	\$1,986,823	\$1,013,280	\$0.02	\$973,543	\$0.02

Figure 23: Option 3: Slow Phase Out using Mortality (Grandfather as of Effective Date of Order).

Option 3b: Five-Year Phase Out	(1) Program continues for current participants (grandfathered). (2) Program discount of 20% is phased out over five years: 4%/yr (3) Revenue impact is calculated based on estimated sales of:					
	60,000,000	MCF/YEAR				
Year	Program Population	Aggregate Discount	GCR Discount Component	GCR/MCF	Base Discount Component	MCF/YEAR
2002	82,000	\$17,290,227	\$8,821,076	\$0.15	\$8,475,151	\$0.14
2003	76,695	\$12,941,729	\$6,600,282	\$0.11	\$6,341,447	\$0.11
2004	71,732	\$9,078,289	\$4,629,933	\$0.08	\$4,448,367	\$0.07
2005	67,091	\$4,361,475	\$2,224,352	\$0.04	\$2,137,123	\$0.04
2006	62,751	\$2,039,644	\$1,040,218	\$0.02	\$999,425	\$0.02

Figure 24: Option 3b - Five Year Phase Out.

As shown in Figure 23, the phase out will continue beyond 2020 if it is accomplished via population mortality, or (Figure 24) by the end of 2006 for a five-year planned phase out.

X. COMPARISONS

The options are compared as to size of the participant population (Figure 25), rate impact (Figure 26), and size of the annual discount (Figure 27).⁴⁰

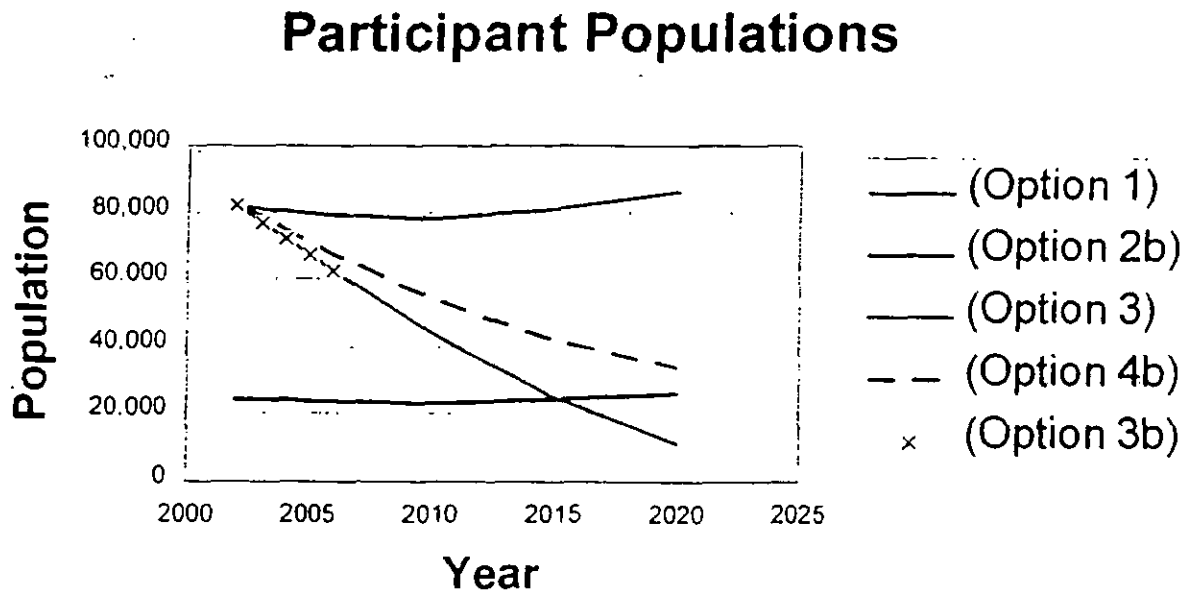


Figure 25: Number of Participants Comparison.

⁴⁰ Options 2b & 4b (both 150% FPL) stand in for Options 2a-2d and Options 4a-4d.

Rate Impact Perspective

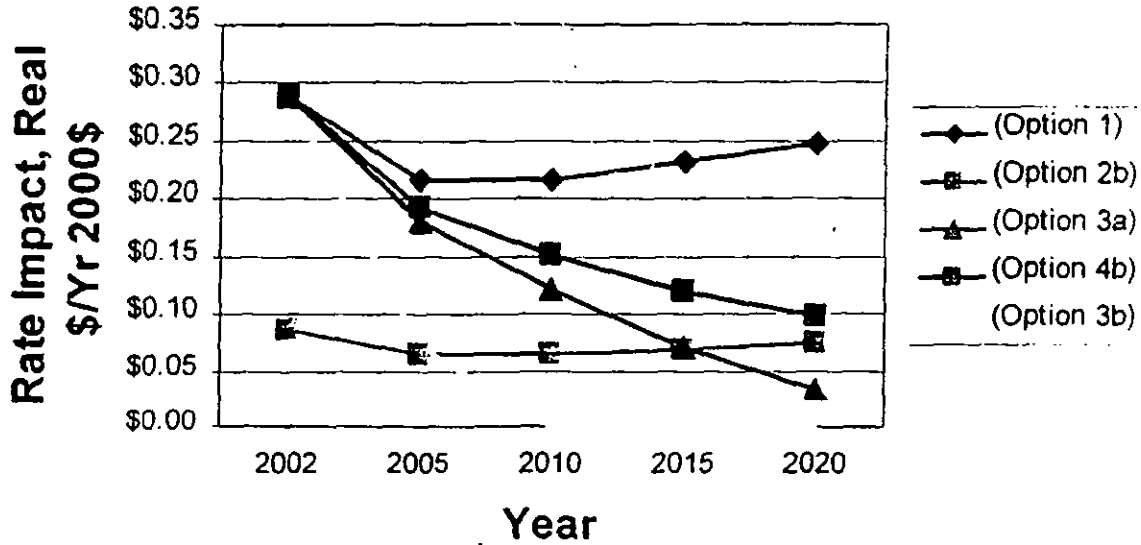


Figure 26: Rate Impact Comparison.

Annual Discount

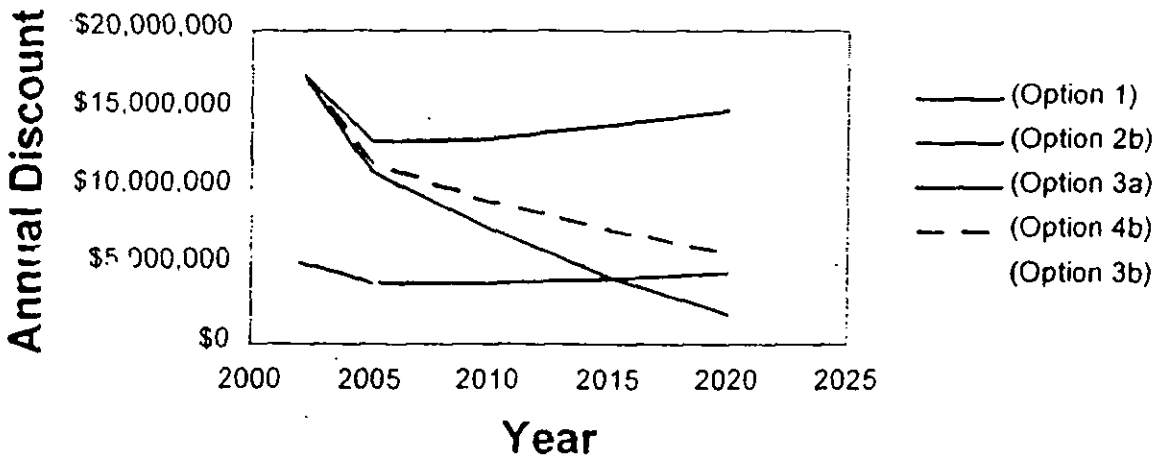


Figure 27: Annual Discount Comparison.

XI. FINAL COMMENTS & RECOMMENDATIONS

The ultimate decision on which system/option to choose will depend on a number of basic factors, many of which are of political nature. The fundamental decision involves the relative importance of socio-economic factors versus age:

- Should Senior Citizens be given special treatment as a group or will the need of senior citizens be assessed according to income/wealth and poverty status;

It also involves serious concerns regarding equity and fairness.

Our recommendation is that, on balance, and although other choices do also retain some good aspects, the auditor's recommendation should be implemented:

Study Recommendation No. 1

We recommend that the Philadelphia Gas Works present options to the City, and sponsor consideration of the phase out of the Senior Citizen Program, to be replaced in the case of

In the current economic context and in the light material facts presented in this report, and especially in light of the evolving job structure of the City and the Controller's forecast, it seems prudent and strategic to make each dollar committed to a social service work harder.

Eliminating the Senior Citizen Program will allow a fuller focus on the Customer Responsibility Program, will insure that funds are not transferred from the poor and middle class to that portion of the Senior Citizen population who are not in economic need, while providing for those portions of the Senior Citizen population that are most in need, and eliminate serious racial disparity in who pays and who benefits. Also, elimination of the Senior Citizen Program and replacement by the Customer Responsibility Program would be consistent with the regulatory record and the criterion of reasonableness established by the State of Pennsylvania. Finally, we estimate that the chance of securing approval of the Pennsylvania Public Utility Commission for a Universal Service type of program not grounded in economic need and involving transfer payment from the poor and middle class to persons who are not in economic need is virtually zero.

Further, we recommend an administrative phase out rather than a phase out according to mortality.

Study Recommendation No. 2

Implement a five-year planned phase out.

Given the current economic context of the nation, and the prospect of economic uncertainty ahead, we recommend a complete phase out, with a gradually reduced discount over the next five years, rather than linking of phase out to mortality. If it is decided to phase out the program, an administrative phase out according to a five year plan, reducing the discount each year will be smoother and more easily manageable than the alternative.

Again, the perspective is to make dollars work harder for the public welfare of the City, although there are other positive values that might tend toward a longer phase out.

Exhibit SCD/CC-5

SENIOR CITIZEN DISCOUNT*

I. PROVISION FOR SENIOR CITIZEN DISCOUNT

- A. A person shall be granted a reduction in monthly charges for Gas Service provided by the Company for Residential purposes if said person satisfies the conditions set forth below:
1. Is 65 years of age or older;
 2. Resides in the City of Philadelphia;
 3. Does or will directly make payment to the Company for Gas Service at his or her residence;
 4. Completes an acceptable application;
 5. Maintains his or her qualification for same.
 6. For persons applying for a Senior Citizen Discount after September 1, 2003, submits satisfactory proof that the applicant's Gross Annual Income, regardless of family size, does not exceed 250% of the federal poverty level for a two person family. The Customer shall provide all documentation necessary for PGW to determine the household Gross Annual Income, including but not limited to proof of household income and character of service requested (Heating or Non-Heating). PGW has the right to verify an Applicant's household Gross Annual Income by means including but not limited to verification through governmental agencies and reviewing credit reports.
- B. The Senior Citizen Discount, as set forth in this Tariff, shall only apply to the Gas which is consumed for Heating and Non-Heating purposes in that portion of the building in which the senior citizen resides. Therefore, if the senior citizen resides in a building that is part Residential and part Commercial or rental (to someone other than the senior citizen), only that portion of the building that is occupied by the senior citizen as a residence will be eligible for the Senior Citizen Discount.

II. COMPUTATION OF SENIOR CITIZEN DISCOUNT

For eligible Customers, Gas Service provided by the Company will be priced at the full rate then in effect, as authorized by the Commission, and 80% of this amount will be billed to the Customer.

III. APPLICATION FOR SENIOR CITIZEN DISCOUNT

An application for Senior Citizen Discount must be completed by the Applicant in person at any one of the Company's offices or at such other place as the Company provides.

IV. DOCUMENTARY EVIDENCE REQUIRED FOR SENIOR CITIZEN DISCOUNT

A. An Applicant must present:

1. Legal proof of age acceptable to the Company;
 2. Documentary evidence acceptable to the Company authenticating Applicant's residence at the address where Gas consumption will be subject to the discount;
 3. For persons applying for a Senior Citizen Discount after September 1, 2003, proof that he or she meets the Gross Annual Income requirements as set forth in (A)(6), above.
- B. The Company may from time to time require production of documentary evidence or other information deemed satisfactory by the Company so as to review a Customer's continued eligibility for the Senior Citizen Discount.

V. EFFECTIVE DATE OF THE INITIAL SENIOR CITIZEN DISCOUNT BILLING

- A. Applications made at least 30 days prior to the Applicant's next billing period, and which in that 30-day period are fully documented and accepted by the Company, will result in the initial application of the Senior Citizen Discount to the cost of the Gas consumed in such next billing period.
- B. Improper or incomplete applications causing the extension of the above 30-day period, and which delay in the Company's opinion is occasioned by the Applicant, will delay the initial use of the discount until the succeeding billing period next following the acceptance of the application.
- C. The Senior Citizen Discount, after its initial application, will continue in force thereafter so long as it is authorized and the original Applicant, in the opinion of the Company, continues to qualify for it.

VI. CUSTOMER'S GAS PIPING

- A. In order for the Company to quantify the amount of Gas to which the Senior Citizen Discount applies in the event that such Gas quantity cannot ordinarily be determined, arrangements acceptable to the Company must be made by the Customer.
- B. In cases where, at the time of making application, the Customer lives in only a portion of the structure to which Gas is also being supplied to others but through a single meter, and where the Discount does not apply to the others, and, in the opinion of the Company, the Customer's Gas piping can reasonably be changed, the Customer, at his or her expense, shall make the necessary piping rearrangement and the Company will install a separate meter.
- C. When the Customer's Gas piping, in the opinion of the Company, cannot reasonably be changed, the Company, for billing purposes, will estimate the quantity of Gas used by the Customer to which the Senior Citizen Discount will apply. In all other cases, the Customer should make Gas piping rearrangements to allow the Company to directly meter Gas used exclusively for such Customer's account.

APPENDIX B

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

DIRECT TESTIMONY OF

CRISTINA COLTRO

**ON BEHALF OF
PHILADELPHIA GAS WORKS**

CONCERNING UNIVERSAL SERVICE ISSUES

**APPLICATION OF PHILADELPHIA GAS
WORKS FOR APPROVAL OF A GAS
RESTRUCTURING PLAN UNDER SECTION 2212(g)
AND (h) OF THE PUBLIC UTILITY CODE**

DOCKET NO. M-00021612

July 1, 2002

1 **I. QUALIFICATIONS**

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

4 **A.** *My name is Cristina Coltro and my business address is 800 W. Montgomery*
5 *Avenue, Philadelphia, PA 19122.*

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 **A.** I am employed by the Philadelphia Gas Works ("PGW" or the "Company") as the
8 Manager of Universal Service Programs.

9 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
10 **PROFESSIONAL EXPERIENCE.**

11
12 **A.** My resume, which describes my educational background and work experience is
13 attached and marked as Exhibit CC-1.

14 **Q. HAVE YOU EVER PROVIDED TESTIMONY TO THIS COMMISSION**
15 **BEFORE?**

16
17 **A.** No, I have not.

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

19 **A.** The purpose of my testimony is to describe PGW's existing low-income energy
20 assistance programs and to explain how PGW intends to adopt its existing
21 programs to meet Commission Universal Service guidelines under the Natural
22 Gas Choice Act and the Commission's Policy Statement at 52 Pa. Code § 69.265.

23 **I. UNIVERSAL SERVICE PROGRAMS**

24 **Q. ARE YOU FAMILIAR WITH THE COMMISSION'S POLICY**
25 **STATEMENTS WITH REGARDS TO UNIVERSAL SERVICE**
26 **PROGRAMS?**

27 **A.** Yes. As the manager of PGW's energy assistance programs, I am very familiar
28 with both the universal service provisions of the Natural Gas Choice and
29 Competition Act and the Commission's policy statements with regards to policies,

1 practices and services that help low-income customers maintain gas service. I am
2 an active participant in the Natural Gas Universal Service Task Force that reviews
3 programs, funding mechanisms, and provides insight to the mandated annual
4 report to the Commission. I also have been in frequent contact with Bureau of
5 Consumer Services ("BCS") staff regarding universal service issues in general
6 and PGW's universal service program in particular. These numerous contacts
7 started before the Commission took jurisdiction over PGW and have continued on
8 an increasingly frequent basis since that time.

9 **Q. PLEASE OUTLINE THE LOW-INCOME PROGRAMS AVAILABLE TO**
10 **PGW CUSTOMERS.**

11 A. PGW has been in the forefront of providing services to low-income customers
12 since the 1970's. For decades PGW has offered payment assistance and energy
13 conservation programs to its low-income customers. PGW's current low-income
14 programs include the Customer Responsibility Program ("CRP"), a customer
15 assistance program, the Conservation Works Program ("CWP"), a conservation
16 and weatherization program, LIHEAP Outreach, Hardship Fund through the
17 Utility Emergency Services Fund ("UESF"), and the Senior Citizen Discount
18 Program.

19 Through these programs, PGW has been successful in keeping thousands
20 of low-income residents on the system, with safe and affordable gas bills, while
21 maximizing the amounts collected from these customers. Over the past decade,
22 the CRP has matured into one of the largest low-income customer assistance
23 programs in the state and country.

1 In this regard, PGW is well ahead of other Pennsylvania gas distribution
2 companies in implementing a CRP program, which under this Commission's
3 parlance is known as a Customer Assistance Plan or CAP. While other
4 Pennsylvania gas distribution companies are in the early stages of CAP
5 development, PGW has vast experience in this area, given its mature program
6 with higher participation levels than any other comparable program in
7 Pennsylvania. This, of course, has an impact on PGW's restructuring proceeding
8 since, as I understand it, the Gas Choice Act requires recovery of all universal
9 service costs through a surcharge. Obviously, these costs are far more significant
10 for a mature program like PGW's than a CAP pilot or CAP program in its early
11 stages of development.

12 **Q. PLEASE DESCRIBE PGW'S CURRENT CRP PROGRAM.**

13 A. CRP is a percent-of-income customer assistance program designed to offer
14 affordable and discounted payment plans to low income customers with gross
15 household income at or below 150% of the federal poverty level. The program
16 was implemented in 1994, as an extension of the Energy Assistance Program pilot
17 program ("EAP"). The program has a current participation level of 65,500 low-
18 income customers.

19 CRP is offered to residential heating and non-heating customers.

20 Participants who fall at or below 135% of the federal poverty level are asked to
21 pay 7.35% of their gross household income. Participants who fall between 136 -
22 150% of the federal poverty level are required to pay their budget amount plus 2%
23 of their pre-program arrears each month. A down payment of 5% is required prior
24 to entering the program. The minimum payment amount is \$30 and the maximum

1 bill amount for those under 136% of the income guidelines is 12% of the annual
2 gross household income. These customers are assessed excess usage charges if
3 their usage is above their usage limit. They are also assessed a LIHEAP make-up
4 charge if they fail to apply for and assign a LIHEAP grant to PGW each year.
5 Participant responsibilities include: making payments on time, applying for the
6 LIHEAP grant each year (if eligible), permitting the installation of an Automatic
7 Meter Reading device ("AMR"), accepting conservation measures, and
8 recertifying annually .

9 **Q. PLEASE COMPARE PGW'S CRP WITH A CAP PROGRAM.**

10 A. PGW's CRP is a type of CAP that falls within the Percentage of Income type of
11 plan recognized by the Commission. The fundamental structure and principles,
12 underlying the existing CRP fits substantially within existing Commission
13 guidelines and is in general compliance with the principal aspects of the
14 Commission's Policy Statement. However, because PGW's CRP was developed
15 under the oversight of a different regulator, there are some differences; albeit
16 relatively minor differences in the overall scheme of things. The main differences
17 between PGW's CRP and a typical CAP are: absence of a discount to CRP
18 customers in the range of 136% to 150% of the federal poverty level; absence of a
19 structural arrearage forgiveness program; a required 5% down payment to enter
20 the CRP program; and a more lenient collection process.

21 **Q. DOES PGW INTEND TO CONTINUE ITS CRP PROGRAM?**

22 A. Yes. PGW intends to continue offering affordable customer assistance program
23 to its low-income customers. Over the last year and one-half, PGW has retained

1 the consulting services of Gil Peach & Associates regarding compliance with
2 PUC Universal Service program guidelines. (See attached Exhibit CC-2 which is
3 a copy of "PGW's Universal Service Programs," the report produced by Mr.
4 Peach. Also referred to as the "Peach Report.")¹ In this process, we recognized
5 that some changes to the existing CRP program will be necessary in order to
6 comply with these guidelines. PGW is committed to implementing the necessary
7 changes to CRP in order to comply with the Commission's CAP guidelines. It is
8 expected that this transition will be completed by September 2003. Section F of
9 the Restructuring Plan Filing outlines and provides further detail regarding the
10 proposed changes to our program.

11 **Q. DOES PGW EXPECT CRP PARTICIPATION TO INCREASE AS A**
12 **RESULT OF THE TRANSITION TO CAP?**

13 A. Yes. As reflected in the Peach Report, the participation in the CRP is expected to
14 increase as a result of the transition and as a result of general economic
15 conditions. The Peach Report identified the "high end" forecasted participation
16 level as 90,000 customers. PGW has determined that likely participation could be
17 near the high end given PGW's decision to eliminate Senior Citizen Discount
18 participation for customers reaching 65 after September 1, 2003— a factor which
19 was not considered in the Peach Report pertaining to likely future participation.

20 **Q. HAS PGW ALREADY STARTED THE TRANSITION TO FULL**
21 **COMPLIANCE WITH THE COMMISSION'S CAP GUIDELINES?**

22 A. Yes. As was evident from our discussions with the BCS regarding our recent
23 collections initiative aimed at CRP participants, PGW is currently transitioning

¹ One other Peach report, addressing the the Senior Citizen Discount, is attached to my testimony as Exhibit CC-4.

1 to a model which reflects BCS's preferences for the procedural operations of a
2 CAP. Under PGW's current tariff, when a CRP participant defaulted on his/her
3 CRP obligations, the participant was removed from the CRP program and made
4 subject to collection of prior outstanding arrearages.² The customer, once
5 removed, was then subject to service termination procedures. Furthermore, the
6 customer was precluded from participating in CRP for a period of one year at
7 which time the customer would again be eligible for CRP. In contrast, the BCS
8 philosophy places greater emphasis on keeping participants in the CAP program.
9 Under this philosophy, CAP participants are not removed from CAP, but are
10 subject to service termination within CAP. Once terminated, the customer may
11 reactivate service and immediately re-enter CAP as soon as the customer pays
12 outstanding CAP amounts. Essentially, the customer never leaves CAP.

13 PGW has agreed to and is implementing this change to satisfy the BCS.³
14 PGW believes that this change will be beneficial to both the Company's
15 collection efforts and to our CAP participants in the long run.

² When a customer enters CRP, any remaining arrearages are placed in a frozen arrearage account which is not activated as long as the participant meets CRP obligations. Furthermore, as part of its recent collections program, and in recognition of the fact that PGW had been unable to engage in CRP collections for a considerable period of time (largely because of the support systems breakdown in July of 1999, discussed more fully in Randy Gyory's testimony) PGW decided to place all CRP arrearages which exceeded 90 days in age into frozen arrearages.

³ To clarify this issue, PGW is unable to complete the systems work to fully implement the BCS model until restructuring. However, as a result of discussions with the BCS, PGW has converted its procedures so that CRP customers who default on their CRP payment obligations may reenter the program at any time by becoming current on CRP delinquencies. Furthermore, PGW will complete the systems work and fully implement the BCS model by September 1, 2003.

1 **Q. WILL THIS EFFECT PGW ARREARAGE FORGIVENESS POLICY FOR**
2 **CRP PARTICIPANTS?**

3 A. Yes. Prior to our transition to the BCS model, PGW maintained CRP pre-
4 program arrearages in frozen arrearage accounts. However, the arrearages were
5 only forgiven, if at all, upon a periodic review of accounts. As a result of the
6 transition to the BCS model, customers who enter the CRP Program will remain
7 in the CRP program unless it is determined that they are no longer eligible as a
8 result of increased income or other violations of CRP conditions. Therefore,
9 under the BCS guidelines, customers who are delinquent in their CRP payment
10 obligations are only required to pay CRP delinquencies in order to reestablish
11 themselves in good standing in the CRP program. These customers are never
12 required to pay their frozen arrearages.

13 This change in methodology justifies a change in our current arrearage
14 forgiveness policy. Now, PGW will forgive the frozen arrears of all CRP
15 customers who remain in good standing for a period of six months. It is my
16 understanding that this is the policy that PECO Energy has established in
17 administering its CAP program.⁴

18 **Q. IS PGW MAKING ANY ADDITIONAL MODIFICATIONS TO ITS**
19 **EXISTING CRP PROGRAM AT THE TIME OF RESTRUCTURING?**

20
21 A. Yes. Additional proposed changes to the program include: removing the
22 requirement for a 5% down payment to enter the program, eliminating LIHEAP

⁴ PGW's arrearage forgiveness plan departs from PECO's policy in one respect. PECO forgives all but \$500 from a CAP customer in good standing after six months where as PGW plans to forgive all arrearages for these customers after six months.

1 make-up and excess usage charges, and readjusting the percent of income
2 guidelines.

3 A LIHEAP make-up charge is currently assessed on CRP customers who
4 qualify for a LIHEAP grant but do not take the relatively simple steps necessary
5 to actually receive the grant. The excess usage charge is assessed on customers
6 whose monthly usage exceeds their usage limit. A LIHEAP make-up charge is a
7 completely rational approach to administering a CAP program which is
8 specifically permitted by the Commission's policy statement. Excess usage
9 charges are used as an incentive for customers to conserve gas usage in a
10 responsible manner. Notwithstanding these rationales, PGW will suspend these
11 charges for the first year of the program. In addition, the percentage of income
12 guidelines will change. The new percent of income guidelines will be 8% for
13 customers who are below 50% of the federal poverty level, 9% for customers
14 between 51 – 100% , and 10% for 101 – 150% of the poverty level . These
15 guidelines are in full conformity with Commission policies.

16 PGW will review the affordability of these two changes (LIHEAP make-
17 up and excess usage charges) after the first year of the program and determine if
18 they should be re-implemented on a continuing basis. While elimination of these
19 charges for the first year of the program is part of PGW's restructuring plan, PGW
20 reserves its right to reinstate the charges under its tariff if warranted after a
21 period of review.

22 **Q. PLEASE DESCRIBE PGW'S CWP PROGRAM.**

1 A. The Conservation Works Program (CWP), implemented in 1990, was designed to
2 provide cost-effective weatherization measures to customers who are participants
3 in the Customers Responsibility Program (CRP), and whose usage exceeds the
4 average usage of CRP customers living in similar households. The CWP focuses
5 on PGW's low-income customers, addressing the main factors that influence
6 their energy usage (such as mechanical and structural systems), and behavioral
7 issues. The goals of the CWP program consist of reducing the gas usage of low-
8 income households in a cost-effective manner, lowering gas bills and improving
9 the payment practices of participating customers.

10 Over the last few years, PGW has offered the CWP program to a range of
11 3,500 to 4,000 CRP customers each year. The program is frequently evaluated
12 and has been determined to be cost-effective. Mr. Michael Blasnik performed the
13 last evaluation in December of 2001. His report shows that the CWP is a cost-
14 effective program that should be continued. (See Exhibit CC-3 for "Impact
15 Evaluation of PGW's Conservation Works Program, Year 10")

16 **Q. DOES PGW INTEND TO CONTINUE ITS CWP PROGRAM?**

17 A. Yes. It is PGW's intent to continue the CWP program as it functions currently.
18 The criteria for program participation are in compliance with 52 PA Code, §58.2,
19 with the sole exception of assigning a portion of the LIURP funds for special
20 needs customers with income between 151% and 200% of the poverty guidelines.
21 Due to the large participation level and need within CRP/CAP, PGW intends to
22 continue its current practice of operating CWP/LIURP as a tool to reduce
23 consumption for high users within CRP. The CWP is the main tool that CRP/CAP

1 customers have to reduce consumption and receive program and energy
2 education. Energy savings from CWP translate into a lower CRP/CAP discount
3 that other ratepayers have to bear. Evaluation of the CWP program shows an
4 average of 130 ccf/year in energy savings per participant. At PGW's current rates,
5 these savings translate to a reduction of approximately \$124 per CRP discount
6 per year .

7 Expanding the program eligibility criteria to include customers with
8 income between 151% and 200% of the poverty guidelines is not supported by a
9 cost/benefit analysis. First, the expansion would diminish the current level of
10 benefits to those PGW customers who need the assistance the most. Second,
11 since the category of PGW ratepayers in the 151-200% poverty guideline range is
12 very substantial – limiting the incremental benefit per customer would be limited
13 to a nominal amount. Finally, CWP expansion would require costly support
14 system enhancements, which as explained by PGW witness Randy Gyory, cannot
15 be accommodated by PGW at this time. Therefore, PGW is requesting a waiver
16 of §58.2 and the Commission should grant PGW's request.

17 **Q. PLEASE DESCRIBE PGW'S LIHEAP OUTREACH PROGRAM.**

18 **A.** The Low Income Energy Assistance Program (LIHEAP) is a federally funded
19 program administered by the Commonwealth of Pennsylvania and other states. It
20 provides energy grants to low-income customers to help pay their energy bills.
21 PGW engages in an aggressive LIHEAP outreach campaign during each heating
22 season. The plan includes outreach for the LIHEAP Cash and Crisis grants.
23 PGW's goal is to maximize the number of grants and funds received in order to

1 assist as many eligible customers as possible. Section F of the Restructuring Plan
2 Filing further describes the outreach campaign.

3 **Q. PLEASE DESCRIBE PGW'S HARDSHIP FUND.**

4 A. PGW provides hardship funds through the Utility Emergency Service Fund
5 (UESF). PGW directs company and customer contributions to UESF in order to
6 match grants up to \$700 to eligible customers whose household income is at or
7 below 175% of the federal poverty level. Through the PGW Dollar Plus program,
8 PGW also solicits contributions of \$1 from its customers. These contributions are
9 forwarded to UESF towards fuel grants. Section F of the Restructuring Plan Filing
10 further describes PGW's hardship fund program.

11 **Q. DOES PGW SOLICIT CONTRIBUTIONS TO THE FUEL FUND
12 THROUGH ITS BILL MAILING?**

13 A. Yes. PGW solicits contributions to UESF and to the Dollar Plus program at least
14 two times per year via bill inserts.

15 **Q. PLEASE DESCRIBE PGW'S SENIOR CITIZEN DISCOUNT PROGRAM.**

16 A. The Senior Citizen Discount program offers 20% discounts to eligible senior
17 citizen participants. To enter the program, the customer of record must be age 65
18 or older. No income eligibility is required. There are currently 83,000 participants
19 in this program.

20 **Q. DOES PGW INTEND TO CONTINUE ITS SENIOR CITIZEN DISCOUNT
21 PROGRAM?**

22 A. PGW intends to grandfather participants of the Senior Citizen Discount program
23 until August 31, 2003. After that date, new entrance to the program will be
24 discontinued. All eligible low-income participants in the Senior Citizen Discount
25 program will be encouraged to participate in the CRP/CAP program. Mr. Gil

1 Peach, PGW's consultant, evaluated the Senior Citizen Discount Program and
2 PGW's proposal is consistent with his recommendation. (See Exhibit CC-3 for a
3 copy of the report.)

4 **Q. CURRENTLY PGW DOES NOT HAVE A CARES PROGRAM. DOES**
5 **PGW INTEND TO ESTABLISH A CARES PROGRAM?**

6 A. Yes. PGW intends to establish a CARES program in accordance with the Natural
7 Gas Choice Act and the Universal Service guidelines. Section F of the
8 Restructuring Plan Filing further describes PGW's proposed CARES program.

9 **Q. DOES PGW USE COMMUNITY-BASED ORGANIZATIONS AND**
10 **ADMINISTERING AGENCIES IN CONNECTION WITH UNIVERSAL**
11 **SERVICE PROGRAMS?**

12 A. PGW manages and administers its low-income programs internally, with its own
13 staff. PGW has six District Offices throughout the City. These offices are
14 responsible for intake, recertification, and customer education. Nonetheless, PGW
15 works closely with City agencies and community based organizations in order to
16 educate and provide information on the available programs. Many of these
17 agencies participate in PGW's CRP Advisory Committee. Section F of the
18 Restructuring Plan Filing further describes PGW's low-income programs
19 administration.

20 **Q. IS PGW PREPARED TO TRANSITION TO THE PUC'S MODEL FOR**
21 **UNIVERSAL SERVICE PROGRAMS?**

22 A. PGW is and will continue to work diligently to transition to state mandated
23 Universal Service Programs. As previously mentioned, Mr. Gil Peach conducted a
24 detailed evaluation of PGW's current low-income and the senior citizen discount
25 programs and outlined all necessary changes needed for compliance. His
26 evaluation supports PGW's recommended changes to the current programs.

1 Peach, PGW's consultant, evaluated the Senior Citizen Discount Program and
2 PGW's proposal is consistent with his recommendation. (See Exhibit CC-4 for a
3 copy of the report.)

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23 Universal Service Programs. As previously mentioned, Mr. Gil Peach conducted a
24 detailed evaluation of PGW's current low-income and the senior citizen discount
25 programs and outlined all necessary changes needed for compliance. His
26 evaluation supports PGW's recommended changes to the current programs.

1 **Q. HOW WILL UNIVERSAL SERVICE PROGRAMS BE FUNDED?**

2 A. It is my understanding that PGW's Universal Service Programs will be funded by
3 a non-by-passable surcharge. The recovery mechanism for universal service
4 issues is discussed in the testimony of PGW witness Joseph Bogdonavage.

5 **Q. EXPLAIN HOW THE PROPOSED NON-BY-PASSABLE COST**
6 **RECOVERY MECHANISM FOR RECOVERY OF UNIVERSAL**
7 **SERVICE AND ENERGY CONSERVATION COSTS WILL BE**
8 **DETERMINED.**

9 A. The non-by-passable cost recovery mechanism for universal services will be
10 determined based on projected participation levels of each of the programs. The
11 needs-assessment analysis component of the CRP evaluation performed by Mr.
12 Peach shows that the CRP/CAP program has a potential enrollment size for
13 CRP/CAP of 90,000. CRP has been an open enrollment program since its
14 inception and will continue to function that way. The non-by-passable universal
15 service rate will be trued up annually to reflect actual participation levels, but it
16 initially will be calculated based on PGW's best estimate of expected
17 participation.

18 **Q. WILL THE COST OF UNIVERSAL SERVICE PROGRAMS INCREASE**
19 **DUE TO COMPLIANCE WITH COMMISSION CAP GUIDELINES?**

20 A. As reflected in Exhibit CC-2, PGW expects that the transition to full compliance
21 with Commission CAP guidelines will be revenue neutral to the Company.
22 However, the costs of universal service to PGW as a result of restructuring will
23 likely increase as a result of increased participation and the need to recover
24 existing and future arrearages.

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

26 A. Yes, it does.

C. Coltro

Exhibit CC-1 --- Resume

CRISTINA COLTRO
Manager, Energy Assistance Programs

Philadelphia Gas Works (PGW), Philadelphia, PA.	
Manager, Energy Assistance Programs	7/99 - Present
Program Manager, Low Income Programs	7/96 - 7/99
Coordinator, Conservation Works Program	12/95 - 6/96
Temple University, Economics Department, Philadelphia, PA.	
Research Assistant	9/95 - 12/95
Usina Sao Martinho, Jaboticabal, Brazil.	
Consulting	6/95 - 8/95
U.S. Department of Energy, Philadelphia Regional Office, PA.	
Research Associate	10/93 - 5/95
University of Pennsylvania, Philadelphia, PA	
M.S., Energy and Environmental Management and Policy	May 1994
Hunter College, City University of New York, NY.	
B.A., Economics with a minor in Energy Policy Studies.	January 1992

C. Coltro

Exhibit CC-2

Gil Peach's Universal Services Evaluation

Report 1 – Current Strength of PGW's Universal Service Programs;

**Report 2 - Philadelphia Gas Works Universal Service Programs:
Pathways to Compliance;**

**Report 3 – Philadelphia Gas Works Universal Service Programs:
A Long-Term Perspective for Universal Services at PGW**

Current Strengths: Philadelphia Gas Works Universal Service

Prepared for:

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September 28, 2001

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Current Strengths:

Philadelphia Gas Works Universal Service

This evaluation is limited specifically to the Philadelphia Gas Works (PGW) Customer Responsibility Program (CRP), and is focused on aligning the Philadelphia Gas Works Universal Services policy and operating program with the policy, program specifications, and reporting requirements of the Pennsylvania Public Utility Commission for Universal Service programs. This report, the first of three, is based on study of the Customer Responsibility Program and development of a working understanding of the program as it currently operates. The focus is on identifying Philadelphia Gas Works strengths with regard to the Customer Responsibility Program. At this early stage of the evaluation, the Evaluation Team has not yet developed independent measurements and has relied on document reviews, other evaluation and audit material, and on interviews with Philadelphia Gas Works program staff and executive management.

From this perspective, the "Good Things" about the Philadelphia Gas Works' low-income programs are the strengths upon which the Company can build a future program. While the specific evaluation objectives relate to the Customer Responsibility Program, this view extends beyond the program to the entire utility. The future success of the Universal Service program will depend on the strengths and commitment of the utility as a whole.

The following appear to be PGW's strengths in the Universal Service area:

I. Current Customer Responsibility Program Structure

The Philadelphia Gas Works' Customer Responsibility Program (CRP) is a Pennsylvania Customer Assistance Program (CAP).¹ The structure of the Customer Responsibility Program falls within the Percentage of Income type of plan recognized by the Pennsylvania Public Utility Commission.² The current 7.35 % percentage of income payment requirement for qualifying customers below 135% of the federal poverty level is *essentially consistent* with Chapter 69 Policy Statement on Customer assistance Programs. The Customer Responsibility Program's 7.35% of income payment requirement is within the high end of the range for customers within 0-50% of the federal poverty level (maximum payments for gas heating should be from 5% to 8% of income).³ The CRP 7.35% payment requirement is near the low end of the range for customers within 51-100% of the federal poverty level (maximum payment from 7% to 10% of

¹ Customer Assistance Programs (CAPs) are designed as alternatives to traditional collection methods for low-income, payment troubled customers. Customers make regular monthly payments, which are less than the standard residential rate, in exchange for continued provision of service. Customer Assistance Programs are a component of the Universal Service programs mandated by the State of Pennsylvania, and are governed by the regulations and policies of the Pennsylvania Public Utility Commission. Primary authority for CAPs is given in 52 Pa. Code Chapter 69, in other parts of the Pennsylvania Code, and in the orders and policies of the Pennsylvania Public Utility Commission. The Commission permits flexibility in program designs subject to the provisions of 52 Pa. Code Chapter 69.

² 52 Pa. Code §69.265(2) (i).

³ 52 Pa. Code §69.265(2)(i)(B)(I).

income).⁴ The CRP payment requirement is below the range for customers from 101-150% of the federal poverty level (maximum payment from 9% to 10% of income).⁵ Analytic discussions with program principals and with the Pennsylvania Public Utility Commission's Bureau of Consumer Services suggest that the fundamental structure of the existing Customer Responsibility Program fits substantially within existing state guidelines.

However, a number of specific items appear not to fit within the guidelines, and were also identified in discussions. These items include the following:

- 1) Absence of a functional arrearage forgiveness program,
- 2) Absence of a well defined CARES program,
- 3) Absence of a discount (CAP credit) to some qualified Customer Responsibility Program customers (in the range of 136% to 150% of the federal poverty level).⁶
- 4) Need to simplify the recertification procedure to include, for example, methods that allow automatic recertification.

⁴ 52 Pa. Code §69.265(2)(i)(B)(II).

⁵ 52 Pa. Code §69.265(2)(i)(B)(III).

⁶ Currently this group of customers is offered the Credit plus 2% option. According to 52 Pa. Code §69.265(2)(i)(B)(III), this should be conformed to 9% to 10% of income for gas heat customers.

- 5) Need to simplify the reinstatement procedure, removing the 12 month wait policy.
- 6) Need to remove up-front payment for program participation,
- 7) Need to remove LIHEAP makeup charges to customers whose LIHEAP grants go to another utility.
- 8) Need to generally simplify the program and procedures.
- 9) Need to align current collections procedures with the PUC procedures, including the timing and number of notices.
- 10) Need to remove non CRP charges (repair) from CRP charges so that the non-CRP charges are excluded from any default and shutoff procedures.
- 11) Need to discuss with the Bureau of Consumer Services the calculation method and application of the CRP Excess Usage Charge with regard to the specifications and intent of PUC CAP Control Features, Consumption Limits.⁷

Incorporating the items listed above does not significantly alter the core approach of the existing program. None of these specific areas of non-compliance appears to require a major change to the program structure. The Evaluation Team is sensitive to the need to propose program modifications that do not significantly alter the existing program financial impact or require major changes to the Customer Responsibility

⁷ The CRP Excess Usage Charge, based on average energy use within building classes is a more efficient calculation than the calculation of 110% of participant's historical average use as outlined in 52 Pa. Code §69.265(3)(iii), *Consumption Limits*. Referencing excess usage to building class average rather than to participant's historical usage should

Program computer program module about to become active in the Billing & Credit Collection Service (BCCS).

It is important to PGW that the Customer Responsibility Program processes such as re-certification, which have been dormant since the computer problems of 1999 be re-instated as soon as possible. In fact, a major tactical theme for PGW as a whole is to re-establish the timing of program processes. Based on the Evaluation Team's initial review, it appears that an interim version of the Customer Responsibility Program can be devised without requiring extensive new management resources or material added costs. Recognizing the impact on the Company, these recommendations will be prioritized in the Evaluation Team's final report.

II. Universal Service Reporting Requirements

On the basis of the Evaluation Team's work to date, it appears that current PGW program records and accounting information will map into the Universal Service requirements in most cases. Notably, certain costs such as call center and district office expenses, which are significant components of the Customer Responsibility Program, are not currently prorated to this program and may be difficult to identify explicitly. The existing PGW Cost accounting system will easily support such pro-ration, but the procedures need to be established to log these expenses as they occur. PGW executives

be discussed with the Bureau of Consumer Services: See discussion, following in Section V, Pp. 10-11 of this document.

recognize that these procedures can be implemented through staff training and will be in operation to permit reporting under PUC requirements in 2005.

Based on ongoing accounting review, the Evaluation Team offers the following additional observations:

- The system for compiling costs relating to CRP appears to be about 85% in compliance with PUC reporting requirements.
- The general ledger system's accounting classification appears to have sufficient blank fields that can be modified to include cost centers or work centers. PGW recognizes that it is not accurately tracking detailed CRP related costs, and is open to exploring options. The general ledger system may be sufficient or other systems may need to be put into place to track supplementary costs.
- The BCCS system is processing real time data and provides coding for CRP related issues.
- The field service department has the capability to track CRP repair calls utilizing an automated system that provides a CRP code indicator. Such tracking is not currently fully automated, but depends on system queries.
- The existing LIHEAP costs associated with the Outreach Campaign are tracked.
- CWP costs are tracked.
- PGW currently complies with FERC filing requirements, which are transferable to the PUC requirements.
- The PMO (process management office) has personnel who are intimately knowledgeable of the CRP processes and its IT requirements.

III. LIHEAP Recovery

The management audit (Exhibit VIII-18) shows approximately 42,000-46,000 LIHEAP grants received/year.⁸ Relative to the population of LIHEAP eligible CRP participants, approximately 55-60 % obtain a LIHEAP grant.⁹ This is an exceptionally good response rate, and it appears to be due to a coordinated marketing effort to those LIHEAP eligible. The five-year cash flow was of the order of \$10 – \$15 million per year. In 2001, more than 85,000 grants totaling more than \$30 million were realized from LIHEAP cash and Crisis grants, while the cost associated with realizing these grants was only \$579 thousand.¹⁰ The very high ratio of cash return has a significant beneficial effect on the bottom line costs of the CRP program, relative to the cost for this activity.

This cash flow has been a key supplement to the CRP program collected revenue. The LIHEAP Crisis grants help to stabilize the current arrearages of the CRP participants, reinforcing the potential for success by individual participants. The aggregate magnitude of the LIHEAP cash and LIHEAP Crisis grant receipts is potentially the same as the cost

⁸ We count LIHEAP grants obtained by customers who are not currently participants in CRP because they are part of the population for which CRP has been designed. With all Customer Assistance Programs, a portion of the target population participates and a portion does not. From a financial perspective, costs to PGW with or without the CRP program would be approximately the same. CRP, however, provides important tools for working with and serving low-income and payment troubled customers that would not be available in the absence of the program, and these tools in the long run will help to reduce costs.

⁹ The Evaluation Team will refine this estimate for the second report.

¹⁰ Cristina Coltro, "LIHEAP/CRISIS 2000-01 Cost Analysis." September 6, 2001.

of the program discount (CAP credit). If these grants continue into the future, as appears to be the intent of the current federal administration, PGW has laid a good foundation.

IV. The Conservation Works Program

The Conservation Works Program (CWP) treats about 3,000 to 4,000 CRP customers annually. The latest evaluation of the Conservation Works Program showed savings of the order of 130 ccf/yr at an average cost of \$530. These savings accrue from a variety of physical measures with differing lifetimes. The use of a mean lifetime of 7 years, leads to a levelized cost of savings of about \$.60/ccf (\$.02/kWH) towards annual savings of the order of 450,000 ccf/year.¹¹

Compared to the general weatherization experience among other gas and electric utilities, both the magnitude and cost of these savings evidence very good performance. One early evaluation¹² of the Conservation Responsibility Program stated that the program was not cost effective. The most recent evaluation demonstrates that the

¹¹ The use of a 7-year average composite life for the measure package is a preliminary estimate developed for purposes of ease of comparison with the usage reduction programs of other companies. It will be refined in the second report.

¹² While the Conservation Works Program was not referenced by name, the report included results of a consumption analysis that would appear to have included CWP customers, although it does not appear that this evaluation analyzed the CWP group as a subset independent from the Customer Responsibility Program participants as a whole. The Evaluation Team notes this study because it is in the record, but recommends reliance on results on CWP from more recent evaluations focused on CWP. Robert Wirtshafter. *PGW CRP Evaluation. An Impact and Process Evaluation of the First Two Years of PGW's Customer Responsibility Program.* Quakertown, Pennsylvania: Wirtshafter Associates, Inc., September 5, 1997.

Conservation Works Program is cost effective.¹³ With the current higher gas commodity costs, these program savings appear to be cost effective from both the utility and customer cost test perspectives.¹⁴

The CWP program savings can have a tangible effect on the cost effectiveness of the CRP program. These savings can have leveraged benefits on the CRP program because savings are cumulative for several years.

It is reasonable to expect that after several years of successful operations of the CWP program, the active CRP program participants will be using less than they would have used absent the CWP program. Whenever the savings accrue to CRP participants below the excess charge limit, then those savings will manifest directly in lowering the estimated CRP discount for the program, and ultimately lowering the CRP GCR. Following the current methodology for calculating the CRP/GCR, each saved ccf/yr below the excess charge limit will be valued at the retail gas cost.

¹³ Michael Blasnik, *Impact Evaluation of Philadelphia Gas Works' Conservation Works Program Year 9, Final Report – August 31, 2000*. Boston, Massachusetts: Blasnik & Associates.

¹⁴ These cost test perspectives are described in Volume 2, Chapter III of the Commissioner's Handbook for Least-Cost Utility Planning. Cost-effective programs are defined as those having a positive net present value (NPV) or a benefit-cost ratio (BCR) larger than one. Florentine Krauss & Joseph Eto, *Least-Cost Utility Planning Handbook for Public Utility Commissioners, Volume 2. The Demand Side: Conceptual and Methodological Issues*. Washington, D.C.: National Association of Regulatory Utility Commissioners. December 1988.

The effect of these savings can be linked to a continued downward pressure on the CRP/GCR.

Annual targeting of high users for the CWP works well to identify the highest users by property class for each weatherization season.

V. Excess Usage Charge Methodology

The CRP program uses an excess usage charge based on a timely calculation of the average monthly usage of CRP participants. This calculation effectively corrects for temperature dependent changes in heating energy usage. This methodology is a substantial improvement over the original method. The original methodology employed by PGW calculated an excess usage charge on an annual basis at the time of recertification, and charged the customer in monthly increments. This provided untimely consumption signals to the customer, and since the amount was not recalculated for another year, often led to inaccurate billing. The original methodology gave no consumption signals to the customer during the first year of operation.

By contrast, PGW's revised and novel approach references the individual customer's monthly usage to a timely estimate of the property based class average usage over the same monthly interval. The usage classes are defined by variables for number of stories and number of bedrooms. This procedure has successfully operated using

automatic meter read data since 1996. This is a simple and elegant methodology that can be adapted to detecting excess usage in an operational context.

It is probable that this process is most accurate in the winter when the gas usage differs in a manner most like the property based class averages; in the summer usage may not be well described by the property based class averages. It may also be appropriate to add a "deadband" which triggers the excess usage at a point perhaps higher than the mean of the property class average. But these observations should not detract from the basic elegance of this demonstrated operational methodology.

VI. The CRP Billing Format

PGW presents the CRP customer with a bill that explicitly itemizes the components of the overall bill. This is helpful to the customer because it shows how much they are being charged for excess usage, LIHEAP make-up, Relief charges and current amounts, etc. The bill also presents the status of arrearage and the amount of grants applied, as well as the amount of the CRP Adjustment or Discount (both names are used on the bill). The "Please Pay" amount is working properly; however, the CRP breakout portion of the bill is not currently working. Although the bill is complicated, the components are explicit.

The Evaluation Team recommends that the detail represented by the explicit components of the bill be retained.

VII. Good Infrastructure

PGW has eight well-staffed district offices. It is not common for a utility to maintain district offices. These offices were common twenty years ago but they have since been eliminated by most utilities for cost cutting reasons. PGW's eight district offices offer community members an opportunity to meet and exchange with real PGW staff. Maintaining a presence in the community is important to fostering good relations between PGW and its customers. Face-to-face contact is important to many people who feel they are better served working one-on-one than talking with an anonymous person by phone or working through the mail. Offering assistance in person lets the customer know that PGW is available to them.

The district offices have clearly played an important role in PGW's success in obtaining such favorable results with respect to LIHEAP grants. The relatively involved paperwork associated with these grants by low-income customers is greatly facilitated by having a local office in or near the neighborhood. In fact, these offices facilitate the face-to-face business associated with any future program for low-income customers.

PGW has a state-of-the-art Call Center facility. This facility has the capability and software for executing a variety of telephone outreach functions and carefully tracking them. While this physical facility is an enviable asset, mastering the facility is a business in itself. Prior evaluations and the PUC have faulted the operation of this facility, and considerable current effort is being applied to refining its operation. It is probable that PGW will eventually realize the full value of this asset. A sophisticated

telephone facility plays an important role in the operation of the current CRP program, and an expansion of this role will improve the existing and any future program.

PGW has a high saturation (93%) of automatic read meters, AMRs. The installation of these meters is a requirement for entry into the CRP program. The AMRs allow for the timely processing of meter data into excess usage estimates.

VIII. Motivated Management

Program success is linked to understanding and commitment at the highest levels of management. PGW's current management is the third management team since 1995. In this time, PGW has suffered from a serious disruption in payment patterns and serious labor challenges. These would be monumental challenges for any management team.

The current team, which has evolved from the prior ones, appears to be well versed in the business of being a gas utility. This management appears to be pragmatic and realistic with respect to the current challenges facing the utility.

With respect to the CRP program, it appears that, from the top down, the Company management fully supports the program mission and alignment to the PUC requirements. It is also true that the utility management has several large issues before it, and has enough confidence in the immediate CRP program management to let the program evolve to PUC regulation with as little disruption as possible. The CRP program collections module of the BCCS is currently completing test and verification. All other

modules are fully operational. There is a strong desire to operate the near term revised program within the current generation of the BCCS.

IX. The CRP GCR

A substantial strength is the CRP GCR itself. PGW has a considerable history in calculating the CRP contribution to the GCR. Although the allocations and cost collection mechanisms will have to be re-visited for the program filing to bring CRP into compliance with Pennsylvania Public Utility Commission requirements for Universal Service Programs, the existence of this established calculation method is a substantial strength. The Evaluation Team notes that PGW is positioned ahead of most other relevant utilities in its ability to achieve a transparent and rigorous calculation method that will be compliant with reporting requirements

X. PGW's Municipal Status

As a municipal utility, PGW has a significantly different tax status and capital structure than a comparable investor owned utility. While PGW's retail gas rates are comparable to others, PGW overheads are relatively high due to a large and well-paid union work force and an unusually broad mission that includes city services. Compared to an investor owned utility, PGW's higher overhead is counterbalanced by the higher equity return and taxes for the investor owned utility so that the retail rates for both types of utility are comparable. Notably, the municipal utility will have a lower melded cost of capital and a lower discount rate. This lower cost of capital is a clear advantage to the municipal utility with respect to investments in energy and program efficiency.

However, a correspondingly higher pressure accompanies this financial advantage by a wider number of stakeholders who access the capital and wages in one way or another. Management faces the challenge of wisely using an inherent advantage.

A second distinction to make between the municipal and investor owned utility structures is with respect to the impact of arrearages and bad debt write-offs on retail rates. In an investor owned utility the arrearages can be regarded as working capital with an equity return. This will have a higher upward impact on retail rates than would a corresponding arrearage for a municipal utility. From the perspective of maintaining competitive retail rates, the municipal structure has a slight edge with respect to arrearages and write-offs. PGW's current write-off rate is higher than most comparable utilities and yet the retail rates are comparable to other energy suppliers. PGW has room to reduce the upward pressure on rates through reductions in arrearages and uncollectibles.

The recent deregulation of the electricity utilities has brought explicit legislative recognition to low-income and energy affordability issues. The State of Pennsylvania has some of the most comprehensive requirements in this respect. The costs associated with mandated low-income issues can reasonably be in the range of 3-6% of revenues. These costs are high enough to position any Pennsylvania energy distribution utility's low-income programs as a significant component of the utility's activities beyond the basic distribution and billing functions. If difficult economic conditions persist for the longer term, the profile of low-income programs will increase. Overall, with careful

management, PGW is currently better positioned than most utilities to respond to low-income issues and simultaneously maintain competitive retail rates.

The utility industry is subject to periodic fads. From a perspective of more than 100 years of utility and regulatory history, the current drive toward the deregulation and commoditization of energy supplies can be seen as a necessary corrective, possibly improving the efficiency of the system as a whole. But this current drive has not yet fully integrated the utility's evolving relationship to its low-income customers. To regard the current drive toward deregulation as an ultimate historical imperative is short sighted, and can lead to serious under-valuation of the utility in the current situation.

The alternate perspective sees PGW as a utility delivering competitively priced energy, providing living wage jobs within the City, serving as a strong supportive element in the City economy, and well positioned to execute its low-income mandate.

Philadelphia Gas Works Universal Service Programs: Pathways to Compliance

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***Philadelphia Gas Works Universal Service
Programs: Pathways to Compliance***

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Short Pathways to Compliance: Philadelphia Gas Works Universal Service

I. EXECUTIVE SUMMARY

This evaluation is limited specifically to the Philadelphia Gas Works (PGW) Universal Services Programs (USPs). Historically, the primary Universal Service Programs at the Philadelphia Gas Works have been referred to as the Customer Responsibility Program (CRP) and the Conservation Works Program (CWP). The evaluation is focused on aligning the Philadelphia Gas Works Universal Services policy and operating program with the policy, program specifications, and reporting requirements of the Pennsylvania Public Utility Commission for Universal Service programs.¹ This report, the second of three, is based on comparison of features of the Customer Responsibility Program² with Commission regulations, policy, and statements and well as a careful assessment of the current direction of development of Universal Service Programs in Pennsylvania.

Program Size: The Needs Assessment section of this report finds that PGW should project a “low-end” program participation of 62,885 customers in its Customer Assistance Program. The “high-end” projection is 90,000 customers. For the next few years, participation will be bracketed by these estimates. Although it is reasonable to project from experience (the “low-end” target), problems in the national economy, from which Philadelphia is not likely to be exempt, suggest the need for contingency planning to move into higher program participation ranges. Whatever the planning target adopted by PGW for its Universal Service program, it should be viewed as flexible. Should the national economy enter into recession or depression, or become subject to additional shocks, the provision of affordable bills will become of increasing importance in insuring economic security of the City.

Program Design: Program design is the key concern for compliance. The premise of a Percentage of Income Payment Program (PIPP) is the presentation of *affordable* bills to customers. If the bill is not affordable, the program is not a PIPP.

¹ The first part of this project, *Current Strengths: Philadelphia Gas Works Universal Service* identified the inherent strengths and other building blocks that PGW can bring to bear on operating a successful Universal services program.

² Analysis of PGW’s Universal Service Programs is based on observation of the program as it currently operates, independent measurements from copy of the CRP database, document reviews, other evaluation and audit material, interviews with Philadelphia Gas Works program staff and executive management, and optimization using Customer Assistance Program simulations.

Thus, the Evaluation Team's treatment of various bill components, each with its own sound rationale, is to first subject the total bill to the affordability criteria of the CAP Design Elements of the Pa. Code, Title 52.³

This analysis yields the following results:

- (1) The minimum bill should be lowered to \$18.00 from \$30.00 per month for customers in the 0-50% of Federal Poverty level range. It may remain at \$30.00 per month for CAP customers above the 50% of Federal Poverty level.
- (2) The rationale for some form of excess usage charge is understandable, however, limit penalties are generally not effective. Also, to bring rates into conformance, the maximum percentage of income payment should be lowered from 12% to 8% for customers in the 0-50% of Federal Poverty range, and to 10% for other CAP customers. This notably lowers the impact of the excess usage charge. It is then reasonable to simply the program to eliminate the excess usage charge entirely.
- (3) The *form* of PGW's current Customer Responsibility Program is consistent with provisions of the Pennsylvania Code. PGW should continue its Percentage of Income Payment Plan (PIPP) approach as the shortest path to compliance. The Budget Plus 2% sector of the current program is not consistent with the Pennsylvania Code, and should be replaced by a combination of a PIPP and the BCS Payment Plan. The BCS Payment Plan would apply for those customers whose BCS Plan payment would be lower than their bill under the PIPP. The effect of this is to remove some very low use customers from the PIPP when the BCS Payment Plan is more advantageous to them.
- (4) PGW should move to a tiered rate within the current program form. The program should be structured according to three program blocks: 0-50% of the Federal Poverty Level, 51-100% of the Federal Poverty Level, and 101-150% of the Federal Poverty Level. The Public Housing Authority (PHA) and special negotiated (CNU) components of the present program would remain unchanged. As noted above, we also recommend that the Excess Usage Charge be discontinued. The LIHEAP Make-Up Charge should also be dropped.

In general, the above recommendations are viewed as incremental steps. The perspective of this study is to value incremental steps over major change. These steps, once implemented, would be evaluated in the next CAP evaluation following the specifications of the Pennsylvania code and of the Bureau of Consumer Services.

³ Pa. Code, Title 52, §69.265(2)(i).

Arrearage Forgiveness: It is generally the case that arrearage is a cost to utilities. It is to the advantage of PGW to forgive arrearage that is not likely to be paid, rather than to carry increased receivables. It is also reasonable to insure that customers who cannot pay arrearage are not burdened by structures of debt. The pragmatic solution is complete arrearage forgiveness once the customer meets expectations for payment of affordable bills in the CAP. The Evaluation Team recommends that PGW develop an arrearage forgiveness model similar to PECO's. It would work like this: Customers who qualify and are placed in the CAP will have their pre-program arrearage forgiven to zero if they remain current on their CAP bill for six months. The development of any new arrearage (program arrearage) during this period will delay forgiveness. When the customer remains current on their CAP bill for six months, pre-program arrearage will be forgiven to zero.

Program Costs: The Evaluation Team has gathered information on PGW Universal Service Programs costs and cost accounting systems. In the area of costs, the Evaluation Team finds that PGW has the capability in its internal accounting systems to produce the kinds of cost reporting required by the Commission.

Compliance & Reporting: The report provides a detailed review of compliance and reporting requirements, and provides recommendations as to how these requirements may be met.

CARES: In the area of CARES, the Evaluation Team recommends a structured CARES program consisting of designated staff. Although actual staff levels are typically small in Pennsylvania CARES programs (given that most CARES responsibilities will be met by referrals to other agencies) it is essential that there be a designated CARES staff for there to be accountability in this compliance area.

Resource: Not one of the compliance concerns makes much sense in the absence of adequate staffing for the Universal Services function. Staff and appropriate skill sets are required to fill out the unit for compliance, and for ongoing operation and maintenance of compliance. To meet these challenges, basic staffing is recommended.

II. THE SHORTEST PATH TO COMPLIANCE

The “shortest path to compliance” is developed by reviewing specific details and carrying out associated analysis necessary to adjust the existing PGW Universal Service Program to the specific requirements and policy orientations of Pennsylvania Public Utility Commission oversight *with the minimum cost, minimum management overhead, and minimum demand on computer requirements and resources* for the Philadelphia Gas Works. Nevertheless, the “shortest path” approach will require specific program, billing, and accounting changes for minimum compliance in the Universal Service Programs area, as PGW shifts from regulation by the City of Philadelphia Gas Commission to regulation by the Pennsylvania Public Utility Commission.

The shortest path to compliance will be presented in a logical five-part sequence as follows:

Needs Assessment: “How big should the Universal Service program be?” For purposes of budgeting and planning, a Needs Assessment identifies the size and nature of the potential service population and develops program targets.

Program Structure: “What should the program look like?” A program structure is developed consistent with the Pennsylvania Public Utility Commission program design guidelines. The goal is to design a structure as close as possible to the existing program structure, suitable to meeting the identified needs of the Needs Assessment, consistent with the Pennsylvania Code and with Commission intent.

Regulatory & Policy Compliance: “What about consistency in the details?” This section provides a tabular review of regulatory expectations, current activity or policy, and recommendations for compliance.

CARES: “What about a CARES capability?” The area of CARES is specifically highlighted for designated staffing in order to insure accountability for this function.

Staffing: “What is the staff resource required to operate and maintain the Universal Service program?”

III. NEEDS ASSESSMENT

A Needs Assessment is a preliminary to examination of the current and candidate Universal Service Program designs later in the report. In addition to the Needs Assessment outlined here, the Philadelphia Gas Works will prepare and file a formal Needs Assessment with the Pennsylvania Public Utility Commission in 2002 as part of the restructuring filing. However, the Needs Assessment of the current study is provided to insure an adequate basis for understanding necessary changes in program design.

Typically, a formal Needs Assessment would contain the six component results specified in the Pennsylvania Code (Figure 1).⁴

Universal Service Needs Assessment
A. The number of identified low-income customers.
B. An estimate of low-income customers.
C. The number of identified payment troubled, low-income customers.
D. An estimate of payment troubled, low-income customers.
E. The total number of customers who still need LIURP services and the cost to serve that number.
The enrollment size of CAP to serve all eligible customers.

Figure 1: Six Components of a Formal Needs Assessment

A recent communication from the Bureau of Consumer Services provides approaches to develop these results (Figure 2).⁵

⁴ Title 52, Pennsylvania Code §69.4(b)(3) outlines the Needs Assessment in the context of developing Universal Service and Energy Conservation Plans.

⁵ Letter of Janice K. Hummel, Bureau of Consumer Services to David O. Epple, CAE, Vice-President—Regulatory Affairs, Energy Association of Pennsylvania, May 24, 2001, Attachment 2. The letter is attached to this report as Appendix C.

Needs Assessment: Calculating Results

The number of identified low-income customers. Include the followings accounts: all Level 1 and Level 2 customers who have payment agreements, all accounts who have received LIURP, all CAP customers, all accounts that have received LIHEAP or other energy assistance grants, and all accounts whose financial summaries show incomes below 150% of the poverty guidelines. Include accounts that meet the income criteria even if they are not on payment plans. Use a 12-month average.

An estimate of low-income customers. Use the most recent Census data at the most appropriate level (county, zip code).

The number of identified payment troubled, low-income customers (Number 3 is a subset of Number 1) Include all customers whose incomes are below 150% of the poverty guidelines who have payment agreements. Payment troubled is defined at §54.72, §62.2, and § 69.262 as a household that has failed to maintain one or more payment arrangements in a 1-year period. Use a 12-month average.

An estimate of potentially payment troubled, low-income customers. Subtract Number 1 (number of identified low-income customers) from Number 2 (estimate of low-income customers).

The number of customers who still need LIURP services and the cost to serve that number. Include the number of customers who meet the LIURP eligibility criteria. See Attachment 1 for methodology. Estimate the cost to serve the number who are eligible.

The enrollment size of CAP to serve all eligible customers. Consider responses to numbers 1-4 to determine maximum enrollment size.

Figure 2: Calculating Needs Assessment Results

Five Years of Customer Responsibility Program Participation						
Fiscal Year	Month					
	Sep	Oct	Nov	Dec	Jan	Feb
96-97	56,021	55,855	57,629	59,374	60,209	61,126
97-98	54,600	54,066	52,981	52,505	51,324	50,554
99-00	52,048	48,632	46,402	46,960	47,148	46,238
00-01	46,770	47,450	46,286	46,106	46,553	47,021
01-02	54,072	54,542	55,396	55,261	55,764	58,021
Fiscal Year	Month					
	Mar	Apr	May	Jun	Jul	Aug
96-97	62,013	62,854	62,998	60,162	58,838	56,539
97-98	50,667	51,080	51,768	52,125	52,158	52,215
99-00	45,374	46,710	47,490	47,074	46,049	46,456
00-01	48,984	49,894	52,374	53,721	53,576	53,559
01-02	60,278	62,529	63,576	64,501	65,504	65,504
Fiscal Year	Customer Month Total		Average (12 Month)			
96-97	713,618		59,468			
97-98	626,043		52,170			
99-00	566,581		47,215			
00-01	592,294		49,358			
01-02	714,948		59,579			

Note: August 2001 is an estimate.
Source: Statement of CRP Revenue (Yearly Tables)

Figure 3: Number of CRP Participant Customers

A. The Number of Identified Low-Income Customers

For the purposes of this report, the Evaluation Team takes the number of customers in CRP (Figure 3) plus the number of customers not in CRP who have received LIHEAP (Figure 4). Customers receiving hardship funds (Utility Emergency Services Fund) are shown in Figure 5.⁶ Hardship fund customers are not added to the total of CRP/CAP and LIHEAP customers because hardship fund customers will have already received a LIHEAP grant. Although the number of CRP/CAP customers

⁶ For the formal Needs Assessment filing, PGW will need to also include consideration of all Level 1 and Level 2 customers who have payment agreements, and non-CRP accounts that show incomes at or below 150% of the Federal Poverty Level.

reported for FY 2001-2002 is in part a projection, and although it is based on a time in which recertification was suspended, the 12-month average of 59,579 customers is

Low-Income Home Energy Assistance Pennsylvania LIHEAP				
(Number of PGW Customers Participating)				
Fiscal Year	CASH Grants		CRISIS Grants	
	CRP	Non-CRP	CRP	Non-CRP
96-97	28,780	19,186	4,010	3,590
97-98	28,934	20,171	6,545	5,595
99-00	22,809	20,226	2,572	2,198
00-01	23,622	17,463	12,106	4,680
01-02	32,500	26,202	15,000	13,204

Note: FY2001-FY2002 is a forecast amount.

Figure 4: PGW Customers who receive LIHEAP.

Utility Emergency Services Fund	
Calendar Year	Number of PGW Customers Participating
1999	624
2000	1,243
2001	876

Note: Calendar 1999 based on 4/99-12/99.
 Note: Calendar 2000 based on 12 months.
 Note: Calendar 2001, based on 1/01-8/01.

Figure 5: PGW Customers who receive UESF Grants.

more reflective of underlying economic trends that are seen in the earlier 12-month averages. Similarly, the FY 2001-2002 LIHEAP Cash projection will be used, even though it is a forecast figure. The relevant LIHEAP figure is 26,202 because the LIHEAP Crisis grants generally follow the LIHEAP Cash grant. This provides a working estimate of 85,781 *identified* low-income customers.

B. An Estimate of Low-Income Customers

US Census 2000 data is scheduled to become available for counties from early 2002 to mid-summer 2002.⁷ A study of poverty for the United States suggests a slight decline in the period from 1990 to the year 2000, and especially so in the age group 18-24.⁸ However, the Evaluation Team suggests a different interpretation of the early federal data: the federally defined poverty level criteria have become seriously mismatched to the actual situation of poverty as experienced by households. Being outside the 100% of Federal Poverty Level range means little. The 150% of Federal Poverty Level is a criterion that captures a good bit of the slippage in the federal indicator system, but it is more likely that 250% of the Federal Poverty Level begins to indicate the range in which poverty is not actually experienced.

For this study, the information from the 1990 census is used. According to the 1990 federal census, about 30% of Philadelphia County residents lived at or below 150% of the Federal Poverty Level in 1989.⁹ Multiplying this (1990 Census) percentage by the published Census 2000 population of Philadelphia County yields 455,265 persons living at or below 150% of the Federal Poverty Level in 2000. Dividing this estimate by the published Census 2000 estimate of 2.48 persons per household in Philadelphia yields an estimate of 183,575 customers living at or below 150% of the Federal Poverty Level.

Persons at or Below 150% FPL in Philadelphia		
Col. 1	Col. 2	Col. 3
Percentage of Persons at or Below 150% of FPL (1990 Census)	Population of Philadelphia County Year 2000 (2000 Census)	Estimate of Persons at or Below 150% of FPL (Needs Assessment)
30%	1,517,550	455,265

Figure 6: Persons at or below 150% of Federal Poverty Level

⁷ This data is projected to be available on a timeline that will support the Needs Assessment in the Philadelphia Gas Works' Restructuring Filing in 2002.

⁸ Dalaker, Joseph, U.S. Census Bureau, Current Population Reports, Series P60-214, *Poverty in the United States: 2000*. Washington, DC: US Government Printing Office, 2001.

⁹ Bureau of the Census, Internet Site, 1990 Census, Table P121.

Estimate of PGW Gas Heat Customers at or Below 150% of the Federal Poverty Level				
	Col. 1	Col. 2	Col. 3	Col. 4
	Item	Source	Calculation	Result
Row 1	Persons in Philadelphia	Census 2000		1,517,550
Row 2	Persons per Household in City	Census 2000		2.48
Row 3	Households in City		(Row 1)/(Row 2)	611,915
Row 4	Persons at or below 150% Poverty in City	Figure 6		455,265
Row 5	Households at or below 150% Poverty in City		(Row 4)/(Row 2)	183,575
Row 6	PGW Customer Households	PGW		499,101
Row 7	PGW Gas Heat Households	PGW		431,500
Row 8	PGW Gas Heat Households as a Percentage of All PGW Households		(Row 7)/(Row 6)	86.5%
Row 9	PGW Households as a Percentage of City Households		(Row 6)/(Row 3)	81.6%
Row 10	150% Poverty in City		(Row 5)/(Row 3)	30.0%
Row 11	150% Poverty PGW HH		(Row 10)*(Row 6)	149,730
Row 12	150% Poverty PGW Gas Heat		(Row 11)*(Row 8)	129,450

Figure 7: Customers at or below 150% of the Federal Poverty Level.

C. Identified Payment Troubled, Low-Income Customers

The Philadelphia Gas Works Customer Responsibility Program is similar to low-income rate programs approved by the Pennsylvania Public Utility Commission in that it does not operationally rely on a definition of payment-trouble to determine eligibility. It is open to all customers with natural gas heat within the 0-150% of the Federal Poverty Level.

D. Potentially Payment Troubled, Low-Income Customers

This is the difference between the estimated number of 129,450 low-income gas heating customers (Figure 7) and the 85,781 identified low-income customers from Section A. The indicated subtraction yields a result of 43,669 gas heat low-income customers.

E. Customers Who Still Need LIURP Services

This estimate will be required for the formal Needs Assessment to be submitted by the Philadelphia Gas Works in 2002. However, it is not estimated here because it is not required to indicate paths towards compliance.

F. Size of CAP to Serve All Eligible Customers

Figure 3 provides the design program size and composition by income level, assuming little change from the 1998-2000 economic and employment climate for the City. This represents a “low-end” estimate of the level of program participation.¹⁰ It is adjusted downwards somewhat for trimming of program participation with the restart of program recertification. A figure of 62,885 is used for low-end calculations in this report. This figure is used to be consistent with an internal PGW projection.

Low-End Enrollment Projection	
Range of Income, FPL	Program population
0-50%	13,544
50-100%	43,115
100-150%	6,226
Total	62,885

Figure 8: Low-End Projection from Current Program.

There has been a long-term decline in income for the lower-income families in the US. Combined with the current economic recession and recent shocks to the economy, this will require that the program design be considered in the context of increased need

¹⁰ The recent lapse in recertification activity suggests that some of the most recent participation data may be somewhat inflated.

High-End Enrollment Projection	
Range of Income, FPL	Program Population
0-50%	19,384
50-100%	61,705
100-150%	8,911
Total	90,000

Figure 9: High-End Projection based on Economic Indicators.

for program participation. PGW should reasonably be prepared for these effects since economic hardship in the country as a whole will be reflected in the City of Philadelphia.¹¹

Accordingly Figure 9 has been prepared as a planning estimate. Clearly, Figure 9 represents a dramatic increase in program size. However, prudent planning should consider program cost and cost recovery in the light of such an eventuality.

G. Summary: Needs Assessment

The Evaluation Team recommends that the Philadelphia Gas Works prepare for program design based on projection of current program, and that is discussed in this second report. In addition, the Evaluation Team recommends the PGW also be prepared to ramp up program capacity on the basis of current national economic problems. At the low-end, consistent with the current program and current planning estimates, the program would be designed to serve approximately 62,885 customers. At the high-end, an alternative projection should be prepared to serve approximately 90,000 customers.¹²

¹¹ There are currently waves of layoffs affecting many industries in the core economy; there will be an economic impact multiplier for secondary job loss. PGW should consult with the City Controller's office to better define the extent of this problem and to remove uncertainty in developing planning estimates.

¹² Low-end (62,885) and high-end (90,000) results are shown in this report.

IV. PROGRAM DESIGN

In this section, we look at the current program structure, introduce the Sector Maps, critically assess the current Customer Responsibility Program for compliance with §69.265 CAP Design Elements (2)(i), and then provide analysis that yields alternative program designs. The goal in developing alternative designs is compliance, and in this second report, is compliance with minimum change. The analytic strategy in this section is to first develop a “reference case” consistent with the current PGW Residential Tariff, then consider other components of the customer bill, then return to the reference case and suggest moderate changes to the Residential Tariff. The principal tool is the Reichmuth Sector Map[©]. The individual Sectors Maps permit visual review of how each possible structure (and implied rate design) affects all customers (not just the “average customer”). This tool permits a high degree of complexity associated with the diversity of customers to be taken into account in insuring compliance with the Pennsylvania Code, §69.265, CAP Design Elements.

A. Program Structure

The core of the current Customer Responsibility Program is a Percentage of Income Payment Program (PIPP) set at 7.35% of income, subject to a required minimum payment of \$30.00 per month.¹³ In addition, the PGW Residential Tariff specifies that an excess usage charge may be applied, subject to the condition that the monthly PIPP amount plus the excess usage charge may not exceed 12% of income. Customers may receive bill amounts incurred for costs outside the affordability structure of the Customer Responsibility Program. These bill elements are in addition to the structure of the CRP bill. In particular, these are (a) the Relief charge,¹⁴ (b) the LIHEAP Make-Up charge,¹⁵ and (c) the Repair charge.¹⁶

¹³ Currently, this program structure is offered to customers from 0 to 135% of the Federal Poverty Level. The \$30 minimum is considered a separate CRP payment option. Customers from 136% to and including 150% of the Federal Poverty Level are currently offered an undiscounted Budget Plan plus 2% of arrearage.

¹⁴ The *relief charge* is a special charge to provide relief payment from customers to PGW for natural gas supplied, but not billed, when the PGW billing system was not functioning correctly. PGW, as ordered by the Philadelphia Gas Commission, treats the relief charge as outside the affordability structure of CRP. The rationale for this technical treatment is that since the relief charge is simply a late billing at the CRP rate (and pro-rated over a series of payments to ease payment difficulties) for natural gas received, it is not really an increase in the total amount billed. For a low-income customer, of course, this does represent an affordability problem since they are responsible for paying the total bill presented each month from the income for each month. Customers who contact the Pennsylvania Public Service Commission may have the total relief charge amount assigned to their pre-program (frozen) arrearage. The relief charge problem will

disappear within another year, with amounts either paid or reassigned; assuming the billing system problems have been fully corrected and no new similar billing system problems arise.

¹⁵ The *LIHEAP Make-Up charge* is a special charge, permitted under the Pennsylvania Code, for customers eligible for LIHEAP who do not file for LIHEAP. The rationale for excluding bill amounts for LIHEAP Make-Up from the affordability structure of CRP is that, by definition, the customer had the opportunity to secure this amount from the Pennsylvania LIHEAP program. Also, since LIHEAP in aggregate makes an important contribution to payment for PGW's cost of service for CRP customers, the directive to either secure a LIHEAP payment or provide a LIHEAP Make-Up is a key control tool for effectiveness in program administration. For a low-income customer, of course, the LIHEAP Make-Up charge does represent an affordability problem since the customer is responsible for paying the total bill presented each month from income for each month. Nevertheless, the recommendation of this study is to simplify the program by eliminating the LIHEAP Make-Up charge on a trial basis and assess this change in the next Universal Service evaluation. The next evaluation would evaluate actual results, compare with previous years, and recommend whether to reinstate the LIHEAP Make-Up charge.

¹⁶ The *repair charge* is a special charge that is considered outside the affordability structure of CRP. A low-income customer in CRP who is not a participant in PGW's repairs insurance program and who maintains current payment within CRP may call PGW for emergency repair services. PGW will waive the standard \$50 service charge for the service call. The bill for furnace repair (or the like) will be deferred until the date of the customer's next recertification, at which time it will be scheduled for payment to PGW in ten monthly installments. The rationale for excluding billed amounts under PGW's repair program is that it is a socially necessary program, essential to maintaining health and safety and to maintaining heating and other natural gas services to low-income customers. It is a municipal service program, the benefits of which could not be alternatively provided by the market. This is due to the profitability criteria of the market (the "free market" only provides full service to people who have sufficient money and credit, and disregards everyone else). Also, if, by chance, a family were to be served by a market vendor and not through PGW, the bill to the family would be higher, and potentially much higher. The family would face substantially higher debt (so as to permit an "add on" for profit to the vendor), higher interest requirements (to include risk premium for the vendor, risk currently assumed by PGW as a social cost) and likely poorer payment terms. If paid, such bills would likely undercut ability to make ongoing CRP payments. Of course, while the repair option is on balance favorable to low-income customers, the repair bill does represent an affordability problem, since total bills presented each month are paid from the current income for each month. According to Pa. Code, Title 52, §58.12, Expenditures may include incidental repairs to the dwelling necessary to permit proper installation of measures, or repair to existing measures to make them operate effectively. According to §58.14, Program measure installation: Based on the energy survey (58.11) measures shall be installed to reduce energy bills, space heating usage, water heating and baseload end uses: (1) Residential space heating

B. Theory of the Program

Two features profoundly shape the Customer Responsibility Program. The first is true of any Percentage of Income Payment Plan (PIPP) program structure: the fundamental assumption of the program theory posits that the payment requested must be *affordable*. A PIPP requires a constant budget-able monthly bill that is *actually within the material ability of the customer to pay from actual monthly income*. This type of program shields participants from abrupt changes in month-to-month natural gas bills due to fluctuations in gas commodity costs and also protects against fluctuations due to weather conditions. Another way to say this is that a properly designed PIPP offers a truly *affordable bill* with no price shocks or other surprises. Second, as an income-based program, the Customer Responsibility Program is essentially *consistent* with provisions of the Pennsylvania Code. Its features can be directly mapped against the CAP Design Elements mandated by the Pennsylvania Code (§69.265). However, on the basis of the analysis in this study, certain modifications will be necessary to insure compliance.

C. Design Guidelines and Customer Diversity

Analysis of the current Customer Responsibility Program modeled as a reference program¹⁷ shows that, for CRP, an *average participant* generally falls within program design guidelines. But the CAP Design Elements of the Pennsylvania Code apply to *all* participants, of whom many happen to be not very similar to the average participant. *One of Philadelphia's strengths is that it is characterized by variation and diversity, and this is also true of customers who fall within low-income communities and aggregates served through the Customer Responsibility Program*. Large aggregations of participants may fall well outside of program design guidelines even though the average customer is served within the guidelines. Clearly, if, for example, some thousands of participants fall

measures may include insulation, furnace replacement or efficiency modifications, clock thermostats, infiltration measures designed to reduce air flow, repair or replacement of chimneys and service lines. Note that PGW does not currently do furnace replacement and efficiency modifications, repair or replacement of chimneys and service lines. However, such repair might be placed under CWP for Universal Service Program CAP customers. PGW does refer to the water heater hotline, and to the BSRP program which provides some furnace repairs. However, these programs are limited to homeowners.

¹⁷ The reference case includes the basic CRP PIPP of 7.35% of income plus the excess usage charge, the sum of which is subject to the maximum 12% of income rule, consistent with the PGW Residential Tariff. The Relief charge and the Repair charge are not included in the reference case. LIHEAP Make-Up is likewise not specifically considered. Public housing tenants billed under PHA provisions and customers with specially negotiated (CNU) billing are also excluded from the reference case. PHA and CNU customers are not included in this report since their bills are set by other criteria.

outside of the guidelines there is basis for further program optimization.¹⁸ Prudent program design requires review and consideration of the whole range of program participants versus the guidelines in contrast to how the program treats the average (mean, median, or modal) customer. Participants in the current CRP program have wide variation in both gas usage and income. The underlying facts of diversity of the population yield a wide range in the individual participant gas energy burden (energy bill as a percentage of income).

D. Sector Maps

To review the program participants over the whole range of population variation, the Evaluation Team has used the Reichmuth Sector Map®, a proprietary HGPA Customer Assistance Program design tool (CAP design tool). The Reichmuth Sector Map® program produces a set of maps and associated summary graphs. Each of individual maps in the set organizes the whole Customer Assistance Program population into a grid. One axis of each map (the horizontal or “x-axis”) represents income level; the vertical (or “y-axis”) of each map represents energy usage.¹⁹ When the program population is organized in this manner, patterns in program indicators, such as energy burden (expressed as energy bill as percent of income) become quite evident.

1. The “Study Set”

The initial Sector Map was prepared by extracting data for all current Customer Responsibility Program customers (Figure 10). After the data cleaning and selection steps, the data available for analysis represents 54,162 CRP participants for the calendar year 2000 for each of whom there are at least 10 months of energy consumption data on record (Figure 11). Figure 12 shows the study set participants by federal poverty categories. Figure 12 may be further subdivided into much finer income and energy use categories. Income, usage, and program design characteristics may then be used to develop a detailed model. The result is the Sector Maps.

All Sector Maps are three-dimensional, with color used to represent the third dimension. The variable expressed as the third dimension differs across the graphs. The horizontal axis of each Sector Map represents the Federal Poverty Level (FPL); the vertical axis represents energy usage as a percentage of the mean usage for the population translation to support the Sector Maps. The Sector Maps are designed to fit within the compliance provisions of the Pennsylvania Code.

¹⁸ And, likely, prudently avoid litigation on the part of community legal advocates.

¹⁹ There are two map displays. On one, the vertical axis shows actual energy use. On the other, relative energy use (actual usage divided by the population mean usage). For both, the horizontal axis shows customer income as a percentage of the Federal Poverty Level.

Study Set Data Elements	
1	Monthly or annual household income
2	Pre program arrearage (this is the current balance as of the data extraction)
3	Agreement type (7.35%, \$30 min. etc.)
4	Poverty level
5	Number of people in household
6	Number of persons over 65
7	Number of persons under 5
8	Sex of customer of record
9	Housing descriptors as recorded (number of bedrooms,
10	Property based class ratio with table definitions
11	Usage related data: usage amount and associated date (meter read date), read type (actual or estimated)
12	Customer class
13	LIHEAP grants: cash grants, date, amount
14	LIHEAP CRISIS: grant amount, date (there may be more than one CRISIS)
15	Dates on CRP: Unbroken date and Forgiven date
16	Monthly CRP billed amount including Sum of GS bill and component parts:
A	Agreement amount (CRP Budget amount)
B	Excess usage charges
C	LIHEAP makeup amount
D	Non CRP charges
E	CRP Relief charges

Figure 10: Data Request

Study Set Data Cleaning Steps	
1	Total unique accounts with demographic data = 62,673.
2	Total with usage data in year 2000 = 61,070.
3	Accounts were required to have at least 10 months of usage in 2000, and at least 100 CCF usage during that period. (This is the same screen used in the PY9 CWP evaluations, i.e. 10 ccf/mo.) Total meeting usage data requirement = 55,130.
4	The next screen removed those with more than 15 persons in the house and poverty level over 200% (data entry related errors). Remaining = 55,002.
5	PHA cases (689) and CNU cases (9) were eliminated. Remaining = 54,304.
6	Additional cases removed over 150% poverty and various other reasons. Cases remaining = 54,162.

Figure 11: Cleaning & Selection of Study Set Data

Current Customer Responsibility Program				
Component	Number of Customers within Federal Poverty Level (FPL) Groups			
	0-50% (FPL)	51-100% (FPL)	101-150% (FPL)	Total
\$30 Minimum Payment	10,243	1,846	294	12,383
7.35% payment	9,086	21,773	5,591	36,450
Budget Plus 2%	349	2,143	2,837	5,329
Total Program	19,336	25,762	8,722	54,162

Figure 12: The Study Set

2. Income Diversity

A summary of the current incomes of the program participants is provided in Figures 13. Figure 13 shows the income distribution in the form of a sorted frequency distribution (with customers sorted by increasing level of income).²⁰ In this figure, the proportion of the population with income less than a certain amount is shown on the horizontal axis and incomes are shown on the vertical axis. About 40% of the current Customer Responsibility Program participant population has incomes in the range of \$8,000-\$10,000 per year. About 20% have incomes of \$4,000 per year, or less.

To make sense of current income for comparative and regulatory purposes, income must be expressed in terms of the Federal Poverty Level (FPL). This is calculated and shown in Figures 17 & 18. However, before carrying out that translation, the range of incomes in the study set used to model the CRP population is of interest in itself, and is shown in Figure 13. Incomes range from about \$2,500 per year to about \$18,000 per year.

²⁰ For this type of distribution the frequencies of cases within intervals are successively calculated. The results are then sorted and graphed. Figures 13 & 14 are "less than" cumulative frequency distributions since points on the horizontal axis show the proportion of cases with less than a certain amount of income (Figure 13) or usage (Figure 14). Note that for these two graphs, the axes are opposite those in the standard cumulative frequency distribution, where frequencies are graphed on the vertical axis and class intervals are graphed on the horizontal axis. Croxton, Frederick E., Dudley J. Cowden, and Sidney Klein, *Applied General Statistics*, Third Edition. Englewood Cliffs, New Jersey, 1967.



Figure 13: Annual Income of CRP Customers

3. Diversity in Energy Use

A similar graph, in this case for energy use, is shown in Figure 14. Probably the most striking feature of this curve is the nearly vertical jump in the upper right of the graph, and located at the “0.8” mark on the horizontal axis. This “jump” means that consumption of natural gas by the upper 20% of program participants (by use) increases abruptly.

Another feature is evident in inspection of graphs similar to Figure 14 but subset by income.²¹ Figure 14 gives the cumulative distribution for the model of the whole CRP. This cumulative distribution is almost identical to the separate cumulative distributions that may be observed for *each* of the income based subsets of participants. For this each income subset, there is about the same range of annual usage from 500ccf/year to 2500 ccf/year.

²¹ The income subset graphs are not shown in this report.

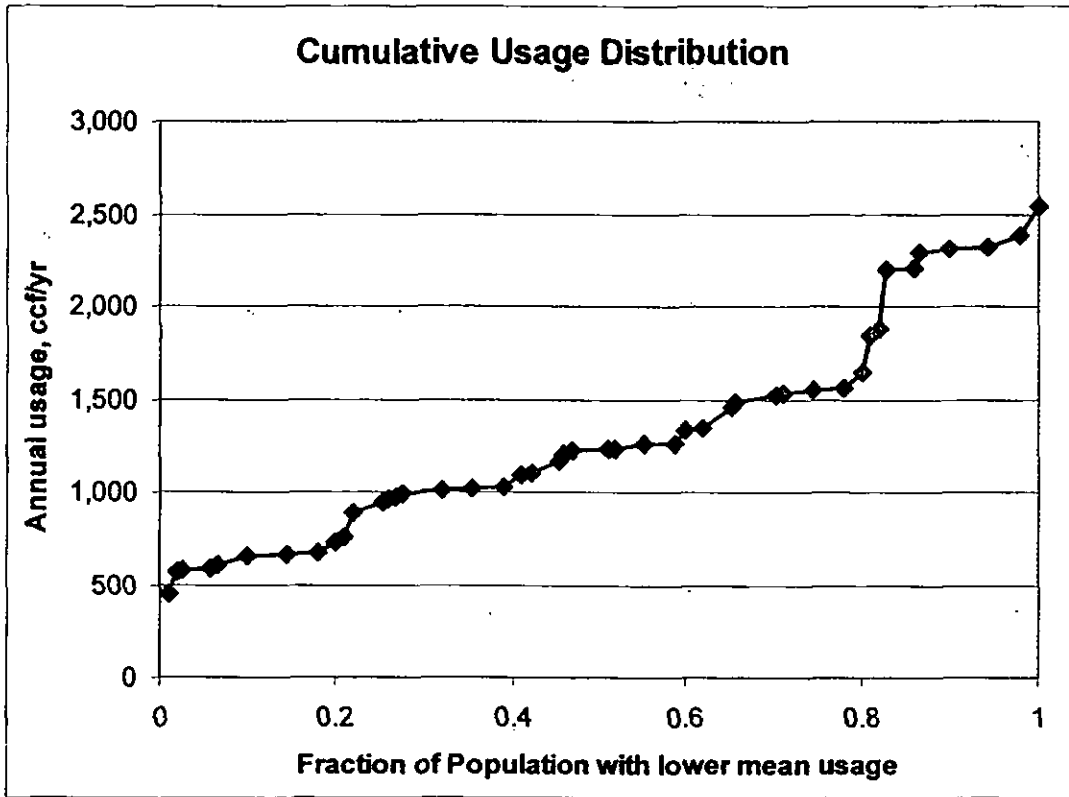


Figure 14: Annual Natural Gas Consumption by CRP Participants.

4. Summary: The Sector Map

The Sector Map combines the information contained within the income and energy consumption distributions into an *accurately proportioned display where equal areas represent equal numbers of participants*. In the set of specialized Sector Maps, *each square of each map grid represents about 100 participants in the Customer Responsibility Program*. Each square *accurately portrays the income and usage of the participants represented in the square.*²² In this way, Sector Maps fully reflect the range of customer income diversity and range of diversity in energy use.

²² Further, the Sector Maps have been designed to take into account month to month variation in the effect of the 12% rule on the combination of the CRP PIPP amount plus the excess usage charge. Although each Sector Map reflects the average month, this usage driven and weather related variation has been taken into account. Because the form of the CRP is percentage of income payment (PIPP), it is possible to use an average month approach. The monthly payment is determined by income. This means that the Sector Map axes for "Fraction of Federal Poverty Level" (horizontal) and "Usage/Mean Usage" (vertical) represent yearly values although the bill amounts are expressed as monthly values.

E. Steps Towards Compliance

The current CRP program principally consists of two payment plans. These are "Plan A," the 7.35% Percentage of Income Payment Plan (PIPP) and "Plan B," the Budget plus 2% of Arrearage payment plan. For purposes of the analysis, the minimum required payment of \$30.00 per month is treated as a third plan. Two additional payment modalities are included in CRP, one for public housing and the other for special negotiated agreements. The Public Housing Authority (PHA) Gas Energy Allowance is not included in the model. It may be disregarded because it is expected to continue as presently operated.²³ The specially negotiated CNU plans are also not included.²⁴ Special CNU plans negotiated for exceptions are expected to continue. In this section the CAP is examined with respect to the CAP Design Elements specified in Pa. Code, Title 52, §69.265. This examination relies upon the study set of 54,162 participant records. These records are the basis for establishing the general income and usage characteristics of the participant population.

The study set also contains bill records for year 2000, but the "as billed" data will include the effects of Relief charges proceeding from a major billing disruption, LIHEAP Make-up charges, flux into and out of the program, and immediate arrearage charges. It is expected to show rather high charges relative to the income limits, and it would only be useful in the current discussion after certain charges were factored out.

1. The Reference Case

For the purposes of this study, a reference "steady state" program is synthesized from the participant income and energy consumption data. In the first instance, this reference program is developed to represent a continuation of the current Customer Responsibility Program, sized as in the company's FY2001-FY2002 program projection.²⁵ The characteristics of the current CRP are summarized in Figure 15.

The reference program has been "trued up" to the FY2001-FY2002 CRP estimate so that the size of the CAP discount in the program estimate is the same as the reference

²³ For certain PHA tenants, the federal government pays the energy bill. There is no need to discount this bill, since payment is already socialized at the federal level and paid as a transfer payment to PGW.

²⁴ Only 10 CNU plans were negotiated out of 62,673 program participants reviewed in sub-setting the data for this study, so the exclusion will have no real effect on the analysis.

²⁵ FY2001-FY2002 projection provided by Cristina Coltro, PGW CRP Manager. More than one projection was provided.

Reference Program		
No.	Program Component	Value
1	Minimum Monthly Payment Required	\$30
2	Percent of Income Payment Plan	7.35%
3	Maximum Bill as a Percentage of Income	12%
4	Excess Usage Charge	On all but Budget
5	\$30 Minimum, Number of Participants	16,755
6	7.35%, Number of Participants	36,374
7	Budget Plus, Number of Participants	5,772

Figure 15: Reference Case Characteristics

program developed here.²⁶ In the subsequent discussion of program alternatives, the reference program is used as the baseline to which the alternatives program designs are compared.

As a first step in program design, the Budget Plus component (customers in the range from 136%-150% of the Federal Poverty Level) of the current CRP is removed. Currently, Budget Plus customers pay the full bill on a budget basis. They are not offered a percentage of income payment, and since they are not on a PIPP the excess usage charge does not apply. However, commission guidelines require a Customer Assistance Program for customers in the full range from 0-150% of the Federal Poverty Level. PGW will be required to offer a full Customer Assistance Program to the current Budget Plus customers in the 136%-150% of poverty range. Fortunately, extending the 7.35% of income program to the CRP participants from 136% to 150% of Federal Poverty Level makes almost no difference in the CAP Discount. This change, referred to as "Step 1," is introduced next.

2. Step 1: Replace Budget Plus by extending the PIPP

The initial reference case²⁷ is consistent with the PGW Residential Tariff. It models the current Customer Responsibility Program. Relief and Repair charges are not included

²⁶ The data is "trued-up" so that the estimates of the model's net Discount are the same as the actual projected net Discount (GS rate minus actual received CRP). This is done by altering the assumed collection ratios until the model net Discount is the same as the projected net Discount.

²⁷ FY2001-FY2002 projection provided by Cristina Coltro, PGW CRP Manager. Other projections were also provided.

in the reference case, and to simplify the calculations, the LIHEAP Make-Up charge is not considered.²⁸ However, the excess usage charge is included, as applicable, and subject to the 12% of income limit on the combined bill from the 7.35% PIPP and excess usage charge.²⁹ The 136%-150% Budget Plus group is first included with the reference case, and then it is excluded by extending the PIPP through to 150% of the Federal Poverty Level. The initial reference case (CRP) and the case resulting from the "Step 1" adjustment are discussed in parallel.

a) The Natural Gas Energy Bill

It can be useful to think about the Sector Maps as if they were maps of physical geographies, like landscapes or seascapes.³⁰ These geographies are made up of regions indicated by the different colors. Use of the concept of "scapes" (rather than "colored squares") is intended to bring to mind the feeling of landscapes, territories, or configurations so that the mind begins to look for patterns and shapes (rather than only colors in grids). These "scapes" are configurations of people that we are not used to thinking about.

As a first representation, monthly bills (actual dollars) are indicated by in the colors of Figure 16 and 17. Figure 16 models the current CRP. Figure 17 is the reference case with the Budget Plus customers having been converted by extension of the PIPP. In these figures, the light blue color indicates a region in which the monthly bill is in the range of \$25-\$50; this is the region of the \$30 minimum bill and is the same in both Figure 16 and Figure 17. The gold color covers the regions in which the

²⁸ These three components of the customer bill are excluded from the model.

²⁹ The current PGW residential tariff includes the basic CRP charge (here based on 7.35 percent of income), the excess usage charge, and the 12% of income maximum payment criterion to which the basic CRP charge and the excess usage charge are subject. The current tariff does not deal with the Repair charge, the LIHEAP Make-Up charge, or the Relief charge. Accordingly, when we search for the lowest possible payment, this is the lowest possible payment consistent with the current tariff and includes the first three cost categories, and does not include the last three.

³⁰ Arjun Appadurai has introduced this use of "scapes": "...in the contemporary world he sees financescapes, technoscapes, ethnoscapings, and so forth." Quotation from page 151, Hardt, Michael & Antonio Negri, *Empire*. Cambridge, Massachusetts & London, England: Cambridge University Press, 2000. Use of the "scape" concept is a kind of design strategy for developing knowledge. See Cetina, Karin Knorr, *Epistemic Cultures, How the Sciences Make Knowledge*. Cambridge, Massachusetts & London, England: Harvard University Press, 1999.

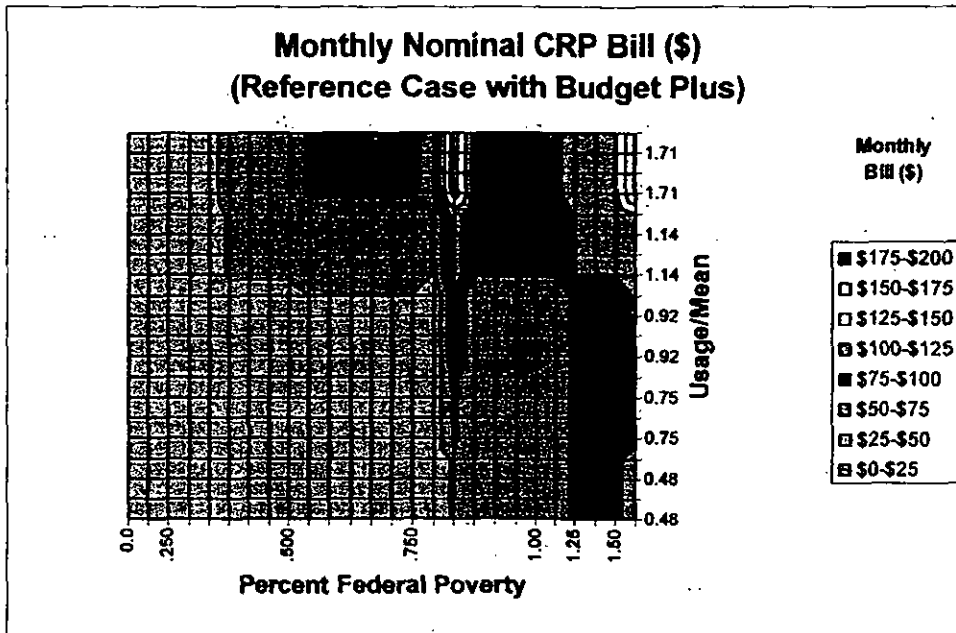


Figure 16: Monthly Bill (CRP Model with Budget Plus).

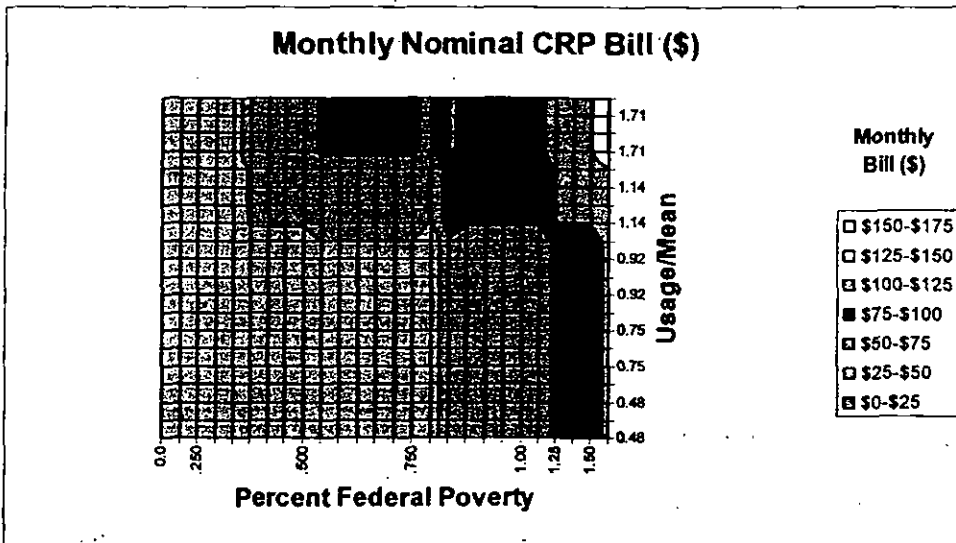


Figure 17: Monthly Bill after Step 1

monthly bill is in the range of \$150-\$175. This colorscape occurs in two places in Figure 16 but not at all in Figure 17. Neither figure shows a red nor a green colorscape, indicating that customers are not presented bills over \$175 per month or under \$25 per month in either case.

Overall, the geographies of the two figures are nearly identical. Moving the 136%-150% of poverty customers into the PIPP tends to lower their bills somewhat, but not

dramatically. The higher bill regions in Figure 17 (without the Budget Plus component) are a bit lower than the corresponding regions of Figure 16 (which includes the Budget Plus component).

b) Gas Energy Burden

The natural gas energy burden (monthly bill as percent of monthly income) is shown in Figure 18 for the model of the current CRP program (with Budget Plus), and in Figure 19 for the result of Step 1 (with Budget Plus replaced by extending the PIPP). A comparison of Figures 18 & 19 reveals the same relationship as the comparison of Figure 16 & 17. There are nearly identical geographies but with a slight lowering of energy burden when the Budget Plus component is replaced by extension of the PIPP. The highest energy burden colorscape in Figure 18 is gold, the highest in Figure 19 is bright yellow. The bright yellow region in Figure 19 corresponds to the maximum billing rate of 12% of income for the basic PIPP rate plus excess usage charge (if any) combined.

c) Combined Energy Burden

Figures 22 & 23 show the distribution of percentage of income for combined monthly gas and electric bills, the combined energy burden. This figure has been derived using the data for Figures 18 & 19 while assuming typical electric usages and participation in the income appropriate PECO CAP Rate.³¹ Again, the geographies of the figures in this set are nearly identical. For most customers, the combined energy burden is below 15%, but for about one-fourth of customers, the burden is higher.

³¹ The graphs incorporate information from the published PECO CAP rates, but are not based on actual PECO customer data. However, the model should produce a quite accurate overall representation.

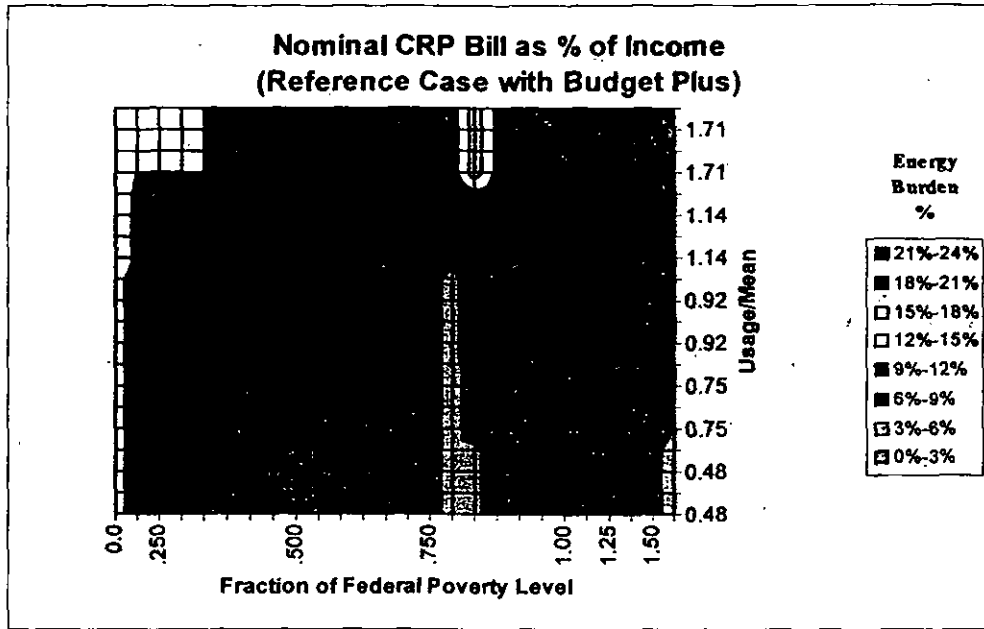


Figure 18: Natural Gas Energy Burden (CRP Model with Budget Plus)

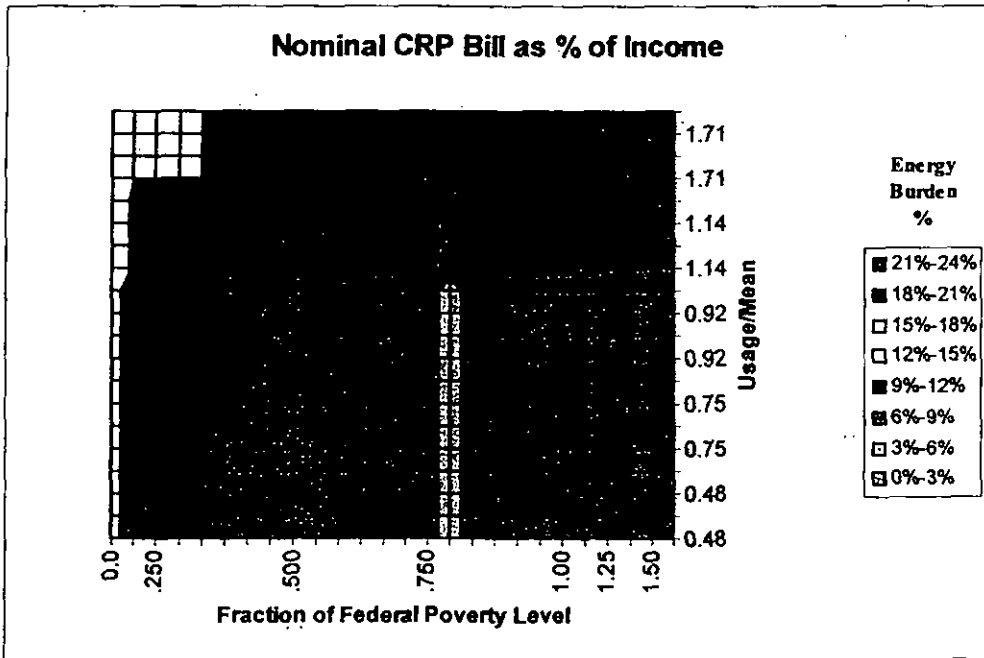


Figure 19: Natural Gas Energy Budget after Step 1

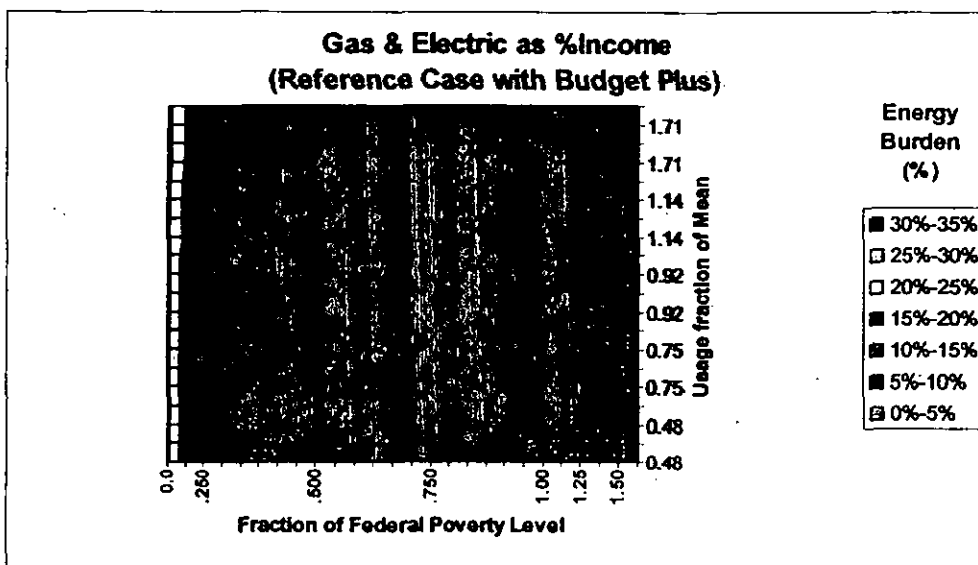


Figure 20: Total Energy Burden (CRP Model with Budget Plus)

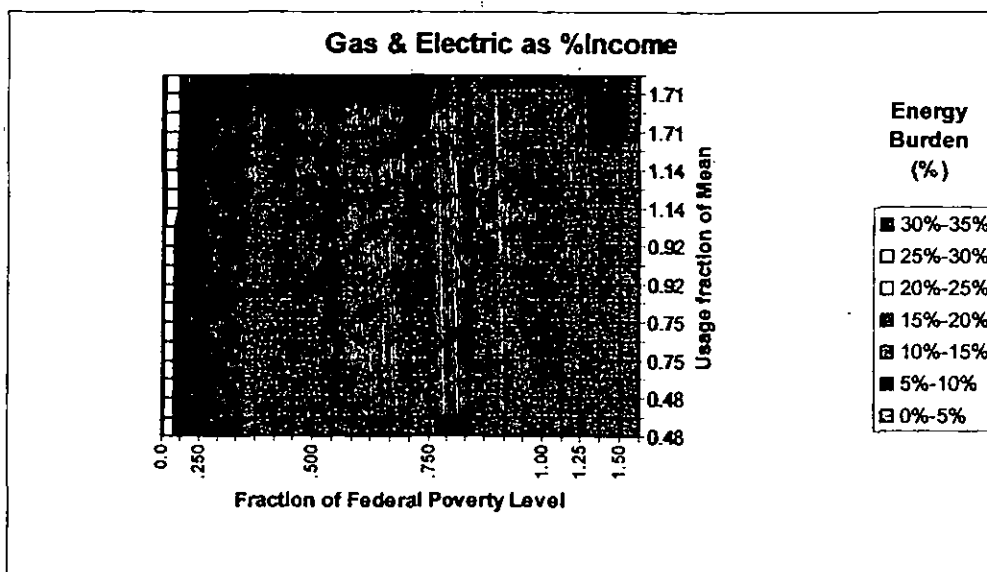


Figure 21: Total Energy Burden after Step 1

Compliance maps for the combined natural gas and electric service have been generated and reviewed, but are not reported since PGW cannot address the electric side

of the problem, and both the natural gas and the electric would have to be coordinated for customers in the 0-150% of poverty range to address full energy burden.³²

d) Seeing Compliance - A Compliance Map

The monthly (dollar) cost maps of Figures 16 & 17 and the energy burden maps of Figures 18 & 19 may be translated and reduced to the simple two-color *compliance maps* of Figures 23 & 24. Figure 20 represents the current CRP program; the reference case plus the Budget Plus component. In Figure 22, the Budget Plus customers have been shifted over to the PIPP. The red area in these figures shows regions containing customers for whom CRP is *out of compliance* with billing guidelines contained in the Pennsylvania Code, CAP design elements.

CRP is currently out of compliance with the income guidelines of the Pennsylvania Code for somewhat over one-third of CRP customers, and in compliance for somewhat under two-thirds of CRP customers.³³

As with the prior comparisons, when the Budget Plus component is converted to an extension of the PIPP and the BCS Payment Plan is implemented (Figure 23), the geography of Figure 23 is nearly identical with Figure 22, but there is a slight shift. Still, CRP remains out of compliance with income guidelines (Pa. Code Title 52, Section 69.265 CAP Design Elements³⁴) for about one-third of customers and in compliance for approximately two-thirds of CRP customers.

³² In fact, some of the adjustment must take place in tailoring the electric side in the 0-50% of Federal Poverty Level range if the combined percentage guidelines of the Pennsylvania Code are to be met.

³³ Note, however, that the LIHEAP Make-Up charge, the Relief charge, and the Repair charge are not considered in this finding.

³⁴ Pa. Code, Title 52, §69.245(2)(i)(B).

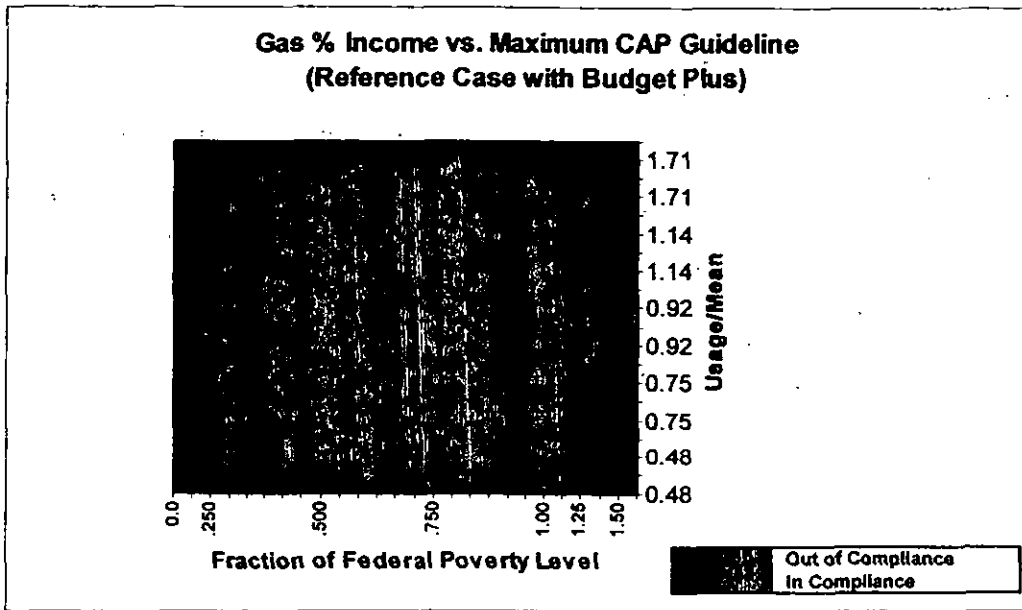


Figure 22: Compliance Map (Step 0 - Current CRP Model with Budget Plus).

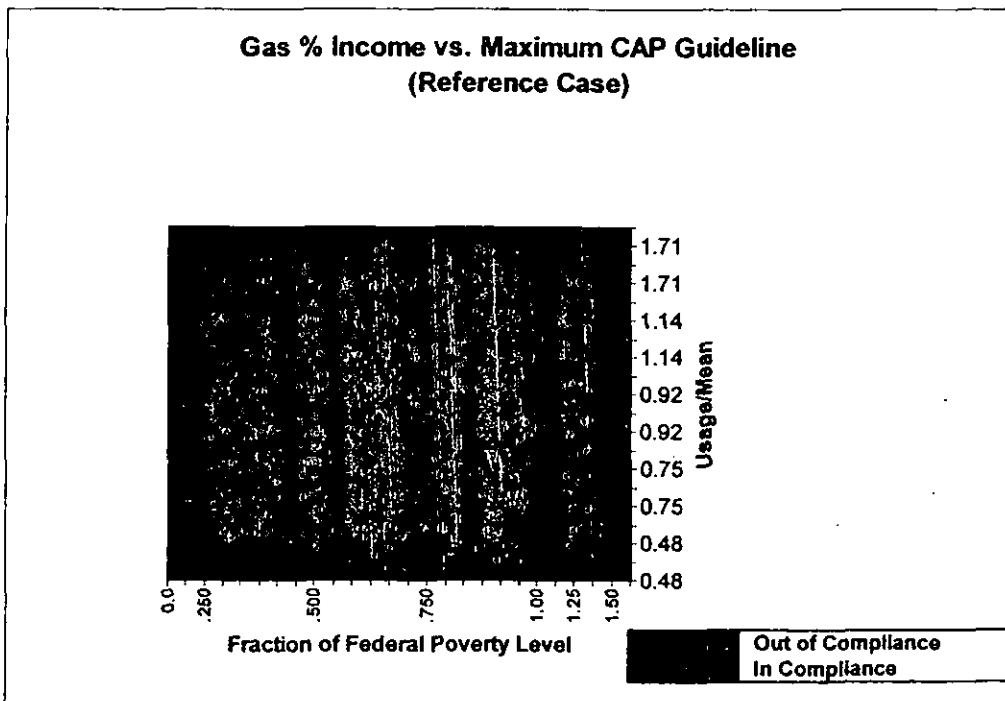


Figure 23: Step 1 - Replace Budget Plus with PIPP; Add BCS Payment Plan.

e) The Cost of Compliance - Measures

To contrast alternative program designs, both a graphical form (a compliance map) and two numerical indicators are used. The numerical indicator for the dollar impact is the *difference* of CAP Discount amounts of two contrasted program designs (the "ΔCAP discount") *with the GS Rate held constant*.³⁵ In this analysis the CRP CAP Discount is defined as the GS revenue that would have been due minus the CRP revenue actually billed (Figure 24).³⁶ The important point is that the *change* in CAP discount is used to contrast and optimize designs. Note also in this definition of the Discount that no LIHEAP payments are included. This exclusion is for convenience. It allows a focus on the basic components of the program billing design with the LIHEAP collection effort considered equal between the reference case and the alternatives.³⁷

³⁵ A number of different metrics could be used with equivalence. The metric "ΔCAP discount *with constant GS Rate*" is simple and straightforward. The CAP discount level, however, is not useful as a metric since PGW's GS Rate (and GCR) have fluctuated over the past two years, for reasons not within the scope of the Universal Service Programs. Due to this fluctuation, the CAP discount may appear as \$43 million or \$69 million for the same actual program effort, depending on changes in the GS Rate.

³⁶ The design metric used in this study follows from definitions included in the document, *Universal Service Reporting Requirements, Data Dictionary and Clarifications Offered by BCS*. The CAP Discount, as calculated here, is *modeled on but not identical to* the (Total) CAP Credit. The total CAP Credit is, in the first instance, the sum of the CAP credits for all customers who received CAP credits. As a first approximation, it is the difference between the standard billed amount and the CAP billed amount. For example, if the billed amount under the GS rate were \$100 and the CAP billed amount were \$30, the CAP credit equals \$70. Preprogram arrearage forgiveness is not considered in this total. However, the calculation of the CAP Credit would include third party payments in the calculation, such as LIHEAP grants and hardship fund grants. The CAP Discount used in this report is a simplified CAP Credit. It excludes consideration of third party payments. It also excludes current CAP arrearage (payment rates of less than 100% of bill). Other metrics could be used equally well. However, the essential point regarding the CAP Discount and ΔCAP Discount as developed for this study is that they are based on billing and do not include either CAP program arrearages (that is, payment rates of less than 100%) or LIHEAP and similar payments. These factors do not affect the development of program design. Use of simplified CAP Discount and ΔCAP Discount versions of the CAP Credit facilitate the analysis and presentation.

³⁷ Compliance with the Pennsylvania Code CAP design elements, in any case, is separate from the objective of maximizing LIHEAP grant assignments. Arranging program definitions to maximize grant assignments will be covered in the third report.

Calculation of "Bottom-Up" ΔCAP Discount (Billing Basis)

$$\text{CAP Discount}_1 = \text{GS Revenue Billed}_1 - \text{CAP Revenue Billed}_1$$

$$\text{CAP Discount}_2 = \text{GS Revenue Billed}_2 - \text{CAP Revenue Billed}_2$$

$$\Delta\text{CAP Discount} = (\text{CAP Discount}_1 - \text{CAP Discount}_2)$$

Figure 24: "ΔCAP Discount" as used in Comparisons.

Specifically, the ΔCAP Discount expressed in dollars is the difference in the CAP Discount between the two cases. The ΔCAP Discount percent is the net CAP Discount for the alternative design divided by the CAP discount for the original design.³⁸

f) Summary: Step 1

The contrasts of Figures 16 & 17, 18 & 19, 20 & 21, and 22 & 23 suggest that the impacts of moving the Budget Plus component to a PIPP and extending the PIPP 7.35% of income payment amount to 150% of the Federal Poverty Level are relatively small.³⁹ Step 1 is accomplished by applying the 7.35% of Federal Poverty Level rate, the excess usage charge, and the 12% of income limit on the combination. This results in a ΔCAP Discount of (0.32)%; that is, an increase in the CAP Discount of under one percent. This means that Step 1, the extension of the PIPP throughout the full range from 0-150% of Federal Poverty Level, can be accomplished without much cost impact.

³⁸ The dollar values reported in table in this report should not be taken as absolute, but as indicative numbers for use in planning and projections for the development of program design. The CAP Discount and the ΔCAP Discount do correspond to CRP GCR filings, and specifically do include LIHEAP or other third party payments or the cost of CAP accounts in arrears based on allocation studies by PGW.

³⁹ In addition, as the PIPP is extended, the customers in the 136%-150% of Federal Poverty Level range are subject to the excess usage charge and the 12% of income limit on the combined PIPP plus excess usage charge. Also the BCS Payment Plan is implemented to replace Budget Plus.

Step 1: Cost to Implement		
Change	ΔCAP Discount (%)	ΔCAP Discount (\$)
Step 1 – Replace Budget Plus with 7.35% PIPP and apply excess usage charge, subject to 12% limit. Implement BCS Payment Plan.	(0.40%) (This step actually reduces the size of the current CAP Discount by four-tenths of one percent.)	For 62,885 CAP Customers: \$159,331. For 90,000 CAP Customers: \$228,013.

Figure 25: Step 1 - Cost to Implement

3. Next Steps toward Compliance

The next steps toward compliance are indicated by the colorscape patterns shown in the red area of Figure 21. Figure 21 highlights two problem (red) areas:

- (1) The region in which natural gas use is above approximately 150% of mean energy use. Customers in this region are unable to sustain the excess usage charge (even, as in the Figure, with the basic PIPP payment plus excess usage charge capped at 12% of income). To make the program work for customers in this topmost region, the impact of the excess usage charge must be reduced.

- (2) The region in which income is from 0-50% of the Federal Poverty Level (towards the left boundary of the graph). Customers in this region have severe income problems, so that the minimum billing level of \$30 is too high to permit compliance with the energy as a percentage of income guidelines. To make the program work for customers in this leftward region, the minimum billing level must be reduced.

4. Step 2 – Adjust the Maximum Percent of Income

The maximum percent of income bill for natural gas should be in the range of 5-8% of income for customers in the 0-50% of Federal Poverty Level, from 7-10% for customers in the 51-100% of Federal Poverty Level, and from 9-10% for customers in the 101-150% of Federal Poverty Level.⁴⁰ Adjusting the overall maximum percent of

⁴⁰ Pennsylvania Code §69.265(2)(i)(B).

income bill (over the sum of the PIPP plus the excess usage charge) down from the current 12% is necessary to bring PGW's Universal Services program into compliance. This is also the simplest next step, since it is a direct adjustment that leaves the rest of the billing structure intact, is easy to explain to customers, and requires no change on the customers' part.

As shown in Figure 26, the result of conforming the maximum percent of income bill is very effective in bringing billing for high use customers into compliance, without affecting the educational value of the excess usage charge, while limiting the impact of the charge.

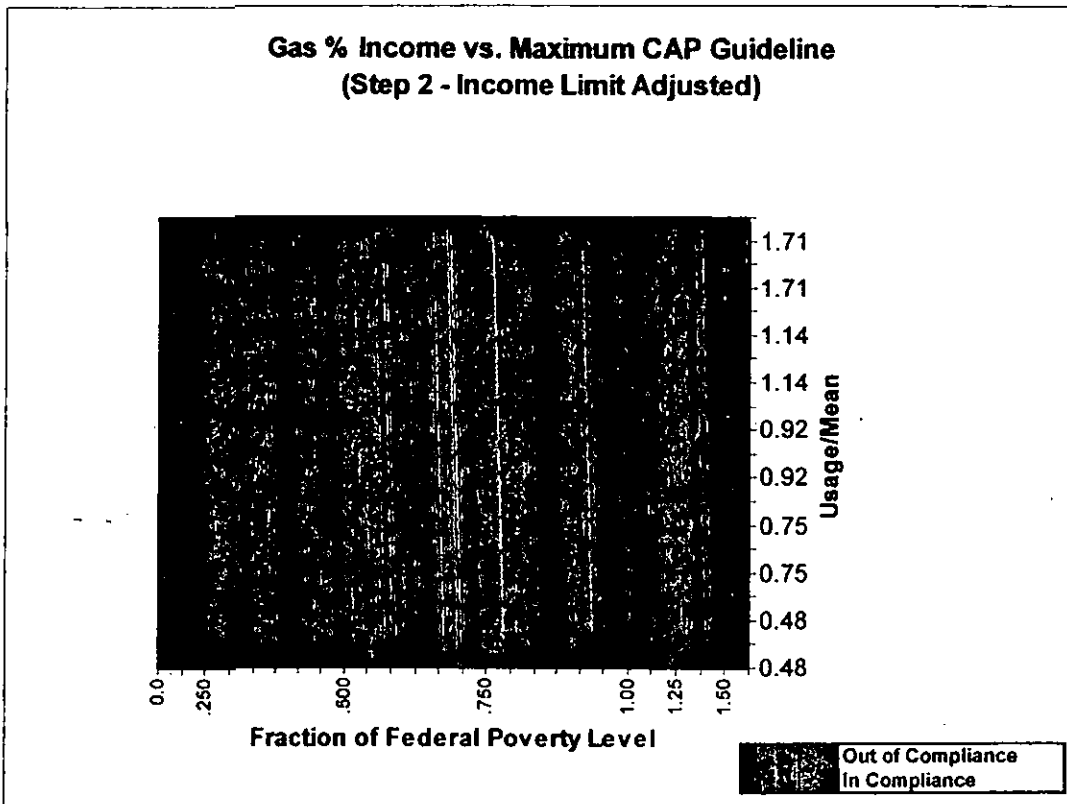


Figure 26: Step 2 - Adjust Maximum Bill to 8% & 10% Percentage of Income Limits.

Step 2: Cumulative Cost to Implement		
Cumulative Change	ΔCAP Discount (%)	ΔCAP Discount (\$)
Step 1, Plus: Step 2 – Adjust maximum percent of income bill to 8% for 0-50% of Federal Poverty Level, and to 10% for 51%-150% of Federal Poverty Level.	(6.97%) (Increase of cost to 106.97% of the current CAP discount.)	For 62,885 CAP Customers: (\$2,803,587) For 90,000 CAP Customers: (\$4,012,457)

Figure 27: Step 2 – Cumulative Cost to Implement

5. Step 3 – Reduce the Minimum Bill

The remaining problem area in Figure 26 is the most leftward part of the graph, which still retains a red colorscape. The basic problem here is that the minimum bill of \$30 per month exceeds the affordability criteria for persons in the range of 0-50% of poverty. In the range from 0-50% of the Federal Poverty Level, the maximum gas-heating bill should be from 5%-8% of income.⁴¹ In this poverty category, *all of the \$30 minimum bill participants exceed the 8% limit.*⁴² This can be remedied for nearly all customers by lowering the monthly minimum bill to \$18 for customers in the 0-50% of Federal Poverty Level range. Even if applied to all customers, the change in minimum bill is generally directed to the 0-50% of Federal Poverty Level group.⁴³ The effect of this change is shown in Figure 28.

⁴¹ Pa. Code, Title 52, §69,265(2)(i)(B)(1).

⁴² In addition, the minimum payment terms for a CAP participant with a gas heating account should be at least \$18-\$25 a month [Pa. Code, Title 52, §69.265((3)(i)(A)].

⁴³ An alternative would be to apply the lower minimum bill all CAP customers to simplify communication. There is only about \$200,000 of aggregate revenue obtained in the difference between a \$30 minimum bill and an \$18 minimum bill for all customers from 51% to 150% of Federal Poverty Level.

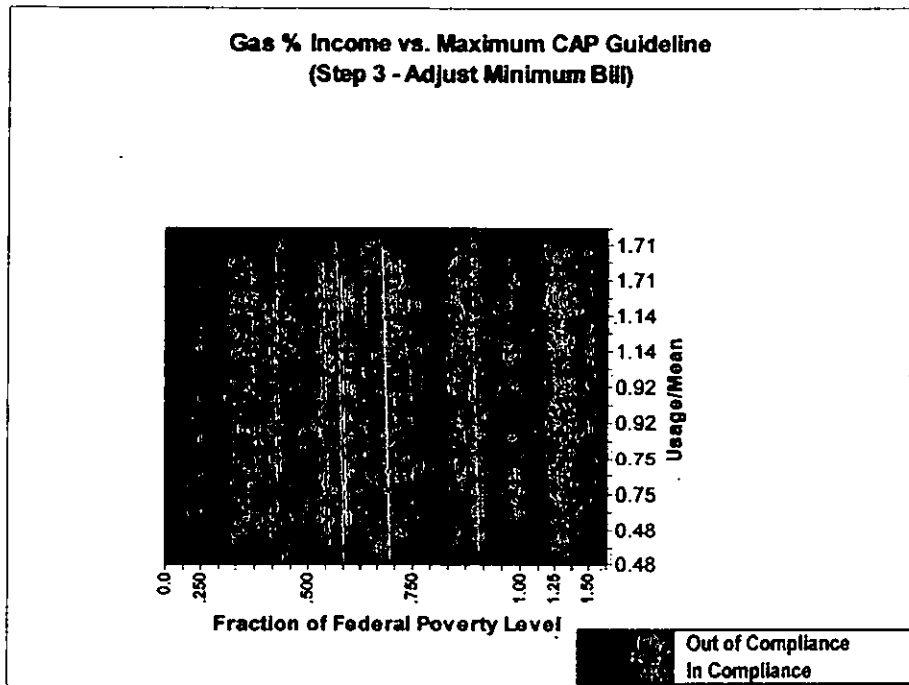


Figure 28: Step 3 - Adjust Minimum Bill

Step 3: Cumulative Cost to Implement		
Cumulative Change	ΔCAP Discount (%)	ΔCAP Discount (\$)
Step 1, Plus Step 2, Plus Step 3 – Adjust the minimum bill from \$30/month to \$18/month for customers from 0-50% of Federal Poverty Level.	(8.87%) (Increase cost to 108.87% of the current CAP Discount.)	For 62,885 CAP Customers: (\$3,567,272). For 90,000 CAP Customers: (\$5,105,434).

Figure 29: Step 3 - Cost to Implement

Steps 5 & 6 (Offset Costs & Excess Usage Charges): Cumulative Cost		
Cumulative Change	ΔCAP Discount (%)	ΔCAP Discount (\$)
<p>Step 1, Plus Step 2, Plus Step 3, Plus Steps 5 – Move to a 3-Tier rate structure, moving from 7.35% for all CRP customers to 8% for customers from 0-50% of the FPL. Increase the rate to 9% of income for customers from 51-100% of FPL. Increase the rate to 10% of income for customers from 101-100% of FPL.</p>	<p>0.68%</p> <p>With Step 5, the cumulative result of steps 1-3 plus Step 5 is to reduce the cost from the current CAP Discount by about seven-tenths of one percent.</p>	<p>For 62,885 CAP Customers: \$275,409.</p> <p>For 90,000 CAP Customers: \$394,109.</p>
<p>Step 6 – Steps 1-5, plus: Remove the Excess Usage Charge.</p>	<p>(2.45%)</p> <p>Step 6 brings the cumulative cost to 102.45% of the current CAP Discount.</p>	<p>For 562,885 CAP Customers: (\$987,784)</p> <p>For 90,000 CAP Customers (\$1,413,751)</p>

Figure 30: Cumulative Design with Cost Offsets

6. Step 4 – Refer Remaining Customers to CARES

Approximately 500 customers remain in the non-compliant red colorscape of Figure 28. These customers are probably a residual that can be best served through CARES and the CNU.

7. Step 5—Cost Offsets

Generally, it is appropriate to seek allowable cost offsets, when available, to partially offset the cost of the implementation steps. The CAP design elements of the Pennsylvania Code allow a tiered rate system.⁴⁴ Customers in the range from 0-50% of Federal Poverty Level pay 5% to 8% of income. Customers in the range from 51%-100%

⁴⁴ Pa. Code, Title 52, §69.265(2)(i).

of the FPL pay 7% to 10% of income. Customers in the range of 101%-150% of FPL pay 9% to 10% of income. It is possible to develop either a partial or a complete offset in several different ways of setting up the tiers. One that works is to set the 0-50% of Federal Poverty Level tier at 8%, the 51-100% of Federal Poverty Level tier at 9%, and the 101%-150% of Federal Poverty Level to 10%. These levels do not change the compliance graphs and would permit a nearly complete offset. Other adjustments using the three tiers can produce similar results.

8. Step 6 – Remove Excess Usage Charge

The Excess Usage charge should be removed to simplify the program (Figure 30). First, the concept of excess usage, while rigorously defined operationally, is problematic in that some homes do show high usage that while excess in terms of a class average may actually be suited to certain homes for particular physical or social reasons that are not under the control of the customer. Second, usage penalties and conservation rewards are often ineffective – they tend to both penalize and reward for changes in usage that are artifacts of other conditions in the home (adult children move in, death in the family, common space energy use inappropriately placed on apartment bill, and the like). Third, the more common approach to high usage is to investigate high usage and to apply physical measures to support usage reduction (LIURP, CWP). Fourth, the maximum percent of income limits required to place accounts within the provisions of the Pennsylvania Code eliminate the effect of the Excess Usage charge for the 0-50% of poverty tier, and they substantially reduce the effect of the charge on the 51-100% of poverty tier. Removing the Excess Usage charge entirely simplifies the program, and provides an equality of effect across the three income tiers.

F. Summary: Program Design

The Evaluation Team recommends a simple extension of the current PIPP design into a three-tiered design (including elimination of the Budget Plus component and replacing it with a PIPP plus the BCS Payment Plan). The percentage of income payment would be set to 8% for customers from 0-50% of the Federal Poverty Level, subject to a maximum income percent payment of 8%. The percentage of income payment would be set at 9% for households in the 51-100% of FPL range, subject to a maximum in income percent payment of 10%. The percentage of income payment in the range from 101-150% of FPL would be set to 10% with a maximum income percent payment of 10%. Households from 0-50% of FPL would receive a minimum bill of \$18. For other households the minimum bill would be \$30. The Excess Usage Charge and the LIHEAP Make-Up Charge would be eliminated.

The Reichmuth Sector Map©, provided with this report will permit exploration of alternative program designs and cost offsets.

V. REGULATIONS AND POLICY COMPLIANCE

The current program has been examined versus the applicable state regulations for CAP Design Elements⁴⁵, Natural Gas Customer Choice⁴⁶, and the Residential Low Income Usage Reduction Programs⁴⁷. Chapter 56 is not reviewed here because PGW and PUC have signed an MOU that pertains specifically to PGW customer service practices and Chapter 56 regulations. The PUC expects PGW to come into compliance with Chapter 56 "some time in the future". In the meantime, the MOU offers interim procedural agreements until the Tariff is brought into line with Chapter 56.⁴⁸

A detailed point-by-point summary of applicable state regulations for CAP Design Elements is included in Appendix A. The current CRP elements that are out of compliance with the regulations, requiring changes by PGW, are presented in Figure 31.

§ 69.251 Plain language statement of policy § 69.265 CAP Design Elements		
A. Regulatory Reference	PGW Practice	Recommendation
69.251(c)(1)(ii) The Plain language policy statement recommends the billing format include a bar graph displaying comparative energy use indicating whether the amount shown is actual or estimated.	The PGW bill format does not include a bar graph.	HGPA recommends that a date certain be set to add the bar graph to the bill format. The bar graph is a tool that can be useful to customers in limiting energy use.

⁴⁵ Pennsylvania Code Title 52 §69.265 CAP Design Elements

⁴⁶ Pennsylvania Code Title 52 §62. Natural Gas Customer Choice Subchapter A, Universal Service and Energy Conservation Requirements and Subchapter B, Reporting Requirements for Quality of Service Standards and Benchmarks

⁴⁷ Pennsylvania Code Title 52 §58 Residential Low Income Usage Reduction Programs.

⁴⁸ PUC Memorandum of Understanding with Philadelphia Gas Works, Docket No. A-125042 dated July 20, 2000.

<p>69.265(2)(B) Payment Plan & Proposal This policy suggests a scheduled payment based on three percent of income categories: 0-50% = 5-8% of income 51-100% = 7-10% of income 101-150% = 9-10% of income.</p>	<p>PGW does not offer payment increments based on percent of poverty. PGW offers discounted payment plans from 0-135% of poverty. The most common discounted plan is 7.35% of income. The \$30 minimum is a discounted rate that can be more than 12% of income. A special CNU agreement can also be negotiated.</p>	<p>HGPA recommends that PGW, for the immediate future retain a simple PIPP plan. The PIPP should be modified to correspond to the income levels of 69.265(B). (See this report, Section IV, Program Design)</p>
<p>69.265(3) Control Features An annual maximum CAP credit for gas heating customers should not exceed \$840</p>	<p>PGW does not utilize a limit on the CAP credit.</p>	<p>The energy burden and maximum CAP credit features are contradictory. PGW should request an exemption of the \$840 credit in favor of meeting energy burden.</p>
<p>69.265(4) Eligibility Criteria The applicant is low-income, payment troubled</p>	<p>PGW does not actively use the payment-troubled definition within its eligibility criteria. Most CRP participants are payment troubled.</p>	<p>PGW should note to the commission that the definition of payment troubled is not a criterion for their Universal Service programs and specifically request an exemption.</p>
<p>69.265(5) Appeals Process This section states that when the customer is not satisfied with eligibility determination that procedures 56.151, 56.152, and 56.161-56.165 should be used.</p>	<p>Section 5 describes the procedures for the Inquiry, Review, Dispute and Appeal Process. This section notes definitions used in Code 52, Chapter 56 will be used in that Section. Section 5 does not provide the same degree of detail described in Chapter 56.151 and 56.152 and 56.161-56.165 particularly regarding Utility Reports.</p>	<p>PGW and PUC have signed an MOU that pertains to PGW customer service practices and Chapter 56 regulations §69.265(5). The PUC expects PGW to come into compliance with Chapter 56 "some time in the future." In the meantime, the MOU offers interim procedural agreements. HGPA recommends PGW work with the PUC toward modification of the Tariff and comply with procedures outlined in the MOU.</p>

<p>69.265(6) (ix) Arrearage forgiveness:</p> <p>Arrearage forgiveness should occur over a 2 to 3 year period contingent upon receipt of regular monthly payments by the CAP participant.</p>	<p>Arrearage forgiveness is described in the Tariff. However, it was not implemented as described.</p> <p>The described procedure would not be in compliance, as it does not occur over a 2 to 3 year period.</p>	<p>HGPA recommends complete forgiveness of pre-program arrearage following six months of full payment in the CAP.</p> <p>This provision would be modeled on PECO's and pre program arrearage would be forgiven to zero.</p>
<p>69.265(7) Default provisions</p>	<p>PGW does not currently dismiss customers from CRP, due in part to problems with the BCCS computer system. Once the system is operational, dismissal will occur for certain default provisions.</p>	<p>PGW will soon have the BCCS credit and collections module on-line. HGPA recommends removing customers from CRP per guidelines (i) <i>failure to make payments</i> and (vi) <i>failure to annually verify eligibility</i>. Guideline (iv) <i>failure to report changes in family size</i> is included in (vi). Guideline (iii) <i>failure to provide meter readings in 4 consecutive months</i> is not an issue in that over 90% of CRP customers have AMR.</p>
<p>69.265(7) Default provisions:</p> <p>(ii) Failure to abide by established consumption limits should result in dismissal from CAP.</p>	<p>PGW does not currently dismiss customers who exceed usage guidelines.</p> <p>However, the CRP imposes an excess usage charge computed monthly.</p> <p>PGW also offers a \$40 Conservation Credit Adjustment at recertification if the customer has met 5 criteria, including no billing for excess usage.</p>	<p>HGPA recommends that PGW specifically request an exemption to §69.265(7) (ii) and continue to target the CWP to high usage customers.</p> <p>HGPA also recommends elimination of the current excess usage charge, as discussed in the text of the report.</p> <p>Also, the conservation credit should be discontinued, since it is unlikely that it works as anticipated.</p>

<p>69.265(7) (iii) Default provisions:</p> <p>Failure to accept budget counseling, weatherization or consumer education.</p>	<p>PGW does not provide budget counseling.</p> <p>PGW does not remove those who refuse weatherization (CWP).</p> <p>Education is included in the CWP measures.</p>	<p>HGPA recommends that the CARES program that PGW develops include a budget-counseling component.</p> <p>HGPA does not recommend removing customers from CRP who default for refusing services in §69.265(7) (iii). HGPA recommends PGW bring its processing policy to the attention of the Commission and request an exemption.</p>
<p>69.265(9) Coordination of energy assistance benefits:</p> <p>(ii) An additional energy assistance grant may be used to reduce a monthly payment if that payment is over 17% of household's income.</p>	<p>PGW does not use grants to reduce monthly payments over 17% of income. However, the PGW Tariff (and BCCS system) limits the bill for the basic CRP amount plus the excess usage charge to 12% of income.</p> <p>Only those paying the \$30 minimum could be paying more than 17% of income. Assistance grants (but not LIHEAP cash) are applied to the current arrearage then the frozen arrearage.</p>	<p>HGPA recommends no change in current practice since the current practice exceeds the guideline.</p>
<p>69.265(9) Coordination of energy assistance benefits:</p> <p>(iv) If a customer applies for a LIHEAP benefit but directs it to another utility or energy provider, the CAP provider should not assess a penalty.</p>	<p>PGW levies a LIHEAP makeup charge in the amount of the average LIHEAP grant when the customer does not direct the LIHEAP grant to PGW. A customer assessed a LIHEAP makeup charge when they (1) were denied LIHEAP, or (2) assigned it to another utility, can inform PGW and the charge will be rescinded.</p>	<p>The LIHEAP Makeup Charge as presently implemented by PGW is consistent with the Pennsylvania Code, and currently outside the affordability structure of CRP.</p> <p>HGPA recommends that the LIHEAP Make-Up charge be eliminated, in favor a full focus on affordability.</p>

<p>No statement on down payments of arrears enrollment</p>	<p>PGW requires a 5% payment of arrearage upon entering CRP.</p>	<p>HGPA recommends elimination of the 5% down payment of the arrearage at enrollment. This area is not specifically dealt with in the CAP design guidelines, but requirement of a payment as a condition for participation in a CAP is not in step with the current philosophy of CAP programs.</p>
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Figure 31. § 69. Areas out of Compliance

Chapter 62, Natural Gas Customer Choice, has also been reviewed versus PGW current practice. Section 62.4 describes the Universal Service and Energy Conservation Plan Requirements including the contents of the plan. The Plan is to include CAP, LIURP, CARES, Hardship Funds, as well as any other programs, policies, and procedures. PGW programs currently include all but the CARES component. PGW representatives do provide referrals to agencies as needed. In the short term, HGPA recommends moving from the 'Quick Fix Approach' toward the 'Intermediate Case Management Approach.' In the long term, HGPA recommends adding a larger CARES component. CARES is discussed more fully in this report, Section VI. Customer Assistance and Referral Evaluation Services

Within Chapter 62, Natural Gas Customer Choice, Subchapter A, Universal Service and Energy Conservation Requirements and Subchapter B, Reporting Requirements for Quality of Service Standards and Benchmarks, there are five reports and evaluations that PGW will be required to submit to the Commission on a regular basis. The CRP 3-year plan submitted during the restructuring filing mid-2002 should propose a year that reporting can start that is appropriate to each of these requirements. Figure 35 shows the five reports and evaluations and the timeframe in which they will need to be submitted to the Commission.

The Evaluation Team also conducted a cost analysis to review the Customer Responsibility Program (CRP) cost accounting systems that will be used by PGW to comply with the Pennsylvania Utility Commission (PUC) reporting requirements. We have determined that initiating computer programming changes to the data subsystems into the General Ledger system will provide pertinent data for the reporting requirements. The current GAAP and FERC accounting in addition to the planned changes to the General Ledger System (that will provide activity based accounting) are needed to achieve the level of detail necessary for the reporting requirements. The company will need to move toward making changes to the current system to develop the detail needed to track costs in order to come into compliance with reporting requirements. In the third report of this analysis, we will provide a template for §62.5, Annual Residential

Collection and Universal Service and Energy Conservation Program Reporting Requirements that traces the reporting item to the cost account code.

§62 Natural Gas Customer Choice Subchapter A. Universal Service and Energy Conservation Requirements Subchapter B. Reporting Requirements for Quality of Service Standards and Benchmarks			
Chapter & Section	Type of Report	Filing Deadline	Notes
62.4	Universal Service and Energy Conservation Plans	Every 3 years beginning 2/28/02, covering the next 3 calendar years.	PGW's CRP 3-year plan will be submitted and reviewed in PGW's restructuring filing mid 2002. The next plan should be filed 3 years after the final restructuring order.
62.5	Residential collection and universal service and energy conservation program reporting requirements	Beginning April 1, 2003. Annually thereafter due April 1.	The CRP 3-year plan submitted during the restructuring filing should propose a year that reporting can start. BCS prefers reporting begin within the time frame given other NGDC, about 2 years. BCS would like to begin receiving these reports as soon as possible, however, they should commence by 2005 at the latest. HGPA recommends that the annual reporting commence in 2003.
62.6	Evaluation Reporting Requirements	The first impact evaluation is due 8/1/04 and subsequently at no more than 6 year intervals.	The restructuring filings in mid-2002 will establish the filing schedule for the evaluation at Chapter §62.6. The impact evaluation should not exceed 6 years from the date of the final restructuring order.
62.33	Reporting requirements for quality of service benchmarks and standards	The first due 8/1/01, reporting monthly data for the prior six months and six-month averages. The	The CRP 3-year plan submitted during the restructuring filing should propose a year that reporting can start. BCS prefers reporting begin within the time frame given other NGDC, about 2

		second report is due 2/1/02 containing monthly data for the prior six months, and the twelve-month cumulative average. Thereafter annual reports are due on or before Feb. 1.	years. HGPA recommends PGW commence submission of the Quality of Service Benchmarks by 2003.
62.34	Telephone transaction customer surveys	The first report is due on or before 10/1/2002 including the first 6 months of the calendar year. The second report is due 4/1/03 and includes the second 6 months of the calendar year and cumulative 12-month results. Thereafter reports are due April 1. Annual reports shall contain results by month and cumulative 12-month reports.	The CRP 3-year plan submitted during the restructuring filing should propose a year that reporting can start. BCS prefers reporting begin within the time frame given other NGDC, about 2 years. HGPA recommends PGW commence submission of the Telephone Transaction Customer Surveys by 2003.

Figure 32. § 62. Reporting Requirements

The Evaluation Team has also reviewed the requirements in Pa. Code Title 52 §58 Residential Low Income Usage Reduction Programs (LIURP) against the existing practices of the Conservation Works Program, the PGW LIURP. A detailed element-by-element analysis of PGW's current capability of developing these reporting elements is given in Appendix C. The most significant elements requiring changes by PGW are presented in Figure 33 below.

§58 Residential Low Income Usage Reduction Programs		
Regulatory Reference	B. PGW Practice	Recommendation
<p>58.4 Funding</p> <p>(e) Recovery of costs. Program expense shall be allotted among ratepayers, the precise method determined in proceedings.</p>	<p>LIURP (CWP) costs are currently recovered in the GCR mechanism. The Office of Trial Staff (OTS) suggested in August 2001 proceedings that the CWP costs be included in the base rate. The Recommended Decision of ALJ Cynthia Fordham is that CWP costs should not be recovered in the GCR and the issue should be deferred until the restructuring proceeding in mid-2002.</p>	<p>HGPA will make recommendation in Report 3 of this analysis.</p>
<p>58.5 Administrative costs</p> <p>Not more than 15% of the annual LIURP budget may be spent on administrative costs.</p>	<p>The PY7 Evaluation reports CWP spending of \$2.2 million and PGW, ECA, & HDMC administrative costs of \$362,712 or 16.5% of the annual budget. The PY9 Evaluation reports CWP spending of \$1,970,010 and total administrative costs of \$327,096 or 16.6% of the annual budget. PGW administrative costs include evaluation.</p>	<p>Fifteen percent of a \$2 million annual budget limits total administrative costs to \$300,000. HGPA recommends that PGW request reasonable variation of +/- 2% of this guideline (restricting expenditure to 17%).</p>
<p>58.10 Priority of Program Service</p> <p>(a) Priority shall be determined as follows:</p> <p>(3)(c) Up to 10% of the annual program budget may be spent on eligible special</p>	<p>The CWP is designed for CRP participants with high use. CRP only extends programs to 150% of Federal Poverty Level. PGW expends the full CWP budget on CRP participants, and therefore does not provide services</p>	<p>HGPA recommends that PGW continue its current practice operating CWP as a tool to reduce consumption for high users within CRP. HGPA recommends that PGW request a waiver for §58.10(a)(3)(c).</p>

needs customers defined as those with an arrearage at or below 200% of poverty.	to customers between 150-200% FPL.	
58.14 Program measure installation: (c) Inter-utility coordination. Customers of gas and electric utilities shall have coordinated provision of comprehensive program services.	PGW does not engage in coordinated provision of program services described under (c) (1-6). PGW focuses on providing measures that reduce gas consumption. PGW and PECO are currently exploring a pilot project to collaborate when PECO finds high use customers who are defacto electric heat customers.	HGPA recommends that PGW and PECO continue to explore opportunities and means to coordinate services, particularly for customers paying PECO's CAP Rate and customers in PGW's CRP/CWP.
58.15 Program Evaluation: Evaluation procedures include: (1) Compiling statistical data... (vii) utility bills and account balances, (viii) recipient utility payments.	The evaluations did not include (vii) utility bills and account balances, (viii) recipient utility payments.	HGPA recommends that PGW specify (vii) utility bills and account balances, (viii) recipient utility payments as requirements for the 2002 evaluation.
58.15 Program Evaluation: (2) Evaluating energy savings and load management impacts, changes in customer bills, payment behavior and account balances, overall quality of services, steps taken to improve performance.	The PY7 and PY9 evaluations did not include changes in customer bills, payment behavior and account balances, overall quality of services, steps taken to improve performance.	HGPA recommends that PGW specify adding these analyses to the annual evaluations commencing with the 2002 evaluation.
58.15 Program Evaluation: (3) Report evaluation findings to the Commission annually.	PGW currently evaluates the CWP about every two years.	HGPA recommends that PGW commence annual evaluations in 2001.

Figure 33. §58 Areas Out of Compliance

The following (Figure 34) provides in detail the reports and evaluations that PGW will be required to submit under the policies and regulations in Chapters 58, 62, and 69.

Reports and Evaluations to be Filed by PGW with the Commission			
Chapter & Section	Type of Report	Filing Deadline	Notes ⁴⁹
Chapter 56 Standards & Billing Practices for Residential Utility Service			
56	All regulations	<p>This note pertains not to filing requirements but to overall compliance with Chapter 56.</p> <p>The PGW Tariff customer service and complaint handling procedures for residential customers differs from Chapter 56, Standards & Billing Practices for Residential Utility Service.</p>	<p>PGW and PUC have signed an MOU that pertains specifically to PGW customer service practices and Chapter 56 regulations.</p> <p>The PUC expects PGW to come into compliance with Chapter 56 "some time in the future". In the meantime, the MOU offers interim procedural agreements until the Tariff is brought into line with Chapter 56.⁵⁰</p>
56.231	Monthly Utility Reporting Requirements	These requirements apply to the EDC. NGDC requirements are listed below in §62.5.	See §62.5 below.

⁴⁹ Reference to BCS preferences from discussions with Janice Hummell and Lou Sauer, BCS, and email exchanges between evaluators and Janice Hummell, BCS.

⁵⁰ PUC Memorandum of Understanding with Philadelphia Gas Works, Docket No. A-125042 dated July 20, 2000.

Chapter 58 Residential Low Income Usage Reduction Programs			
58.4	Program Funding	Annual program budgets shall be submitted to the Commission. No month given in the Regulation.	CRP/CWP Program Manager currently submits operating budgets for annual internal review. The CRP 3-year plan submitted during the restructuring filing should propose a year that budget submission to the Commission can start.
58.18	Program Evaluation monitoring program results and effectiveness.	Annual assessment. No month given in the Regulation. LIURP Codebook states reports are due April.	PGW currently evaluates the CWP about every two years. This schedule will need revision to an annual evaluation.
Codebook	LIURP Codebook	The LIURP Codebook is used by the PUC and utility companies for recording, reporting and analyzing data related to LIURP. Data must be submitted in April. The current codebook issued Jan. 2000 covers homes treated calendar year 2000; report is due 4/2002.	The CRP 3-year plan submitted during the restructuring filing should propose a year that annual Codebook reporting can start. This report should coincide with the annual Evaluation.
Chapter 62 Natural Gas Customer Choice			
2.4	Universal Service and Energy Conservation Plans	Every 3 years beginning 2/28/02, covering the next 3 calendar years.	PGW's CRP 3-year plan will be submitted and reviewed in PGW's restructuring filing mid 2002. The next plan should be filed 3 years after the final restructuring order.

62.5	Residential collection and universal service and energy conservation program reporting requirements	Beginning April 1, 2003. Annually thereafter due April 1.	The CRP 3-year plan submitted during the restructuring filing should propose a year that reporting can start. BCS prefers reporting begin within the time frame given other NGDC, about 2 years. BCS would like to begin receiving these reports as soon as possible, however, they should commence by 2005 at the latest.
62.6	Evaluation Reporting Requirements	The first impact evaluation is due 8/1/04 and subsequently at no more than 6 year intervals.	The restructuring filings in mid-2002 will establish the filing schedule for the evaluation at Chapter 62.6, that is, the impact evaluation should not exceed 6 years from the date of the final restructuring order.
62.33	Reporting requirements for quality of service benchmarks and standards	The first due 8/1/01, reporting monthly data for the prior six months and six-month averages. The second report is due 2/1/02 containing monthly data for the prior six months, and the twelve-month cumulative average. Thereafter annual reports are due on or before Feb. 1.	The CRP 3-year plan submitted during the restructuring filing should propose a year that reporting can start. BCS prefers reporting begin within the time frame given other NGDC, about 2 years.
62.34	Telephone transaction customer surveys	The first report is due on or before 10/1/2002 including the first 6 months of the calendar year. The second report is due 4/1/03 and includes the second 6 months of the calendar year and cumulative 12-	The CRP 3-year plan submitted during the restructuring filing should propose a year that reporting can start. BCS prefers reporting begin within the time frame given other NGDC, about 2 years.