



An Exelon Company

Legal Department  
2301 Market Street / S23-1  
P.O. Box 8699  
Philadelphia, PA 19101-8699

Direct Dial: 215-841-6863

April 30, 2015

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, Second Floor  
Harrisburg, PA 17120

**RE: PECO Energy Company Universal Service and Energy Conservation Plan  
for 2013-2015  
Docket No.: M-2012-2290911**

Dear Ms. Chiavetta:

Enclosed for filing with the Commission is *PECO Energy's Statement of Support* with regard to the matter referenced above.

I have enclosed a Certificate of Service showing that a copy of the above document was served on the interested parties. Thank you for your time and attention on this matter.

Very truly yours,

A handwritten signature in black ink that reads "Ward L. Smith".

Ward L. Smith  
Counsel for PECO Energy Company

WS/ab  
Enclosure

cc: Honorable Cynthia Fordham  
Certificate of Service

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>PECO Energy Company</b>	:	
<b>Universal Service and Energy</b>	:	
<b>Conservation Plan for 2013-2015</b>	:	<b>Docket No. M-2012-2290911</b>
<b>Submitted in Compliance with 52 Pa.</b>	:	
<b>Code §§ 54.74 and 62.4</b>	:	

**PECO ENERGY COMPANY'S STATEMENT IN SUPPORT OF JOINT PETITION FOR SETTLEMENT**

On March 20, 2015, a Joint Petition for Settlement (the "Joint Petition") was filed in this docket by PECO Energy Company ("PECO"), the Office of Consumer Advocate (the "OCA"), the Tenant Union Representative Network and Action Alliance of Senior Citizens of Greater Philadelphia (together, "TURN *et al.*"), and the Coalition for Affordable Utility Services and Energy Efficiency in Pennsylvania ("CAUSE-PA") (collectively, the "Joint Petitioners"). This Statement in Support provides background on that Joint Petition, and expresses PECO's support for the Joint Petition.

The terms and conditions of the proposed settlement in this matter are set forth in the PECO CAP Mediation Settlement Term Sheet ("Term Sheet"), which was attached to the Joint Petition as Exhibit A. The Term Sheet is a comprehensive settlement among the aforementioned parties that resolves all issues pertaining to the above-captioned docket. PECO avers that this comprehensive settlement is in the public interest and, therefore, requests that the Commission approve the settlement in its entirety. In support thereof, PECO states the following:

## I. Background

1. The Term Sheet sets forth a comprehensive proposal to revise PECO's Customer Assistance Program ("CAP") and certain other programs that provide assistance to PECO's low-income customers.
2. Pursuant to the Commission's regulations, 52 Pa. Code §54.71 *et seq.*, every three years Pennsylvania electric distribution companies are required to file with the Commission their "universal service and energy conservation plans." This docket initially involved PECO's universal service and energy conservation plan covering the three-year period 2013-15 (the "2013-15 Plan") which PECO filed in this docket on February 28, 2012.
3. On November 8, 2012, the Commission issued a Tentative Order inviting written comments on the 2013-15 Plan. Written comments were filed by the Joint Petitioners and other parties, and the matter was subsequently set for litigation. During that litigation, the litigants discussed, but were not able to reach agreement regarding, a CAP design known as the "Fixed Credit Option," or "FCO."
4. On April 4, 2013, the Commission issued an Order in which it required PECO to make certain changes to its 2013-2015 Plan. The Commission's Order also directed PECO to conduct a study of the FCO, and other possible CAP design alternatives, for potential use by PECO in its three-year plan covering the period 2016-2018.

5. PECO filed the required report on September 20, 2013. In that report, PECO recommended that it stay with its existing CAP design, and not move to the FCO or other alternative design. The Joint Petitioners filed comments and reply comments on that report.
6. On April 25, 2014, the Commission issued a Secretarial Letter in which it directed the parties to this docket to attempt again to reach agreement on a new CAP design that all stakeholders could support. The Secretarial Letter recommended that the parties utilize the Commission's mediation services, and stated that if negotiated resolution could not be obtained, the matter would be sent again to litigation.
7. The Joint Petitioners engaged the services of the Commission's mediation office, and conducted extensive mediation sessions. Eight half-or full day sessions were held over the next several months, with extensive exchange of data and other information between the Joint Petitioners, including the process of negotiating the Term Sheet.
8. As a result of that extensive mediation effort and related settlement discussions, the Joint Petitioners reached agreement on a new CAP design and related issues, as set forth in the Term Sheet.

## **II. The Joint Petition Is In The Public Interest and Should Be Adopted**

9. The Term Sheet has three principal elements: (1) PECO will move to the Fixed Credit Option effective October 2016; (2) at that same time, PECO will implement a program to address arrearages that have accrued while CAP customers are in the CAP program (either through a forgiveness

program currently being evaluated in PECO's base rate case, or through payment arrangements proposed as part of the Term Sheet as a contingency), and (3) PECO will devote additional funds to usage reduction programs such as the Low-Income Usage Reduction Program ("LIURP") and other programs.

#### **A. The Fixed Credit Option**

10. Brief Description of the FCO: The Term Sheet provides a detailed description of how PECO will implement the FCO. For purposes of describing why PECO supports the Term Sheet, however, it is necessary to provide a brief narrative description of the FCO. Broadly, PECO will review each customer's income and usage characteristics and determine the amount of financial assistance that the customer requires in order to have their overall utility bills reduced to an amount that falls within the Commission-defined range of "affordability." Within the limits described below, PECO will then provide each customer with a fixed credit, for the next program year, designed to result in the customer receiving an affordable bill for utility service for the next program year.
  
11. Affordability: The Commission ordered PECO to evaluate the FCO program and other alternative CAP designs primarily in order to increase the affordability of utility service offered by PECO to its CAP customers. PECO conducted extensive pro forma analyses of affordability for its current program and the FCO program as set forth in the Term Sheet, and it expects to see significant improvements in affordability, both for breadth of unaffordability (percentage of customers who receive unaffordable bills) and depth of unaffordability (amount by which an unaffordable customer misses the affordability target). It should be noted that, because of certain Commission-required cost containment mechanisms such as the minimum monthly bill, which are discussed in more detail below, the program cannot achieve 100% affordability. In addition, the affordability numbers set

forth below are expected to be achieved with normal usage in a normal weather year. As described in more detail below, the Term Sheet FCO requires customers to manage usage beyond normal weather usage. Similarly, customers will bear the effects of their shopping decisions, which could increase or decrease their bills and affect FCO program affordability. With that understanding, PECO expects to see the following affordability on a pro forma basis, compared to its current program:

Table 1: Expected Pro Forma Changes to Breadth and Depth of Unaffordability

	Current Program Percent Unaffordable	Current Program \$ Over Affordability (Mean)	Term Sheet FCO Percent Unaffordable	Term Sheet FCO \$ Over Affordability (Mean)	Change in Breadth	Change in Depth
Rate R	34%	\$504	12%	\$414	-22%	-\$90
Rate RH	28%	\$764	10%	\$426	-18%	-\$338

12. Coordination with CAP Shopping: At the time that this Statement in Support is being submitted to the Commission, PECO’s CAP Shopping program is on appeal to the Commonwealth Court, and that Court has stayed implementation of the Commission’s Orders regarding CAP Shopping. However, the FCO program as set forth in the Term Sheet is structured so that, when CAP customers are allowed to shop, CAP customers will bear both the risks and benefits of their own shopping decisions – If they make a shopping decision that decreases their overall utility costs, they will be allowed to retain that benefit; if they make a shopping decision that increases their overall utility costs, they will be required to pay for those additional costs. This approach makes CAP customers similarly-situated to other residential customers in the retail shopping market.

13. Responsibility to Manage Usage/Incentive to Conserve: The amount of a customer's fixed credit will be adjusted to reflect projected usage in a normal weather year. The effect of this adjustment will be to make customers responsible to manage their usage and conserve energy, because they will not receive an additional credit to cover usage caused by extreme weather or other drivers of increased usage. Conversely, when CAP customers successfully conserve energy, they will retain the benefit of having done so. PECO believes that this structure will provide CAP customers with an incentive to conserve energy.

14. Cost of Program and Cost Containment Mechanisms: PECO estimates that, in a normal weather year, the FCO program will be approximately \$3.4 million per year less expensive than PECO's current tiered approach. (\$77 million per year for PECO's current program; \$73.6 million for the FCO.) As discussed previously, PECO nonetheless expects a material increase in affordability through the FCO program. This balancing – increased affordability at the same or a reduced cost – is achieved by redeploying some of the existing discounts from customers in the higher ranges of eligibility – approximately 100-150% of the Federal Poverty Level – and re-directing those funds to the poorest of the poor. This approach of redeploying funds from higher income levels to lower income levels is the primary mechanism by which the FCO increases affordability while maintaining program costs.

In addition, the FCO program includes several other important cost-containment mechanisms. First, the Commission's minimum monthly bill requirements -- \$12 for non-heating electric customers, \$30 for electric heating customers, and \$25 for gas heating customers – will be applied to customer bills. Second, PECO will continue its current Commission-approved practice of limiting the cost of its overall program by applying the maximum credit allowed by 52 Pa. Code §69.265(3)(i) on a system-

wide average basis. Third, the FCO provides a maximum annual credit amount that each customer may receive.

15. Transitional Benefits: As noted above in paragraph 13, the FCO causes a redeployment of benefits from higher income tiers to lower income tiers. As a consequence, PECO estimates that approximately 40,000 households that currently receive CAP discounts under PECO's existing tiered CAP program will not receive a credit under the FCO program. To ease this transition, the Term Sheet provides for a one year transitional payment of \$50 per household so affected.
16. Implementation Date: The Term Sheet provides for an October 2016 implementation date for the FCO. This date reflects PECO's best estimate of the amount of time necessary to complete IT transition work to implement the FCO. Adopting a schedule that allows PECO the necessary time to do the IT transition work is a material term of the Term Sheet.
17. Change of Date for Next Six-Year Evaluation: PECO is currently required to file its next CAP program evaluation, known as a "six-year evaluation," on October 1, 2018. In order to allow collection of two years' of operational data on the FCO program prior to filing the next evaluation, the Term Sheet provides, and PECO requests, that its next six-year evaluation filing date be rescheduled from October 1, 2018 to June 30, 2019.
18. Cost Recovery: The Term Sheet provides for two elements of FCO cost recovery. First, PECO will continue to collect the value of benefits given through its CAP program, known as the CAP "shortfall," through its base rates and its Universal Services Fund Surcharge. Second, in its pending electric base rate case at Docket No. R-2015-2468981, PECO has included its IT transition costs in its rate base capital spend. Recovery of those costs is a material element of the Term Sheet, and PECO

avers that it is in the public interest to allow it to recover its FCO program costs through these normal cost recovery mechanisms.

#### **B. Arrearage Forgiveness**

19. Status of Filing 2/3 Forgiveness Program: The Term Sheet requires PECO to propose, in a separate base rate case or other proceeding, a form of arrearage forgiveness outlined in the Term Sheet that could result in a customer obtaining forgiveness for 2/3 of accumulated in-program arrearages. PECO proposed the agreed-upon arrearage forgiveness program in its pending electric base rate proceeding at Docket No. R-2015-2468981. PECO will abide by the Commission's resolution of the proposed arrearage forgiveness program in that docket, and is not seeking any additional review of the 2/3 forgiveness program in this docket.
  
20. Alternative Method of Addressing Arrears: The Term Sheet provides that, if the Commission does not approve the 2/3 forgiveness program that is currently under evaluation in PECO's pending electric base rate proceeding, then PECO will instead place all in-program arrearages on a 60-month payment agreement when the FCO program starts in October 2016. If the 2/3 forgiveness program is not approved, PECO believes that 60-month payment arrangements will be in the public interest as an alternative method of addressing the arrearages that will have accumulated prior to implementing the more affordable terms of the FCO. PECO therefore requests that, in this docket, the Commission conditionally approve the use of 60-month payment agreements, as described in the Term Sheet, as an alternative to be used if the 2/3 forgiveness program is not approved in PECO's pending electric base rate proceeding.

### C. Usage Reduction

21. LIURP Funding Increase: Low-income customers, as a group, tend to live in lower-quality housing stock. These customers also tend to have limited funds to devote to improving weatherization or other usage reduction measures. The Commission has recognized these facts by creating and approving Low-Income Usage Reduction Programs, also known as “LIURP.” As noted above in paragraph 11, the Term Sheet FCO will not attain affordability in the full CAP population. PECO has agreed to spend an additional \$1 million per year of LIURP funds, for three years beginning in 2017, to identify and reduce usage in those low-income homes that cannot obtain affordability through FCO credits alone. These costs will be recovered through PECO’s USFC.
  
22. De Facto Heating Program: Low-income customers often lose their ability to heat their homes using existing gas, oil, propane, or other-fueled facilities. This can occur because the furnace or heater breaks, or because service (or fuel delivery) is terminated for non-payment. These customers often use electric space heaters as their primary source of heating, a practice known as “de facto heating.” This is not an efficient method of heating a home, and the practice can drive electric utility bills quite high and outside of affordability. PECO has agreed to spend \$700,000 a year for three years, beginning in 2017, to address specified de facto heating situations in its CAP population. These costs will be recovered through PECO’s USFC.
  
23. Act 129 Advocacy: PECO agreed with the other Joint Petitioners to jointly advocate for permission for PECO to use \$1 million of its Act 129 funds annually for its low-income customers. This advocacy will occur in other dockets. If the Commission ultimately accepts that position, the Act 129 funds will assist in driving usage reduction in the low-income population.

24. Usage Reduction in the Public Interest: Each of the programs described above will have the program goal of reducing overall energy usage in the residences treated under each program. This usage reduction will decrease the overall costs of providing service to these customers and thus assist in providing affordable service in a cost-efficient manner.
25. Collaborative: The Term Sheet provides that the stakeholders will continue to work together to develop program details for these and other specified programs.

### III. Public Interest Considerations

26. Affordability: As noted in the Background section of this Statement in Support, the Commission has previously indicated that it considers the issuance of affordable bills to CAP customers to be an important public policy goal. The Term Sheet makes material improvements towards affordability and thus is in the public interest.
27. Cost: Conversely, control of program costs is a well-established Commission public interest goal. The Term Sheet improves affordability while simultaneously imposing controls on overall program costs that, on a pro forma basis, maintain or improve upon the current program.
28. Cost recovery: The Commission also has a long-established public benefit practice of allowing utilities to recover their costs for their low-income programs. The Term Sheet describes the recovery mechanism for each program cost and allows PECO a full and fair opportunity to recover those costs.

29. Ongoing working relationship: The Term Sheet provides that the Joint Petitioners will collaborate to develop certain program details. PECO and the other Joint Petitioners have a long history of successful collaborative work. Use of a collaborative process to further develop the defined implementation terms is in the public interest because it will bring the views of the various stakeholders to the final program.
30. Post-implementation Commission review: The Term Sheet provides a specific mechanism and time frame to provide the Commission with a detailed, data-driven, review of FCO program operations, so that the Commission and the stakeholders will have the opportunity to determine whether further program refinements should be adopted.
31. Avoided Litigation: The Term Sheet meets the Commission's long-stated preference to have key stakeholders reach jointly-agreeable settlements, rather than using the time and resources of the Commission and the stakeholders to litigate.

**CONCLUSION**

PECO respectfully requests that the Commission approve the Joint Petition, including all terms and conditions set forth in the Term Sheet, as in the public interest and then terminate and mark closed the proceedings at Docket No. M-2012-2290911.

Respectfully submitted<



Ward L. Smith, Esq.  
Counsel for PECO Energy Company  
2301 Market Street  
Philadelphia, PA 119103  
[ward.smith@exeloncorp.com](mailto:ward.smith@exeloncorp.com)  
215-841-6863

April 30, 2015

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

<b>PECO Energy Company</b>	:	
<b>Universal Service and Energy</b>	:	<b>Docket No. M-2012-2290911</b>
<b>Conservation Plan for 2013-2015</b>	:	
	:	

**CERTIFICATE OF SERVICE**

I, Ward Smith, hereby certify and affirm that I have this day served a copy of PECO'S Statement of Support in the above matter, in both PDF and Word-compatible format, to the individuals listed in the attached Service List.

**VIA E-FILING**

Rosemary Chiavetta, Secretary  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street, 2<sup>nd</sup> Floor  
Harrisburg, PA 17120

**VIA E-MAIL**

Harry S. Geller, Executive Director  
Elixabeth Marx, Esq.  
Pennsylvania Utility Law Project  
118 Locust Street  
Harrisburg, PA 17101  
[pulp@palegalaid.net](mailto:pulp@palegalaid.net)

*Representing CAUSE PA*

Christy M. Appleby, Esq.  
Amy Hirakis, Esq.  
Candis A. Tunilo, Esq.  
Office of Consumer Advocate  
5<sup>th</sup> Floor, Forum Place  
555 Walnut Street  
Harrisburg, PA 17101-1923  
[cappleby@paoca.org](mailto:cappleby@paoca.org)  
[ahirakis@paoca.org](mailto:ahirakis@paoca.org)  
[ctunilo@paoca.org](mailto:ctunilo@paoca.org)

Robert W. Ballenger, Esq.  
Josie Pickens, Esq.  
Thu B. Tran, Esq.  
Community Legal Services, Inc.  
1424 Chestnut Street  
Philadelphia, PA 19102  
[rballenger@clsphila.org](mailto:rballenger@clsphila.org)  
[jpickens@clsphila.org](mailto:jpickens@clsphila.org)  
[ttran@clsphila.org](mailto:ttran@clsphila.org)

*Representing Turn, et al.*

Commission Personnel

Administrative Law Judge Cynthia Fordham,  
Presiding Officer  
Pa. Public Utility Commission  
801 Market Street, Suite 4063  
Philadelphia, PA 19107

[cfordham@pa.gov](mailto:cfordham@pa.gov)

Kim Hafner  
Office of Administrative Law Judge  
Pa. Public Utility Commission  
400 North Street, 2<sup>nd</sup> Fl. – West  
Commonwealth Keystone Building  
Harrisburg, PA 17120

[khafner@pa.gov](mailto:khafner@pa.gov)

Daniel Clearfield, Esq.  
Eckert Seamans Cherin & Mellot LLC  
213 Market Street, 8<sup>th</sup> Floor  
Harrisburg, PA 17101  
[declearfield@eckertseamans.com](mailto:declearfield@eckertseamans.com)

*Representing RESA*

Cynthia Lehman, Office of Mediation  
Pa Public Utility Commission  
400 North Street, 2<sup>nd</sup> Fl – West  
Commonwealth Keystone Building  
Harrisburg, PA 17120

[cylehman@pa.gov](mailto:cylehman@pa.gov)

Grace McGovern  
Joseph McGee  
Bureau of Consumer Services  
Pa. Public Utility Commission  
400 North Street, 2<sup>nd</sup> Fl. – G-M East  
Commonwealth Keystone Building  
Harrisburg, PA 17120

[gmcgovern@pa.gov](mailto:gmcgovern@pa.gov)

[jmcgee@pa.gov](mailto:jmcgee@pa.gov)

Louise Fink Smith  
Law Bureau Pa. Public Utility Commission  
400 North Street, 3<sup>rd</sup> Fl – North  
Commonwealth Keystone Building  
Harrisburg, PA 17120

[lsmith@pa.gov](mailto:lsmith@pa.gov)

Date: April 30, 2015



---

Ward L. Smith, Esq. (Pa. I.D. 47670)  
Counsel for PECO Energy Company  
2301 Market Street  
P.O. Box 8699  
Philadelphia, PA 19101-8699  
Phone: 215.841.6863  
Fax: 215.563.3389  
E-mail: [ward.smith@exeloncorp.com](mailto:ward.smith@exeloncorp.com)