

APPENDIX A

# DOCUMENT

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**BOOKS**

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## COLTON TESTIMONY EXPERIENCE

1988 - PRESENT

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS	DATE
I/M/O Citizens Gas & Coke/Vectren	Witness	Citizens Action Coalition of Indiana	Universal service	Indiana	04
I/M/O PPL Electric Corporation	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	04
I/M/O Consumers New Jersey Water Company	Witness	Division of Ratepayer Advocate	Low-income water rate	New Jersey	04
I/M/O Washington Gas Light Company	Witness	Office of Peoples Counsel	Low-income gas rate	Maryland	04
I/M/O Washington Gas Light Company	Witness	Office of Peoples Counsel	Low-income gas rate	Maryland	03
Golden v. City of Columbus	Witness	Helen Golden	EOCA disparate impacts	Ohio	02
Huegel v. City of Easton	Witness	Phyllis Huegel	Credit and collection	Pennsylvania	02
I/M/O Universal Service Fund	Witness	Public Utility Commission staff	Universal service funding	New Hampshire	02
I/M/O Philadelphia Gas Works	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	02
I/M/O Washington Gas Light Company	Witness	Office of Peoples Counsel	Rate design	Maryland	02
I/M/O Consumers Illinois Water Company	Witness	Illinois Citizens Utility Board	Credit and collection	Illinois	02
I/M/O Public Service Electric & Gas Rates	Witness	Division of Ratepayer Advocate	Universal service	New Jersey	01
I/M/O Pennsylvania-American Water Company	Witness	Office of Consumer Advocate	Low-income rates and water conservation	Pennsylvania	01
I/M/O Louisville Gas & Electric Prepayment Meters	Witness	Kentucky Community Action Association	Low-income energy	Kentucky	01
I/M/O NICOR Budget Billing Plan Interest Charge	Witness	Cook County State's Attorney	Rate Design	Illinois	01
I/M/O Rules Re. Payment Plans for High Natural Gas Prices	Witness	Cook County State's Attorney	Budget Billing Plans	Illinois	01
I/M/O Philadelphia Water Department	Witness	Office of Public Advocate	Credit and collections	Philadelphia	01
I/M/O Missouri Gas Energy	Witness	Office of Peoples Counsel	Low-income rate relief	Missouri	01
I/M/O Bell Atlantic--New Jersey Alternative Regulation	Witness	Division of Ratepayer Advocate	Telecommunications universal service	New Jersey	01
I/M/O T.W. Phillips Gas and Oil Co.	Witness	Office of Consumer Advocate	Ratemaking of universal service costs.	Pennsylvania	00
I/M/O Peoples Natural Gas Company	Witness	Office of Consumer Advocate	Ratemaking of universal service costs.	Pennsylvania	00

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
I/M/O UGI Gas Company	Witness	Office of Consumer Advocate	Ratemaking of universal service costs.	Pennsylvania	00
I/M/O PFG Gas Company	Witness	Office of Consumer Advocate	Ratemaking of universal service costs.	Pennsylvania	00
Armstrong v. Gallia Metropolitan Housing Authority	Witness	Equal Justice Foundation	Public housing utility allowances	Ohio	00
I/M/O Bell Atlantic—New Jersey Alternative Regulation	Witness	Division of Ratepayer Advocate	Telecommunications universal service	New Jersey	00
I/M/O Universal Service Fund for Gas and Electric Utilities	Witness	Division of Ratepayer Advocate	Design and funding of low-income programs	New Jersey	00
I/M/O Consolidated Edison Merger with Northeast Utilities	Witness	Save Our Homes Organization	Merger impacts on low-income	New Hampshire	00
I/M/O UtiliCorp Merger with St. Joseph Light & Power	Witness	Missouri Dept. of Natural Resources	Merger impacts on low-income	Missouri	00
I/M/O UtiliCorp Merger with Empire District Electric	Witness	Missouri Dept. of Natural Resources	Merger impacts on low-income	Missouri	00
I/M/O PacifiCorp	Witness	The Opportunity Council	Low-income energy affordability	Washington	00
I/M/O Public Service Co. of Colorado	Witness	Colorado Energy Assistance Foundation	Natural gas rate design	Colorado	00
I/M/O Avista Energy Corp.	Witness	Spokane Neighborhood Action Program	Low-income energy affordability	Washington	00
I/M/O TW Phillips Energy Co.	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O PECO Energy Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O National Fuel Gas Distribution Corp.	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O PFG Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
I/M/O UGI Energy Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	00
Re. PSCO/NSP Merger	Witness	Colorado Energy Assistance Foundation	Merger impacts on low-income	Colorado	99 - 00
I/M/O Peoples Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99
I/M/O Columbia Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99
I/M/O PG Energy Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99
I/M/O Equitable Gas Company	Witness	Office of Consumer Advocate	Universal service	Pennsylvania	99
Alleruzzo v. Klarchek	Witness	Barlow Alleruzzo	Mobile home fees and sales	Illinois	99
I/M/O Restructuring New Jersey's Natural Gas Industry	Witness	Division of Ratepayer Advocate	Universal service	Pennsylvania	99
I/M/O Bell Atlantic Local Competition	Witness	Public Utility Law Project	Lifeline telecommunications rates	New Jersey	99
I/M/O Merger Application for SBC and Ameritech Ohio	Witness	Edgemont Neighborhood Association	Merger impacts on low-income consumers	Ohio	98 - 99

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
Davis v. American General Finnce	Witness	Thomas Davis	Damages in "loan flipping" case	Ohio	98 - 99
Griffin v. Associates Financial Service Corp.	Witness	Earlie Griffin	Damages in "loan flipping" case	Ohio	98 - 99
I/M/O Baltimore Gas and Electric Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99
I/M/O Delmarva Power and Light Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99
I/M/O Potomac Electric Power Co. Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99
I/M/O Potomac Edison Restructuring Plan	Witness	Maryland Office of Peoples Counsel	Consumer protection/basic generation service	Maryland	98 - 99
VMIOA v. LaPierre	Witness	Vermont Mobile Home Owners Association	Mobile home tying	Vermont	98
Re. Restructuring Plan of Virginia Electric Power	Witness	VMH Energy Services, Inc.	Consumer protection/basic generation service	Virginia	98
Mackey v. Spring Lake Mobile Home Estates	Witness	Timothy Mackey	Mobile home fees	State ct: Illinois	98
Re. Restructuring Plan of Atlantic City Electric	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Re. Restructuring Plan of Jersey Central Power & Light	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Re. Restructuring Plan of Public Service Electric & Gas	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Re. Restructuring Plan of Rockland Electric	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97-98
Appleby v. Metropolitan Dade County Housing Agency	Witness	Legal Services of Greater Miami	HUD utility allowances	Fed. court; So. Florida	97 - 98
Re. Restructuring Plan of PECO Energy Company	Witness	Energy Coordinating Agency of Philadelphia	Universal service	Pennsylvania	97
Re. Atlantic City Electric Merger	Witness	New Jersey Division of Ratepayer Advocate	Low-income issues	New Jersey	97
Re. IES Industries Merger	Witness	Iowa Community Action Association	Low-income issues	Iowa	97
Re. New Hampshire Electric Restructuring	Witness	NH Comm. Action Ass'n	Wires charge	New Hampshire	97
Re. Natural Gas Competition in Wisconsin	Witness	Wisconsin Community Action Association	Universal service	Wisconsin	96
Re. Baltimore Gas and Electric Merger	Witness	Maryland Office of Peoples Counsel	Low-income issues	Maryland	96
Re. Northern States Power Merger	Witness	Energy Cents Coalition	Low-income issues	Minnesota	96
Re. Public Service Co. of Colorado Merger	Witness	Colorado Energy Assistance Foundation	Low-income issues	Colomdo	96
Re. Massachusetts Restructuring Regulations	Witness	Fisher, Sheehan & Colton	Low-income issues/energy efficiency	Massachusetts	96
Re. FERC Merger Guidelines	Witness	National Coalition of Low-Income Groups	Low-income interests in mergers	Washington D.C.	96
Re. Joseph Keliikuli III	Witness	Joseph Keliikuli III	Damages from lack of homestead	Honolulu	96

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
Re. Theresa Mahaulu	Witness	Theresa Mahaulu	Damages from lack of homestead	Honolulu	95
Re. Joseph Ching, Sr.	Witness	Re. Joseph Ching, Sr.	Damages from lack of homestead	Honolulu	95
Joseph Keaulana, Jr.	Witness	Joseph Keaulana, Jr.	Damages from lack of homestead	Honolulu	95
Re. Utility Allowances for Section 8 Housing	Witness	National Coalition of Low-Income Groups	Fair Market Rent Setting	Washington D.C.	95
Re. PGW Customer Service Tariff Revisions	Witness	Philadelphia Public Advocate	Credit and collection	Philadelphia	95
Re. Customer Responsibility Program	Witness	Philadelphia Public Advocate	Low-income rates	Philadelphia	95
Re. Houston Lighting and Power Co.	Witness	Gulf Coast Legal Services	Low-income Rates	Texas	95
Re. Request for Modification of Winter Moratorium	Witness	Philadelphia Public Advocate	Credit and collection	Philadelphia	95
Re. Dept of Hawaii Homelands Trust Homestead Production	Witness	Native Hawaiian Legal Corporation	Prudence of trust management	Honolulu	94
Re. SNET Request for Modified Shutoff Procedures	Witness	Office of Consumer Counsel	Credit and collection	Connecticut	94
Re. Central Light and Power Co.	Witness	United Farm Workers	Low-income rates/DSM	Texas	94
Blackwell v. Philadelphia Electric Co.	Witness	Gloria Blackwell	Role of shutoff regulations	Penn. courts	94
U.S. West Request for Waiver of Rules	Witness	Wash. Util. & Transp. Comm'n Staff	Telecommunications regulation	Washington	94
Re. U.S. West Request for Full Toll Denial	Witness	Colorado Office of Consumer Counsel	Telecommunications regulation	Colorado	94
Washington Gas Light Company	Witness	Community Family Life Services	Low-income rates & energy efficiency	Washington D.C.	94
Clark v. Peterborough Electric Utility	Witness	Peterborough Community Legal Centre	Discrimination of tenant deposits	Ontario, Canada	94
Dorsey v. Housing Auth. of Baltimore	Witness	Baltimore Legal Aide	Public housing utility allowances	Federal district court	93
Penn Bell Telephone Co.	Witness	Penn. Utility Law Project	Low-income phone rates	Pennsylvania	93
Philadelphia Gas Works	Witness	Philadelphia Public Advocate	Low-income rates	Philadelphia	93
Central Maine Power Co.	Witness	Maine Assn Ind. Neighborhoods	Low-income rates	Maine	92
New England Telephone Company	Witness	Mass Attorney General	Low-income phone rates	Massachusetts	92
Philadelphia Gas Co.	Witness	Philadelphia Public Advocate	Low-income DSM	Philadelphia	92
Philadelphia Water Dept.	Witness	Philadelphia Public Advocate	Low-income rates	Philadelphia	92
Public Service Co. of Colorado	Witness	Land and Water Fund	Low-income DSM	Colorado	92
Sierra Pacific Power Co.	Witness	Washoe Legal Services	Low-income DSM	Nevada	92

CASE NAME	ROLE	CLIENT NAME	TOPIC	JURIS.	DATE
Consumers Power Co.	Witness	Michigan Legal Services	Low-income rates	Michigan	92
Columbia Gas	Witness	Penn. State Office of Consumer Advocate (OCA)	Energy Assurance Program	Pennsylvania	91
Mass. Elec. Co.	Witness	Mass Elec Co.	Percentage of Income Plan	Massachusetts	91
AT&T	Witness	TURN	Inter-LATA competition	California	91
Generic Investigation into Uncollectibles	Witness	Penn OCA	Controlling uncollectibles	Pennsylvania	91
Union Heat Light & Power	Witness	Kentucky Legal Services (KLS)	Energy Assurance Program	Kentucky	90
Philadelphia Water	Witness	Philadelphia Public Advocate (PPA)	Controlling accounts receivable	Philadelphia	90
Philadelphia Gas Works	Witness	PPA	Controlling accounts receivable	Philadelphia	90
Mississippi Power Co.	Witness	Southeast Mississippi Legal Services Corp.	Formula ratemaking	Mississippi	90
Kentucky Power & Light	Witness	KLS	Energy Assurance Program	Kentucky	90
Philadelphia Electric Co.	Witness	PPA	Low-income rate program	Philadelphia	90
Montana Power Co.	Witness	Montana Ass'n of Human Res. Council Directors	Low-income rate proposals	Montana	90
Columbia Gas Co.	Witness	Penn. OCA	Energy Assurance Program	Pennsylvania	90
Philadelphia Gas Works	Witness	PPA	Energy Assurance Program	Philadelphia	89
Southwestern Bell Telephone Co.	Witness	SEMLSC	Formula ratemaking	Mississippi	90
Generic Investigation into Low-income Programs	Witness	Vermont State Department of Public Service	Low-income rate proposals	Vermont	89
Generic Investigation into Dmnd Side Management Measures	Consultant	Vermont DPS	Low-income conservation programs	Vermont	89
National Fuel Gas	Witness	Penn OCA	Low-income fuel funds	Pennsylvania	89
Montana Power Co.	Witness	Human Resource Develop. Council District XI	Low-income conservation	Montana	88
Washington Water Power Co.	Witness	Idaho Legal Service Corp.	Rate base, rate design, cost-allocations	Idaho	88

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Pennsylvania Public Utility Commission :  
v. :  
PPL Electric Utilities Corporation : Docket No. R-00049255

:  
: **DOCUMENT**

SURREBUTTAL TESTIMONY AND EXHIBITS OF  
ROGER D. COLTON

ON UNIVERSAL SERVICE ISSUES

**DOCKETED**  
AUG 18 2004

OCA Statement No. 5-S

*SM*  
*8-11-04*  
*HBY*

*ON BEHALF OF THE*  
Office of Consumer Advocate (OCA)

Harrisburg, Pennsylvania

PA PUC  
SECRETARY'S BUREAU

2004 AUG 16 AM 9:34

RECEIVED

August 5, 2004

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. My name is Roger Colton. My address is 34 Warwick Road, Belmont, MA 02478.

3

4 **Q. ARE YOU THE SAME ROGER COLTON WHO HAS PREVIOUSLY**  
5 **TESTIFIED ON BEHALF OF THE OFFICE OF CONSUMER ADVOCATE IN**  
6 **THIS PROCEEDING?**

7 A. Yes.

8

9 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

10 A. *My surrebuttal testimony will respond to the testimony of Company witness Timothy Dahl*  
11 *regarding universal service issues. More specifically, I will respond to Mr. Dahl's testimony*  
12 *regarding mandatory budget billing, increased outreach for OnTrack, the Earned Income*  
13 *Tax Credit (EITC), universal service cost recovery, and the Company's Operation HELP*  
14 *program. In addition, my surrebuttal testimony will respond to the rebuttal testimony of*  
15 *OSBA witnesses Robert Knecht and Mark Ewen, as well as to the testimony of Stephen*  
16 *Baron on behalf of the PP&L Industrial Customer Alliance, each of which addresses the*  
17 *allocation of universal service charges.*

18

19 **Part 1. Response to Company Witness Timothy Dahl.**

20 **A. The PPL OnTrack Customer Assistance Program (CAP).**

21 **Q. WHY DOES MR. DAHL OPPOSE YOUR PROPOSAL TO IMPOSE BUDGET**  
22 **BILLING PLANS ON IDENTIFIED LOW-INCOME CUSTOMERS IN ARREARS**  
23 **WITHOUT PAYMENT PLANS?**

1 A. Mr. Dahl testifies that PPL does not support the mandatory budget billing proposal because:

- 2           ➤ It would anger many customers;
- 3           ➤ It would increase the Company's call volume and thus call center costs;
- 4           ➤ It would increase complaints to the Commission, which would further increase
- 5           costs;
- 6           ➤ It would adversely affect customer satisfaction;
- 7           ➤ It would not be necessary for all customers, because they may pay their overdue
- 8           balances (e.g., LIHEAP grants);
- 9           ➤ It would not necessarily guarantee that customers would make their payments.

10

11 **Q. PLEASE ADDRESS MR. DAHL'S STATEMENTS ABOUT ANGERING**  
12 **CUSTOMERS AND DECREASING CUSTOMER SATISFACTION.**

13 A. My proposal is to take all identified low-income customers in arrears and not on payment  
14 plans and, at a specified time in May, place those customers on budget billing. In this way,  
15 the Company would obtain substantial prepayments toward future bills for current usage in  
16 addition to receiving payments toward arrears. While it may be true that such a process may  
17 "adversely affect customer satisfaction" relative to the status quo, it is important to  
18 remember that the status quo is that these customers are not paying current bills and are, on  
19 average, \$528 in arrears. Indeed, each of these customers is at least 90 days in arrears since,  
20 as the Bureau of Consumer Services (BCS) indicates, PPL does not report customers that  
21 are only 60-days behind in its numbers of customers in arrears. If customers are either  
22 "angry" about the mandatory budget billing process, or have their "customer satisfaction"

1 “adversely affected,” they can call the Company and arrange an alternative payment plan  
2 consistent with BCS guidelines.

3  
4 To say, however, that the Company should continue to accept more than 31,000 identified  
5 low-income customers, in arrears by an average of \$528 per customer but not on payment  
6 plans, because a Company collection initiative might make those customers “angry” or “less  
7 satisfied” is not a reason to reject my proposal.

8  
9 **Q. PLEASE RESPOND TO MR. DAHL’S TESTIMONY THAT THESE CUSTOMERS**  
10 **“MAY PAY THEIR OVERDUE BALANCES.”**

11 A. My proposal is to place identified low-income customers in arrears in May on mandatory  
12 budget billing. At this point in the year, basic LIHEAP is no longer available to help pay  
13 low-income bills. The LIHEAP program is closed by that time of year. In addition, the  
14 Company’s own universal service data reports that it received LIHEAP Crisis funds for  
15 only 845 customers in 2003. Even these customers received an average Crisis grant of  
16 only \$384, a *total* of \$324,209 in Crisis grants in 2003. This funding is not sufficient to  
17 address the 31,171 identified low-income customers in arrears but not on payment plans,  
18 who owe an average of \$16.5 million in arrears per month. Moreover, the LIHEAP  
19 funding is a set amount. LIHEAP Crisis funding does not increase merely because the  
20 number of applicants increases. If the number of applicants for Crisis funding doubled,  
21 in other words, each Crisis grant would need to be cut in half in order for the LIHEAP  
22 Crisis program to stay within the budget represented by its federal appropriation.

23

1 **Q. PLEASE RESPOND TO MR. DAHL'S TESTIMONY THAT MANDATORY**  
2 **BUDGET BILLING FOR CUSTOMERS IN ARREARS BUT NOT ON PAYMENT**  
3 **PLANS WOULD NOT NECESSARILY GUARANTEE THAT CUSTOMERS**  
4 **WOULD MAKE PAYMENTS.**

5 A. The customers I propose that PPL put on mandatory budget billing are those that are not  
6 making payments today. They are customers in arrears who have not contacted the  
7 Company to negotiate a payment plan for those arrears. Moreover, the data shows that the  
8 average arrears for these customers has been steadily increasing in recent years. While in  
9 2001, these customers were \$318 in arrears, by 2003, they were \$528 in arrears. While in  
10 2001, these customers were 3.2 bills behind, by 2003, they were 5.6 bills behind. Mr.  
11 Dahl's testimony that these customers "may" make their payments is not supported by the  
12 Company's own data.

13  
14 Mandatory budget billing would help reduce those arrears. In 2003, I completed research  
15 that looked at low-income customer payment patterns in Iowa over a 46 month period. I  
16 found that the number of payments per month (and thus per year) stayed relatively constant,  
17 even when bill sizes varied. What mandatory budget billing will do, therefore, is to increase  
18 the dollars per each bill payment during the non-heating months, thus reducing arrears in  
19 both the short- and long-term. My Iowa research found further that one driver of low-  
20 income arrears was high winter heating bills. PPL has reported that, even though it is an  
21 electric company, because of the high penetration of electric heating in its service territory,  
22 the Company's customers have high winter heating bills. The mandatory budget billing  
23 program for customers in arrears but not on payment plans would thus not only help retire

1           *existing* arrears, but would help prevent *future* arrears as well. While the proposal would  
2           not “guarantee” that customers make payments, it will increase payments, decrease  
3           current arrears, and help prevent future arrears.

4  
5   **Q.   PLEASE RESPOND TO MR. DAHL’S ASSERTION THAT THE PROGRAM**  
6           **WOULD INCREASE THE COMPANY’S CALL VOLUME AND THUS THE**  
7           **COMPANY’S CALL CENTER COSTS.**

8   A.   Mr. Dahl presents no data to show why this proposal would increase the Company’s call  
9           volume. Let me assume, however, that 50% of the low-income customers in arrears but  
10          not on payment plans would contact the Company over three months in response to the  
11          mandatory budget billing program. That would mean that the Company receives an  
12          additional 5,200 calls each month because of the program. The Company, however,  
13          receives 2.58 million residential calls each year through its call center, an average of  
14          215,000 residential calls each month. (OCA-12-6). The Company’s call center makes an  
15          additional 1.4 million outbound phone calls each year, an average of 123,00 each month.  
16          (OCA-12-7). The added number of calls would thus represent only a 1.5% increase in  
17          total call volume. This easily falls within the normal variation in call center volume of  
18          in-bound and out-bound phone calls. Moreover, this assumes that these customers would  
19          *have made zero calls in the absence of the mandatory budget billing program (e.g., in*  
20          *response to disconnect notices).*

21  
22          Moreover, the costs of increased calls would be minimal. A reasonable cost per call by  
23          PPL is \$5. With 15,600 calls, and assuming that none of these calls would have been

1 made in the absence of the budget billing program, there would be an additional cost of  
2 \$78,000. Assuming that customers contacting the Company succeed in completing their  
3 payment plans at the same rate as other Company payment plans (13.5%), this \$78,000 in  
4 increased call center costs would generate a reduction in outstanding arrears of \$1.1  
5 million in completed payment plans. Additional payment plans, even if only partially  
6 successful, would reduce the arrears further. Moreover, the reduction in arrears that is  
7 generated without a customer calling to enter into a payment plan will reduce the arrears  
8 even further. The \$78,000 investment will more than pay itself back in reduced arrears.

9  
10 Despite the observations immediately above, I do not agree that the cost of \$78,000  
11 would even be an increase in the cost of service to ratepayers. Schedule RDC-1S  
12 presents the number of employee hours for PPL Electric's call center. (OCA-XII-3). As  
13 can be seen, May call center volumes fall in the mid-range of monthly call center  
14 volumes, while June and July call center volumes are amongst the lowest monthly  
15 volumes of the year. Adding call center volume, even if completely incremental, will not  
16 add costs to the Company.

17  
18 Moreover, there would be expense savings to offset the call center costs. If PPL succeeds  
19 in motivating these customers to call, make payments, and make payment plans, the  
20 Company's other collection costs, as well as its working capital, will decrease. In short,  
21 an undocumented assertion that costs associated with call volume will increase is  
22 unfounded.

23

1 Finally, any argument that the Company is better off by having its low-income customers  
2 that are in arrears but not on payment plans *not call*, whether to make payment plans or to  
3 arrange payments, should be rejected. I cannot imagine that the Company believes it is  
4 better off by having 31,171 low-income customers owing an average of \$16.5 million in  
5 arrears making *no contact* with the Company because the cost of handling the incoming  
6 call is too high.

7  
8 **Q. DO YOU PROPOSE TO EXPAND OUTREACH FOR THE ON-TRACK**  
9 **PROGRAM?**

10 A. Yes. As I indicate in my Direct Testimony, I propose that non-compliance with the  
11 mandatory budget-billing program be defined as a broken payment plan for purposes of  
12 OnTrack eligibility. Customers defaulting on these mandatory budget billing plans would  
13 be eligible for OnTrack.

14  
15 **Q. PLEASE RESPOND TO MR. DAHL'S COMMENT THAT COMMISSION**  
16 **GUIDELINES ALREADY ENCOURAGE UTILITIES TO ESTABLISH BUDGET**  
17 **BILLING PAYMENT PLANS FOR LOW-INCOME CUSTOMERS THAT**  
18 **INCLUDE A PORTION OF THEIR ARREARS.**

19 A. Mr. Dahl's comment may be true, but only for that proportion of low-income customers in  
20 arrears that call to establish payment plans. It does *not* address, however, as my proposal  
21 does, the 64% of low-income customers in arrears, owing an average of \$528 per customer,  
22 who do *not* call to negotiate payment plans.

23

1 **Q. IS MR. DAHL'S TESTIMONY ACCURATE WHEN HE STATES THAT YOU**  
2 **RECOMMEND ELIMINATION OF THE REQUIREMENT OF A \$150 OVERDUE**  
3 **BALANCE AS A PROGRAM REQUIREMENT**

4 A. No. I made no such recommendation.

5

6 **Q. WHAT DO YOU CONCLUDE?**

7 A. What I conclude in my Direct Testimony, as did the Bureau of Consumer Services (BCS)  
8 and the Company's own program evaluators, is that the Company does an inadequate job of  
9 outreach for OnTrack. In response, I recommend the mandatory budget billing program for  
10 low-income customers in arrears but not on payment plans. Through that mandatory budget  
11 billing program for those specific customers, the Company will generate the dual benefits of  
12 helping low-income customers address their existing arrears while at the same time helping  
13 those customers prevent the expansion of their arrears. In addition to these two benefits, the  
14 mandatory budget billing program for low-income customers in arrears, but not on payment  
15 plans, will help address the outreach shortcoming identified by myself, by BCS, and by the  
16 Company's own program evaluators, by making OnTrack available to a larger population of  
17 low-income customers meeting the \$150 arrears limitation imposed by the Company.

18

19 **Q. DO YOU SHARE MR. DAHL'S CONCERN THAT EXPANDING OUTREACH**  
20 **FOR THE ON-TRACK PROGRAM MIGHT MAKE THE PROGRAM "TOO**  
21 **EXPENSIVE"?**

22 A. Yes, to the extent that the cost consequences of program design are *always* a legitimate  
23 concern. While I agree that universal service programs cannot impose unreasonable costs

1 on remaining ratepayers, I do not agree that the proposals included in my testimony raise the  
2 risk that unreasonable costs will be incurred.

3  
4 **Q. DO YOU AGREE WITH MR. DALH'S STATED BELIEF THAT INCREASING**  
5 **ENROLLMENT IN PPL'S ON-TRACK PROGRAM WOULD "CREATE SERIOUS**  
6 **CONCERNS REGARDING THE ANNUAL FUNDING LEVEL"?**

7 A. No. not within the context of my testimony and program proposals. Indeed, while the  
8 mandatory budget billing aspect of my proposal may increase the number of low-income  
9 customers eligible to participate in OnTrack, the EITC outreach aspect of my proposal is  
10 explicitly designed to help low-income payment troubled customers address their PPL  
11 arrears without a need to participate in OnTrack. It is important to remember that I  
12 recommended that the Company pursue an EITC outreach program. As I indicated in my  
13 Direct Testimony: "By using these additional resources to help low-income customers  
14 resolve their arrears, the Company can help these customers avoid the need to enroll in a  
15 program such as OnTrack." I indicate, which Mr. Dahl does not dispute, that nearly 6,400  
16 of the Company's OnTrack participants, and nearly 1,300 of the Company's hardship  
17 fund recipients, would have been eligible to receive the EITC. As is thus evident, at the  
18 same time I recommend the mandatory budget billing, which may make more customers  
19 eligible for the OnTrack program, I am recommending alternatives that will help other  
20 customers avoid the need to enroll in OnTrack.

21  
22 As I indicated in my Direct Testimony, "In essence, by helping the customer access the  
23 EITC, the Company gets paid, OnTrack can serve other low-income customers not

1 receiving earned income, and the low-income household walks away with more money in  
2 its pocket than it would have had that customer simply enrolled in OnTrack.” (emphasis  
3 added). I do not agree with Mr. Dahl’s assertion that my proposals, taken as a whole,  
4 would even expand enrollment in the Company’s OnTrack program.

5  
6 **Q. HAS THE COMPANY AGREED TO IMPLEMENT AN EITC OUTREACH**  
7 **PROGRAM AS YOU PROPOSED?**

8 A. Mr. Dahl testified that the Company would agree to implement a *pilot* EITC outreach  
9 program along the lines of what I proposed on behalf of the OCA. Given that agreement to a  
10 pilot program, I will not address the points at which I believe that the “concerns and  
11 challenges” identified by Mr. Dahl relative to EITC outreach are not well-founded. I would  
12 note simply that each of Mr. Dahl’s concerns have been addressed by *specific program*  
13 components that I included in my Direct Testimony. I would ask the Commission to direct  
14 the development of a process, however, which would allow for an expansion of the EITC  
15 outreach program without the need to come back in a future Commission proceeding for  
16 approval.

17  
18 **B. Universal Service Program Cost Recovery.**

19 **Q. HOW DOES MR. DAHL RESPOND TO YOUR COST ALLOCATION**  
20 **PROPOSAL?**

21 A. Mr. Dahl raises two primary arguments in response to my proposal to allocate universal  
22 service program costs to all customer classes. He states first that OnTrack and WRAP does  
23 not meet “the generally recognized concept of a public good.” Moreover, Mr. Dahl states

1 that "all parties. . .agreed that residential customers were the appropriate source of funding  
2 for the [Company's] universal service programs" in the 1998 Settlement Agreement of  
3 PPL's restructuring case.

4  
5 Mr. Dahl does not define what he considers to be "the generally recognized concept of a  
6 public good." Nor does he explain why universal electric service is any less a public good  
7 than universal service in any other sector of the economy as I discuss in my Direct  
8 Testimony. He does not address what components go into "the generally accepted concept  
9 of a public good" nor what components are missing from universal electric service. He does  
10 not address why universal telephone service is generally considered to be a "public good"  
11 but universal electric service should not be.

12  
13 Moreover, it is erroneous to assert that "all parties. . .agreed that residential customers were  
14 the appropriate source of funding for the universal service programs" in the 1998 Settlement  
15 Agreement. Indeed, the 1998 Settlement Agreement explicitly provided that "the allocation  
16 of any universal service and energy conservation program costs among customer classes  
17 after the end of the distribution and transmission rate cap shall be determined by the  
18 Commission at that time." (1998 Settlement Agreement, at paragraph F.1). Under the terms  
19 of the Settlement Agreement, the issue of cost allocation not only "may" be addressed, but  
20 the issue of cost allocation "shall" be addressed in this proceeding.

21  
22 **Q. PLEASE RESPOND TO MR. DAHL'S COMMENTS REGARDING AN**  
23 **APPROPRIATE NORMALIZATION PERIOD FOR ON-TRACK EXPENSES.**

1 A. Mr. Dahl argues that a six-year normalization period would allow three years to ramp up  
2 expenditures for the OnTrack program and three more years to make up for the under  
3 expenditures during that ramp-up period. He argues, without support, that the three-year  
4 ramp-up period “would allow the OnTrack social service agencies to more easily absorb the  
5 additional work.”

6  
7 I have worked with local nonprofit agencies delivering energy assistance for more than  
8 twenty years. My experience with agencies doing intake and income verification for the  
9 federal Low-Income Home Energy Assistance Program (LIHEAP) is that Mr. Dahl is wrong  
10 in his assertion. Agencies doing intake need two aspects in their funding. First and most  
11 critically, the funding needs to be year-round. In this fashion, agencies can avoid the  
12 extraordinarily disruptive cycle of hiring new staff to do intake for the year, laying off those  
13 staff after program intake closes for the year, only then to hire new staff for the next  
14 program year. Second, agencies need what is referred to in the fuel assistance network as  
15 “forward funding.” What forward funding means is that funds for *next* year are committed  
16 so as to eliminate uncertainty in staff hiring. This annual uncertainty gives rise for the need  
17 for last minute staff hiring and training. It is often caused by the failure of Congress to  
18 appropriate LIHEAP funds for the federal fiscal year beginning on October 1 of each year  
19 before October (or even later). Such annual uncertainty means that an agency cannot hire in  
20 August or September for a program presumably beginning in October. The agency quite  
21 literally, does not know how much money it will have to spend. In contrast, agencies  
22 certainly have never requested a six-year, or even a three-year, forward funding mechanism.  
23 The normalization period for universal service program costs should reflect a reasonable

1 planning horizon. The two-year period which I recommend is not only consistent with what  
2 non-profit social service agencies have sought for other energy assistance program planning  
3 purposes, but is consistent with the Company's own ratemaking planning horizon as well.  
4

5 **C. Operation HELP Funding.**

6 **Q. PLEASE RESPOND TO MR. DAHL'S COMMENTS ABOUT EXPANSION OF**  
7 **FUNDRAISING FOR THE COMPANY'S OPERATION HELP PROGRAM.**

8 A. Mr. Dahl argues that Operation HELP is "probably nearing the saturation point on the  
9 number of monthly contributors." He further argues that Operation HELP is a narrow  
10 program that PPL never intended "to grow. . . into a program that would address a broad  
11 range of needs." Mr. Dahl finally argues that "asking people more often to give money may  
12 not produce the expected results," particularly if a campaign is viewed as "being too self-  
13 serving."

14  
15 While I agree that Operation HELP is not intended to be a broad-based energy assistance  
16 program, I do not agree that the Company should be allowed to let its program deteriorate.  
17 As I indicated in my Direct Testimony, the Operation Help program has deteriorated in all  
18 of its important attributes since the year 2000:

- 19 ➤ It provides smaller grants, even though arrears are higher.
- 20 ➤ There are fewer contributors, even though the total number of Company  
21 customers has increased.
- 22 ➤ It receives fewer investor-contributed dollars.
- 23 ➤ It raises less total money from customers.

1           ➤ It raises less money on a dollars-per-customer basis.

2           Mr. Dahl states that Operation HELP is a voluntary contribution program operated by the  
3           Company. As a result, Mr. Dahl suggests, it is entirely within the Company's discretion  
4           how to operate the Operation HELP program. The Pennsylvania legislature, however, in  
5           enacting the electric competition statute, specifically required the Commission to ensure that  
6           electric companies not be allowed to have their universal service program deteriorate in the  
7           post-restructuring environment. PPL is allowing precisely that to occur. As I indicate in my  
8           Direct Testimony, the remedial steps I recommend are necessary "to ensure that [PPL's]  
9           hardship fund remains adequately funded and available, and that no deterioration in  
10          hardship fund fundraising is allowed to occur."

11  
12       **Q. PLEASE RESPOND TO MR. DAHL'S TESTIMONY THAT NEITHER**  
13       **CUSTOMER FUNDING NOR INVESTOR-FUNDING HAS DETERIORATED IN**  
14       **RECENT YEARS.**

15       A. Mr. Dahl's testimony is inconsistent with the data provided in response to OCA data  
16       requests. The monthly data provided on customer fuel fund contributions is presented in  
17       Schedule RDC-2S. The annual data is graphically presented in Schedule RDC-3S.

18  
19                       **Part 2. Response to OSBA Witnesses Knecht and Ewen.**

20       **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?**

21       A. In this section of my testimony, I respond to the testimony of OSBA witnesses Knecht and  
22       Ewen regarding the allocation of universal service costs. These witnesses testify that all  
23       residential customers are eligible to participate in universal service programs. They testify

1 further that increasing the number of residential customers will increase universal service  
2 costs, while increasing the number of business customers will have no impact on universal  
3 service costs.

4  
5 The testimony of OSBA witnesses Knecht and Ewen is incorrect in each of the assertions  
6 made above. It is not accurate to say that all residential customers are eligible to participate  
7 in universal service programs. Indeed, it not accurate to say that all low-income customers  
8 are eligible to participate in universal service programs. A non-low-income customer, or a  
9 low-income customer that is not payment-troubled as defined by the Pennsylvania PUC, no  
10 more causes the costs of the Company's universal service programs than does a business  
11 customer. Moreover, the number of participants in the Company's universal service  
12 program is tied far more to the income received by customers than it is tied to the total  
13 number of residential customers.

14  
15 Finally, witnesses Knecht and Ewen argue that the fact that universal service programs  
16 constitute a public good is not a factor to be used in making utility cost allocation decisions.  
17 They do not address the fact, however, that the nature of certain aspects of public utility  
18 service, including the provision of universal service, have already been determined to be  
19 "public goods." As such, the costs of those public goods are passed on to all customer  
20 classes. Moreover, as I indicate in my Direct Testimony, the Pennsylvania legislature has  
21 acknowledged universal service to be a public good, the costs of which should be paid by all  
22 customer classes. The abstract and theoretical argument of witnesses Knecht and Ewen fall

1 when faced with previous decision by the Pennsylvania PUC and the Pennsylvania  
2 legislature.

3  
4 **Part 3. Response to PPLICA Witness Baron.**

5 **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?**

6 A. In this section of my testimony, I respond to the testimony of PPLICA witness Stephen  
7 Baron regarding the allocation of universal service costs. Mr. Baron argues that the  
8 statutory language that the recovery of costs should be nonbypassable does not imply a cost  
9 allocation scheme. In addition, Mr. Baron argues that universal service is not a “public  
10 good,” and even if it were, this conclusion does not imply a cost allocation decision.

11  
12 **Q. DOES THE REQUIREMENT THAT CHARGES FOR UNIVERSAL SERVICE**  
13 **PROGRAMS BE NONBYPASSABLE IMPLY THAT COSTS BE ALLOCATED**  
14 **OVER ALL CUSTOMER CLASSES?**

15 A. Yes. I discuss the applicability of the requirement that universal service charges be  
16 nonbypassable in my Direct Testimony.

17  
18 **Q. PLEASE RESPOND TO MR. BARON’S ARGUMENT REGARDING UNIVERSAL**  
19 **SERVICE AS A PUBLIC GOOD.**

20 A. Mr. Baron argues that universal service is not a public good and, even if it were, that  
21 conclusion would not imply a cost allocation decision. His conclusion that universal service  
22 is not a public good is not generally accepted. Public utility commissions (including  
23 commission staffs) have generally recognized universal service as a public good. The states

1 of Iowa, Michigan and Utah are examples of states that have found universal service to be a  
2 public good.

3  
4 **Q. PLEASE EXPLAIN WHAT YOU MEAN BY A “PUBLIC GOOD.”**

5 A. I adopt the definition of “public good” articulated by the National Regulatory Research  
6 Institute (NRRI) at Ohio State University. NRRI states:

7 A public good can be defined as “any publicly induced or provided collective good”  
8 that “arise[s] whenever some segment of the public collectively wants and is  
9 prepared to pay for a different bundle of goods and services than the unhampered  
10 market will produce.” (note omitted). In sharp contrast to the private-good model.  
11 ., the emphasis of the public-good model is on the *total* societal benefits—both  
12 direct and indirect—associated with network modernization. As applied to the  
13 telecommunications network, the public-good model is based upon the premise that  
14 the costs of achieving and supporting a modern, state-of-the-art network  
15 infrastructure are ultimately borne by the general body of ratepayers as opposed to  
16 limited subsets of customers who exhibit a high demand for specific new services.  
17 The public-good model is conducive to establishing social policies which provide  
18 for a “supply driven definition” of infrastructure.

19  
20 \* \* \*

21  
22 Under the public-good model, infrastructure investment[s] that are in the “public  
23 interest” are mandated by regulatory commissions, which act as surrogates for  
24 marketplace forces for the very reason that those forces break down either because  
25 of the enormous risks involved because of uncertainty with respect to costs and  
26 demand or both, or because of the intangible or unmeasurable society benefits which  
27 are not valued by the marketplace. (emphasis in original).<sup>1</sup>  
28

29 **Q. HOW DOES THIS NATIONAL REGULATORY RESEARCH INSTITUTE**  
30 **DISCUSSION APPLY TO PENNSYLVANIA?**

31 A. Any number of aspects of this NRRI discussion apply to Pennsylvania’s consideration of  
32 universal service cost allocations.

---

<sup>1</sup> National Regulatory Research Institute (October 1991). The Public Good/Private Good Framework for Identifying POTS Objectives for the Public Switched Network, NRRI: Columbus (OH).

- 1           ➤ First, universal service is a “publicly induced or provided collective good” as  
2 described by the NRRI.  
3
- 4           ➤ Second, it is clear from the very testimony of the industrial and OSBA  
5 witnesses, that NRRI was correct in referring to such a “collective good” as one  
6 which not all ratepayers would choose to pay for. Indeed, the fact that the  
7 Pennsylvania legislature mandated that a universal service charge be  
8 “nonbypassable” indicates that the legislature understood this aspect of a “public  
9 good” and that it affirmatively decided that all ratepayers should help pay for  
10 this collective good.  
11
- 12          ➤ Third, the Pennsylvania universal service programs are consistent with NRRI’s  
13 statement that the emphasis is on “the *total* societal benefits.” Indeed, these  
14 benefits include not simply the benefits to participating customers (as OSBA and  
15 PPLICA wish to limit the discussion), but also, in the words of NRRI, the  
16 benefits “both direct and indirect.” In my Direct Testimony, I clearly document  
17 how universal service, as a public good, fits this notion of generating not only  
18 direct social benefits, but a wide range of indirect social benefits to all customer  
19 classes.  
20
- 21          ➤ Fourth, contrary to what Mr. Baron suggests, the finding that universal service is  
22 a “public good” has cost allocation implications to it. As NRRI points out, “the  
23 costs of achieving and supporting a modern, state-of-the-art network  
24 infrastructure are ultimately borne by the general body of ratepayers.” While  
25 OSBA and PPLICA would limit the allocation of costs only to those customers  
26 who “use” the service of a universal service program, accepting this decision is  
27 at fundamental odds with universal service being determined to be a “public  
28 good.” As NRRI points out, having the costs of universal service be “borne by  
29 the general body of ratepayers” is “opposed to limited subsets of customers who  
30 exhibit a high demand for specific new services.”  
31
- 32          ➤ Finally, while OSBA and PPLICA claim that the multi-class benefits arising  
33 from universal service are largely unmeasurable, this very fact is one of the  
34 reasons that universal service should be found to be a public good with costs  
35 allocated to all ratepayers. As NRRI points out, the public good approach  
36 applies “for the very reason that those [market] forces break down. . .because of  
37 . .the intangible or unmeasurable society benefits which are not valued by the  
38 marketplace.”  
39

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

41 **A.** Yes, it does.

42 00080467

Number of Employee Hours for PPL Electric Call Center by Month (2003)	
January	31,480
February	37,810
March	55,166
April	34,196
May	36,072
June	33,511
July	32,735
August	51,875
September	35,134
October	34,983
November	35,903
December	30,499

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Schedule RDC-2S

Month	2000	2001	2002	2003
January	\$31,326	\$34,517	\$38,236	\$37,260
February	\$31,040	\$35,896	\$29,607	\$30,059
March	\$32,423	\$33,822	\$31,070	\$31,239
April	\$29,696	\$29,730	\$31,076	\$31,413
May	\$30,794	\$32,205	\$35,585	\$33,472
June	\$28,550	\$30,507	\$33,306	\$34,616
July	\$28,761	\$30,810	\$31,757	\$31,575
August	\$28,417	\$32,598	\$30,563	\$29,924
September	\$28,219	\$27,183	\$27,762	\$28,455
October	\$28,099	\$32,176	\$31,332	\$32,047
November	\$29,098	\$28,573	\$27,223	\$26,127
December	\$37,296	\$44,608	\$33,394	\$32,453
<b>Total</b>	<b>\$362,719</b>	<b>\$392,625</b>	<b>\$380,821</b>	<b>\$378,640</b>

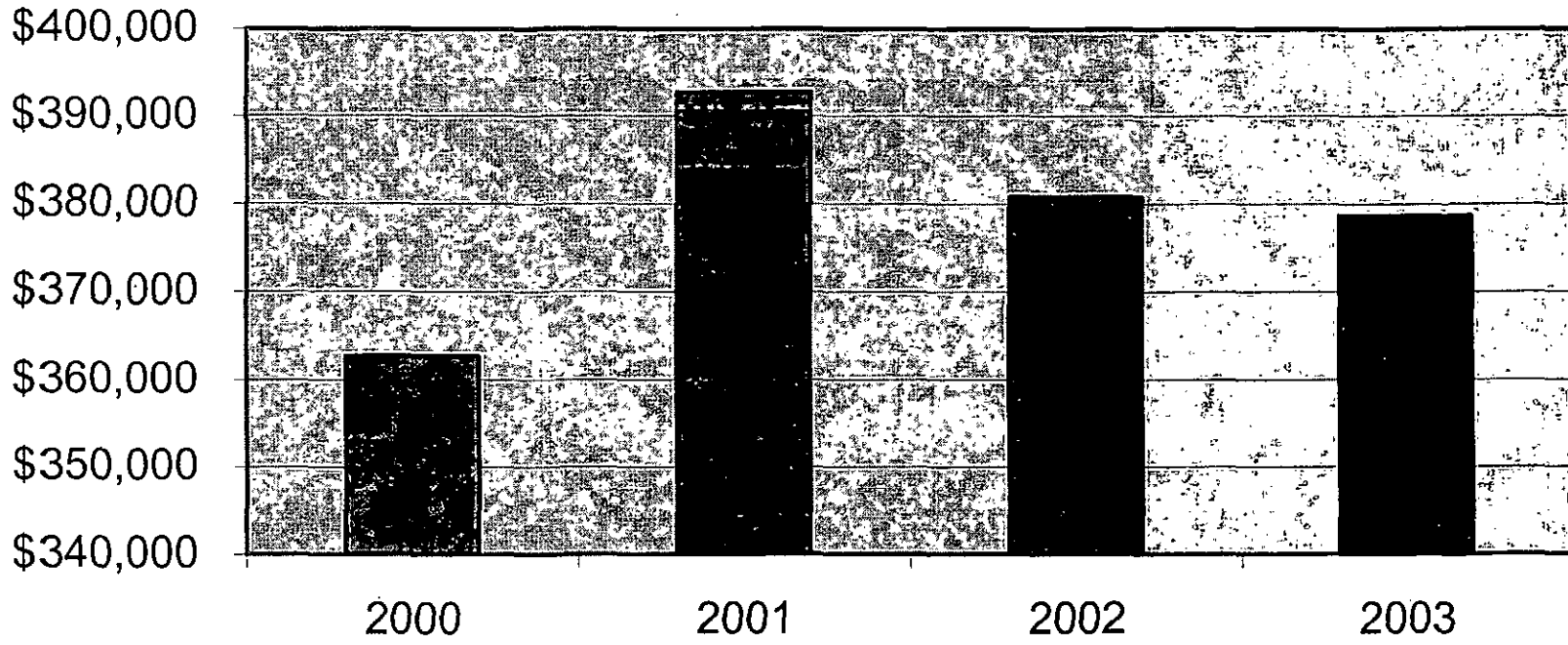
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### PPL Customer Fuel Fund Contributions by Year



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OSBA STATEMENT NO. 2

DOCUMENT

BEFORE THE

PENNSYLVANIA PUBLIC UTILITY COMMISSION

*SM*  
*8-11-04*  
*Hsf*

PENNSYLVANIA PUBLIC UTILITY  
COMMISSION

v.

DOCKET NO. R-00049255

PPL ELECTRIC UTILITIES  
CORPORATION

DOCKETED

AUG 18 2004

DIRECT TESTIMONY OF  
ANDREW M. SCHWARZ

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ON BEHALF OF THE  
OFFICE OF SMALL BUSINESS ADVOCATE

Date Served: June 29, 2004

Date Submitted for the Record: \_\_\_\_\_

## DIRECT TESTIMONY OF ANDREW M. SCHWARZ

1     **1     Overview**

2     **Q.     Please state your name and briefly describe your qualifications.**

3     A.     My name is Andrew M. Schwarz. I am a Principal and the Chief Information Officer of  
4           Industrial Economics, Incorporated (IEc), an economic consulting firm located at 2067  
5           Massachusetts Avenue, Cambridge, MA 02140. I specialize in environmental policy  
6           analysis on a range of topics including program evaluation, strategic planning, program  
7           accountability and the design and use of performance measures, risk assessment, risk  
8           management, and risk communication. I manage IEc's mission contract with the  
9           Environmental Protection Agency's (EPA's) Office of Planning, Analysis, and  
10          Accountability (OPAA). OPAA is the EPA office responsible for coordinating strategic  
11          planning within the Agency and compliance with the Government Performance and  
12          Results Act (GPRRA). Over the past six years, I have managed projects that involved the  
13          evaluation of programs in most EPA program offices and the development of appropriate  
14          performance measures, to ensure compliance with the GPRRA and other oversight and  
15          accountability laws. For example, I recently managed a project that identified program  
16          management and efficiency measures that EPA's Superfund Office could use to comply  
17          with the Performance Assessment Ratings Tool process. I obtained a B.A. in Biology  
18          from Middlebury College; an M.F.S. in environmental policy from the Yale School of  
19          Forestry and Environmental Studies; an M.S.T. in Environmental Education from  
20          Antioch University; and an M.B.A. with a specialty in Finance from George Washington  
21          University. Prior to joining IEc, I worked as an environmental consultant at Temple,  
22          Barker, Sloane, Inc.; as a professional staff member of the Merchant Marine and Fisheries  
23          Committee of the U.S. House of Representatives; as a legislative assistant to U.S.  
24          Representative Gerry E. Studds; as an economic analyst at the Department of Energy; and  
25          as a high school teacher. I am appearing in these proceedings on behalf of the  
26          Pennsylvania Office of Small Business Advocate (OSBA). My résumé is attached in  
27          Appendix AMS-1.

28     **Q.     Please describe your assignment in this proceeding.**

29     A.     In its filing in this matter, PPL Electric Utilities Corporation (PPL) requests that  
30          ratepayers provide continuing funding for the Sustainable Energy Fund. I was asked by

1 OSBA to review the management of the Sustainable Energy Fund (SEF). Specifically, I  
2 was asked to evaluate whether the current management of the SEF provides the  
3 Pennsylvania Public Utility Commission (Commission) and the general public with an  
4 adequate accounting of its activities and results that would allow the Commission to  
5 ensure that ratepayer funds are being efficiently used in the public interest. I was asked to  
6 evaluate the effectiveness of the SEF's coordination with other utility sustainable energy  
7 funds and with the state government's energy programs. Finally, I was asked to offer an  
8 opinion as to whether and how the management of the SEF might be improved to provide  
9 this assurance.

10 **Q. What is your understanding of PPL's proposal regarding funding the SEF?**

11 A. In the settlement of its restructuring proceeding, PPL agreed to provide funding for the  
12 SEF equal to \$0.10 per kWh (0.01 cents per kWh) delivered to Pennsylvania franchise  
13 customers, net of gross receipts taxes. In this proceeding, PPL proposes to include that  
14 \$0.10 per MWh in the revenue requirement for ratepayers, for rates effective January 1,  
15 2005. It is my understanding that this is essentially a non-bypassable cost for all  
16 customers taking service from PPL. As such, it is conceptually similar to a per kWh tax  
17 on electricity consumption in PPL's service territory.

18 **Q. Please describe the tasks that you have thus far undertaken for this assignment.**

19 A. To date, I have undertaken the following:

- 20 ➤ Reviewed materials provided by PPL as well as reports filed by SEF with the  
21 Commission, and information available on the SEF website.
- 22 ➤ Reviewed the SEF responses to the available interrogatories from intervenors.
- 23 ➤ Collected information on best practices for programs such as the SEF, including a  
24 report drafted by Lawrence Berkeley National Laboratory entitled "Clean Energy  
25 Funds: An Overview of State Support for Renewable Energy" (LBNL Report).
- 26 ➤ Drafted interrogatories that specifically address the goals of the SEF program,  
27 standards by which investments and grants are evaluated, and tracking mechanisms  
28 in place to evaluate investment and grant performance, etc.

1 > Interviewed representatives of the recently rejuvenated Pennsylvania Energy  
2 Development Authority (PEDA) to better understand how PEDA currently  
3 evaluates investment and grant opportunities.

4 **Q. Have you completed your analysis?**

5 A. No. The OSBA submitted interrogatories to PPL regarding SEF activities, but PPL  
6 objected to responding. From that objection, it is my understanding that PPL has little  
7 direct control over, or information regarding, the day-to-day activities of the SEF. The  
8 OSBA then submitted the interrogatories to the SEF and I am awaiting a response from  
9 the fund. Moreover, I am continuing to investigate the status of state government and  
10 Commission activities that are related to the management of these funds. As additional  
11 information comes available, I will supplement my testimony as necessary.

12 **2. Results of Analysis**

13 **Q. Please summarize your views on best practices for agencies providing grants of  
14 public funds.**

15 A. My views are based on my experience in working with EPA. I have worked closely with  
16 EPA's Office of Grants and Disbursement in its efforts to ensure that it adequately  
17 monitor grants and other forms of assistance that it provides to states, non-government  
18 agencies and other grantees. I have helped that office develop a strategic plan in response  
19 to issues raised in an evaluation by EPA's Office of the Inspector General (OIG). The OIG  
20 noted the importance of having senior government officials "fulfill their responsibilities  
21 as stewards of government resources to ensure adequate controls over assistance funds  
22 and compliance with policies." The OIG also noted that a well-organized grants program  
23 will include procedures that ensure proper oversight through the various stages of the  
24 grant process:

25 > ***Pre-award*** - reviewing the application and making an award decision

26 > ***Award*** - preparing the grant or assistance documents instructing the recipient on  
27 performance requirements; and

28 > ***Post-award and Closeout***- providing assistance and ensuring that grant goals have  
29 been met.

1 **Q. Can you comment on the important attributes of pre-award activities?**

2 A. The granting agency should ensure that the activities it supports, and the results of those  
3 activities, appropriately align with the program goals and objectives. These goals should  
4 include both the overarching goals of the program as well as short-term goals that will  
5 support the broader, long-term goals. Accordingly, at the *pre-award* stage, the grantor  
6 needs to have clearly established criteria by which it will judge proposals. These would  
7 include, at a minimum:

- 8 ▪ How does the proposal support our goals and objectives (short- or long-term goals)?
- 9 ▪ What specific results will the proposal yield?
- 10 ▪ Does the proposal set reasonable and meaningful targets of performance?
- 11 ▪ Does the proposal contain both output and outcome measures?
- 12 ▪ How will those results be measured?
- 13 ▪ How will these results augment results from other grants in supporting our goals?

14 Proposals should include, whenever possible, outcome measures and not merely output  
15 measures. It is important to report on what was accomplished, not merely what activities  
16 were undertaken. Brief definitions of outputs and outcomes follow.

17 **Output measure:** An activity or effort and associated work products related to an  
18 environmental goal or objective and expressed in a quantitative or qualitative manner.  
19 Outputs are important for measuring internal work performance, but do not in themselves  
20 indicate the extent to which progress has occurred toward achieving the program's  
21 purpose. They track what was done and not necessarily the programmatic or  
22 environmental results of that activity.

23 **Outcome measure:** The environmental result, effect, or consequence that will occur  
24 from carrying out an activity; an assessment of the results of a program activity as  
25 compared to its intended purpose.

26 **Q. What are the key issues in the award stage of the process?**

1 The granting agency needs to ensure that the award documents provided to the grantee  
2 clearly delineate the requirements for successful completion of the grant. It is important  
3 for the grantor to have a transparent award process that applies the criteria developed in  
4 the pre-award stage and makes it clear why certain proposals were either accepted or  
5 rejected. This will assist other applicants in developing proposals, will allow  
6 stakeholders to determine whether the fund is being effectively administered and will also  
7 address concerns about potential conflicts of interest.

8 **Q. Finally, what are the key responsibilities of a granting agency in the post-award and**  
9 **closeout phase?**

10 A. Thorough post-award monitoring is needed to allow the granting agency to determine to  
11 what extent the grantees accomplished what they proposed and to evaluate how these  
12 outcomes contributed to the program's goals and objectives. The granting agency needs  
13 to *collect data from grantees that indicate to what extent the program met the targets*  
14 established in the proposal. Specifically, the grantee needs to provide the agency with  
15 information on what it intended to do, how well it succeeded, and why it did or did not  
16 meet its targets.

17 Collecting this information will allow the granting agency to evaluate the performance of  
18 the grantees and to also compile information from all its grantees in a manner that will  
19 allow it to report on its overall success in meeting its goals and objectives.

20 **Q. What constitutes an appropriate administrative structure for state energy funds?**

21 A. The April 2001 LBNL Report examined 14 state programs with renewable energy funds  
22 supported by systems-benefits charges. LBNL notes that the administrative structures and  
23 responsibilities varied among the states, with most funds administered by state agencies  
24 or quasi-public agencies while other programs, such as Pennsylvania's, were managed by  
25 third party organizations. In its review, LBNL noted that no single ideal administrative  
26 structure seems to exist. However, the report does identify a series of characteristics of  
27 well-run programs. These include, but are not limited to:

28 ➤ The administrator should have renewable energy expertise.

29 ➤ The administrator should be an able fund manager.

- 1           ➤ Conflicts of interest should be minimized.
- 2           ➤ Public accountability should be ensured and proper oversight provided. The
- 3           administrator should have transparent processes, allowing for public oversight.
- 4           ➤ Geographic scope should be as large as possible. The report notes that limiting the
- 5           geographic scope of the funds to utility service territories can be "quite restrictive in a
- 6           large state like Pennsylvania."

7   **Q.    Have you evaluated how well SEF coordinates its activities with the other state**  
8   **funds, and with state agencies?**

9   A.    The state agency that has the mandate most similar to that of the SEF is PEDDA.  
10       However, at the time of PPL's restructuring settlement, PEDDA was essentially moribund.  
11       Governor Rendell made the promotion of local and innovative energy sources a priority  
12       of his Administration and he recently issued an executive order, revitalizing PEDDA and  
13       transferring its responsibilities to the Department of Environmental Protection. PEDDA is  
14       now tasked with providing financing for a wide range of energy research, development  
15       and demonstration projects to promote clean, renewable, and indigenous energy  
16       resources. PEDDA will finance large and small scale projects, working in conjunction with  
17       the Pennsylvania Economic Development Financing Authority.

18       I have had preliminary discussions with representatives of PEDDA. At this point in time,  
19       PEDDA is getting "up and running" and has not issued any loans or grants or been involved  
20       in coordinating activities of the various utility funds since its revitalization. However, the  
21       statute governing PEDDA requires that it develop an Energy Development Plan for the  
22       allocation and distribution of financial and technical assistance. In developing this Plan  
23       the authority will hold public hearings throughout the state to ensure citizens have the  
24       opportunity to comment on and provide suggestions for the Energy Development Plan. In  
25       addition, the Commission established the Pennsylvania Statewide Sustainable Energy  
26       Board (PASEB) with some oversight role of the SEF and the other utility energy funds  
27       created in the restructuring proceedings. While my review is preliminary, it appears that  
28       the PASEB's activities to date have been minimal, and that its authority to influence the

1 specific activities of the funds is limited. Moreover, it is unclear whether the PASEB's  
2 activities will be coordinated with the statewide plan.

3  
4 **Q. How does the SEF performance compare to the identified best practices?**

5 A. Because I have not received responses from the interrogatories that OSBA submitted to  
6 the SEF, my response to this question is preliminary, based on what I have been able to  
7 glean from SEF submissions and the responses to other interrogatories that the SEF and  
8 PPL have provided. The semi-annual reports provided to the Commission as well as  
9 other reports clearly identify the recipients of the grants and other forms of assistance  
10 provided to applicants. However, information is not available regarding the criteria used  
11 to select these recipients, nor is there any clear indication as to how each of the projects  
12 being funded support the long-term and short-term goals of the SEF. Moreover, the  
13 reports include information on the size of the grants or other assistance provided and the  
14 recipients. However, they do not provide much detail on what specifically the grantees  
15 intended to do with the funds. A well administered program requires clear targets and  
16 outcomes by which the supporting agency can evaluate its effectiveness. Further, the  
17 SEF appears to have resisted the reasonable requirement that it explain why proposals for  
18 SEF funding are rejected. The SEF both needs to ensure that its grantees provide results  
19 that allow it to evaluate whether these activities are helping the SEF reach its own goals,  
20 and to provide information to the Commission to allow it to determine how well the SEF  
21 is supporting the public interest. At this point, it is not clear that the Commission has  
22 access to the necessary information by which it could evaluate how well the SEF is  
23 managing its funds to most effectively accomplish the program goals.

24 The SEF does recognize the importance of coordinating its activities with those of the  
25 other funds and the state, since it notes in its Semi-annual report to the Commission, for  
26 the period of July 1, 2003 - December 31, 2003, that "it is our obligation to identify and  
27 work with all public agencies to best leverage public and SEF funds." However, it seems  
28 that any coordination is informal at best. To be effective and ensure that statewide goals  
29 are met, this coordination needs to be managed by an authority with a broader geographic  
30 perspective.

1 **Q. What do you recommend for improving administration of the fund?**

2 A. First, let me note that I am not proposing any changes regarding the management of funds  
3 contributed to the SEF under the terms of the restructuring settlement, through year-end  
4 2004. The OSBA is a signatory to that settlement and will abide by its terms.

5 On a going-forward basis, I believe that there are two accountability issues that need to be  
6 addressed. First, because of the relative independence of the SEF and the other utility  
7 funds and the renaissance of PEDDA, it is important to get better and more formal  
8 coordination between the funds and the state. PEDDA is charged with coordinating energy  
9 research and promotion activities across the state and the SEF and other funds need to  
10 ensure that their activities are working to support and promote the statewide goals. This  
11 coordination will also allow the state to ensure that an appropriate mix of projects is  
12 being supported throughout the state, by the utility funds. To succeed, this coordination  
13 needs to be organized and managed at a broad geographic level and the revitalized PEDDA  
14 is an appropriate office to manage this coordination.

15 The second accountability issue concerns the establishment of best management practices  
16 within the SEF, to be consistent with both its own goals and those of the state. In  
17 particular, it is critical to insure that conflict of interest problems are avoided. To ensure  
18 that the PPL ratepayers and the general public are best served by the use of the monies  
19 distributed by the SEF, I recommend that management of the fund be turned over to  
20 PEDDA. In light of PEDDA's responsibility to promote clean, renewable, and indigenous  
21 energy resources, it is in the best position to ensure that projects support strategic state  
22 initiatives. As noted, PEDDA has yet to establish its procedures for choosing projects to  
23 fund and I would urge the Agency ensure that:

- 24 ➤ Clear criteria are established for the awarding of grants or other forms of assistance  
25 and these support the goals of the state energy strategy.
- 26 ➤ Grantees identify clear targets for what they will achieve with the grants, as well as  
27 how they will track performance. Whenever possible, these measures should include  
28 outcomes as well as outputs. Grantees provide information on how well they have  
29 met their targets and when the targets have not been met, why they have not.

1           ➤ The activities that are funded support state priorities and help fill in gaps that are not  
2           being addressed throughout the state.

3           ➤ Lessons learned and innovations identified through the activities are shared  
4           throughout the state and help inform future funding activities.

5           Finally, I recommend that PEDDA be given the responsibility for determining how it can  
6           best use the existing SEF management apparatus. The local expertise of the SEF, as well  
7           as its experience to date, could potentially bring significant value insight to the overall  
8           process of promoting sustainable energy development in Pennsylvania.

9

10   **Q. Does this conclude your direct testimony?**

11   A. Yes. However as I indicated earlier, I may file supplemental testimony based on future  
12   interrogatory responses and the results of my ongoing investigations.

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**APPENDIX AMS-1**

**Résumé of**

**ANDREW M. SCHWARZ**

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**PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU**

## ANDREW M. SCHWARZ

Mr. Schwarz specializes in environmental policy analysis on a range of topics including program evaluation; strategic planning, program accountability and the design and use of performance measures, risk assessment, risk management, and risk communication. Mr. Schwarz currently serves as IEC's Chief Information Officer and manages IEC's contract with EPA's Office of Planning, Analysis, and Accountability.

Mr. Schwarz's recent projects include the following:

- Preparing a guidance document for EPA's Office of Grants and Disbursements to accompany a new rule that will require that all grants include clear goals and performance measures.
- Assisting EPA's Office of Grants and Disbursements in developing a strategic plan.
- Assisting EPA's Superfund Office in designing appropriate performance measures.
- Designing and delivering a workshop for EPA program managers on effective program evaluation, performance measurement and their role in complying with the provisions of the Government Performance and Results Act.
- Developing a three-and-one-half day training session on risk communication for the U.S. Navy.
- Organizing and facilitating two roundtable discussions on future international environmental trends of concern to EPA and how the Agency might respond to them; prepared a summary report of the roundtable.
- Directing evaluations of EPA Children's Health, Intern, Tribal Air, and Water Quality Standards Programs
- Developing and facilitating a two-day workshop on EPA's Environmental Indicator Initiative.
- Conducting a cost-benefits analysis of EPA Oil Spill Prevention program.

Mr. Schwarz holds a B.A. in Biology from Middlebury College; an M.F.S. in environmental policy from the Yale School of Forestry and Environmental Studies; an M.S.T. in Environmental Education from Antioch University; and an M.B.A. with a specialty in Finance from George Washington University. Prior to joining Industrial Economics, he worked as an environmental consultant at Temple, Barker, Sloane, Inc.; as a professional staff member of the Merchant Marine and Fisheries Committee of the U.S. House of Representatives; as a legislative assistant to U.S. Representative Gerry E. Studds; as an economic analyst at the Department of Energy; and as a high school teacher.

Other examples of Mr. Schwarz's work include the following:

**Strategic Planning, Environmental Indicators and Data Management**

- Developing a cost-benefit analysis framework for use by the Office of Solid Waste and Emergency Response to set priorities and evaluate programmatic success.
- Providing editorial, graphics and production support in developing EPA's Annual Performance Reports for FY 1999 and FY 2000.
- Assisting EPA's Region 2 in researching, writing, and designing a State of the Environment report.
- Evaluating how EPA can make better use of cost and economic data in its strategic planning process.
- Identifying goals and approaches from other Federal Agency strategic plans that EPA might use to improve its planning efforts.
- Assisting the Center for Environmental Information and Statistics in evaluating the availability and quality of information in certain EPA databases, and identifying plans to address data gaps.
- Assisting EPA's Radiation Protection Division in identifying useful measures of programmatic success and incorporating them into its strategic plan.
- Preparing a report that summarizes the principles of effective program evaluation and identifies steps that federal officials at EPA and elsewhere could take to prepare program evaluations.
- Developing a communications strategy to help EPA's Office of Mobile Sources implement Phase I of the reformulated motor gasoline program.
- Conducting a literature search on "futures" methodologies and their applicability to EPA and its strategic planning process.
- Assisting EPA's Office of Solid Waste in developing a plan to conduct evaluations of its programs; to identify the degree to which they meet stated goals and objectives in an efficient manner.
- Preparing a report for EPA's Office of Air and Radiation on the sources and effects of atmospheric nitrogen emissions.
- Identifying data needs associated with the collection of environmental indicators for strategic planning purposes, and developing recommendations, as part of the Agency's Environmental Information Acquisition Plan, to respond to these needs.
- Assisting the Government of Hungary in designing a process that culminated in the design of an environmental strategic plan.
- Identifying and evaluating ways, as part of EPA's Sustainable Industry Project and the Common Sense Initiative, that EPA can work more cooperatively with the metal finishing industry to remove barriers to innovation and to promote strategic environmental protection.

**Strategic Planning, Environmental Indicators and Data Management (continued)**

- Preparing a report that summarizes the principles of effective program evaluation and identifies steps that federal officials at EPA and elsewhere could take to prepare program evaluations.
- Preparing EPA's 25th Anniversary Report, a report that includes national indicators and local and regional "success stories" to track progress made since EPA was created in 1972.
- Evaluating the degree to which states collect and report on data on the ecological benefits resulting from point source controls imposed under the Clean Water Act.
- Preparing EPA's 1995 report on Environmental Indicators.
- Assisting EPA's Office of Waste in evaluating the efficacy of the water quality standards process.
- Benchmarking performance measures and analytical approaches from other Federal Agency strategic plans that EPA might use to improve its planning efforts.
- Developing an analytical framework used by the EPA's Office of Air and Radiation to distribute increases in federal grants and personnel resources among the regions and states to support implementation of the Clean Air Act Amendments.
- Investigating the environmental effects and economic costs and benefits associated with a phase out in the use of phosphates in household laundry detergent.
- Assisting the Great Lakes National Program Office in development and design of the 1991 Great Lakes Action Plan.
- Developing a brochure for use by states on expanded uses (beyond the construction of waste water treatment facilities) of financing made available through the State Revolving Loan Fund program for water quality improvement projects.
- Evaluating how states in EPA Region 5 collect and use data on environmental indicators and recommending changes to the way information is supplied to EPA through the 305(b) report.

### **Training and Facilitation**

- Developing the U.S. Environmental Protection Agency's (EPA's) risk communications training program.
- Preparing and delivering a number of risk communication courses for the Massachusetts Department of Public Health and California's Department of Pesticide Regulation.
- Developing and teaching, for the Commonwealth of Massachusetts, a course on the use of cost-benefit analyses in environmental decision making.
- Designing a course for use in Eastern Europe and Central America on the use of economic incentives in environmental decision making.
- Facilitating four public meetings designed to gather input on EPA's benefit recapture approach, the cornerstone of its civil penalty practice.
- Developing and teaching, in Hungary, a three and one-half day training course designed to help environmental managers in Hungary and elsewhere in Eastern Europe understand the use of alternative financing mechanisms to help fund environmental improvement activities.
- Preparing and conducting a two-day workshop to help both junior and senior environmental officials in Hungary develop a long-term strategic plan.
- Designing and delivering, in Turkey, a two day course for senior environment managers on setting environmental priorities, quantifying benefits associated with environmental improvement, and including environmental considerations in decisions made throughout the government.
- Developing and teaching, in Bulgaria, a three and one-half day training course on environment policy and decision making for use in Eastern Europe. Through lectures and case study exercises the course reviews the principles of risk assessment and risk management.

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8-11-04  
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Pa. P.U.C., *et al.*, v. PPL Electric Utilities Corporation  
Docket No. R-00049255  
Prepared by: Thomas J. Tuffey  
Title: Executive Director  
Item: Interrogatory No. 4

Interrogatories and Requests for Production of Documents  
Propounded by Office of Small Business Advocate to Sustainable Energy  
Fund of Central Eastern Pennsylvania - Set VII

Item: Interrogatory No. 4

Are SEF's investments limited to PPL's service territory? Please explain any negative response fully.

Response:

SEF provides financing, either grants or PRI, to either organizations/companies or projects. If the financing is for a project, the project must be within the PPL territory. If the financing is for a Company, the Company can be outside the territory; but its product or service must benefit the PPL ratepayer. The SEF also works collectively with other Pennsylvania funds to provide funding for Pennsylvania wind farms.

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