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PENNSYLVANIA  
PUBLIC UTILITY COMMISSION  
Harrisburg, PA 17105-3265

DOCUMENT

Public Meeting held June 12, 2003

Commissioners Present:  
Terrance J. Fitzpatrick, Chairman  
Robert K. Bloom, Vice-Chairman  
Aaron Wilson, Jr., Statement attached  
Glen R. Thomas  
Kim Pizzingrilli

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PPL's Universal Service and Energy Conservation Plan Submission in Compliance with 52 Pa. Code § 54.74 Docket No. M-00031698

ORDER

BY THE COMMISSION

On February 28, 2003, PPL Electric Utilities Corporation (PPL) filed the above-captioned filing at Docket No. M-00031698 pursuant to the Commission's regulations at 52 Pa. Code § 54.71, et seq.

I. Introduction and Background

On December 3, 1996, the Electricity Generation Customer Choice and Competition Act (Act), 66 Pa. C.S. §§ 2801-2812 was enacted. In opening up the electric generation market to competition, however, the General Assembly was also concerned about ensuring that electric service remained universally available to all customers in the state. The Act, therefore, includes several provisions relating to universal service of electric service.

The Act defines “universal service” as the policies, protections and services that help low-income customers maintain their electric service. 66 Pa. C.S. § 2803. The term includes customer assistance programs and usage reduction programs. Section 2802(10) requires that “the Commonwealth must, at a minimum, continue the protections, policies and services that now assist customers who are low-income to afford electric service.” 66 Pa. C.S. § 2802(10). The Act at 66 Pa. C.S. § 2804(9) also requires the Commission to ensure that universal service is appropriately funded and available in each electric distribution territory.

To help meet its obligations under the Act, the Commission established standard *Reporting Requirements for Universal Service and Energy Conservation Programs*. 52 Pa. Code §§ 54.71-54.78. Section 54.74 of these regulations require an Electric Distribution Company (EDC) to submit to the Commission for approval an updated universal service and energy conservation plan every three years. These regulations also require an EDC to have an independent third-party conduct an impact evaluation of its universal service and energy conservation programs and to provide a report of findings and recommendations to the Commission and the EDC. 52 Pa. Code § 54.76.

Pursuant to the *Reporting Requirements for Universal Service and Energy Conservation Programs* at 52 Pa. Code § 54.74(a)(1), PPL submitted a universal service and energy conservation plan on February 28, 2003. Prior to that in October 2002, PPL submitted to BCS the *Evaluation of PPL Electric Utilities Universal Service Program* (Evaluation) completed by RETEC, an independent program evaluator, pursuant to the Commission’s regulations at 52 Pa. Code § 54.76. In 2000 and 2001, PPL also submitted program and collection data as required by 52 Pa. Code § 54.75. PPL’s universal service and energy conservation plan is available for review on the Commission’s website at <http://puc.paonline.com>, and the Evaluation is available for review in the Commission’s file at this docket number.

## **I. Discussion**

Based on the following analysis by the Commission's Bureau of Consumer Services (BCS), we find that PPL's universal service plan is consistent with the universal service definition at 66 Pa. C.S. § 2803; the reporting requirements at 52 Pa. Code §54.74; the Customer Assistance Program (CAP) Policy Statement at 52 Pa. Code §§ 69.261-69.267, with the exception of two additional eligibility criteria; and the Low Income Usage Reduction Program (LIURP) regulations at 52 Pa. Code §§ 58.1- 58.18. Moreover, PPL's universal service plan is consistent with the above-noted requirement at 66 Pa. C.S. § 2802(10). For reasons detailed below, however, PPL's universal service plan does not appear to be either appropriately funded or available in its service territory as required at 66 Pa. C.S. § 2804(9).

### **Compliance with the Act**

*Section 2803.* As noted previously, § 2803 defines "universal service" as policies, protections and services that help low-income customers maintain electric service. 66 Pa. C.S. § 2803. The term includes customer assistance programs and usage reduction programs. PPL's universal service program to help low-income customers maintain electric service consists of four components: OnTrack (a payment assistance program), WRAP (a usage reduction program), CARES (a case management and referral program), and Operation Help (a hardship fund program). The PPL universal service program includes a customer assistance program and usage reduction program and is, therefore, consistent with section 2803.

*Section 2804(9).* Multiple sources of data indicate that PPL's OnTrack does not fully conform with the requirement at 66 Pa. C.S. §2804(9) that universal service and energy conservation policies, activities and services must be appropriately funded and available in each electric distribution territory. Specifically, the following analysis is

based on data submitted by PPL pursuant to 52 Pa. Code § 54.75, as well as data from the independent third-party Evaluation findings, BCS complaint data, and the US Census Data for year 2000.

With respect to the data from the *Reporting Requirements for Universal Service and Energy Conservation Programs*, PPL reported pursuant to 52 Pa. Code § 54.75(2)(i)(C) the number of customers participating in its CAP. Participation in a CAP is defined as those participants enrolled in CAP at the end of the program year. CAP Participation Rate is calculated by dividing the number of participants enrolled as of December 31 of a program year by the number of confirmed low income customers. PPL reported a CAP participation rate for 2001 of 8%. This is the lowest participation rate among the major EDCs ranging from 8% to 65% for the 2001 program year. PPL's low participation rate indicates that its OnTrack program is not appropriately available to its low income payment troubled customers. The independent third-party Evaluation supports this determination that PPL is under serving the low income population in its territory. The Evaluation estimates that 30,000 customers are eligible for OnTrack services and that the current funding level does not adequately support the need for program services.<sup>1</sup> In 2000, PPL proposed in its 2000 universal service plan to enroll a maximum of 17,000 customers in OnTrack over the period covered by the plan. PPL had 2,000 active customers enrolled in its OnTrack by the end of 1998. Four years later, PPL reported that it had increased enrollment to 10,000 active customers as of the end of 2002. In other terms, PPL has achieved 59% of its target enrollment level of 17,000.

BCS complaint data also indicates that PPL's OnTrack program is not appropriately available to all of the low income payment troubled customers served by PPL. The complaint data shows that BCS makes referrals to PPL's universal service programs for 65% of PPL Level 1 and Level 2 customers who contact the Commission

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<sup>1</sup>Cross, David, Senior Analyst and Wirtshafter, Robert M. Ph.D., *Evaluation of PPL Electric Utilities Universal Service Programs*. New Haven, CT: RETEC, October 2002. 36-41.

seeking assistance with payment arrangements.<sup>2</sup> The BCS complaint data is supported by the finding in the independent third-party Evaluation that PPL's call center does not make appropriate referrals to customers who are eligible for OnTrack.<sup>3</sup>

US Census data for Year 2000, combined with the PPL's "Needs Assessment" data submitted pursuant to 52 Pa. Code § 54.74(b)(3), reinforces the view that PPL's OnTrack is not available for many of PPL's low income customers who would benefit from participation in this program. Analysis of both sets of data indicates that, while the percentage of low income customers in PPL's service territory over the past few years has been stable, the number of low income PPL accounts with overdue balances has increased 43% over the past two years, from 75,000 accounts in 2000 to 107,386 in 2002. Despite the indication that more PPL low income customers need assistance to afford electric service, PPL proposes to enroll fewer customers in OnTrack than proposed in its 2000 universal service plan when 32,386 fewer low income accounts were in arrears.

As detailed later in the instant order, PPL is also seeking after-the-fact Commission approval of two enrollment constraints that PPL put in place to restrict enrollment and to control costs. These are: 1) an applicant for OnTrack must have an overdue balance of \$150 per month or greater, and 2) an applicant's housing costs must be greater than \$150 if living in subsidized housing. PPL deviated from its approved plan and implemented the additional eligibility criteria to "maximize enrollments within the \$11.7 million annual budget<sup>4</sup>".

The additional eligibility criteria, combined with the lack of satisfactory performance by PPL in consistently making appropriate referrals, have restricted availability of the OnTrack program for those customers who clearly have low incomes

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<sup>2</sup> A typical Level 1 household's annual income is less than \$17,000. A typical Level 2 household's annual income is less than \$23,000. PPL submitted data pursuant to 52 Pa. Code § 54.75(2)(i)(B) for 2001 that shows a typical OnTrack household's annual income is less than \$15,000.

<sup>3</sup> Cross, 4: 36-40.

and are payment troubled, the very customers that PPL's OnTrack should be available to serve.

Higher than average OnTrack costs also contribute to PPL's difficulty in providing an OnTrack program that is appropriately available. Two factors contribute to CAP costs that are higher than the industry average: high average administrative costs and higher than average customer usage. The data reported to BCS pursuant to 52 Pa. Code § 54.75(2)(i)(A) shows that PPL's annual administrative costs per CAP participant is \$225, considerably higher than the industry average of \$128. The independent Evaluation confirms that PPL administrative costs are high by noting that they account for 40% of net program costs.<sup>5</sup> Also, as detailed later in the instant order under Section 54.74(b)(1) - Program Description, "Default Provisions", PPL's program design relating to default provisions is also needlessly administratively complex, adding to costs. The Evaluation also finds that high usage contributes to CAP credits that are higher than the industry average. The Evaluation reviewed heating and non heating OnTrack bills for the time period from April 1999 through March 2000. Based on a random sample of OnTrack heating accounts for this time, the Evaluation finds that 33% of these accounts have average monthly usage above \$140 a month<sup>6</sup>. Moreover, a random sample of non heating OnTrack accounts shows that 45% of accounts have average monthly usage above \$70 a month.<sup>7</sup>

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<sup>4</sup> Universal Service and Energy Conservation Plan, 2004-2006, PPL Electric Corporation, 9-10.

<sup>5</sup> Cross, 41-44; 128-130.

<sup>6</sup> Ibid., 81-82.

<sup>7</sup> Ibid., 81-82.

When compared to the averages of monthly usage for all residential heating and non heating customers in PPL's territory, both of these Evaluation findings clearly reflect higher than average usage. Specifically, PPL reported to the BCS in response to the BCS' annual request for collection-related data that the average monthly bill for all residential heating customers was \$101 in 1999 and \$109 in 2000. With respect to non-heating customer bills, PPL reported to the BCS that the average monthly bill for all residential non-heating customers was \$54 in 1999 and \$56 in 2000.

During the third quarter of 2003, PPL plans to conduct an analysis of high usage OnTrack customers to determine the reasons for their higher than average usage. PPL plans to use the results of this analysis to make appropriate revisions to improve program costs and efficiencies.

PPL proposes to implement several OnTrack design changes and process improvements to reduce net costs and improve their ability to enroll more customers in OnTrack. However, due to the need for computer program changes, PPL will not be able to implement some of the design changes until March 2004. These design changes are discussed in more detail below at Section 54.74(b)(1) - Program Description.

When all of the design changes are in place, PPL's costs should decrease significantly. Because PPL must implement design and administrative changes to reduce its CAP costs, it is difficult to determine the appropriate funding level necessary to support its OnTrack program until the changes are made.

Clearly, PPL must reduce program costs as a first step toward addressing any program under funding. PPL must also improve the quality and number of referrals to its OnTrack program to ensure that universal service programs are appropriately available to

low-income customers in their service territory, and operated in a cost-effective manner.  
66 Pa. C.S. § 2804(9).

After PPL implements its plans to reduce costs, we direct PPL to report to the Commission's BCS on its progress in reducing costs and increasing enrollment. PPL should specifically report the number of customers it can enroll under the maximum funding level of \$11.7 million. So that PPL has adequate time to implement changes and analyze the impact on program costs due to the design changes to OnTrack, PPL will not be required to provide this report to BCS until March 31, 2005.

*Section 2802(10).* The Act also recognizes the relationship between the affordability of electric service and a customer's ability to maintain utility service. Section 2802(10) requires that "the Commonwealth must, at a minimum, continue the protections, policies and services that now assist customers who are low-income to afford electric service." 66 Pa. C.S. § 2802(10). In other terms, a customer assistance program must work toward the goal of providing an affordable CAP budget to help a customer maintain his or her electric service. Although the Act does not define affordability, the Commission's CAP Policy Statement provides guidance on setting affordable payments. The Commission will continue to balance this goal with funding level constraints and program cost considerations.

Beginning in April 2001, all EDCs, including PPL, began to submit collection and universal service data pursuant to section 54.75. In addition to findings from the independent evaluation, the Commission considers both historical data pursuant to section 54.75 as well as the results of BCS's review of relevant informal complaints to determine if an EDCs' payment plan complies with the intent of section 2802(10) of the Act. In conformance with the *Reporting Requirements for Universal Service and Energy Conservation* at 52 Pa. Code § 54.75(2)(ii)(B)(III), the EDCs are to report to the Commission on CAP payment rate. The regulation defines "payment rate" as the total

number of full CAP monthly payments received from participants in a given period divided by the total number of monthly bills issued to CAP participants in the same period. The Commission has defined a given period as a calendar year. In 2001, PPL data shows a payment rate of 79%. CAP payment rate, viewed along with the percentage of CAP bills paid by customers, provides a more accurate picture of performance than CAP payment rate alone. In conformance with the *Reporting Requirements for Universal Service and Energy Conservation* at 52 Pa. Code § 54.75(2)(ii)(B)(VII), the EDCs report to the Commission on the percentage of CAP billed. "CAP billed" is the annual total of the expected monthly CAP payment. This amount includes the amount the EDC bills the CAP customer rather than the tariff rate amount. EDCs report on the annual total amount of payments by CAP customers. The Commission defines percentage of CAP bill paid as the total amount of payments by CAP customers divided by the total dollar amount of CAP billed. In 2001, PPL's data shows that OnTrack customers paid 86% of their OnTrack bills. Both PPL's high payment rate and high percentage of bills paid are indicators that PPL's OnTrack budgets are affordable.

The Evaluation conducted for PPL finds that most OnTrack customers have OnTrack budgets that are less than the guidelines at 52 Pa. Code §69.265(2)(i)(A)(B)&(C), thus ensuring that budgets are affordable. The design of PPL's OnTrack payment plan provides a great deal of flexibility. The payment plan provides five options depending on a customer's household size, income, and past payment behavior. PPL uses a menu of payment plans for its OnTrack program. The Evaluation finds the following disposition of the payment plans: customized payment plans by agencies (54%); pre-program payments (5%); percent of income payments (9%); percent of bill payments (13%) and minimum payments (19%).<sup>8</sup>

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<sup>8</sup> Ibid., 5; 19-21.

In effect, PPL tailors the OnTrack budget to meet a customer's situation and needs, thereby ensuring that a CAP budget is affordable.

### **Section 54.74(b) – Plan Contents**

This provision requires that EDCs include the following information in their plans: program description; eligibility criteria; projected needs assessment; projected enrollment levels; program budget; plans to use community-based organizations; organizational structures; and an explanation of any differences between the EDC's approved plan and the implementation of that plan. Following is a detailed description of the plan components.

### **Section 54.74(b)(1) - Program Description**

PPL's universal service plan includes a description for each program component. PPL proposes several design changes to reduce program costs and to improve availability of program services. These proposals are discussed below.

*Proposed Design Changes for OnTrack.* PPL proposes to revise OnTrack eligibility and default recertification procedures. To reduce costs, PPL also plans to revise several administrative procedures, including the accessing of PPL's Customer Service System by OnTrack agencies, the transfer of several account monitoring tasks from the agencies to PPL's customer service representatives, the automation of mailing of routine letters, and the reduction in the number of OnTrack agencies from 12 to 11.

*Eligibility.* As noted previously, PPL's eligibility standards include two additional eligibility criteria: 1) an applicant for OnTrack must have an overdue balance of \$150 or greater, and 2) an applicant's housing costs must be greater than \$150 if living in subsidized housing. PPL provides the following reasons for requesting additional eligibility criteria:

1. To keep consistent with the company's credit and collections termination threshold that starts at \$150.
2. To lower administrative costs for OnTrack and to maximize enrollments within the \$11.7 million annual budget.
3. To assist customers with the most need while leveraging OnTrack dollars<sup>9</sup>.

It is the Commission's desire to standardize customer assistance programs as much as practical, especially for eligibility criteria. Eligibility criteria for enrollment in a CAP should be standard no matter where a customer lives in Pennsylvania. However, until PPL's funding constraints are resolved, the Commission approves the retention of these additional eligibility criteria. When the funding issue is resolved, PPL shall revise its eligibility criteria to be consistent with definition of low income, payment troubled customer at 52 Pa. Code § 54.72.

*Default provisions.* PPL's default provision is more lenient than necessary, but also more complex to implement. This complexity contributes to PPL's high OnTrack administrative expenses. If a customer fails to make-up missed CAP payments, PPL removes the customer from OnTrack and returns the customer to the regular billing and collection cycles rather than initiating termination procedures after no more than two missed payments. PPL proposes to issue a termination notice for one missed OnTrack payment rather than default a customer from OnTrack and then initiate termination activity. The CAP Policy Statement provides that a utility should issue a termination notice for no more than two missed CAP bills. By returning a customer to the regular collection cycle, the utility may begin the termination process as soon as a customer fails to pay one or two CAP bills. Ideally, the termination process should begin after one missed payment. There are two benefits when a utility issues a termination notice in a timely manner after one or two missed CAP payments: 1) a CAP customer is better able to make up the missed payments because the make-up amount is lower, and 2) the utility may not incur expenses for termination, restoration or reinstatement into CAP.

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<sup>9</sup> Universal Service and Energy Conservation Plan, 2004-2006, PPL Electric Utilities Corporation, 9-10.

The Commission approves PPL's revisions to the OnTrack default process since the revisions should result in decreased administrative costs and higher retention rates.

*WRAP– Proposed Design Changes.* PPL proposes to pilot two new technologies in 2003-2004. PPL plans to install 75 horizontal-axis washing machines in each year of the pilot. PPL also plans to pilot cooling measures such as tinted windows and roof coatings to customers that use at least 1000 annual kWh cooling usage. The Evaluation recommended that PPL conduct an extensive WRAP evaluation. Because it has been more than 10 years since WRAP has been evaluated, PPL plans to hire a third party to evaluate the cost benefits of WRAP. PPL plans to limit the evaluation costs to \$90,000 to be funded from the WRAP budget. PPL will submit the evaluation to the BCS in April 2006.

The Commission approves PPL's design changes to WRAP as well as the proposed evaluation to be conducted by an independent party.

#### **Section 54.74(b)(2) Eligibility**

PPL's four program components have slightly different eligibility criteria. Table 1 below shows the eligibility criteria for each universal service component.

**Table 1  
Eligibility Criteria**

<b>Program</b>	<b>Income</b>	<b>Other</b>
<b>OnTrack</b>	Verified income $\leq$ 150% of poverty	Ratepayer or new applicant status. Overdue balance of \$150 or greater Payment troubled – defaulted one or more payment agreements in a 12-month period Must pay \$150 or greater rent per month if lives in subsidized housing
<b>WRAP</b>	Verified gross income $\leq$ 200% of poverty	Electric heat or minimum usage at least 6000 kWh per year Ratepayer is at least 18 years old Ratepayer is individually metered Residence is primary not a vacation home Lived in home at least 9 months Has not received WRAP services in the past 7 years.
<b>CARES</b>	None	Special needs.*
<b>Operation Help</b>	Verified income $\leq$ 200% of poverty	Death of primary wage earner Serious injury or illness of primary wage earner Life-threatening or health-threatening situations Households with infants, elderly or disabled occupants Eligible for LIHEAP

\* Special needs include medical problems, personal crisis, loss of income, and low income elderly.

**Section 54.74(b)(3) - Projected Needs Assessments**

PPL submitted a needs assessment that complies with section 54.74(b)(3). A summary of the needs assessment is provided below:

For each of the universal service program components, PPL bases its needs assessments on the 2000 U.S. Census data. About 17.6 % (200,500) of PPL's customers have annual incomes at or below 150% of the federal poverty guidelines. The percentage

of low income households in PPL's service territory has remained stable since the Commission approved PPL's last universal service plan in 2000. However, the number of low income PPL accounts with overdue balances has increased 43% over the past two years, from 75,000 in 2000 to 107,386 in 2002. Of those low income customers with overdue balances, 16,000 customers have active payment plans compared with 11,000 in 2000 – a 45% increase.

**Section 54.74(b)(4) - Projected Enrollment Levels**

PPL's plan contains projected enrollment levels. PPL projects enrollment levels based on the current funding levels. Table 2 below shows PPL's projected enrollment levels for the universal service components.

**Table 2  
Projected Enrollment Levels**

<b>Universal Service Component</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
OnTrack	13,500	14,500	15,500
WRAP	Full cost jobs – 1,850 Low cost jobs - 175 Baseload jobs - 975		
CARES	600	600	600
Operation Help	2,800	3,000	3,200

PPL, in its 2003 universal service plan submission at this docket, proposes to enroll fewer customers in OnTrack than proposed in its 2000 universal service plan. In its year 2000 plan, PPL proposed a participant level of 17,000. In contrast, PPL proposes in its year 2003 plan to enroll 13,500 by 2004, and increase this number to 15,500 by 2006. Since some low income customers with overdue balances receive enough energy assistance money, primarily through LIHEAP grants, to retire their overdue balance, not every one of the approximately 107,000 low income accounts with an overdue balance require the benefits of PPL's OnTrack to afford utility service. Other low income customers have small overdue balances that can be resolved with a standard Chapter 56 payment agreement. However, in light of the significant increase in the number of

payment troubled low income accounts in PPL's territory, the company's proposal to decrease rather than increase the number of participants in its OnTrack will result in a program that will not be available for all of the customers who are eligible and can benefit from participation in PPL's customer assistance program. For this reason, the Commission rejects PPL's proposal to reduce the number of potential participants in its OnTrack from 17,000 to 15,500. The Commission determines that, based on consideration of all the data and reports, an appropriate enrollment number should be no lower than the 17,000 enrollment slots approved by the Commission in 2000 when there was 75,000 overdue low income customers, and possibly as high as 30,000, the number of enrollment slots recommended in the independent third-party evaluation report submitted pursuant to 52 Pa. Code § 54.74.

**Section 54.74(b)(5) - Program Budgets**

Table 3 shows PPL's program budget levels for the universal service components.

**Table 3  
Proposed Universal Service Programs Budgets**

<b>Program Component</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
OnTrack	\$11,990,000	\$11,990,000	\$11,990,000
WRAP	\$5,765,336	\$5,765,336	\$5,765,336
CARES	\$110,000	\$112,000	\$114,000
Operation Help*	\$900,000	\$922,500	\$945,500
<b>Total</b>	<b>\$18,410,000</b>	<b>\$18,434,500</b>	<b>\$18,459,500</b>

\*Operation Help's budget is based on charitable donations from PPL's customers, shareholders, and employees. No ratepayer monies are used for Operation Help.

**Section 54.74(b)(6) - Use of Community-Based Organizations (CBOs)**

Section 2804(9) of the Act directs the Commission to encourage the use of community-based organizations that have the necessary technical and administrative experience to be the direct providers of services or programs to reduce energy consumption or otherwise assist low income customers to afford electric service. Table 4 shows that PPL's use of CBOs complies with the intent of the Act. PPL has contractual arrangements with CBOs to help administer its OnTrack, WRAP, and Operation Help

programs. The Commission finds that PPL has also developed a network of contacts for universal service programs in compliance with 66 Pa. C.S. § 2804(9).

**Table 4  
Use of CBOs**

<b>Universal Service Component</b>	<b># of CBOs</b>
OnTrack	11
WRAP	23
CARES	52
Operation Help	14

**Section 54.74(b)(7) - Organizational Structure**

The organizational structure for PPL’s universal service programs is shown in Table 5. The company appears to have adequate staff to administer the universal service programs efficiently.

**Table 5  
Organizational Structure**

<b>Company Staff</b>
Vice President – Customer Services
Manager – Regulatory Programs & Business Services
Customer Relations Specialist
General Office Administrative Support – (3)
Regional Customer Programs Directors (5)
Regional Administrative Support (2)
WRAP Coordinators (5)
WRAP Representatives (2)
WRAP Quality Assurance Specialist
ISD Support (2)
<b>Contract Staff</b>
OnTrack - Community-based Organizations (11)
WRAP - Community-based Organizations (23)
Operation Help - Community-based Organizations (14)

**Conclusion**

In light of the analysis above, we find that PPL’s universal service plan meets with the universal service requirements of the Act at 66 Pa. C.S. §§ 2802(10) and 2803 , the reporting requirements at 52 Pa. Code § 54.74, and the LIURP regulations. Further, we

find that PPL's universal service plan is consistent with the Commission's CAP Policy Statement with the exception of the two additional eligibility criteria that are directly tied to PPL's funding issue. When the funding issue is resolved, PPL shall revise its eligibility criteria to be consistent with definition of low income, payment troubled customer found at 52 Pa. Code §54.72 since this provision now supercedes the definition found in the CAP Policy Statement at 52 Pa. Code § 69.262 and the eligibility criteria at § 69.265(4)(i)-(iii). Finally, PPL must reduce program costs and improve its access to OnTrack to be consistent with 66 Pa. C.S. § 2804(9); **THEREFORE,**

**IT IS ORDERED:**

1. That the Commission approves PPL's Universal Service and Energy Conservation Plan, as modified herein.
2. That the Commission directs PPL to report to the Commission's Bureau of Consumer Services (BCS) on its progress in reducing costs and increasing enrollment as a result of implementation of OnTrack program design changes and process improvements. PPL should provide this report to BCS no later than March 31, 2005.
3. That a copy of this order and any accompanying statements of the Commissioners be served upon PPL and the Office of Consumer Advocate and also be posted to the Commission's website at <http://www.puc.paonline.com>.

BY THE COMMISSION,

James J. McNulty  
Secretary

(SEAL)

ORDER ADOPTED: June 12, 2003

ORDER ENTERED: June 13, 2003

**PENNSYLVANIA PUBLIC UTILITY COMMISSION**  
*Harrisburg, Pennsylvania 17105-3265*

PPL Electric Utilities Corporation (PPL)  
2004-2006 Universal Service & Energy  
Conservation Plan Pursuant to  
52 Pa.Code §54.74

Public Meeting June 12, 2003  
MAY-2003-BCS-0004  
Docket No. M-00031698

**STATEMENT OF COMMISSIONER AARON WILSON, JR.**

In this case, the utility seeks approval for a universal service and energy conservation plan that (i) spends 40% of the utility's overall commitment on administrative costs; (ii) has the lowest participation rate among the Electric Distribution Companies (EDCs) for the 2001 program year; and (iii) will limit the number of eligible recipients actually getting assistance, by imposing screening criteria, because the class is far larger than was otherwise thought to be the case.<sup>1</sup>

Although I agree with the current funding level, I am concerned about the company's attempt to differentiate between customers, all of whom are eligible for the company's universal service program, in order to give some customers assistance while denying it to others.

As an initial matter, I accept the claim that current administrative costs cannot be significantly reduced unless and until the commitments to Community Based Organizations (CBOs) are renegotiated.

I am very concerned about the company's screening criteria because this Commission may lack the legal or policy authority to authorize such discrimination in an entitlement program. Based on my years of experience with public entitlement programs, I am concerned that neither the Commission nor the utility can determine which members of an eligible class can receive a benefit, in order to reduce the systemic costs of a program that are higher than anticipated, through the adoption of this company's screening criteria.

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<sup>1</sup>Docket No. M-00031698, Proposed Opinion and Order at 4.

In my experience, if a recipient is a member of an eligible class, the recipient is entitled to assistance, notwithstanding the personal or financial predilections of the regulator or provider, unless and until the entitlement is altered by the General Assembly.

The Commission's regulations and sections 2804(9) and 2802(10) of the Electricity Generation Customer Choice Act create a binding legal entitlement for universal service that must be funded at an appropriate level in Pennsylvania. While the funding level is adequate and well within the statutory requirement, the fact that costs are higher than anticipated or that one remains skeptical of such largesse is no basis for diluting a clear legislative mandate through entitlement triage.

Chapter 28's universal service entitlement program includes a mandate that universal service programs must, at a minimum, continue the protections, policies, and services in place on the date of enactment and that such funding must be appropriate.

This Commission and the utility may be circumventing this legal mandate by retroactively approving screening restrictions that discriminate among *individuals within an eligible class*, in order to reduce costs, or by approving an inappropriate funding level. Consequently, although the utility's proposed \$11.7 million dollar<sup>2</sup> commitment is adequate and appropriate under the law, this attempt to claim the authority to discriminate among eligible recipients may not be.

This Commission can avoid this potential infirmity by refusing to approve screening restrictions that unreasonably discriminate among members in a class of eligible recipients. We should not approve restrictions that will only support the members of the eligible class if the needy person (i) has an overdue balance of \$150 regardless of their membership in the eligible class; (ii) has housing costs in excess of \$150 when they are living in subsidized housing regardless of the membership in the eligible class.<sup>3</sup>

These screening restrictions may be unreasonable. What if the arrearage is \$149.99 or the recipient pays \$149.95 as opposed to \$150 for subsidized housing? These restrictions may constitute irrational economic discrimination among individuals within the class of eligible

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<sup>2</sup>Id., p. 5

<sup>3</sup>Id., p. 5 and p. 10.

recipients. All the customers in the eligible class are, generally, consumers in the Level 1 and Level 2 classes. There is no record evidence in staff's recommendation pointing to any experience supporting the view that a Level 1 customer with a \$149.99 arrearage is so markedly different from a Level 2 customer with a \$150 arrearage that the Level 1 customer should receive no universal service assistance. If anything, the Level 1 customer faces more daunting challenges because Level 1 consumers have less income than Level 2 consumers.

Reductions in the systemic costs of a legal entitlement cannot be obtained by unreasonably discriminating among the recipients in an otherwise eligible class. This remains so notwithstanding the fact that costs increased 43% over the past two years in a service territory where low-income usage is higher than average and the utility's own call center fails to make appropriate referrals about eligible recipients.<sup>4</sup>

Given these parameters, I think the better legal and policy solution would be to continue the appropriate \$11.7 million dollar commitment while reducing the amount of maximum assistance provided to each recipient in the eligible classes. This can be done by dividing the total amount of resources available by the total number of eligible recipients in order to arrive at an appropriate assistance level.

In this case, there are 30,000 eligible recipients but only 10,000 received assistance in 2002. The utility wants to reduce the "maximum" number of recipients it must fund from 17,000 to 15,000 with a screening criteria that discriminates between eligible members.

Any attempt to determine which individuals in an otherwise eligible class will receive support should be avoided because it may be contrary to law and sound public policy. Such an approach may be contrary to the entitlement created under the Act. It is also bad public policy.

This Commission and the utility should avoid the invitation to determine which of the individual recipients in a class of otherwise eligible members in an entitlement program will actually receive the benefit. The benefit was mandated by our General Assembly. The General Assembly has not clearly authorized entitlement triage.

The better legal and public policy would be approval of a program that avoids entitlement triage.

---

<sup>4</sup>Id., pp. 4, 5, and 7.

This failure, however, is no grounds for refusing to support the Company's program even though I remain concerned that today's solution opens the door to selective, discriminatory, and focused funding. Although I do not believe that the General Assembly empowered the Commission or any utility to be its authorized surgeon for entitlement triage, the needs of Pennsylvanians warrant approval of this program.

---

Date

---

Dr. Aaron Wilson, Jr., Commissioner

PPL KA Cross 3  
T. R. Dahl

SAR  
8-11-04  
1508

**PPL Electric Utilities Corporation  
Response to Interrogatories of  
Commission on Economic Opportunity,  
Dated May 5, 2004**  

---

**Docket No. R-00049255**

Q.38. Please provide a copy of the settlement agreement concerning PP&L's electric restructuring proceeding and corresponding PUC order incorporating said settlement filed to Docket No. R-00973954.

A.38. See Attachment 1.

**DOCUMENT**

**DOCKETED**

AUG 18 2004

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PA PUC  
SECRETARY'S BUREAU

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Application of Pennsylvania Power & :  
Light Company for Approval of its :           Docket No. R-00973954  
Restructuring Plan Under Section 2806 :  
of the Public Utility Code, et al. :

**JOINT PETITION FOR FULL SETTLEMENT OF  
PP&L, INC'S RESTRUCTURING PLAN AND  
RELATED COURT PROCEEDINGS**

**August 12, 1998**

1 E.5. Sustainable Energy Fund. PP&L will establish a sustainable energy  
2 fund which shall be funded from the 1.74 cents per KWH transmission and  
3 distribution rate at .01 cents per KWH (less applicable gross receipts tax) on all  
4 power sold for all customers beginning on January 1, 1999 and ending on December  
5 31, 2004, or until the Commission establishes new distribution rates, whichever is  
6 longer. The .01 cent per KWH shall not automatically be considered a cost of  
7 service element upon expiration of the transmission and distribution rate cap on  
8 December 31, 2004. The Sustainable Energy Fund shall be managed by an  
9 administrator designated by a seven-member Board of Directors to be nominated by  
10 the Joint Petitioners and approved by the Commission. The fund shall operate  
11 according to the procedures set forth in its by-laws, which are to be reviewed and  
12 approved by the Commission. The fund is to have an annual audit and is to make  
13 semi-annual reports to the Commission and to the parties. The purpose of the fund  
14 is to promote the development and use of renewable energy and clean energy  
15 technologies, energy conservation and efficiency which promote clean energy.

16 E.6. Renewable Energy Pilot Program. PP&L agrees to implement a low-  
17 income renewable energy pilot program which will consist of a solar hot water  
18 heater program in 1999 and 2000, a photovoltaic program involving 35 installations  
19 in 1999 and 75 installations in 2000. The renewable energy pilot program will be  
20 operated by a Community-Based Organization with relevant experience and a

1 implementing this Settlement or PP&L's tariff approved as part of this Settlement,  
2 implementation of which necessarily must be completed beyond that date.

3 P.3. The Joint Petitioners may enforce this Joint Petition through any  
4 appropriate action before the Commission or through any other available remedy.  
5 Joint Petitioners shall consider any final Commission order related to the  
6 enforcement or interpretation of this Joint Petition as an appealable order to  
7 Commonwealth Court. This shall be in addition to any other available remedy at  
8 law and equity.

9 P.4. If a court grants a legal challenge to the Commission's approval of  
10 this Joint Petition and issues a final non-appealable order which prevents or  
11 precludes implementation of any material term of the Settlement, or if some other  
12 legal bar has the same effect, then this Settlement is voidable, upon written notice  
13 by any Joint Petitioner.

14

15 **Q. Complete Agreement; No Alterations Or Modifications.**

16

17 Q.1. This Settlement resolves, with prejudice, all of the issues specifically  
18 addressed herein and precludes the Joint Petitioners from asserting contrary  
19 positions with respect to any such issue during subsequent litigation, provided,  
20 however, that this Settlement is made without admission against or prejudice to any  
21 factual or legal positions which any of the Joint Petitioners may assert: (i) in the

1 event that the Commission does not issue a final, non-appealable Order approving  
2 this Settlement without modification; or (ii) in other Pennsylvania utilities'  
3 Restructuring proceedings before the Commission under Section 2806(D) of the  
4 Electric Competition Act and related appeals; or (iii) other proceedings before the  
5 Commission or other fora as long as such positions are not in derogation of this  
6 Settlement. The Joint Petitioners agree that this Settlement shall not constitute or be  
7 cited as controlling precedent in any other proceedings, including Pennsylvania  
8 utilities' restructuring proceedings before the Commission under Section 2806(D).  
9 This Settlement is determinative and conclusive of all of the issues addressed herein  
10 and constitutes a final adjudication as to the Joint Petitioners of the matters thereof.

11 Q.2. This Settlement is expressly conditioned upon the Commission's  
12 approval of all of the specific terms and conditions contained herein without  
13 modification. If the Commission should fail to grant such approval, or should  
14 modify any of the terms and conditions herein, this Settlement will terminate and be  
15 of no force and effect. The Joint Petitioners will make best efforts to support this  
16 Settlement and to secure its approval by the Commission.

17 Q.3. It is expressly understood and agreed that this Settlement constitutes a  
18 negotiated resolution solely of PP&L's restructuring proceedings at Docket No. R-  
19 00973954 and the related court appeals and other actions listed in Part O herein.

20

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COMMISSION ON ECONOMIC OPPORTUNITY  
OF LUZERNE COUNTY

CEO Statement No. 1

Direct Testimony of Eugene M. Brady

SM  
8-11-04  
H28

Pennsylvania Public Utility Commission v. PPL Electric Utilities  
Corporation

Docket Number: R-00049255

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P.A. PUC  
SECRETARY'S BUREAU

1 **Q. Please state your full name and business address.**

2 A. Eugene M. Brady, 165 Amber Lane, PO Box 1127, Wilkes-Barre, Pennsylvania 18703-  
3 1127.

4  
5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by the Commission on Economic Opportunity (CEO) as Executive  
7 Director.

8  
9 **Q. What are the interests of the Commission on Economic Opportunity in this rate  
10 case?**

11 A. The Commission on Economic Opportunity is a non-profit organization serving the low  
12 income and elderly in Luzerne County, PA. In a typical year, the Commission serves  
13 more than 20,000 Luzerne County residents, of which 98% are at or below 150% of the  
14 poverty level. It is a part of our responsibility to our constituency to advocate for their  
15 interests in regulatory proceedings and PPL Electric Utilities' proposed rate increase will  
16 greatly affect these low income ratepayers. The CEO tries to leverage funding resources  
17 to lessen the energy burden impacting all poor ratepayers. We target ratepayer families  
18 within 150% of the Federal poverty guidelines. CEO has been directly involved in  
19 assuring that low income persons' utility costs are contained through counseling, advice,  
20 payment assistance and energy conversation measures since its inception in 1965.

21 Our concern is to insure that the low income and the elderly have the ability to  
22 cope with their payment responsibilities. In addition to the affordability of transmission

1 and distribution rates, CEO is particularly interested in the adequacy and operation of the  
2 Company's Universal Services Programs.

3 **Q. What background and experience in energy issues qualify you and the Commission**  
4 **on Economic Opportunity to participate in this rate case?**

5 A. I have served as the Executive Director of the Commission since 1978. During my tenure  
6 CEO's experience and the expertise of its staff in energy programs has been recognized  
7 on state and national levels. CEO's energy related programs have been acknowledged by  
8 receipt of a Superior Achievement Award from the United States Department of Energy.

9 The Commission has weatherized more than 25,000 homes under the U.S. Department of  
10 Energy Weatherization Assistance Program. The organization also serves as a

11 subcontractor for the PPL Electric Utilities' WRAP Program and the Low Income Usage  
12 Reduction Programs operated by the PG Energy Company and UGI Gas and Electric

13 Divisions. In addition to energy conservation, the Commission is the contracted operator  
14 of Customer Assistance Programs sponsored by PPL, UGI, and PG Energy, and operates

15 the hardship assistance funds for each of those three utility companies. CEO is also the  
16 PA Department of Public Welfare's contracted operator of the Crisis component of the

17 Low Income Home Energy Assistance Program in Luzerne and Wyoming Counties.

18 CEO was also a major contractor for PPL in the Low Income Renewable Energy Pilot,  
19 and secured funding and installed several solar thermal water heating systems for PG

20 Energy and UGI Gas Division.

21 *Throughout my career I have served on numerous Boards, Committees and Task*  
22 *Forces in the energy field under the auspices of the US Department of Energy, The PA*

1 Department of Community & Economic Development and the PA Public Utility  
2 Commission. Presently, I serve on the Board of Directors of the National Center for  
3 Appropriate Technology; I am on the Board of the National Community Action  
4 Foundation, the Chair of the Pennsylvania Weatherization Providers Task Force, and  
5 Chair of the Department of Community & Economic Development Weatherization Policy  
6 Advisory Council.

7 The Commission on Economic Opportunity was an active participant in the PPL  
8 Rate Case, R-00943271, PG Energy Rate Case, R-00005119 and along with the  
9 Community Action Association of PA, was an active party in the Utility Restructuring  
10 Cases of PPL, MetEd and Penelec, Allegheny Power, Penn Power Company, UGI  
11 Electric Division, NFG, UGI-Gas Division and PG Energy.

12  
13 **Q. Mr. Brady, would you describe your organization's role in PPL's Universal Service**  
14 **Programs?**

15 **A.** I will first state that PPL should be commended for its commitment to Universal Service  
16 Programs, since most of these programs pre-dated the restructuring of the Company. As  
17 the community based organization operating PPL Universal Service programs in Luzerne  
18 County, I am knowledgeable and experienced in WRAP, OnTrack, Operation HELP and  
19 the Low Income Renewable Pilot Project. I am familiar, but do not have direct  
20 experience, with the CARES Program.

21 **WRAP**

22 Under contract with PPL, CEO performs outreach, referral and recruitment for

1 WRAP; once a household indicates an interest in the program, we acquire and verify the  
2 household's income sources and amounts to ascertain financial eligibility, verify home  
3 ownership through deed search or secure the necessary landlord's permission in the case  
4 of renters; we visit the home for an initial inspection of the premises to determine the  
5 appropriate energy conservation measures to be installed, and to take the necessary  
6 measurements. We then prepare a work order, order the necessary materials, secure the  
7 necessary permits, and then return to the home and install the measures. We provide a  
8 one year warranty on all labor and materials, and correct any problems within 24 hours or  
9 30 days, depending on the nature of the problem.

#### 10 **OnTrack**

11 In OnTrack, we, again, serve as the primary contact with the customer throughout their  
12 participation in OnTrack. We perform outreach and recruitment of program participants,  
13 personal interview of candidates, verification of income sources and amounts, analysis of  
14 electric bills and payment practices, overdue balances, household budget, itemized  
15 household expenditures, outstanding debts, special circumstances, eligibility for other  
16 assistance programs, we then complete the enrollment forms, execute an OnTrack  
17 Agreement with the customer, enter customer information into the PPL computer system,  
18 monitor their payment practices, and recertify their eligibility.

#### 19 **Operation HELP**

20 When someone has an overdue balance and is threatened with termination, our staff  
21 performs an initial intake and assessment of the situation, makes a determination of need,  
22 determines income eligibility, performs a budget review, verifies information with the

1 landlord and utility company, assesses the family's alternative resources, explores non-  
2 monetary solutions to the problem, determines the availability of public resources, and  
3 assesses the on going affordability of continued service before allocating Operation Help  
4 funds.

5 **Low Income Renewable Energy Pilot**

6 For this pilot program, our staff identified potential program participants, performed an  
7 on-site visit and necessary inspections, evaluated solar access, secured necessary permits,  
8 ordered equipment, installed systems, responded to maintenance calls and maintains  
9 responsibility for maintenance for two years.

10 As you can see from the activities enumerated, our role in each of these programs  
11 is direct client service, not administration.

12 **Q. Is there a reason you make the distinction between 'direct client service' and**  
13 **administration?**

14 A. Yes, in almost all evaluations and discussions of Universal Service Programs, these costs  
15 are combined with PPL's in-house overhead costs and described as "Administrative",  
16 which generally means management or supervisory, and not of direct benefit to program  
17 participants. Rather, our services can better be described as operational costs or direct  
18 service costs, because they are clearly of direct benefit to the customer, tangible, easily  
19 identified, and essential to the operation of the program.

20 **Q. What recommendations would you make to insure that these programs meet their**

1 **intended objectives?**

2 A. The Direct Testimony of Timothy R. Dahl (Statement No. 7, page 9) stated “The  
3 universal service programs are not static; they are continually changing and evolving.  
4 The introduction of new technology, turnover of agency caseworkers, increasing customer  
5 expectations, additional work processes and new regulatory requirements are just some of  
6 the challenges. However, PPL Electric has the leadership, personnel and experience to  
7 respond effectively to these challenges.” PPL Electric Utilities is a public utility and, as  
8 such, its management philosophy and staff expertise lies in the transmission and  
9 distribution of energy. The role of the company in designing and implementing universal  
10 service programs should be one of administration, monitoring and inspection. The  
11 expertise in developing and operating programs that benefit people and communities lies  
12 within community based organizations. These organizations serve thousands of low  
13 income and disadvantaged members of the community; they have direct knowledge of the  
14 barriers and impediments to self-sufficiency, and continually innovate and evolve the  
15 service delivery system to better meet the needs of the population they serve. Community  
16 based organizations are governed by volunteer Boards of Directors; accountable to the  
17 communities they serve, and are not conflicted by a duty to shareholders and investors.  
18 The focus and active experience of community based organizations make them singularly  
19 suited to speak for the needs of the community. As such, the research, development and  
20 evolution of these programs should occur on a community level, by organizations who are  
21 experienced in these programs not on a PP&L staff level. These are “people” programs,  
22 not public relations programs, and community based organizations are best qualified to

1 implement them.

2 Local, experienced community based organizations must continue to operate these  
3 programs; the CEO operates as a one stop facility for the energy problems of the poor.  
4 This system has been shown to be efficient, cost-effective and vital to the low income  
5 community.

6 **Q. The Electricity Generation Customer Choice and Competition Act requires that**  
7 **universal service programs be “appropriately funded and available” in each electric**  
8 **distribution territory. Do PPL programs meet this description?**

9 A. No, the PUC in an Order dated June 12, 2003, Docket No. M-00031698 found that  
10 PPL’s universal service plan, particularly the OnTrack Program, was neither appropriately  
11 funded nor available in its service territory. The Order recommended OnTrack should  
12 serve, at a minimum, 17,000 customers as approved by the Commission in 2000, and  
13 possibly as high as 30,000, the number recommended by an independent evaluator. This  
14 recommendation was made a year ago and did not account for the impact of the proposed  
15 rate increase.

16 **Q. Do you have any recommendations in this regard?**

17 A. Yes, the aforementioned Order cites utility company penetration levels as ranging from  
18 8% to 65% during the 2001 program year. Within the PPL service territory, the number  
19 of low income PPL accounts with overdue balances increased 43% over the last two  
20 years, and the number of low income customers with payment plans increased 45%. And  
21 these figures do not account for the 10% rate increase proposed by PPL for residential  
22 customers, which will further increase the energy burden on low income customers.

1 I believe that, at a minimum, PPL should achieve a penetration rate of at least  
2 50% of those eligible. Mr. Dahl, in Direct Testimony, proposes a 25% increase in  
3 funding which he projects would serve 15,000 – 17,000 customers – which is its target  
4 level presently with year 2004 funding of \$11.7 million. At the high end, this is just 8.5%  
5 of its 200,250 low income customers, which the Commission found unacceptable. I make  
6 no recommendations as to the funding level, as that is outside my expertise.

7 **Q. Do you have any other recommendations for the OnTrack program?**

8 A. The company is proposing to drop the current restriction of at least \$150 in monthly rent  
9 for subsidized housing residents, again because of concerns expressed by the PUC in  
10 Docket No.M-00031698. I agree that this provision is overly restrictive and should be  
11 discarded. I also believe that the present program guidelines restricting eligibility to those  
12 with an overdue balance of \$150 should be removed. This provision discriminates  
13 against those low income, payment troubled customers who forgo many other items to  
14 pay their utility bills, particularly the elderly, in favor of those who accrue an outstanding  
15 balance. It may even encourage outstanding balances to accrue.

16  
17 **Q. Do you have concerns regarding the mechanism used by PP&L in distributing funds  
18 for community programming throughout its five regions?**

19 A. Yes, in reviewing the information provided by PPL, I find that Luzerne County receives  
20 its fair share of OnTrack and WRAP funding; however, the county's allocation of  
21 Operation HELP funding falls short. Luzerne County has 9.8% of the company's low  
22 income customers, but receives only 5.5% of the hardship funds. (Company Responses to

1 CEO Interrogatories, Set I, Q&As 4, 9 and 11) I believe these funds should be allocated  
2 on a more equitable basis.

3 **Q. Do you have concerns regarding the operation of the Sustainable Energy Fund in**  
4 **the PPL territory?**

5 A. Yes, as the Fund has operated to date, residential customers, including low income  
6 residential customers, receive very little benefit. There is not a program in place to see  
7 that these residential class customers receive a benefit proportionate to their contributions  
8 to the fund.

9 **Q. What recommendations would you make to see the residential customer class,**  
10 **including low income, benefit as appropriate?**

11 A. Thirty-six percent of the contributions by PPL to the Sustainable Energy Fund are  
12 generated by the residential class (CEO Witness Howat). These funds should be  
13 designated by PPL for a Renewable Energy Program. A workable example would include  
14 a photovoltaic buy-down program. Within the amount designated for residential  
15 renewable energy programs, 17.6% of these funds, which represent the percentage of PPL  
16 customers who are low income, would be a 100% grant program. For the non-low  
17 income residential participants, a dollar for dollar match should be provided by the fund.  
18 This would assure benefits to the residential class of customer commensurate with their  
19 contribution to the Sustainable Energy Fund.

20 I wholeheartedly support the continuation of funding for the Sustainable Energy  
21 Fund. Research has shown that consumers want clean, environmentally benign energy,  
22 particularly solar.

1

2 **Q. Do you have any other issues you wish to address?**

3 A. I am pleased and encouraged that PPL has seen fit to incorporate solar water heating into  
4 the WRAP program. This recommendation is consistent with the Electricity Generation  
5 Customer Choice and Competition Act which describes the application of renewable  
6 resources as one of the “Policies, protections and services that help low-income to  
7 maintain electric service” (Section 2803). Solar energy is reliable, pollution free and after  
8 installation, costs nothing. It is an ideal way to reduce energy costs for the low income,  
9 since water heating consumes approximately 15% (US Department of Energy) of a  
10 household’s energy bill.

11 I am, though, disappointed that there is no consideration given to residential  
12 Demand Side Management. We believe that this is a key component to provide efficient  
13 affordable energy to all users.

14 **Q. Does this conclude your testimony?**

15 A. Yes, it does.

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AUG 18 2004

**DOCUMENT**

COMMISSION ON ECONOMIC OPPORTUNITY  
OF LUZERNE COUNTY

CEO Statement No. 1-R

Surrebuttal Testimony of Eugene M. Brady

*Sam*  
*8-11-04*  
*Heg*

Pennsylvania Public Utility Commission v. PPL Electric Utilities  
Corporation

Docket Number: R-00049255

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1 **Q. Please state your full name and business address.**

2 A. Eugene M. Brady, 165 Amber Lane, PO Box 1127, Wilkes-Barre, Pennsylvania 18703-  
3 1127.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by the Commission on Economic Opportunity (CEO) as Executive  
6 Director.

7 **Q. Have you previously offered testimony in this matter?**

8 A. Yes I have.

9 **Q. What is the purpose of the additional testimony you are providing herein?**

10 A. The Commission on Economic Opportunity (“CEO”) would like to respond to the  
11 Rebuttal Testimony of Timothy R. Dahl of PPL in Statement No. 7-R, as it applies to our  
12 concerns with the OnTrack component of PPL’s rate increase request.

13 **Q. Could you please explain your concerns with the rebuttal testimony?**

14 A. CEO disagrees that the recommendations we previously outlined will cost the company  
15 nearly as much as it claims. PPL articulates credible reasons why a blanket reliance on  
16 census data will not provide an accurate measure of actual enrollment. Considering such  
17 factors as those who live in metered apartments and those who do not otherwise qualify  
18 for the program will reduce the costs that the company attributed to CEO’s suggestions.  
19 Moreover, the rebuttal testimony indicates that the funding level suggested by the  
20 company is inadequate to fulfill the intent and mission of the program.

21 PPL’s claim that the OnTrack program is adequately funded is unreliable as the  
22 company relies on the fact that the funding level was part of its restructuring agreement.

1 The company offered no substantiation for its disagreement of the conclusion that the  
2 PUC subsequently, in an Order dated June 12, 2003, Docket No. M-00031698 found that  
3 PPL's OnTrack Program was neither appropriately funded nor available in its service  
4 territory. PPL's proposal to have the minimal 17,000 customers enrolled is unacceptable  
5 given the rebuttal testimony acknowledgement that "the estimated population for active  
6 enrollment in OnTrack is approximately 30,000 customers".

7 **Q. Do you have any other concerns with the rebuttal testimony offered by PPL in this**  
8 **matter?**

9 A. Yes, I am concerned with the resistance that PPL displays toward expanding the role of  
10 local Community Based Organizations ("CBOs"), particularly in the usage reduction and  
11 weatherization programs (Winter Relief Assistance Program or "WRAP"). This reflects a  
12 developing industry trend in which companies seek to fulfill their CBO obligations  
13 through statewide agencies. Local agencies, as opposed to statewide agencies, are much  
14 better suited to meet the needs of the customers in the company's service territory. Local  
15 CBOs understand the specific needs of the local customers, as well as the local  
16 community, market place and environment. Statewide agencies, which attempt to serve a  
17 state that is as considerably diverse as Pennsylvania, cannot provide an equivalent or  
18 specifically tailored level of assistance in a unique service area, such as PPL's territory.

19 **Q. Does this conclude your surrebuttal testimony?**

20 A. Yes, it does.

PENNFUTURE PARTIES STATEMENT NO. 1

DOCUMENT

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

*Sam*  
*8-11-04*  
*Hbg*

PENNSYLVANIA PUBLIC UTILITY  
COMMISSION, et al.

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Docket No. R- 0004925

v.

PPL ELECTRIC UTILITIES  
CORPORATION

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AUG 18 2004

DIRECT TESTIMONY OF \_\_\_\_\_  
JOHN HANGER

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Dated: June 29, 2004

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

2 **A:** My name is John Hanger. My business address is 610 North Third Street,  
3 Harrisburg, PA 17101.

4 **Q: BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 **A:** I have been President and Chief Executive Officer of Citizens for  
6 Pennsylvania's Future ("PennFuture") since it was founded in 1998.

7 **Q: PLEASE DESCRIBE YOUR EDUCATION AND PROFESSIONAL**  
8 **EXPERIENCE.**

9 **A:** I am a 1979 graduate of Duke University and a 1984 graduate of the  
10 University of Pennsylvania School of Law. From April 1993 to June 1998, I  
11 was a Commissioner with the Pennsylvania Public Utility Commission. During  
12 that time, I served on the Electricity Committee, the Consumer Affairs  
13 Committee, and the Committee on Energy Resources and the Environment of  
14 the National Association of Regulatory Utility Commissioners (NARUC). Prior  
15 to becoming Commissioner, I was legal counsel to Pennsylvania Public Utility  
16 Commissioner Joseph Rhodes from 1988 to 1993. From 1984 to 1988 I  
17 worked at Community Legal Services, Inc. of Philadelphia, serving as Public  
18 Advocate representing 500,000 municipal customers of the City of  
19 Philadelphia's municipal gas, water, and sewer utilities.

20 **Q: WHAT ARE YOUR RESPONSIBILITIES AS PRESIDENT AND CEO OF**  
21 **PENNFUTURE?**

22 **A:** I am responsible for all aspects of the work of the organization, which has a  
23 staff of 16 at offices in Philadelphia, Pittsburgh and Harrisburg. PennFuture

1 engages in a wide range of activities, through litigation, public education,  
2 public policy and other means to improve the environment and economy of  
3 Pennsylvania.

4 A major objective of PennFuture is to promote efficient restructured  
5 electricity markets and to integrate cleaner electricity solutions into the  
6 electricity system. I work on these issues on a daily basis. I am frequently  
7 asked by the press to comment on such issues. I have been regularly asked  
8 by policymakers for information and recommendations on electricity policy. I  
9 have testified before the United States Congress and state legislatures. I  
10 have authored numerous articles, written leading regulatory decisions and  
11 lectured to diverse audiences. More information is available through our  
12 website at [www.pennfuture.org](http://www.pennfuture.org).

13 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

14 **A:** The primary purpose of my testimony is to support the continuation of the  
15 Sustainable Energy Fund of Central Eastern Pennsylvania (SEF) with  
16 increased funding so that it may more effectively serve its mission.

17 **Q: PLEASE SUMMARIZE YOUR CONCLUSIONS AND**  
18 **RECOMMENDATIONS.**

19 **A:** SEF has had an excellent start. PPL should be commended for recognizing  
20 the importance of SEF to PPL, its customers, and the public interest, as well  
21 as for recognizing that the job has just begun. PPL should be commended for  
22 including continued funding of the SEF at current levels in its own filing in this  
23 case. However, SEF remains significantly underfunded, hindering the

1 opportunity to make even greater progress. Funding for SEF should be  
2 doubled to 2 mills, or 2/100 of one cent per kilowatt hour of electricity  
3 delivered to its customers.

4 **Q: WHY DO YOU SAY THAT SEF IS SIGNIFICANTLY UNDERFUNDED?**

5 **A:** For two primary reasons. First, there is so much more work left to do.  
6 Second, funding of SEF is at a dramatically lower rate than funds to support  
7 renewable energy and energy efficiency in other states.

8 **Q: WHY DO YOU SAY THERE IS SO MUCH MORE WORK TO BE DONE?**

9 **A:** The SEF list of project commitments to date is impressive indeed. Yet, even  
10 a cursory review makes clear how many kinds of projects are not being  
11 funded. With additional funding, SEF could establish ongoing programs to  
12 provide grants, low interest loans, or performance subsidies for installing fuel  
13 cells, small wind turbines, or solar panels. None exists now, even though that  
14 is just what is needed to get new technologies to an economy of scale  
15 making them more cost-effective for all. SEF funding, along with that  
16 provided by the other sustainable energy funds in Pennsylvania, played a  
17 crucial role in developing the Pennsylvania wind industry, the strongest in the  
18 east, to where it is today. Yet, there is no longer substantial funding available  
19 to support the expansion of this still fledgling industry. SEF does not have  
20 enough funds to support crucial renewable energy and energy efficiency  
21 public education and marketing programs. SEF does not have enough  
22 money to invest in new energy efficiency companies. The list of unmet needs  
23 goes on and on.

1 **Q: HOW DO YOU KNOW THAT SEF FUNDING IS LOWER THAN OTHER**  
2 **FUNDS?**

3 **A:** SEF has been funded at the rate of 1/100 of one cent per kwh of electricity  
4 delivered to its customers, or 0.1 mills per kwh. According to the Clean  
5 Energy States Alliance<sup>1</sup>, a non-profit organization of 17 clean energy funds in  
6 12 different states, the average rate of funding is 1.3 mills, and the dollar  
7 weighted average funding is over 2.0 mills. Adoption of my recommendation  
8 to double the funding to 0.2 mills still would leave the SEF funding rate less  
9 than 1/6 of the average and less than 1/10 of the weighted average.

10 **Q: AREN'T THESE FUNDS DIFFERENT FROM EACH OTHER?**

11 **A:** Yes, there are many differences, but many similarities as well. The  
12 commonality is that the clean energy funds are the primary initiative within  
13 each state to dedicate utility and/or ratepayer funding to support renewable  
14 energy and energy efficiency projects. In most cases, the funds represent the  
15 primary state initiative to support such important work, and separate taxpayer  
16 funded initiatives are secondary or do not exist.

17 **Q: HOW WOULD YOU COMPARE FUNDING LEVELS?**

18 **A:** My point is to emphasize the general magnitude of the different *rates of*  
19 *funding*. Many states devote ratepayer and/or utility funds to support  
20 renewable energy and energy efficiency at far higher rates. I am not

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<sup>1</sup> [www.cleanenergystates.org](http://www.cleanenergystates.org)

1 suggesting that a precise comparison of total funding levels or of the different  
2 funds are appropriate.

3 **Q: DON'T STATE OR QUASI-STATE AGENCIES NEED MUCH HIGHER**  
4 **FUNDING RATES?**

5 **A:** Perhaps. Some of the funds are state agencies staffed with hundreds of  
6 employees, and they certainly require large staff and administration budgets.  
7 On the other hand, the fact that SEF operates with a very small staff and  
8 limited overhead is hardly a reason to deny sufficient funds for the lean  
9 operation.

10 **Q: HOW IS SEF FUNDED?**

11 **A:** Most perceive SEF as ratepayer funded because the 0.1 mills is a portion of  
12 the distribution rate. (PPL Statement No. 7 at 22). However, ratepayers have  
13 not really contributed any funds thus far; PPL in fact has been the benefactor.

14 **Q: WHY DO YOU SAY THAT?**

15 **A:** Because PPL distribution rates have been subject to rate caps until now. If  
16 the 0.1 mills had not been allocated to SEF and SEF did not exist, PPL would  
17 have had the same capped unbundled distribution rate and been allowed to  
18 use the same funding for other purposes.

19 **Q: WHO SHOULD PAY TO FUND SEF?**

20 **A:** I don't really have a preference, so long as there is sufficient funding. It's a  
21 pretty easy argument that PPL, its ratepayers and the general public benefit  
22 directly from the success of SEF activities. All can and should fund such  
23 programs, but for better or for worse, meaningful taxpayer funding is not

1           likely. This is true not only in Pennsylvania, but in other states and indeed  
2           nationally. That is why utilities and ratepayers are the primary funding  
3           sources nationally for public benefit renewable energy and efficiency  
4           programs.

5   **Q:   WHY IS IT PPL'S OR RATEPAYERS' PROBLEM?**

6   **A:**   Renewable energy and energy efficiency certainly is a public good, for  
7           reasons we all know, such as economic development, public health, and  
8           environmental reasons. But, renewable energy and energy efficiency also  
9           provide direct utility and ratepayer benefits. Both are a key part of a balanced  
10          energy supply that provides reliability benefits and a hedge against  
11          fluctuations in natural gas prices or the market price of electricity. PPL and  
12          each and every customer—large and small—are the beneficiaries of effective  
13          investment in renewable energy and energy efficiency. While more taxpayer  
14          support for such initiatives certainly is needed, utilities and ratepayers in  
15          many states support such efforts for very good reason.

16   **Q:   WITH A RATE INCREASE REQUESTED FOR OTHER ITEMS, WHY**  
17          **SHOULD RATEPAYERS START FUNDING SEF NOW?**

18   **A:**   PPL has contributed about \$20 million to support SEF thus far. Ratepayers  
19          have not yet contributed anything. The funding under consideration here is a  
20          tiny, tiny amount. For a residential customer using about 750 kwh monthly,  
21          the annual contribution as proposed by PPL—1 mill—comes to *about 90*  
22          *cents per year.* If the contribution is doubled to 2 mills as I recommend, the  
23          residential customer still would be contributing *only about 15 cents per*

1           *month.* If PPL were to contribute a portion of that amount, the ratepayer  
2           contribution would be even less.

3   **Q:   DO YOU AGREE THAT CONTRIBUTIONS TO SEF SHOULD SUNSET IN**  
4   **2009 AS PROPOSED BY PPL?**

5   **A:**   No. The distribution rates being established in this case will remain in effect  
6           until changed in the next distribution rate case. There is no reason to isolate  
7           one tiny component of rates, SEF funding, and treat it differently. Whether  
8           the next distribution rate case is in 2007, 2009, or any other year, proper  
9           funding for SEF should be considered at that time. Perhaps one or more of  
10          SEF's investments will have really done well and reduced funding may be  
11          appropriate. Perhaps other funding sources besides PPL and its customers  
12          will be sufficient. Perhaps there will be a crisis in energy supply and the need  
13          for dramatic increases in renewable energy and efficiency will be recognized.  
14          There is no reason to decide now.

15   **Q:   ISN'T SEF REQUIRED TO BE SELF-SUSTAINING?**

16   **A:**   No, there is no such requirement. When approving the sustainable energy  
17          fund bylaws, the Commission specifically rejected the dissolution provision as  
18          "inconsistent with the goal of these funds. It is the Commission's intent that  
19          these funds themselves become sustainable through efficient management  
20          and the leveraging of monies received from other funding sources." (PUC  
21          Order entered 6/2/2000 at Docket No. R-00973954). I am aware of no  
22          requirement in the settlement agreement that established SEF or any  
23          Commission Order since that imposes any assumption that PPL/customer

1 funding for SEF "should" expire or that SEF "should" be entirely self-funded at  
2 all, let alone by any particular time frame.

3 **Q: THEN WHAT DOES IT MEAN FOR THE FUND ITSELF TO BECOME**  
4 **"SUSTAINABLE" AS THE COMMISSION DIRECTED?**

5 **A:** Sustainable means able to stay in existence, to be maintained or prolonged.  
6 It simply does not mean that outside funding from PPL or its ratepayers is  
7 inappropriate or temporary.

8 **Q: HAS SEF ACTED TO BECOME "SUSTAINABLE"?**

9 **A:** Yes. SEF has successfully emphasized "revolving" or "sustainable" funding  
10 based upon repayment of loans, returns on equity investments, and the like.  
11 PPL witness Dahl indicates that that more than 90% of program funds have  
12 been investments and only about 9% grants. (PPL Statement No. 7 at 22-23.)  
13 The sustainable energy funds generally leverage several times their own  
14 project investment with applicant or other loan or equity funds. In other words,  
15 for every dollar that SEF invests in a project, there may be another \$1, \$2 or  
16 \$3 leveraged from the applicants own funds or from other investors. Along  
17 with minimal staffing and overhead, the Commission directive is being taken  
18 very seriously. Moreover, it would be most unfortunate if SEF were required  
19 to be sustainable without PPL or ratepayers support.

20 **Q: WHY IS THAT?**

21 **A:** Requiring SEF to be self-supporting would undermine the performance of a  
22 large part of its mission. If required to be self-funded, SEF would have limited  
23 ability to provide grants. If required to be self-funded, SEF would have a

1           disincentive to invest in exactly the kind of cutting edge projects that cannot  
2           obtain funding through traditional avenues. SEF is not a for-profit financial  
3           institution and it should not behave entirely like one.

4   **Q:   DOES THIS CONCLUDE YOUR TESTIMONY?**

5   **A:   Yes.**

PENNFUTURE PARTIES STATEMENT NO. 1-R

*SDM*  
*8-11-04*  
*Hbg*

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY  
COMMISSION, et al.

v.

PPL ELECTRIC UTILITIES  
CORPORATION

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Docket No. R-00049255

DOCUMENT

REBUTTAL TESTIMONY OF  
JOHN HANGER

DOCKETED

AUG 18 2004

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2004 AUG 16 AM 9:34

PA PUC  
SECRETARY'S BUREAU

Dated: July 27, 2004

1 Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A: My name is John Hanger. My business address is 610 North Third Street,  
3 Harrisburg, PA 17101.

4 Q: DID YOU FILE DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF  
5 OF THE PENNFUTURE PARTIES?

6 A: Yes, I did.

7 Q: WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

8 A: The purpose of my rebuttal testimony is to respond to the direct testimony of  
9 intervenors concerning PPL's proposal to continue funding of the Sustainable  
10 Energy Fund (SEF) through distribution rates. My comments fall into three  
11 categories. First, I will address a few of the misunderstandings about SEF  
12 contained in the direct testimony of some intervenor witnesses. Second, I will  
13 respond to those that suggest that SEF is a social program that should not be  
14 funded through distribution rates. Third, I will address SEF management and  
15 decision making.

16 Q: HOW DO YOU RESPOND TO SUGGESTIONS BY THE OFFICE OF TRIAL  
17 STAFF (OTS) AND THE PPL INDUSTRIAL CUSTOMER ALLIANCE  
18 (PPLICA) THAT FUNDING FOR SEF IS FOR A LIMITED TIME PERIOD OR  
19 THAT THIS FUNDING EXPIRES ON DECEMBER 31, 2004?

20 A: Witnesses in this proceeding have said that funding for SEF is "for a limited  
21 time period" or implied that SEF would expire on December 31, 2004. OTS  
22 Statement No. 5 at 5; PPLICA Statement No. 1 at 53. In fact, the settlement  
23 provides that funding for SEF ends "on December 31, 2004, or until the

1 Commission establishes new distribution rates, whichever is longer" (Docket  
2 No. R-00973954, Paragraph E.5). The settlement is consistent with  
3 continuation or even expansion of the SEF. By its terms, the settlement does  
4 not, nor could it, prohibit the Commission from establishing in this distribution  
5 rate case continued or expanded funding for SEF.

6 **Q: DIRECT TESTIMONY IN THIS PROCEEDING HAS CHARACTERIZED SEF**  
7 **AS A "RESEARCH AND DEVELOPMENT FUND." IS THIS ACCURATE?**

8 **A:** Two parties have characterized SEF as a supporting research and  
9 development. PPLICA Statement No. 1 at 54; OTS Statement No. 5 at 5.

10 This is not accurate. SEF generally does not fund research and  
11 development, as demonstrated by the list of program-related investments and  
12 grants appearing at PPL Statement 7, Exhibit TRD-3. This list includes such  
13 items as investments in green buildings and wind energy as well as grants  
14 for, among many other things, energy efficiency and solar energy.

15 **Q: HOW DO YOU RESPOND TO THE CHARACTERIZATION BY SOME**  
16 **OTHER PARTIES THAT SEF IS A "SOCIAL PROGRAM" OR ONE THAT**  
17 **SHOULD NOT BE FUNDED THROUGH DISTRIBUTION RATES?**

18 **A:** SEF is not a social program. First, most of its funds are provided through  
19 program-related investments, not grants. Second, SEF's mission includes  
20 increasing energy efficiency and distributed generation. Improved energy  
21 efficiency and expanding distributed generation relieve load and congestion in  
22 the distribution (and transmission) system. Reduced load and congestion in  
23 the distribution system relieve the need to expand and improve the

1 distribution system to reliably provide service, which provides a reliability and  
2 distribution cost of service benefit to all consumers..

3 **Q: HAS THIS KIND OF REASONING ALREADY BEEN ADDRESSED IN THIS**  
4 **CASE?**

5 **A:** Yes, testimony offered by Roger Colton on behalf of the Office of Consumer  
6 Advocate (OCA) offers similar reasoning to support universal service.

7 According to Mr. Colton: "One well-accepted tenet of utility ratemaking is that  
8 certain expenses incurred by a public utility are for 'public goods.' Due to the  
9 nature of public goods, all customers receive benefits from public goods and,  
10 accordingly, the costs of such goods are spread over all customer classes.

11 Each end-user makes a financial contribution to the utility's delivery of public

12 goods. The 'public goods' doctrine is applied in a variety of settings as a

13 justification to spread designated utility costs over all customer classes." OCA

14 Statement No. 5 at 27-28; see also at 36. Mr. Colton's argument, widely

15 recognized in utility ratemaking, is that programs that provide wide public

16 benefits are 'public goods' that should be funded by all.

17 **Q: BUT SHOULDN'T SUCH PROGRAMS BE FUNDED BY ALL TAXPAYERS**  
18 **BECAUSE THERE IS EVEN A GREATER SOCIAL BENEFIT?**

19 **A:** Just because something is a public benefit for all does not mean that it is a  
20 social program or the subject of charity. Programs that create public benefits  
21 in utility service are "public goods", appropriately funded by all utility  
22 customers. As I indicated in my Direct Testimony, SEF projects promoting  
23 energy efficiency, distributed generation, renewable energy and similar goals

1 provide many public health, environmental, economic development and other  
2 benefits that go beyond distribution service benefits. That in no way suggests  
3 that such projects are somehow *less* worthy of support through distribution  
4 utilities and rates. It suggests that they are *more* worthy. To the extent that  
5 taxpayer funding is inadequate, funding through distribution service is even  
6 more important.

7 **Q: ISN'T FUNDING SUCH PROGRAMS BEYOND THE SCOPE OF THE**  
8 **RESTRUCTURING ACT?**

9 **A:** Not at all. PPLICA witness Baron has a narrow and inaccurate view of the  
10 purpose of the Restructuring Act as limited to deregulation and competition  
11 (PPLICA Statement No. 1 at 54). Section 2802 of the Restructuring Act lists  
12 many other key public policies addressed by the Act, including reliability and  
13 efficiency of the distribution system, energy conservation, and renewable  
14 energy. 66 P.S. § 2802(9, 12,17). Paragraph 17 of this Section specifies that  
15 energy conservation and other programs are to be funded through non-  
16 bypassable rates.

17 **Q: WHY SHOULDN'T SEF FUNDING BE ALLOCATED TO GENERATION?**

18 **A:** SEF projects benefit all distribution customers, served by a monopoly  
19 distribution company. They also benefit all generation customers and the  
20 public at large, but the many competitive suppliers makes it more complex to  
21 fund the SEF through generation. Moreover, in the restructuring settlements  
22 approved by the Commission, funding for the sustainable energy funds was  
23 attributed to distribution service.

1 Q: COMMISSION ON ECONOMIC OPPORTUNITY (CEO) WITNESS HOWAT  
2 RECOMMENDS DEDICATED FUNDING FOR PHOTOVOLTAIC (PV) FOR  
3 LOW INCOME CUSTOMERS AND OTHER RESIDENTIAL CUSTOMERS.  
4 HOW DO YOU RESPOND?

5 A: I agree with the assumption in Mr. Howat's testimony (CEO Statement No. 2  
6 at 16) that PV projects, including programs designed for low income  
7 customers, are an appropriate and important use of SEF funding. However,  
8 the purposes of SEF are much broader, SEF has limited funding, and there  
9 are many, many good projects that need funding. The projects SEF funds  
10 reflect the full range of SEF's renewable energy and energy efficiency goals.  
11 Generally, SEF should have the flexibility to fund the best project  
12 opportunities within its directed mission.

13 Q: HOW DO YOU RESPOND TO THE PROJECT EXPENDITURE  
14 ALLOCATION COMMENTS OF CEO WITNESS HOWAT?

15 A: The benefits of renewable energy and energy efficiency are public and are  
16 not limited to the specific customers or customer classes receiving SEF  
17 funds. When the SEF supports a distributed generation project, then the  
18 specific "host" customer clearly benefits, but all ratepayers benefit from the  
19 increased reliability of the distribution system and limitation of the need for  
20 system upgrades as I have discussed. For this reason, it is not appropriate  
21 to dedicate project expenditures to track funding support. In many ways, this  
22 issue is closely related to my comments that SEF provides public benefits: in  
23 both cases, it is critical to recognize the benefits to all ratepayers of SEF-

1 supported projects that reduce distribution costs and promote system  
2 reliability.

3 **Q: DOES SEF NEED MANAGEMENT AT THE STATE LEVEL?**

4 A: In order to maximize the public benefits of SEF's work, the Commission and  
5 the Pennsylvania Sustainable Energy Board (PASEB) should provide overall  
6 direction about funding priorities without limiting the flexibility SEF needs to  
7 make sure that it funds the best projects.

8 **Q: DO YOU SUPPORT MORE COORDINATION BETWEEN THE VARIOUS  
9 UTILITY FUNDS AND WITH THE PENNSYLVANIA ENERGY  
10 DEVELOPMENT AUTHORITY (PEDA)?**

11 A: I do not oppose better coordination and communication both between the  
12 funds and with PEDA as described in OSBA testimony (OSBA Statement No.  
13 2 at 8), as long as SEF maintains its independence and flexibility in grant-  
14 making.

15 **Q: OSBA ALSO RECOMMENDS THAT MANAGEMENT OF FUTURE  
16 CONTRIBUTIONS TO SEF BE TURNED OVER TO PEDA. DO YOU  
17 AGREE?**

18 A: No, I do not agree with this recommendation (OSBA Statement No. 2 at 8).  
19 SEF's mission is to promote the development and use of renewable energy  
20 and clean energy technologies, energy conservation and efficiency. At this  
21 point, we do not know how PEDA will operate. We do know that it is about  
22 energy in general and organized as an authority that will issue bonds. It  
23 appears possible that PEDA would only issue bonds to projects with a proven

1 ability to repay debt, a completely different business model than SEF's grant-  
2 making and investment strategy. Still, I do agree that once PEDDA is in  
3 operation, it will make sense for SEF to coordinate its activities with PEDDA.

4 **Q: DO YOU SUPPORT CHANGES IN THE GOVERNANCE STRUCTURE OF**  
5 **SEF?**

6 **A:** Yes. Thus far, seats on the SEF Board of Directors have been dedicated to  
7 various stakeholders. While this was a reasonable approach to get SEF up  
8 and running, at this point, the goal should be to appoint the most qualified  
9 directors with a variety of skills. Therefore, from here forward, I believe that  
10 the SEF Board of Directors should include the most qualified candidates  
11 without requirements of stakeholder representation from various  
12 constituencies. This approach is consistent with draft best practices  
13 regarding nomination, election, and approval of directors of sustainable  
14 energy funds now being prepared for future consideration by the PASEB and  
15 the Commission. The Commission should require that SEF follow this  
16 approach immediately.

17 **Q: DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

18 **A:** Yes, it does.

PENNFUTURE PARTIES STATEMENT NO. 1-S

*SM*  
*8-11-04*  
*Hbg*

BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION

PENNSYLVANIA PUBLIC UTILITY  
COMMISSION, et al.

Docket No. R-00049255

v.  
PPL ELECTRIC UTILITIES  
CORPORATION

**DOCKETED**

AUG 18 2004

**DOCUMENT**

SURREBUTTAL TESTIMONY OF  
JOHN HANGER

**RECEIVED**  
2004 AUG 16 AM 9:34  
PA PUC  
SECRETARY'S BUREAU

Dated: August 5, 2004

1 Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A: My name is John Hanger. My business address is 610 North Third Street,  
3 Harrisburg, PA 17101.

4 Q: DID YOU FILE DIRECT TESTIMONY AND REBUTTAL TESTIMONY IN  
5 THIS PROCEEDING ON BEHALF OF THE PENNFUTURE PARTIES?

6 A: Yes, I did.

7 Q: WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

8 A: The purpose of my surrebuttal testimony is to respond to several points raised  
9 in the rebuttal testimony offered by the PPL Industrial Customer Alliance  
10 (PPLICA) regarding the Sustainable Energy Fund (SEF).

11 Q: HOW DO YOU RESPOND TO THE CHARACTERIZATION OF YOUR  
12 TESTIMONY BY MR. BARON ON BEHALF OF PPLICA THAT YOU  
13 PROPOSE TO COLLECT SEF FUNDING FROM ALL RATEPAYERS  
14 (PPLICA Statement No. 1R at 9, line 23)?

15 A: Our position is that SEF should be funded from distribution revenues. In my  
16 Direct Testimony (PennFuture Parties Statement No. 1 at 5, line 20), I state  
17 that I don't have a preference about who pays to fund SEF. This means that I  
18 do not have a preference about how funding is allocated between PPL and  
19 ratepayers or among ratepayers.

20 Q: HOW DO YOU RESPOND TO MR. BARON'S TESTIMONY THAT YOU  
21 HAVE NOT PROVIDED STUDIES DEMONSTRATING THAT PPL  
22 CUSTOMERS WILL RECEIVE 'DISTRIBUTION' RELIABILITY BENEFITS

1 FROM THE SEF PROGRAMS (PPLICA Statement No. 1R at 11, lines 7-  
2 10)?

3 A: First, Mr. Baron has provided no studies disproving that PPL customers will  
4 receive distribution reliability benefits from SEF programs. Second, SEF's  
5 mission includes increasing energy efficiency and distributed generation,  
6 which relieve load and congestion in the distribution system. Energy  
7 efficiency and distributed generation can mitigate the need to improve and  
8 expand the distribution system, and can provide a reliability and distribution  
9 cost of service benefit to all customers (see PennFuture Parties Statement  
10 No. 1-R at 2-3). There is no requirement to demonstrate these reliability  
11 benefits from SEF programs specifically for PPL customers or to any class of  
12 PPL customers, any more than the 'public goods' doctrine (see OCA  
13 Statement No. 5 at 27-28) or other general principles need to be re-proven for  
14 PPL customers.

15 Q: HOW DO YOU RESPOND TO MR. BARON'S TESTIMONY ABOUT THE  
16 EXPECTATION OF THE PARTIES AT THE TIME OF THE PPL  
17 RESTRUCTURING SETTLEMENT WITH REGARD TO TERMINATION OF  
18 SEF (PPLICA Statement No. 1R at 12-14)?

19 A: I agree with Mr. Baron when he says that the document speaks for itself  
20 (PPLICA Statement No. 1R at 12). The settlement provides that funding for  
21 SEF ends "on December 31, 2004, or until the Commission establishes new  
22 distribution rates, whichever is longer" (Docket No. R-00973954, Paragraph  
23 E.5)(emphasis added). Therefore, under the current Commission order

1 approving the settlement, if the Commission does nothing to change  
2 distribution rates, SEF will continue to be funded at current levels. In addition,  
3 the settlement does not and could not prevent a future Commission from  
4 renewing SEF funding.

5 **Q: WHAT ABOUT MR. BARON'S CLAIM THAT SEF WAS REQUIRED TO**  
6 **BECOME SELF-SUSTAINING?**

7 **A:** Mr. Baron has provided no evidence that SEF is required to be self-  
8 sustaining, either from the Settlement, Commission Orders, or otherwise.  
9 *Given that the level or continuation of funding of SEF beyond 2004 was*  
10 *uncertain from the start, it was appropriate and prudent for SEF to plan*  
11 *accordingly. The excerpts from SEF annual plans offered by Mr. Baron*  
12 *simply describe SEF's intentions to be able to sustain operations beyond its*  
13 *"initial years" (PPLICA Statement No. 1R at 13) and do not demonstrate any*  
14 *legal requirement that SEF become self-sustaining.*

15 **Q: DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

16 **A:** Yes, it does.

DOCUMENT

DOCKETED  
AUG 18 2004

COMMISSION ON ECONOMIC OPPORTUNITY  
OF LUZERNE COUNTY

CEO Statement No. 2

Direct Testimony of John Howat

*SM*  
*8-11-04*  
*HWG*

Pennsylvania Public Utility Commission v. PPL Electric Utilities Corporation

Docket Number: R-00049255

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SECRETARY'S BUREAU

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

2 A. My name is John Howat. My business address is 77 Summer Street, 10th Floor,  
3 Boston Massachusetts.

4 **Q. FOR WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?**

5 A. I am testifying on behalf of the Commission on Economic Opportunity.

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

7 A. The purpose of my testimony is to recommend changes in PPL's universal service  
8 programs as proposed in the direct testimony of Timothy R. Dahl. My testimony  
9 will cover six areas: post-restructuring changes to the Pennsylvania electric utility  
10 industry and their prospective impact on low-income customers, the Company's  
11 proposed changes to the OnTrack program, the Company's proposed changes to  
12 their WRAP program, the Company's proposed changes to the Sustainable Energy  
13 Fund, allocation of funding in the CBI and the HELP programs, and the role of  
14 community-based organizations (CBO) in the program design and program  
15 outreach processes.

16 **Q. PLEASE DESCRIBE YOUR QUALIFICATIONS.**

17 A. I am Senior Energy Policy Analyst at National Consumer Law Center in Boston,  
18 Massachusetts. I have been professionally involved with energy program and  
19 policy issues since 1981. At the National Consumer Law Center over the past  
20 five years, I have managed a range of regulatory, legislative and advocacy  
21 projects across the country in support of low-income consumers' access to  
22 affordable utility and energy related services. I have been involved with the  
23 design and implementation of low-income energy affordability and efficiency

1 programs and outreach efforts, rate design, issues related to metering and billing,  
2 development of load profiles, energy burden analysis and related demographic  
3 analysis, and low-income regulatory consumer protection. In addition to current  
4 work with Commission on Economic Opportunity, I work or have worked on  
5 behalf of CBOs or their associations in Massachusetts, Arkansas, Arizona,  
6 Louisiana, Mississippi, New Jersey, Rhode Island, Texas and Washington State. I  
7 also work or have worked on low-income energy matters on behalf of the  
8 National AARP and state AARP chapters in Louisiana and Kansas. I have  
9 worked under contract with the U.S. Department of Health and Human Services  
10 and Oak Ridge National Laboratories and I recently completed work under a  
11 contract with the National Energy Assistance Directors' Association. I currently  
12 am under contract with the Office of the Attorney General in Nevada for work  
13 related to the design of universal service programs, metering and regulatory  
14 consumer protection issues. Recently, I have presented testimony before utility  
15 regulatory agencies in Massachusetts, New Jersey, Rhode Island, Vermont, and  
16 Louisiana. For the past five years, I have sat on the Board of Directors of the  
17 National Low Income Energy Consortium, and am a regular presenter at  
18 conferences of National Community Action Foundation, National Low Income  
19 Energy Consortium, National Energy Assistance Directors Association, National  
20 Association of Regulatory Utility Commissions and National Association of State  
21 Utility Consumer Advocates.

22 I served as Research Director of The Massachusetts Joint Legislative  
23 Committee on Energy, responsible for the development of new energy efficiency

1 programs and low-income energy assistance budgetary matters. I served as  
2 economist with the Electric Power Division of the Massachusetts Department of  
3 Telecommunications and Energy, responsible for analysis of electric industry  
4 restructuring proposals; and as Director of the Association of Massachusetts Local  
5 Energy Officials. I have a Master's Degree from Tufts University's Graduate  
6 Department of Urban and Environmental Policy and Bachelor of Arts Degree  
7 from The Evergreen State College.

8 **I. NEW PHASE OF ELECTRIC UTILITY RESTRUCTURING AND LOW-**  
9 **INCOME CONSUMERS**

10 **Q. WHAT DOES PPL'S FILING SIGNAL TO ITS LOW-INCOME**  
11 **CUSTOMERS?**

12 A. The Company proposes to increase transmission and distribution rates by a total  
13 of approximately \$221 million. In addition to the prospective short-term price  
14 impacts on low-income customers, the filing in this case signals an end to the era  
15 of price cap protections that have kept residential Pennsylvania electricity prices  
16 fairly stable since the adoption of the Electricity Generation Customer Choice and  
17 Competition Act and the subsequent Commission approval of PPL's restructuring  
18 case at Docket No. R-00973954.

19 The importance of this rate case cannot be overstated. As the Company  
20 notes in its Statement of Reasons for the Proposed Increase,

21 ...this case will be the first distribution-only base rate  
22 increase request filed by a major Pennsylvania Electric  
23 Distribution Company ("EDC") since the electric utility industry  
24 was restructured in 1996. ...This is the first post-rate cap  
25 distribution rate increase to be filed in Pennsylvania. (Statement of  
26 Reasons for the Proposed Increase, pp. 2, 4.)

Re: Docket No. R-00049255  
Direct Testimony of John Howat on behalf of  
Commission on Economic Opportunity

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This new era of utility industry restructuring does not come without significant risks for low-income electricity customers. While the transmission and distribution rate caps expiration will undoubtedly bring higher prices to households that are already struggling to make monthly ends meet, the day of the expiration of the generation rate caps also looms in the foreseeable future. The uncertainty surrounding the resolution of nearly all of the important questions regarding the form and content of Provider of Last Resort (“POLR”) Service creates the specter of high and volatile electricity prices for low-income households in the years to come. The table in Exhibit JH-1 presents an analysis and contrast of residential natural gas and electricity prices in Pennsylvania. The volatility and upward trend in uncapped natural gas prices present a stark contrast to the relatively stable electric prices of the past decade. Price volatility presents a particular hardship in those households that have neither the disposable income nor cash reserves to weather the spikes. As low-income households accrue arrears under these circumstances, they face the danger losing access to necessary service.

Entry into the new era of electric industry restructuring provides an opportunity to revisit and reaffirm the need for the protections of the low-income universal service programs that pre-date the adoption of retail competition in Pennsylvania. The need for robust, well-funded, and properly designed universal service programs has never been greater in Pennsylvania. The balance of this testimony is intended to identify concerns and present recommendations to ensure

1 that PPL's low-income customers retain a high level of energy security and access  
2 to vital utility service.

3

4 **I. ONTRACK PROGRAM**

5 **Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSAL FOR CHANGES**  
6 **TO ITS ONTRACK PROGRAM.**

7 A. First, PPL proposes to eliminate its program participation restriction on occupants  
8 of subsidized housing to be consistent with the practice of other utility companies  
9 in Pennsylvania that offer payment assistance programs (Dahl at 10, 11).

10 Secondly, PPL proposes to increase annual funding for OnTrack by \$3 million  
11 annually. The change would represent a 25.6% increase over current funding  
12 levels. The Company suggests that the increased funding level will accommodate  
13 an annual participant group of 15,000 to 17,000 customers (id., pp. 11-13).

14 Finally, the Company proposes ramping up additional expenditures for OnTrack  
15 over a three-year period. PPL states that its ramp-up proposal will allow for  
16 reduced customer complaints and would provide CBOs with the opportunity to  
17 absorb additional workload with minimal interruption (Id. at 12).

18 **Q. WHAT HAS THE COMMISSION RECENTLY CONCLUDED WITH**  
19 **RESPECT TO THE COMPANY'S UNIVERSAL SERVICE PROGRAMS?**

20 A. In its June 12, 2003 Order in Docket No. M-00031698, the Commission stated  
21 that "... PPL's universal service plan does not appear to be either appropriately  
22 funded or available in its service territory as required at 66 Pa. C.S. § 2804(9)."  
23 (Order in Docket No. M-00031698 at 3). The Commission indicated that

1 inappropriate program funding was at least in part due to excessive administrative  
2 costs associated with the OnTrack program. In addition, the Commission noted  
3 that PPL had implemented a policy restricting enrollment in OnTrack to  
4 customers with an overdue balance of \$150 per month or greater. (Id. at 5.) The  
5 Commission then directed the Company, upon resolution of issues related to  
6 program funding, to revise its universal service program eligibility criteria to be  
7 consistent with state regulatory provisions. Further, the Commission ordered PPL  
8 to report to the Bureau of Consumer Services on its progress in reducing costs and  
9 increasing enrollment as result of implementation of OnTrack program design  
10 changes and process improvements (id. at 17).

11 **Q. DOES THE COMPANY'S PROPOSED ONTRACK FUNDING INCREASE**  
12 **ADDRESS THE DEFICIENCIES IDENTIFIED IN THE JUNE 2003**  
13 **COMMISSION ORDER?**

14 A. The Company's OnTrack funding proposal only partially addresses concerns  
15 regarding limited program availability within its service territory. Additional  
16 program funding will allow for a limited increase in program availability and  
17 participation. However, even under the Company's high-enrollment scenario  
18 (17,000 participants), only a small fraction of eligible customers will benefit from  
19 the program. The Bureau of Consumer Services' Report on 2002 Universal  
20 Service Programs and Collections and Performance of the Pennsylvania Electric  
21 Distribution Companies and Natural Gas Distribution Companies indicates that in  
22 2001, 9,099 customers were enrolled in OnTrack at year's end. The Report  
23 further indicates that this enrollment level represented an eight percent

1 participation rate in the program. Thus, in 2001 there were almost 114,000  
2 eligible customers in the PPL service territory. Even if the Company increases  
3 enrollment to 17,000 customers, the participation rate will be at around 15  
4 percent, well below the statewide electric distribution company CAP participation  
5 rate. In short, the Company's funding and enrollment proposal will not ensure  
6 that the program will be appropriately funded or available.

7 In addition, absent a significant reduction in program operating and  
8 administrative costs, the average program benefit per customer would have to be  
9 reduced to accommodate the Company's proposed funding and enrollment  
10 guidelines. A reduction in average benefit levels would raise concerns regarding  
11 the appropriateness of the funding level of the program.

12 PPL proposes to ramp up a 25.6% funding increase for OnTrack after  
13 2004. The Company indicates that this funding increase will accommodate an  
14 increase in participation from 12,420 customers in 2003 to 15,000 – 17,000  
15 customers, a 21% to 37% increase after 2004. As long as program operating and  
16 administrative costs per customer remain constant, the lower end of the increased  
17 customer participation range may nearly be accommodated without reducing  
18 average participant benefits. However, accommodation of the upper end of the  
19 participation range would require a reduction of the average per customer benefit  
20 level absent a major reduction in administrative costs. Relative to administration  
21 costs, the characterization of all CBO costs as "Administrative" is improper  
22 because the vast majority (78%) is operational costs, costs associated with the  
23 providing of direct service. These costs should be reallocated and only list direct

1 CBO administration costs (approximately 10%) in this category while listing the  
2 other CBO costs as “operations.”

3 The table in Exhibit JH-2 illustrates 2002 OnTrack program costs,  
4 separated into participant benefit and operating/administrative cost components.  
5 The table in Exhibit JH-3 shows the impact on average participant benefit levels  
6 under different funding, enrollment and administrative expense scenarios. Exhibit  
7 JH-3 demonstrates that average annual benefit levels would be decreased by \$12  
8 per participant under the proposed funding level (\$14.7 million) and enrollment of  
9 15,000 participants, assuming 2002 average operating and administrative costs.  
10 The table further demonstrates that these funding and operating/administrative  
11 cost assumptions would result in a reduction of \$127 in average program benefit  
12 under a 17,000 participant level scenario. If average administrative and operating  
13 costs are reduced by 20 percent (from \$206/participant to \$165/participant),  
14 average annual benefit levels would increase by \$29 under the proposed funding  
15 level and an enrollment of 15,000 customers. With 17,000 enrollees, the average  
16 benefit would decrease by \$86, even with the reduction in administrative and  
17 operating costs.

18 **Q. SHOULD AVERAGE BENEFIT LEVELS BE DECREASED SO THAT**  
19 **MORE CUSTOMERS CAN PARTICIPATE IN ONTRACK?**

20 A. No. With new threats to low-income energy security posed by expiration of rate  
21 caps and uncertainty associated with important questions regarding Provider of  
22 Last Resort service, average universal service program benefits should not be  
23 reduced. If anything, individual benefit levels should be increased.

1 Q. WILL THE COMPANY'S OUTREACH PROCEDURES AS DESCRIBED  
2 IN ITS TESTIMONY ENSURE INCREASED ONTRACK  
3 PARTICIPATION RATES?

4 A. Increased funding alone does not guarantee increased benefit program  
5 participation. Outreach and enrollment procedures must be such that prospective  
6 new participants are informed of and gain access to the program. Program  
7 outreach and enrollment procedures do not appear to be effectively addressed in  
8 the Company's prefiled testimony. The historically low OnTrack participation  
9 rates, as referenced by the Commission in its June 2003 Order and RETEC in its  
10 October 2002 evaluation of the PPL universal service programs, could be  
11 improved through enhanced outreach efforts. Currently, the Company is  
12 primarily responsible for outreach and referral efforts associated with the  
13 OnTrack program. National experience suggests that benefit program  
14 participation rates may be improved by the direct operation by CBOs in the  
15 design and implementation of such efforts.

16 In an April 29, 2004 Order of the Federal Communications Commission ("FCC")  
17 pertaining to the telephone Lifeline and Link-up programs, the FCC stated the  
18 following:

19 Effective outreach programs have been shown to improve  
20 Lifeline/Link-up participation. According to an August 2000  
21 report by The Telecommunications Industry's Analysis Project, the  
22 Lifeline/linkup take up rate almost tripled from 13.1% to 39.6%  
23 when states implemented outreach initiatives designed to increase  
24 telephone penetration and participation. For example, Maine, a  
25 state with an aggressive outreach program, *which includes*  
26 *coordinating with social service agencies*, and sending fliers and  
27 personal letters to eligible customers, reports that its penetration

1 rate among low income households increased from 90.5% in  
2 March 1997 to 96.5% in March 2002. (Emphasis added.)<sup>1</sup>  
3

4 In addition, the FCC stated that

5 ... states and carriers should coordinate their outreach efforts with  
6 governmental agencies that administer any of the relevant  
7 government assistance programs. Coordination should also  
8 include cooperative outreach efforts with state commissions, tribal  
9 organizations, carriers, *social service agencies*, community centers,  
10 nursing homes, public schools, and private organizations that may  
11 serve low income individuals, such as American Association for  
12 Retired Persons and United Way. *Cooperative outreach among*  
13 *those most likely to have influential contact with low income*  
14 *individuals will help to target messages about Lifeline/Linkup to*  
15 *the low-income community.* (Emphasis added.)<sup>2</sup>  
16

17 Generally, the CBOs that deliver low-income energy programs have direct contact  
18 with customer participants and are readily able to identify appropriate points of  
19 contact within the community to reach new participants. In addition, these  
20 delivery agencies are aware of and familiar with the demographic, ethnic and  
21 linguistic diversity of the local low-income populations that they serve. The  
22 success of outreach efforts is largely contingent upon the ability to identify and  
23 gain access to appropriate points of contact within the community, and to  
24 communicate in a culturally-appropriate manner with prospective participants.  
25 Accordingly, the CBOs that deliver PPL's OnTrack and related universal service  
26 programs should be directly involved in the design and implementation of  
27 program outreach. Existing program outreach resources should be redirected in  
28 such a manner as to separately fund appropriate CBOs to assume primary

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<sup>1</sup> Decision FCC-04-87 in WC Docket No. 03-109, Released April 29, 2004, p. 24.

<sup>2</sup> Id. at 27.

1 responsibility for program outreach. A \$25,000 to \$75,000 grant (based on the  
2 number of potentially eligible customers in the service area) for individual  
3 outreach activities to local CBOs should be implemented.

4 **Q. IS ONTRACK FUNDING SUFFICIENT TO REDUCE LOW-INCOME**  
5 **ELECTRICITY BURDENS TO AN AFFORDABLE LEVEL?**

6 A. No. First, as described above, the OnTrack program is not funded at a level that  
7 will provide meaningful electricity burden reduction to a large proportion of  
8 eligible PPL customers. Second, the notion of “affordability” when used in the  
9 context of utility bill payment is somewhat subjective. Nonetheless, a household  
10 with income that is insufficient to pay for the barest of necessities absent utility  
11 bills can, in an arithmetic sense, afford to pay nothing for utility service. Given  
12 the new threats posed to low income household access to utility service in the new  
13 era of utility industry restructuring, revisiting the notion of affordability is  
14 necessary and appropriate. In light of the Commissions, June 2003 Order in  
15 Docket No. M-00031698, stating that the Company’s “universal service plan does  
16 not appear to be either appropriately funded or available in its service territory as  
17 required by 66 Pa. C.S. § 2804(9)” the concepts of “affordability” and availability  
18 need to be revisited.

19 **Q. HOW SHOULD AFFORDABLE PAYMENTS BE DEFINED IN THE NEW**  
20 **ERA OF UTILITY RESTRUCTURING?**

21 A. Low-income household energy affordability should be defined in a manner such  
22 that low-income households, after receiving assistance through universal service

1 programs, carry a household energy burden that is no greater than that carried by  
2 a household at the state median income level.

3 This is not a new concept of affordability. In fact in Nevada, 58 Nev. Rev.  
4 Stat. Ann. § 702.260(6) requires that if a household is eligible to receive low-  
5 income energy assistance, the administering agency "(s)hall, to the extent  
6 practicable, determine the amount of assistance that the household will receive by  
7 determining the amount of assistance that is sufficient to reduce the percentage of  
8 the household's income that is spent on natural gas and electricity to the median  
9 percentage of household income spent on natural gas and electricity statewide."

10 While this definition of affordability will not absolutely guarantee energy security  
11 for low income households, it will place that goal within closer reach.

12 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION REGARDING**  
13 **ONTRACK FUNDING AND AVAILABILITY.**

14 A. An appropriately funded OnTrack program should provide benefits that, when  
15 combined with LIHEAP payments, produces affordable electricity bills as defined above.  
16 An appropriately available OnTrack program will provide this level of benefits to a  
17 percentage of eligible households that is at least equal to the statewide average CAP  
18 participation rate (35 percent in 2002).

19 **Q. PLEASE COMMENT ON THE COMPANY'S PRACTICE OF**  
20 **RESTRICTING NEW PARTICIPATION IN THE ONTRACK PROGRAM**  
21 **TO CUSTOMERS WITH AN OVERDUE BALANCE OF AT LEAST \$150.**

22 A. This practice is inappropriate because it excludes low-income customers who may  
23 remain current on their electric bills but who may have as great a need for

1 assistance as those who fall behind on their payments. In particular, the elderly  
2 suffer disproportionately from the imposition of an overdue balance. A new  
3 national study of low-income households released by the National Energy  
4 Assistance Directors Association finds that a high proportion of LIHEAP  
5 recipients take drastic actions to pay their energy bills, including reduction of  
6 expenditures for other household necessities or use of their kitchen stove for heat.  
7 In addition, the survey of LIHEAP recipients found that 38 percent went without  
8 medical or dental care and 30 percent went without filling a prescription or  
9 reduced a prescribed dosage of medicine in attempting to pay their energy bills.  
10 (National Energy Assistance Directors' Association, "National Energy Assistance  
11 Survey Report," April 2004, pp. ES-1, ES-2.) (The Executive Summary of the  
12 study is attached as Exhibit JH-4. The complete study is available at  
13 [www.neada.org/comm/surveys/NEADA\\_Survey\\_2004.pdf](http://www.neada.org/comm/surveys/NEADA_Survey_2004.pdf).) In short, denying  
14 assistance to low-income customers who make such sacrifices to retain access to  
15 vital electricity service contributes further to the dilemma such customers face in  
16 trying to make ends meet each month.

17 In addition, the practice reflects poor public policy in that it creates an  
18 incentive for customers to not pay their bills. If a customer is having trouble  
19 paying his or her electric bill and is aware that assistance will be available only if  
20 a \$150 debt accrues, that customer may withhold payment in order to obtain  
21 assistance. Accordingly, the practice, which primarily disadvantages customers  
22 who are senior citizens, should be discontinued.

1 **II. WRAP PROGRAM**

2 **Q. PLEASE SUMMARIZE THE COMPANY'S PROPOSAL FOR CHANGES**  
3 **TO ITS WRAP PROGRAM.**

4 A. The Company has proposed to increase annual funding for WRAP from \$5.7  
5 million to \$6.7 million, an increase of 17.5% (Dahl at 11). For reasons consistent  
6 with those described in the discussion of OnTrack, PPL proposes to ramp up  
7 increased spending for WRAP over a three-year period. (Id. At 12). The  
8 Company further indicated that it plans to continue installing solar hot water  
9 applications for low-income customers. (Id. at 10.)

10 **Q. IS THE PROPOSED WRAP FUNDING LEVEL SUFFICIENT TO MEET**  
11 **NEED FOR THE PROGRAM?**

12 A. No. Low-income energy efficiency and access to sustainable energy resources  
13 constitute the cornerstone of long-term low-income energy security. A rapid new  
14 infusion of efficiency and renewable energy resources are necessary to protect  
15 low-income households from the effects of rising and volatile prices that appear  
16 likely in the new era of electric utility industry restructuring. I recommend that  
17 WRAP funding be increased in 2005 to the \$7million level, and continue at least  
18 through 2011.

19 **Q. HOW SHOULD ADDITIONAL WRAP FUNDS BE USED?**

20 A. Additional program funding should be used to expand the installation of solar hot  
21 water equipment in low-income homes. Previous success with this measure  
22 through experience with the PPL Low-Income Renewable Energy Pilot program  
23 and in other states justifies additional WRAP expenditure for this measure.

1 Devoting \$1 million annually in WRAP funds to low-income solar hot water  
2 heating is warranted. For further justification of this expenditure, please see the  
3 discussion of the Sustainable Energy Fund, below.

4 **Q. DO YOU HAVE ADDITIONAL COMMENTS REGARDING THE**  
5 **COMPANY'S WRAP PROGRAM?**

6 A. Yes. There is a pressing need for increased involvement of WRAP delivery  
7 agencies in decision-making regarding the design elements of the program.  
8 Informed decisions regarding elements such as the definition of measures,  
9 revisitation, quality control, and program outreach can only be made after having  
10 obtained input from those entities that deal directly with clients and contractors.  
11 Please see the discussion in Section V. below, for recommendations regarding the  
12 universal service program design process.

13  
14 **III. SUSTAINABLE ENERGY FUND**

15 **Q. PLEASE SUMMARIZE THE COMPANY'S SUSTAINABLE ENERGY**  
16 **FUND PROPOSAL.**

17 A. The Sustainable Energy Fund ("SEF") is currently funded through a .01 cent per  
18 kWh charge on all sales of electricity. PPL proposes to continue this charge  
19 through December 31, 2009. The company raised \$16.3 million through the .01  
20 cents per kilowatt hour charge between 1999 and 2003. (Dahl at 22.) The  
21 Company had invested \$7.2 million through 2003, of which \$6.5 million was  
22 devoted to program investments and \$656,000 devoted to grants. (Id. at 22-23.)  
23 Grants were made primarily for municipal, commercial-industrial, education and

1 demonstration projects, while program related investments went primarily into  
2 wind generation and commercial-industrial installations. (Company Exhibit TRD  
3 3, pp. 10 -12.)

4 **Q. WHAT ARE YOUR RECOMMENDATIONS REGARDING**  
5 **CONTINUATION OF THE SUSTAINABLE ENERGY FUND?**

6 A. I fully support PPL funding the Sustainable Energy Fund as an important energy  
7 and environmental investment. The SEF should continue to be funded through  
8 the nonbypassable .01 cents per kWh charge in transmission and distribution  
9 rates. However, as more fully described below, SEF funds should be dedicated  
10 and allocated among rate classes according to the pro rata share of electricity sales  
11 to each rate class. In addition, significant new SEF funding should be mandated  
12 as grants for new photovoltaic installations in low income households as well as  
13 to the general residential rate class through a one-to-one matching grant. .  
14 Further, SEF funds collected from ratepayers should be expeditiously used in the  
15 community and not held by the Fund for its own financial gain. There should be a  
16 greater emphasis on investments in direct installations that benefit residential  
17 customers. Finally, the SEF Board of Directors should include a representative of  
18 the low income Community Action network in that such a seat was filled without  
19 consideration to that stakeholder group.

20 **Q. HOW SHOULD THE SEF FUNDS COLLECTED FROM RATEPAYERS**  
21 **BE ALLOCATED?**

22 A. As indicated previously, funds should be dedicated and allocated to each rate  
23 class according to the pro rata share of the electricity sales to each rate class. The

1 table in Exhibit JH-5 shows PPL's 2002 MWH sales by rate schedule and how  
2 2002 SEF funds would be allocated under this proposal.

3 The table illustrates a proposed distribution of SEF funds to classes based  
4 upon contributions of each class which would represent a more equitable way to  
5 distribute Fund benefits. Residential ratepayers contributed to over 36 percent of  
6 PPL's total electricity sales in 2002. Because SEF funds are generated through a  
7 volumetric charge that is consistent across rate classes, equitable distribution of  
8 the 2002 funds (about \$3.4 million) would send just over 36 percent, or about  
9 \$1.2 million back to the residential sector.

10 **Q. HOW SHOULD RESIDENTIAL SEF FUNDS BE USED?**

11 A. Within the residential class, 17.6 percent of customers are at or below 150% of  
12 the federally determined poverty level. (Company Responses to CEO  
13 Interrogatories, Set I, Q&A No. 4, Attachment 1). This proportion of residential  
14 funds (17.6%) should be devoted to 100% grants to offset PV system and  
15 installation costs. The remaining 82.4 percent of the residential population would  
16 be eligible to apply for a one to one matching grant. Residential SEF funds  
17 should be used for grants for the purchase and install appropriately-sized  
18 photovoltaic ("PV") systems for use by PPL customers. Referrals and  
19 administration should be handled by those organizations that gained direct  
20 experience through the Low-Income Renewable Energy Pilot Program. Program  
21 administrators would be responsible for

- 22 ❖ Review of initial PV grant applications,
- 23 ❖ Review of systems and components,
- 24 ❖ Review of installation certification

- ❖ Inspection of systems and installations
- ❖ Preparation of written statements specifying changes required by non-complying systems and installations, and
- ❖ performance of follow-up inspections.

**Q. HOW SHOULD SUCH A PROGRAM BE DEVELOPED?**

A. The SEF Board, in collaboration with energy efficiency program delivery agencies should develop detailed program guidelines, including standards and specifications that would apply to grant payment amounts and procedures, program hardware, installation procedures, contractor screening and approval, program participation, and quality control. These providers could cover the same territory for the Sustainable Energy Fund Program as they did for the PPL Pilot. Further, these organizations could perform the inspections and monitoring for the non-low-income program.

**Q. CAN LOW-INCOME HOUSEHOLDS BENEFIT FROM SUCH A PROGRAM?**

A. Yes. In fact, all the societal benefits associated with the development and usage of renewable energy resources, combined with reductions in low income energy burdens, make the prospect of new PV investment in low income households particularly attractive. In other words, PV installation in low income homes can meet a broad range of environmental, economic development, and universal service objectives.

The expiration of electricity price caps coupled with the uncertainty surrounding the future of provider of last resort service places low-income

1 electricity consumers at great risk of exposure to escalating and volatile electricity  
2 prices. The relative stability of electricity prices that has prevailed in  
3 Pennsylvania subsequent to the adoption of electricity restructuring legislation is  
4 by no means guaranteed going forward. Access to photovoltaics and other  
5 renewable energy resources is similar to installation of effective energy efficiency  
6 measures in the respect that both provide bill savings and a hedge against high,  
7 volatile energy prices.

8           Clearly, payment assistance alone will never provide true, sustainable  
9 energy security for low-income households. Renewable energy resources  
10 combined with energy efficiency programs and measures must also be part of the  
11 solution. The SEF, as part of its mission to “provide opportunities and benefits  
12 for PPL’s ratepayers” can contribute toward the provision of low-income energy  
13 security while promoting the development of the PV industry through funding a  
14 program as outlined here.

15 **Q. IS THERE ENOUGH MONEY IN THE SEF TO ADEQUATELY FUND A**  
16 **NEW LOW INCOME RESIDENTIAL PV GRANTS PROGRAM?**

17 A. Yes. The company testified that since 1999 it has collected approximately \$16.3  
18 million for the SEF. The Company further testified that the SEF had committed a  
19 total of about \$7.2 million in program related investments in grants through June  
20 30, 2003.<sup>3</sup> Notwithstanding operating costs and any commitments made between  
21 June 30, 2003 and the present, the balance in the SEF is about \$9.1 million. In  
22 other words, over half the funds collected have yet to be invested in a manner

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<sup>3</sup> Dahl at 22.

1 consistent with the mission of the SEF. A portion of these reserves would be  
2 sufficient to start up a new low income PV grants program. Additional reserves  
3 combined with a portion of the SEF monies collected from residential ratepayers  
4 would be sufficient to fund such a program going forward.

5 **Q. SHOULD A REPRESENTATIVE FROM A LOW-INCOME PROGRAM**  
6 **DELIVERY AGENCY SIT ON THE SEF BOARD OF DIRECTORS?**

7 A. Yes, particularly in light of the need to incorporate residential contracting and  
8 program delivery expertise so that the SEF will be able to quickly offer well-  
9 designed, residential renewable energy resource measures.

10 **IV. ALLOCATION OF CBI AND HELP FUNDS**

11 **Q. WHAT IS THE COMPANY'S CBI PROPOSAL?**

12 A. The company's Community Betterment Initiative would provide grants to  
13 leverage matching funds for a range of affordable housing and community  
14 economic development projects. The CBI would be funded at \$2 million annually  
15 for the period from 2005 to 2007. Program funding would include \$1 million  
16 from ratepayers. (Dahl at 17, 18.)

17 **Q. HOW WOULD CBI PROGRAM FUNDS BE ALLOCATED?**

18 A. It is not clear from the Company's testimony how CBI funds would be distributed  
19 across the service territory, or what decision-making process would be involved in  
20 the distribution of funds among competing projects. Given that the Company is  
21 proposing to use \$1 million in ratepayer funding for CBI, a formal review process  
22 should be established to oversee allocation of the funds. The process should  
23 include input from all relevant stakeholders.

1 Q. HOW ARE OPERATION HELP FUNDS ALLOCATED ACROSS THE  
2 COMPANY'S SERVICE TERRITORY?

3 A. It is not clear from the company's testimony what methodology PPL employs to  
4 allocate funds across its service territory. However, Operation HELP funds  
5 should be distributed across the counties within the PPL service territory based on  
6 the percentage of low-income customers in those counties. However, I am in full  
7 support of the funding PPL designated in its filing for this purpose, and they are to  
8 be commended.

9 **V. UNIVERSAL SERVICE PROGRAM DESIGN PROCESS**

10 Q. WHAT REVIEW AND APPROVAL REQUIREMENTS APPLY TO THE  
11 REVISION OF PREVIOUSLY APPROVED CUSTOMER ASSISTANCE  
12 PROGRAM DESIGN ELEMENTS?

13 A. Provisions at 52 PA Code § 69.263(c) state that "(b)efore implementing, revising  
14 or expanding a CAP, a utility should submit its proposal to the Bureau of  
15 Consumer Services for review and commission approval of design elements."

16 Q. ARE THESE PROVISIONS SUFFICIENT TO ENSURE BROAD  
17 PARTICIPATION IN THE PROGRAM DESIGN PROCESS AND  
18 EFFECTIVE PROGRAM IMPLEMENTATION?

19 A. These provisions are necessary but insufficient to ensure broad participation in the  
20 program design process. Efficient and effective low-income customer assistance  
21 program implementation requires the benefit of input from the CBOs that are  
22 charged with delivery of those programs. Indeed, the company acknowledges that  
23 "the partnership between PPL electric and the CBOs is critical to the ongoing

1 delivery of the Company's low income programs." Dahl at 6. However, such a  
2 partnership during the design phase of the programs is equally critical. For  
3 example, the design of participant eligibility criteria that effectively balance  
4 program efficiency goals and goals associated with low-income access to  
5 affordable utility service requires meaningful input from those entities that have  
6 direct contact with participants. Therefore, before the Company develops new  
7 Universal Service Plans for review by the BCS, program delivery agencies  
8 should, at a minimum, be provided with an opportunity to meet with the  
9 Company, make written proposals and comment formally on those plans. While I  
10 am not suggesting here that the Company be required to accept and incorporate all  
11 comments from delivery agencies, I recommend that the Commission require the  
12 Company to attach any such comments to its Universal Service Plan filings to  
13 demonstrate that they have been duly considered and for consideration by the  
14 Commission.

## 15 VI. SUMMARY OF RECOMMENDATIONS

### 16 Q. PLEASE SUMMARIZE THE RECOMMENDATIONS PRESENTED IN 17 THIS TESTIMONY.

18 A. The following recommendations are included in this testimony:

- 19 • With respect to OnTrack, do not decrease average benefit levels.
- 20 • Community-based organizations that deliver OnTrack and related  
21 universal service programs should be directly involved in the design and  
22 implementation of program outreach.

- 1           • Existing program outreach resources should be redirected in such a  
2           manner as to enable appropriate CBO's to assume primary responsibility  
3           for program outreach and be reimbursed for it.
- 4           • The practice of restricting new participation in the OnTrack program to  
5           customers with an overdue balance of at least \$150 should be  
6           discontinued.
- 7           • Low income household energy affordability should be defined in a manner  
8           such that a low income household carry a household energy burden that is  
9           no greater than that carried by a household at the state median income  
10          level.
- 11          • Expand program participation in OnTrack to the statewide average CAP  
12          participation rate.
- 13          • Increase WRAP funding in 2005 to the \$7 million level.
- 14          • Devote \$1 million from WRAP annually to expand the installation of solar  
15          hot water equipment in low income homes.
- 16          • Increase direct involvement of WRAP delivery agencies in decision-  
17          making regarding the design elements of the program.
- 18          • Continue SEF funding at the .01 cents per kilowatt hour charge on all sales  
19          of electricity.
- 20          • SEF funds should be dedicated and allocated among rate classes according  
21          to the contribution of each rate class.
- 22          • New SEF investments should be devoted to grants for new photovoltaic  
23          installations in low-income households and general residential households.

- 1 • SEF PV grants to low-income households should provide 100% of system  
2 and installation costs. SEF PV grants to general residential households  
3 should provide a one to one matching grant to participating households.
- 4 • SEF program referrals and administration should be conducted by those  
5 agencies that gained direct experience through implementation of the Low  
6 Income Renewable Energy Pilot Program.
- 7 • SEF funds collected from ratepayers should be expeditiously reinvested in  
8 the community.
- 9 • The SEF Board of Directors should include the representative of the low-  
10 income energy program delivery agencies that was not replaced by an  
11 individual representing the same sector.
- 12 • Adopt and implement a formal decision-making process with respect to  
13 distribution of CBI funds.
- 14 • Operation HELP funds should be distributed across the Commonwealth  
15 within the PPL service territory according to the percentage of low-income  
16 customers in each county.
- 17 • Before the Company develops new Universal Service Plans for review by  
18 the BCS, program delivery agencies should, at a minimum, be provided  
19 with an opportunity to meet with the Company, make written proposals  
20 and comment formally on those plans. Plans submitted to the BCS for  
21 review should include all comments of delivery agencies.

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

23 **A. Yes.**

Year	Low	High	Annual Volatility (\$/Mcf)	Annual Volatility (%)
1989	5.73	8.06	2.33	28.9%
1990	6.09	8.67	2.58	29.8%
1991	6.30	9.12	2.82	30.9%
1992	6.14	8.98	2.84	31.6%
1993	6.19	9.54	3.35	35.1%
1994	6.70	10.43	3.73	35.8%
1995	5.60	10.63	5.03	47.3%
1996	6.43	10.70	4.27	39.9%
1997	7.63	11.83	4.20	35.5%
1998	7.78	11.82	4.04	34.2%
1999	7.72	12.19	4.47	36.7%
2000	7.27	11.88	4.61	38.8%
2001	9.50	16.94	7.44	43.9%
2002	8.23	14.49	6.26	43.2%
2003	9.45	12.42	2.97	23.9%

Average Annual Volatility: 1989-1992 30.3%

Average Annual Volatility: 1993-2002 39.0%

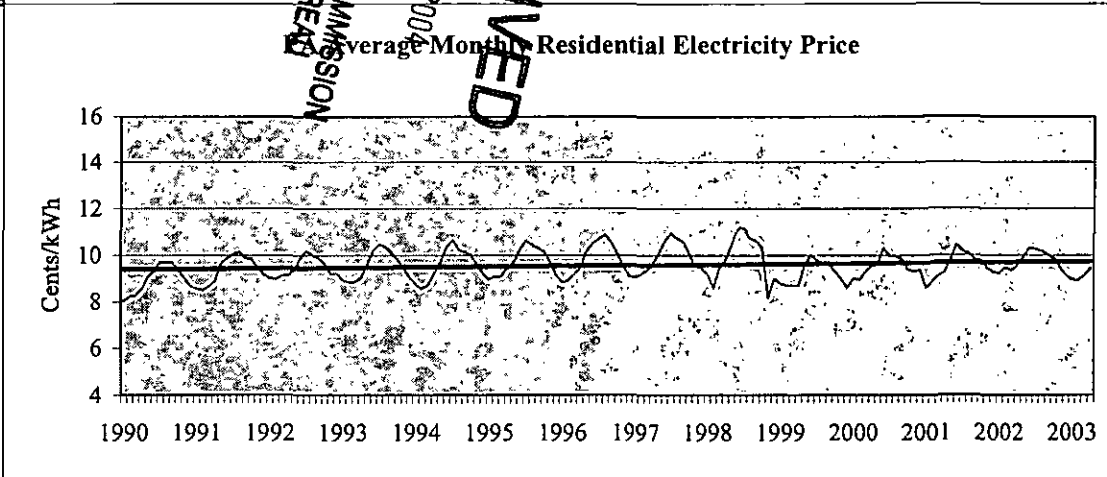
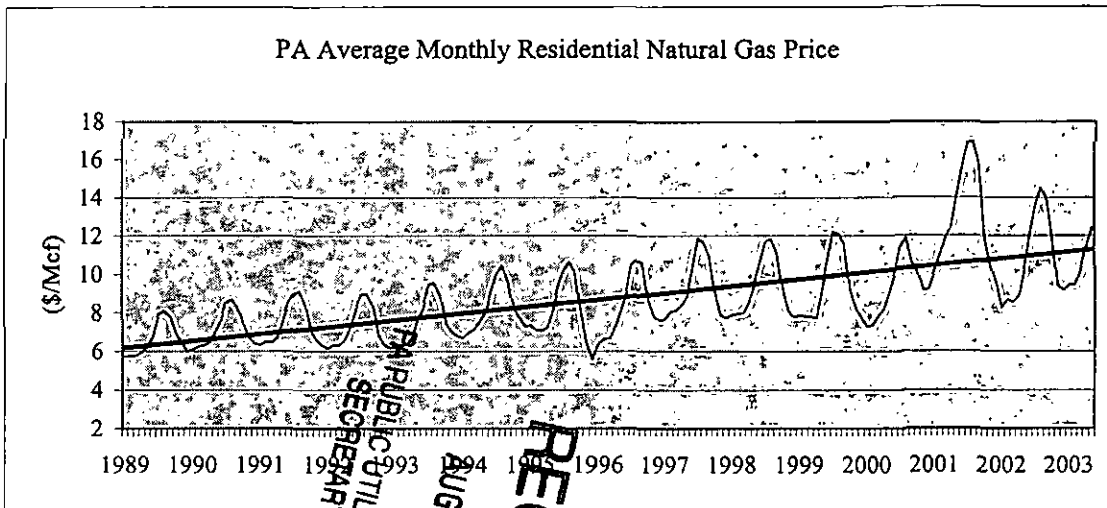
Volatility Increase (Decrease) 8.7%

Year	Low	High	Annual Volatility (c/kWh)	Annual Volatility (%)
1990	8.05	9.72	1.67	20.8%
1991	8.51	10.13	1.62	19.0%
1992	8.99	10.19	1.20	13.3%
1993	8.85	10.46	1.61	18.1%
1994	8.57	10.65	2.08	24.3%
1995	8.97	10.62	1.65	18.4%
1996	8.84	10.87	2.03	23.0%
1997	9.06	10.93	1.88	20.7%
1998	8.19	11.17	2.98	36.4%
1999	8.60	10.00	1.40	16.3%
2000	8.95	10.32	1.37	15.3%
2001	8.61	10.45	1.84	21.3%
2002	9.17	10.32	1.15	12.6%
2003	8.92	9.44	0.53	5.9%

Average Annual Volatility: 1990-1995 19.0%

Average Annual Volatility: 1996-2002 20.8%

Volatility Increase (Decrease) 1.8%



Monthly Price \_\_\_\_\_ Linear Trend \_\_\_\_\_

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## 2002 OnTrack Benefit, Operating and Administrative Costs

2002 OnTrack Participants <sup>1</sup>	10,919
2002 OnTrack Benefits (Bill Reduction + Arrearage Forgiveness) <sup>2</sup>	\$8,576,643
2002 OnTrack Operating and Administrative Costs <sup>2</sup>	\$2,252,452
Total 2002 OnTrack Gross Costs <sup>3</sup>	\$10,829,095
Average 2002 OnTrack Benefit	\$785
Average 2002 OnTrack Operating and Administrative Cost	\$206

<sup>1</sup> Report on 2002 Universal Service Programs and Collections Performance of the Pennsylvania Electric Distribution Companies and Natural Gas Distribution Companies, p. 36.

<sup>2</sup> Calculated from Report on 2002 Universal Service Programs and Collections Performance of the Pennsylvania Electric Distribution Companies and Natural Gas Distribution Companies, p. 58.

<sup>3</sup> Report on 2002 Universal Service Programs and Collections Performance of the Pennsylvania Electric Distribution Companies and Natural Gas Distribution Companies, p. 46.

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Exhibit JH-3

ONTRACK ENROLLMENT, AVERAGE ADMINISTRATIVE/OPERATING COST AND BENEFIT SCENARIOS

Scenario	Total Program Funding	Number of Participants <sup>1</sup>	Total Funding per Participant	Total Admin/Operating Cost	Admin/Operating Cost per Participant <sup>2</sup>	Total Benefits	Benefit per Participant	Increase/Decrease vs. 2002 Benefit per Participant
2002 Actual	\$10,829,095	10,919	\$992	\$2,252,452	\$206	\$8,576,643	\$785	---
Proposed Funding, Low Enrollment, 2002 Admin/Op	14,700,000	15,000	\$980	\$3,094,311	\$206	\$11,605,689	\$774	(\$12)
Proposed Funding, High Enrollment, 2002 Admin/Op	14,700,000	17,000	\$865	\$3,506,885	\$206	\$11,193,115	\$658	(\$127)
Proposed Funding, Low Enrollment, Reduced Admin/Op	14,700,000	15,000	\$980	\$2,475,448	\$165	\$12,224,552	\$815	\$29
Proposed Funding, Low Enrollment, Reduced Admin/Op	14,700,000	17,000	\$865	\$2,805,508	\$165	\$11,894,492	\$700	(\$86)

<sup>1</sup> The Company stated that increased OnTrack funding would allow for enrollment of 15,000 (low enrollment scenario) - 17,000 (high enrollment scenario) customers. Dahl at 13.

<sup>2</sup> The reduced operating/administrative cost scenario entails reducing 2002 average operating/administrative cost per participant (see Exhibit JH-1) by 20 percent.

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**NATIONAL ENERGY ASSISTANCE  
DIRECTORS' ASSOCIATION**

**NATIONAL ENERGY ASSISTANCE SURVEY REPORT**

**EXECUTIVE SUMMARY**

**FINAL REPORT**  
April 2004

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AUG 18 2004

Contact: Mark Wolfe  
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## Executive Summary

The Low-Income Home Energy Assistance Program (LIHEAP) helps low-income households meet their immediate home heating and cooling needs. In FY 2004 LIHEAP will provide close to \$2 billion in heating and cooling assistance to more than 4.9 million low-income households throughout the United States. In October 2003, NEADA commissioned Apprise, Inc. to conduct a national survey of choices made by LIHEAP-recipient households when they cannot afford their energy bills. By examining how low-income families manage energy unaffordability, the 2003 NEA survey serves as a complement to other important national surveys such as the Residential Energy Consumption Survey and the Current Population Survey.

Low-income households have energy burdens that far exceed those of higher-income households. LIHEAP-recipient households spent an average of 14 percent of their income on total residential energy bills.<sup>i</sup> This compares to 3 percent for households with income above 150 percent of the poverty level.<sup>ii</sup> Despite these significant residential energy expenses, most low-income households pay their energy bills regularly. But at what cost?

The 2003 NEA survey found that LIHEAP recipients faced life-threatening challenges. In FY 2003:

- 17 percent were unable to use their main source of heat due to discontinued utility service or an inability to pay for fuel; and,
- 8 percent had their electricity shut off due to nonpayment both due in part to unaffordable energy bills.
- 53 percent of renters said that they needed to borrow from a friend or relative to pay their residential energy bill, compared to 38 percent of homeowners.
- 56 percent of renters said that they skipped paying or paid less than the whole residential energy bill, compared to 46 percent of homeowners.

The 2003 NEA survey found that LIHEAP-recipient households across the country face serious hardships in attempting to pay their energy bills. In the past five years:

- 38 percent went without medical or dental care;
- 30 percent went without filling a prescription or taking the full dose of a prescribed medicine;

The 2003 NEA survey found significant differences among LIHEAP recipients based on fuel type and homeownership. In FY 2003: 31 percent of bulk fuel respondents said that they experienced a loss of energy service due to discontinued utility service or an inability to pay for fuel, compared to 15 percent of respondents that use natural gas or electricity as the primary fuel for heating their home.<sup>iii</sup>

- 72 percent of bulk fuel respondents who were without heat due to inability to pay their energy bill said that LIHEAP helped restore their heat, compared to 49 percent of respondents that use natural gas or electricity as the primary fuel for heating their home.
- 28 percent did not make a rent or mortgage payment;
- 22 percent went without food for at least one day;

- 21 percent believe they became sick because their home was too cold; and,
- 7 percent believe they became sick because their home was too hot

due in part to unaffordable energy bills.

The NEA study presented in this report finds that LIHEAP is essential in helping a large number of low-income Americans meet their energy needs. LIHEAP assistance reduces the percentage of household income spent on total residential energy costs from 14 to 11 percent.<sup>iv</sup> This reduction is achieved through a relatively small average grant of \$313 in FY 2003. Despite the small grant, the findings point to very large benefits:

- 88 percent of recipients said that LIHEAP has been very important in helping meet their needs; another 8 percent said it was somewhat important.
- 62 percent of those who lost their heat due to an inability to pay their energy bills said that LIHEAP helped to restore their heat.
- 54 percent of recipients said that they would have kept their home at an unsafe or unhealthy temperature if LIHEAP had not been available.
- 48 percent of recipients said that they would have had their electricity or home heating fuel discontinued if LIHEAP had not been available.

The need for LIHEAP far exceeds the availability of current appropriations. Over 4.6 million households received LIHEAP in 2003, only 13 percent of the over 34.6 million households that had income below the federal maximum LIHEAP standard.<sup>v</sup>

Key findings from the 2003 NEA study can be summarized as follows:

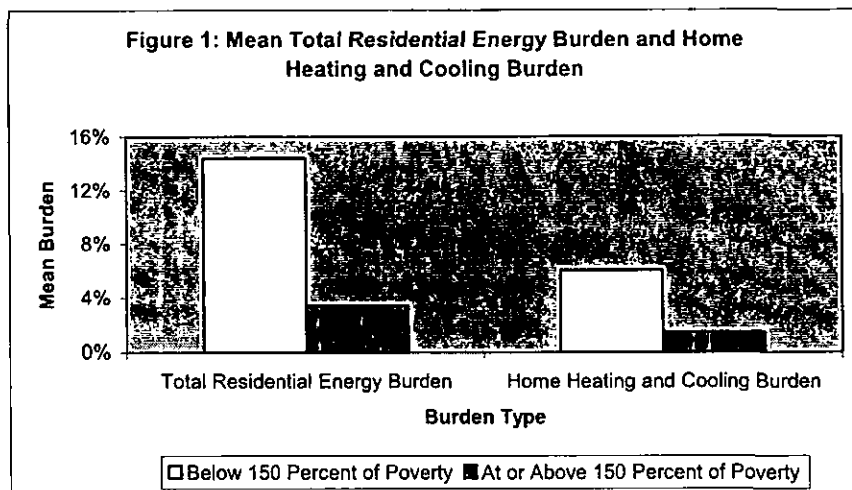
- Low-income households spend an inordinate amount of their household income on residential energy.
- Households that receive LIHEAP face significant hardship in attempting to pay their energy bills.
- LIHEAP makes a significant difference for most recipient households.
- However, LIHEAP still only serves a small fraction of eligible households.

### **Energy Burden**

Energy burden is a statistic that is *often* used to assess the problems households have in meeting their energy needs. Energy burdens are high for low-income households, both because of their low income and higher relative energy costs. Low-income households have higher energy costs because of old or substandard housing with inefficient heating systems, low levels of insulation, or gaps in the exterior of the home.

According to the 2003 Current Population Survey, 24 million households have incomes below 150 percent of poverty, and the mean annual gross income for those households was \$11,897. This compares to a mean annual income of \$70,232 for the households at or above 150 percent of poverty.

Figure 1 shows that households with income below 150 percent of poverty spend 14 percent of their income on total residential energy, compared to 3 percent for households with income above 150 percent of poverty.<sup>vi</sup> The mean home heating and cooling burden is 6 percent for low-income households, compared to 1 percent for households that are not low-income.<sup>vii</sup>

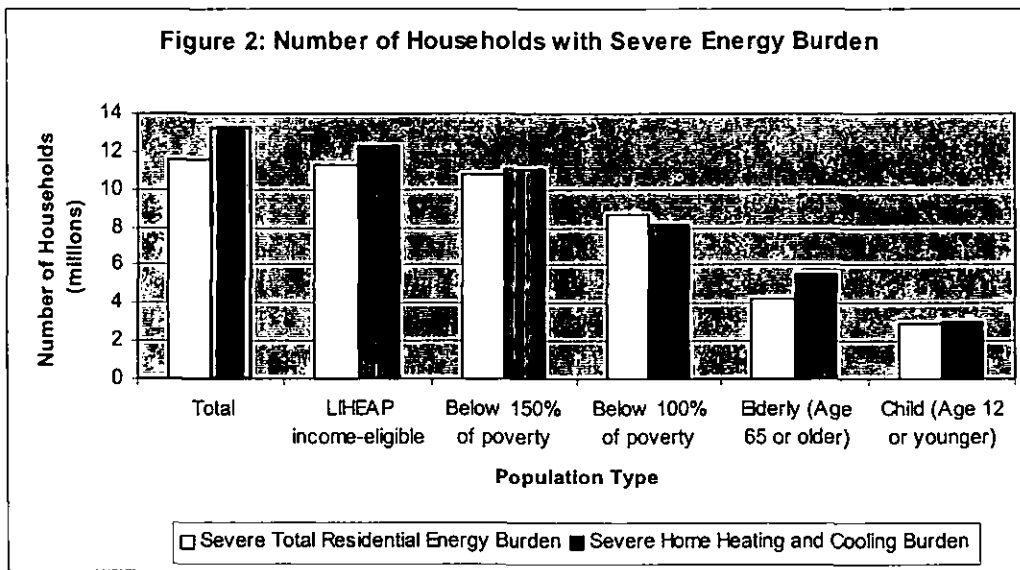


Source: 2001 Residential Energy Consumption Survey

Total residential energy burden is the total cost of energy used in the home divided by total household income. Home heating and cooling burden is the total cost of home space heating and cooling divided by total household income. The statutory intent of LIHEAP is to reduce home heating and cooling costs for low-income households. As noted in footnote 4, this report focuses on total residential energy costs and not home heating and cooling costs.

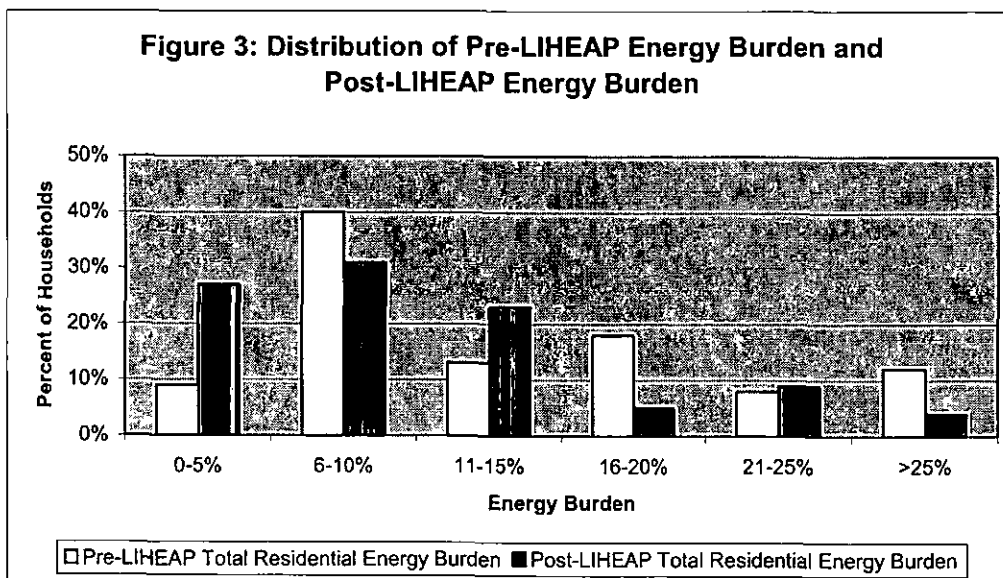
Within this study, severe total residential energy burden is defined as energy costs exceeding 11 percent of income and severe home energy burden as heating and cooling costs exceeding 4 percent of income.<sup>viii</sup>

Figure 2 illustrates that 12 million households with income below the federal maximum eligibility standard of 60 percent of state median income or 150 percent of the federal poverty level have severe home heating and cooling burdens.



Source: 2001 Residential Energy Consumption Survey

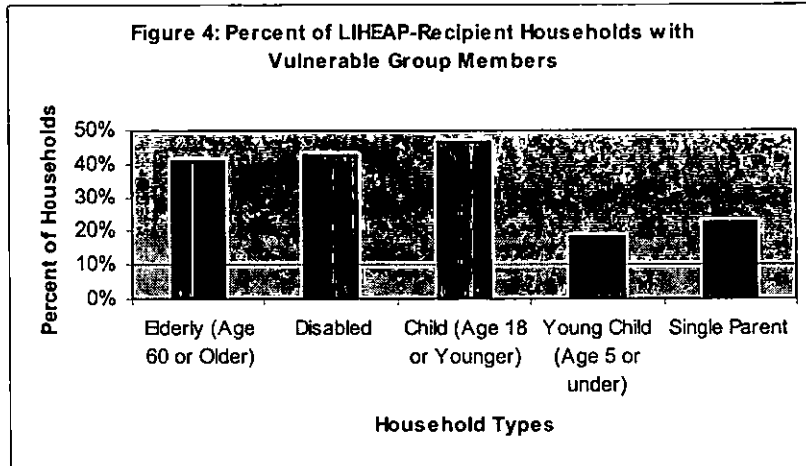
Figure 3 displays the level of energy burden both prior to subtracting LIHEAP benefits from energy costs (pre-LIHEAP), and after subtracting LIHEAP benefits (post-LIHEAP). Figure 3 shows that 91 percent of LIHEAP recipients have pre-LIHEAP total residential energy burdens above 5 percent, and 20 percent above 20 percent. After accounting for LIHEAP benefits, the proportion of households that fall into the lowest energy burden interval (of 0-5%) increases from 9 percent to 27 percent. LIHEAP benefits reduce the proportion of households with total residential energy burden above 15 percent from 38 percent to 19 percent.



Source: 2003 National Energy Assistance Survey

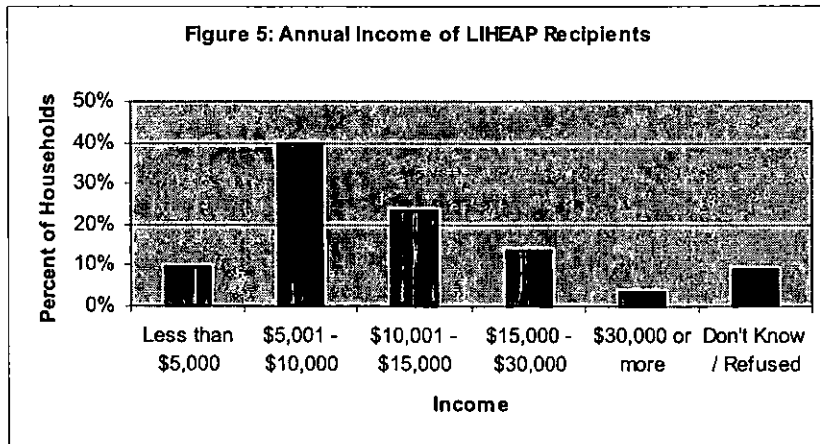
## LIHEAP Recipients

Figure 4 presents the percentage of LIHEAP recipients with one or more household members particularly vulnerable to unaffordable energy bills. Forty-one percent reported that they have one or more household members age 60 or older, 43 percent have one or more disabled household members, 47 percent have one or more children age 18 or younger, 18 percent have one or more young children age 5 or younger, and 22 percent are single parent households.



Source: 2003 National Energy Assistance Survey

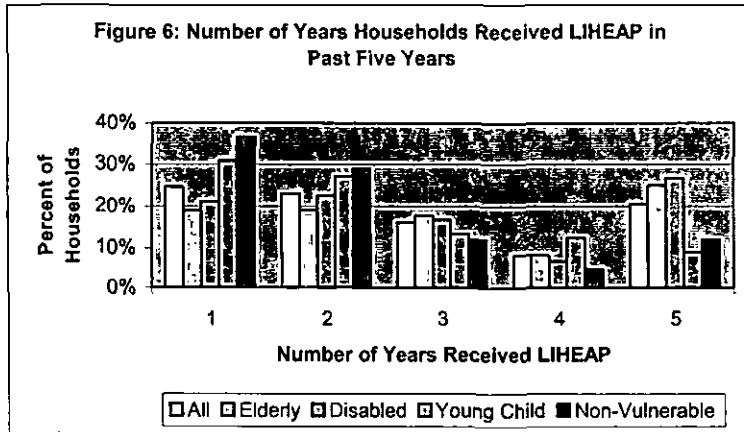
Respondents were asked for their annual household income. Figure 5 shows that 50 percent reported an annual income at or below \$10,000 per year and 74 percent reported an annual income at or below \$15,000.<sup>ix</sup>



Source: 2003 National Energy Assistance Survey

Respondents were asked how many times in the past five years they received LIHEAP benefits. Figure 6 shows that 25 percent reported that they received LIHEAP only once, and 21 percent

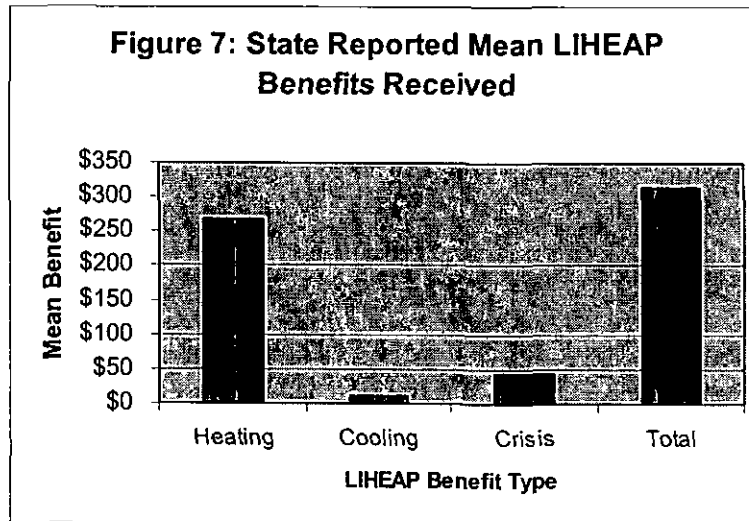
reported that they received LIHEAP five times in the past five years. Approximately 25 percent of households with an elderly person and 27 percent of households with a disabled person have received LIHEAP five times in five years, compared to 12 percent for non-vulnerable (i.e., households with no residents that are elderly, disabled, or children) households and 9 percent for LIHEAP-recipient households with children age 5 or younger.



Source: 2003 National Energy Assistance Survey

States were asked to provide data on the amount of heating, cooling, and crisis benefits received by each household. All twenty states included in the survey provided data for nearly all (2,132 of 2,161) of the respondents.

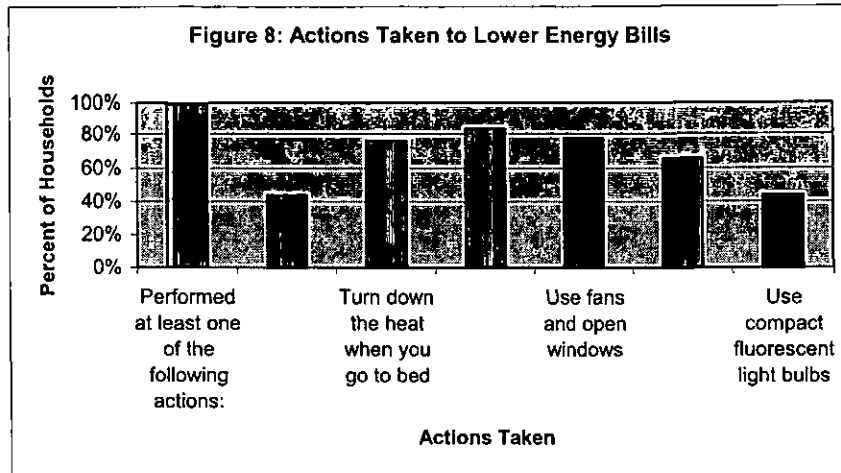
Figure 7 shows that the total average LIHEAP award was \$313 in FY 2003. The average LIHEAP grant was \$267 for heating, \$10 for cooling, and \$45 for crisis. Most LIHEAP recipients received heating assistance, but only a small minority received cooling assistance.<sup>x</sup>



Source: 2003 State LIHEAP office data

## Constraints, Hardships, and Unsafe Practices

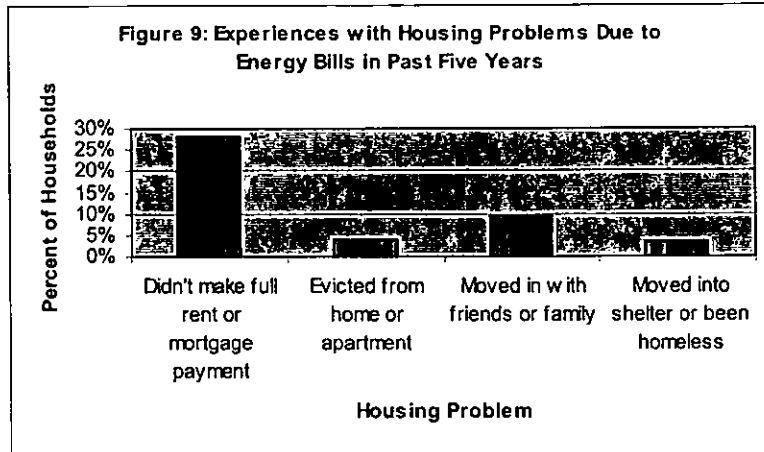
Respondents were asked whether they took specific actions in FY 2003 to bring down their total residential energy costs. Figure 8 illustrates that nearly all LIHEAP recipients took constructive actions to lower their energy bills. Forty-four percent of LIHEAP recipients said that they put plastic on their windows and 76 percent said they turned down the heat when they went to bed. Eighty-three percent said they kept shades and curtains closed during the daytime in the summer and 78 percent said they used fans and opened windows. Sixty-five percent said they washed clothes in cold water and 44 percent said they used compact fluorescent light bulbs.



Source: 2003 National Energy Assistance Survey

Note: These responses may be overestimated due to respondent compliance (i.e., desire to provide a socially desirable or positive response).

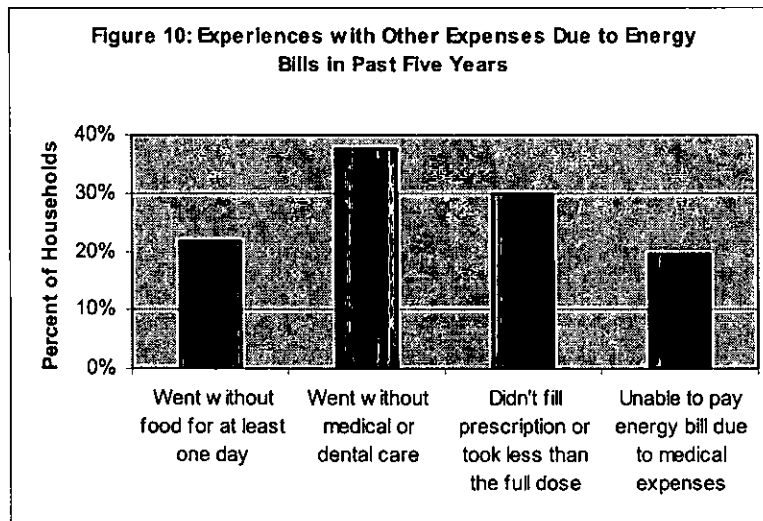
Respondents were asked whether they encountered specific housing problems over the past five years due in part to their total residential energy expenses. Figure 9 shows that 28 percent of respondents reported not making a full rent or mortgage payment, 9 percent reported that they moved in with friends or family, 4 percent said they were evicted from their home or apartment, and 4 percent were homeless at some point during the last five years.



Source: 2003 National Energy Assistance Survey

**Health: Tough Choices and Health Problems**

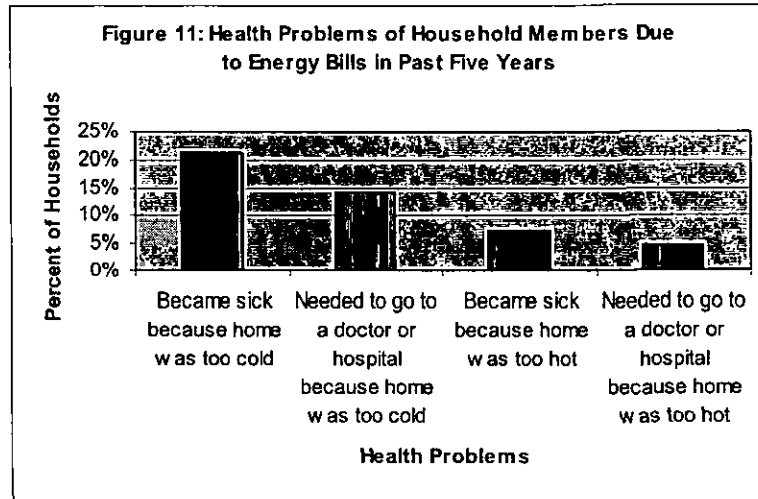
Respondents were asked whether they went without food, medical care, or medicine in the past five years due in part to their total residential energy expenses. Figure 10 shows that 22 percent of LIHEAP recipients reported that they went without food for at least one day, 38 percent said they went without medical care, 30 percent said they didn't fill a prescription or took less than the full dose of a prescribed medicine, and 20 percent said they were unable to pay their energy bill due to medical expenses.



Source: 2003 National Energy Assistance Survey

Respondents were asked whether they suffered illness in the past five years because their homes were too hot or too cold. Figure 11 shows that 21 percent of LIHEAP recipients reported that

someone in their household became sick because their home was too cold, and 14 percent reported that someone in the household needed to go to the doctor or hospital due to an illness. Seven percent of LIHEAP recipients reported that someone in their household became sick because their home was too hot, and 5 percent reported that an illness resulted in a doctor or hospital visit.

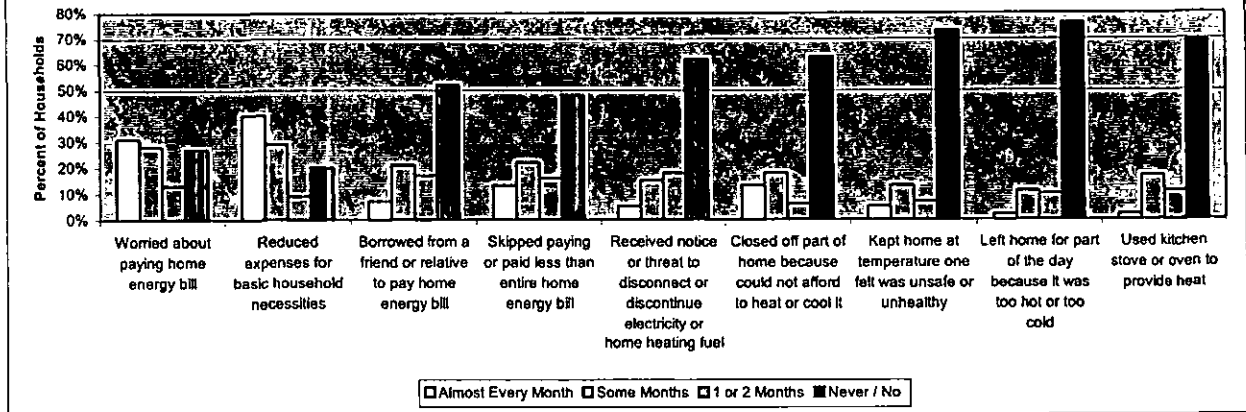


Source: 2003 National Energy Assistance Survey

### Energy Insecurity

Respondents were asked to report the frequency of actions or experiences in FY 2003 that could be considered indicators of energy insecurity. As shown in Figure 12, 72 percent of LIHEAP recipients worried in FY 2003 about their ability to pay the home energy bill. Seventy-eight percent said that they reduced expenses on basic household necessities. Fifty-one percent skipped paying or paid less than their entire home energy bill. Thirty percent reported that they used their kitchen stove for heat.

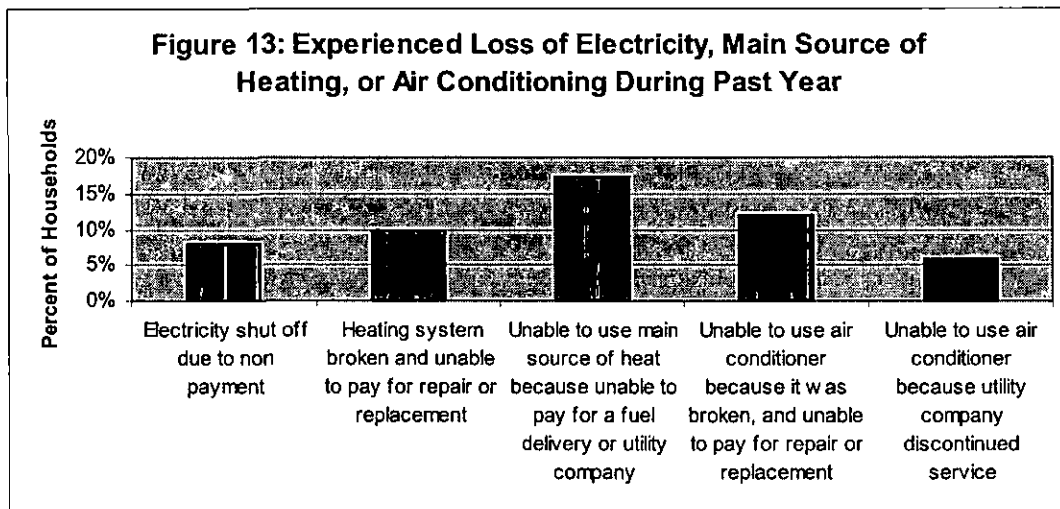
**Figure 12: Experiences Due to Not Having Enough Money for the Energy Bill During Past Year**



Source: 2003 National Energy Assistance Survey

Figure 13 displays whether the respondent reported a loss of electricity, heating, or air conditioning. Eight percent of LIHEAP recipients reported not being able to use their main source of heat in FY 2003 because their electricity was shut off due to nonpayment, 10 percent said their heating system broke and they were unable to pay for a repair or replacement, and 17 percent said they couldn't use their main source of heat because they were unable to pay for a bulk fuel delivery or the utility company discontinued their energy service. Twelve percent of LIHEAP recipients reported not being able to use their air conditioner because it was broken and they were unable to pay for a repair or replacement, and 6 percent reported not being able to use their air conditioner because the utility company discontinued their service.

**Figure 13: Experienced Loss of Electricity, Main Source of Heating, or Air Conditioning During Past Year**

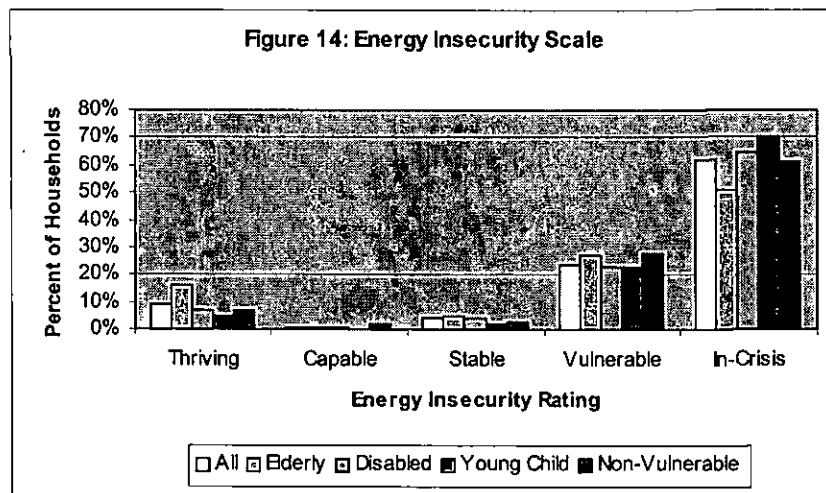


Source: 2003 National Energy Assistance Survey

Figure 14 presents a scale that classifies LIHEAP recipients based on their level of home energy insecurity. The scale, constructed from some of the previously described NEA survey questions, is a modified version of the home energy insecurity scale developed in Roger Colton's paper, "Measuring the Outcomes of Low-Income Energy Assistance Programs Through A Home Energy Insecurity Scale."<sup>xi</sup>

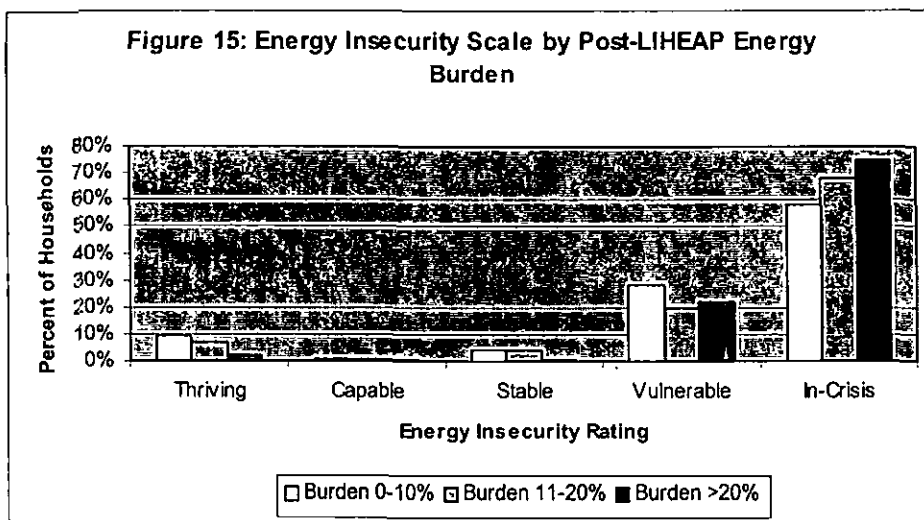
The scale classifies respondents as thriving, capable, stable, vulnerable or in-crisis, based on how they answered the questions previously described in Figures 12 and 13. Each threshold serves as a measured stage of a household's energy insecurity status at a point in time. An in-crisis household suffers a loss in energy service, regularly foregoes basic household necessities to pay its energy bill, regularly constrains energy use to unsafe or unhealthy levels, or regularly practices unsafe or dangerous alternative heating techniques.

Figure 14 shows that 62 percent of LIHEAP recipients are classified as being in-crisis. Elderly households are least likely to be in-crisis and households with young children are most likely to be in-crisis. While research has shown that the elderly are more likely to pay their bills and less likely to be shut off, there is also evidence that they are less likely to admit they have problems meeting their needs.



Source: 2003 National Energy Assistance Survey

Figure 15 displays the relationship between total residential energy burden and the energy insecurity rating. Households with the highest total residential energy burdens are most likely to be in-crisis. Approximately 75 percent of respondents with a post-LIHEAP total residential energy burden of more than 20 percent are in-crisis, compared to 58 percent of respondents with a post-LIHEAP total residential energy burden of less than 11 percent.



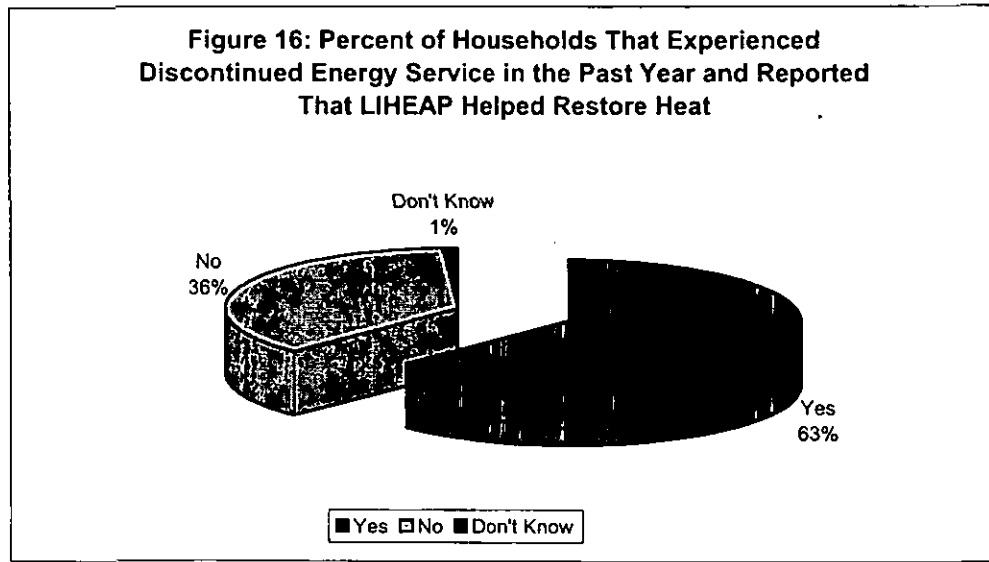
Source: 2003 National Energy Assistance Survey

### Importance of LIHEAP

LIHEAP benefits are often quite small, averaging only \$313 in FY 2003. Therefore, researchers sometimes question the level of impact these benefits can have. One of the benefits of this study is that it provides new evidence on the importance of LIHEAP for recipient households. In this study, respondents were asked to assess the impact that LIHEAP had on their circumstances and whether they would have faced certain problems if LIHEAP had not been available.

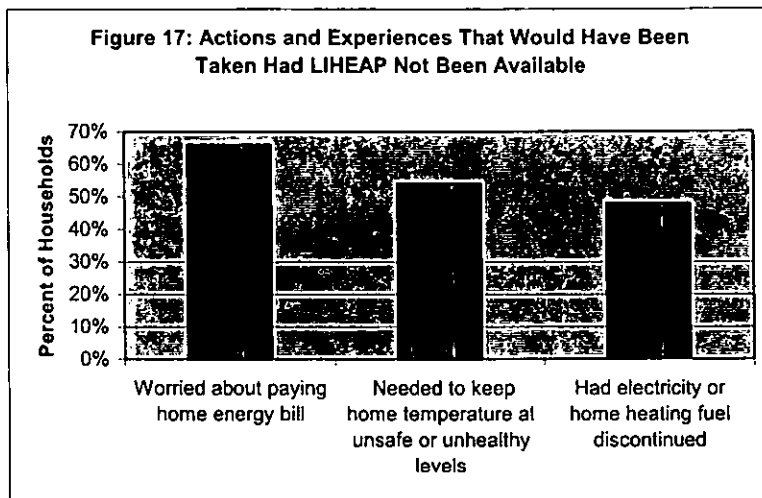
Respondents were asked whether they were unable to use their main source of heat in FY 2003 because they were unable to pay to repair or replace a broken heating system, unable to pay for fuel, or unable to pay to restore disconnected or discontinued energy service. Seventeen percent of respondents experienced a payment-related loss of heat and were asked whether LIHEAP helped restore their main source of heat. Figure 16 shows that 63 percent of these respondents reported that LIHEAP helped to restore use of their main source of heat.

**Figure 16: Percent of Households That Experienced Discontinued Energy Service in the Past Year and Reported That LIHEAP Helped Restore Heat**



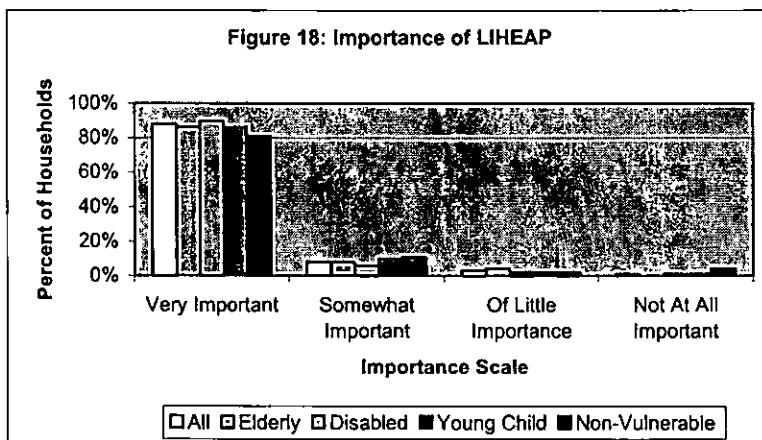
Source: 2003 National Energy Assistance Survey  
Figure 16 reports on 17 percent (373 of 2,161) of LIHEAP-recipient respondents that reported being unable to use their main source of heat because they were unable to pay for a bulk fuel delivery or their utility was disconnected due to nonpayment.

Respondents who reported that they did not encounter some of the energy insecurity problems described in the previous subsection were asked whether they believe they would have faced these problems if LIHEAP assistance had not been available. Figure 17 shows that 66 percent reported that they would have worried about paying their home energy bill if LIHEAP had not been available. Fifty-four percent said they would have needed to keep their home at an unsafe or unhealthy temperature had LIHEAP not been available. Forty-eight percent said they would have had their energy service disconnected or discontinued during a time when they needed it to heat or cool their home if LIHEAP had not been available.



Source: 2003 National Energy Assistance Survey

Respondents who reported that they received LIHEAP were asked, “How important has LIHEAP been in helping you to meet your needs?” Figure 18 shows that 88 percent of LIHEAP recipients said that LIHEAP was very important in helping them meet their needs and 8 percent said it was somewhat important.



Source: 2003 National Energy Assistance Survey

## Footnotes

<sup>i</sup> 2003 National Energy Assistance (NEA) Survey.

<sup>ii</sup> 2001 Residential Energy Consumption Survey (RECS). Database available from the Energy Information Administration (EIA), a statistical agency of the U.S. Department of Energy (DOE).

<sup>iii</sup> Bulk fuel respondents are defined as LIHEAP-recipient households who reported bottled or tank gas (e.g., LPG or propane), fuel oil, kerosene, etc. as the fuel most used for heating their home. Utility service respondents are defined as LIHEAP-recipient households who reported natural gas or electricity as the fuel most used for heating their home.

<sup>iv</sup> The statutory intent of LIHEAP is to reduce home heating and cooling costs for low-income households.

However, information on total residential energy costs is more accessible and more apparent to LIHEAP-recipient respondents. Moreover, any reduction in home heating and cooling costs leads to a direct reduction in total residential energy costs. Therefore, this report will address total residential energy costs.

<sup>v</sup> The Federal maximum LIHEAP standard is 150 percent of poverty or 60 percent of state median income. Many states limit eligibility to households with income below lower limits.

<sup>vi</sup> 2001 Residential Energy Consumption Survey (RECS).

<sup>vii</sup> 2001 RECS.

<sup>viii</sup> Some researchers have defined severe shelter burden as shelter costs at or greater than 50 percent of income (See Cushing N. Dolbear. 2001. "Housing Affordability: Challenge and Context." *Cityscape: A Journal of Policy Development and Research*, (5)2:111-130. A Publication of the U.S. Department of Housing and Urban Development, Office of Policy Development and Research.) The severe shelter burden definition is used in this study as a guide to define severe total residential energy burden. The median total residential energy costs for households with income below 150 percent of poverty are 21.8 percent of shelter costs. If shelter costs are 50 percent of income, then these total residential energy costs represent 10.9 percent of income. Therefore severe total residential energy burden is defined as total residential energy costs that exceed 10.9 percent of income (Calculation:  $.218 \times .50 = .109$ ). Severe home heating and cooling energy burden is defined as the percentage of income spent on home heating and cooling that would be excessive for low-income households. The 2001 RECS shows that heating and cooling energy expenses comprise 39.3 percent of total residential energy expenditures. Therefore, severe home heating and cooling energy burden is defined as heating and cooling costs that exceed 4.3 percent of income (Calculation:  $.39 \times .218 \times .50 = .043$ ).

<sup>ix</sup> Table 14 shows that 70 percent of LIHEAP recipients have incomes below 100 percent of poverty.

<sup>x</sup> Table 34 shows that 2.6 percent (56 of 2,132) of LIHEAP recipients received cooling benefits, 11.5 percent (245 of 2,132) received crisis benefits, and 95.8 percent (1,959 of 2,132) received heating benefits. The mean LIHEAP benefits received are averages over all recipients in the states where those benefits were offered. The average cooling benefit among only those who received a cooling benefit was \$147 and the average crisis benefit among only those who received a crisis benefit was \$264.

<sup>xi</sup> Roger Colton. July 2003. "Measuring the Outcomes of Low-Income Energy Assistance Programs Through A Home Energy Insecurity Scale." A Publication Prepared for: LIHEAP Committee on Managing for Results. U.S. Department of Health and Human Services. Administration for Children and Families. Office of Community Services, Division of Energy Assistance.

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Exhibit JH-5

PA PUBLIC UTILITY COMMISSION  
Sales (MWH) by Sector and Locations  
SECRETARY'S BUREAU

Residential Sales	12,615,567
% of Total Sales	36.1%
SEF Allocation	\$1,213,126
Commercial-Industrial Sales	22,125,181
% of Total Sales	63.4%
SEF Allocation	\$2,127,580
Street and Highway Lighting Sales	99,397
% of Total Sales	0.3%
SEF Allocation	\$9,558
Other Sales to Public Authorities	553
% of Total Sales	0.0%
SEF Allocation	\$53
Railroads and Railways Sales	75,161
% of Total Sales	0.2%
SEF Allocation	\$7,228
SEF REVENUES	\$3,357,544
TOTAL SALES (MWH)	34,915,859

DOCUMENT

Sources: Sales data calculated from PPL's 2002 FERC Form 1 Filing, Reference Page 304; SEF total funding from Dahl at 22.

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COMMISSION ON ECONOMIC OPPORTUNITY  
OF LUZERNE COUNTY

CEO Statement No. 2-R

Surrebuttal Testimony of John Howatt

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8-11-04  
Hug

Pennsylvania Public Utility Commission v. PPL Electric Utilities Corporation

Docket Number: R-00049255

1 Q. PLEASE STATE YOUR NAME AND ADDRESS.

2 A. My name is John Howat. My business address is 77 Summer Street, 10th Floor,  
3 Boston Massachusetts.

4 Q. FOR WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?

5 A. I am testifying on behalf of the Commission on Economic Opportunity.

6 Q. DID YOU SUBMIT DIRECT TESTIMONY IN THIS CASE ON BEHALF  
7 OF CEO RELATIVE TO PPL'S UNIVERSAL SERVICE PROGRAMS,  
8 SUSTAINABLE ENERGY FUND AND COMMUNITY BETTERMENT  
9 INITIATIVE?

10 A. Yes.

11 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

12 A. The purpose of my surrebuttal testimony is to address specific points raised in the  
13 rebuttal testimony of Timothy Dahl (PPL Statement No. 7-R). My testimony  
14 briefly addresses the following areas: participation in the OnTrack program, the  
15 requirement that OnTrack participants enter the program with an arrearage of at  
16 least \$150, implementation of the Sustainable Energy Fund ("SEF"), the role of  
17 community-based organizations ("CBOs") in outreach activities and funding for  
18 WRAP.

19 Q. WILL THE ONTRACK PROGRAM AS PROPOSED BY THE COMPANY  
20 IN ITS PREFILED TESIMONY BE ADEQUATELY FUNDED AND  
21 AVAILABLE TO PPL'S LOW-INCOME CUSTOMERS?

22 A. No. While Witness Dahl disagrees that OnTrack is not adequately funded and  
23 available (Dahl Rebuttal Testimony, p. 5), the Company's proposal for OnTrack

1 is to serve between 15,000 and 17,000 customers (Dahl Direct Testimony, p. 13).  
2 The proposed funding and participation levels would serve 12 percent to 14  
3 percent of the Company's 124,000 confirmed low-income customers.<sup>1</sup> According  
4 to the Bureau of Consumer Services, the weighted average CAP participation rate  
5 in 2002 was 35 percent. Thus, even under the increased OnTrack funding  
6 scenario proposed by the PPL, the program participation rate would remain well  
7 under one half of the weighted average statewide. CEO maintains that a program  
8 participation rate of less than one half of the statewide average does not constitute  
9 adequate funding or availability.

10 **Q. WHY IS THE REQUIREMENT THAT NEW ONTRACK PARTICIPANTS**  
11 **CARRY AN ARREARAGE OF AT LEAST \$150 UNREASONABLE?**

12 A. This requirement as it applies to prospective elderly OnTrack participants should  
13 be lifted. Survey evidence reveals that customers who do not carry large utility  
14 debts may still be payment troubled, and that they may take actions that  
15 jeopardize health and safety in order to make utility payments. The National  
16 Energy Assistance Survey Report of April 2004 indicates most low-income  
17 households pay their energy bills regularly, but that 30% of LIHEAP recipients  
18 used their kitchen stove for heat.<sup>2</sup> The report further states that elderly LIHEAP  
19 recipients are "more likely to pay their bills and less likely to be shut off... (but)  
20 *they are less likely to admit they have problems meeting their needs*" (emphasis

---

<sup>1</sup> The Bureau of Consumer Service's Report on 2002 Universal Services Programs provides the number of PPL confirmed low income customers (p. 6). The Report also provides an estimate that the actual number of low income is 200,250 (id.), far more than the confirmed number. Since the discussion here is based on the number of confirmed low-income customers, the participation rates referenced must be viewed as very conservative.

<sup>2</sup> National Energy Assistance Directors' Association, National Energy Assistance Survey Report, April 2004, pp. ES 1, 9.

1 added.).<sup>3</sup> Ms. Carol Lewis, Director of the Area Agency on Aging for  
2 Luzerne/Wyoming Counties confirmed this dynamic in her public testimony  
3 presented as part of the proceedings in the instant docket. Ms. Lewis stated that  
4 senior citizens need specialized assistance which relief from the \$150 arrearage  
5 requirement for OnTrack would provide Mr. Dahl dismisses this dynamic as an  
6 equity issue outside the purview of electric utilities. (Dahl Rebuttal Testimony at  
7 17.) CEO disagrees with this characterization. Affordability of necessary electric  
8 service is indeed within the purview of the Company and the Commission.  
9 Customers jeopardizing health and safety to retain service are a clear indicator of  
10 unaffordable service.

11 **Q. PLEASE COMMENT ON MR. DAHL'S REBUTTAL TESTIMONY**  
12 **REGARDING THE SUSTAINABLE ENERGY FUND.**

13 A. It is encouraging that PPL Electric "agrees that the SEF should be more involved  
14 in identifying and implementing renewable energy projects for residential  
15 customers." (Dahl Rebuttal Testimony at 42.) However, CEO maintains that this  
16 agreement should be reflected in specific funding and program design  
17 commitments.

18 In addition, Mr. Dahl expresses concern about residential photovoltaic payback  
19 periods and cost effectiveness. CEO agrees that the cost of such units do not meet  
20 usage reduction (WRAP) pay back but as an emerging technology is exactly the  
21 type of sustainable energy that the Sustainable Energy Fund was established to  
22 promote. Part of the rationale for proposing an aggressive residential photovoltaic  
23 program is precisely to address this high cost. Significant investment in

---

<sup>3</sup> Id., p. ES 11.

1 residential photovoltaic equipment and service will ultimately place downward  
2 pressure on their prices as was the case with a wide range of technologies that  
3 have become commonplace over the past two decades. This will help create a  
4 market for this new and sustainable technology.

5 The PPL Electric Settlement Agreement states that the purpose of the SEF is “to  
6 promote the *development and use* of renewable energy and clean energy  
7 technologies...” (Emphasis added.) Specific cost-effectiveness and payback  
8 criteria do not appear in this language. Further, the mission of the SEF is to  
9 “promote research and *invest* in renewable energy technologies ... and sustainable  
10 energy enterprises that provide opportunities and benefits for PPL’s ratepayers.”  
11 (Emphasis added.) CEO’s SEF proposal to provide benefits and opportunities to  
12 PPL’s residential ratepayers while promoting investment in photovoltaic  
13 technology is entirely consistent with the restructuring settlement and SEF’s  
14 mission statement.

15 Mr. Dahl further argues that there is no requirement in the restructuring settlement  
16 for a residential set-aside relative to the SEF but neither is there a prohibition.  
17 CEO’s proposal that the classes share in the benefits proportionally to their  
18 contributions to the fund is an equitable proposal consistent with the SEF’s  
19 mission and clearly allowed under the restructuring settlement.

20 **Q. PLEASE COMMENT ON PPL’S ARGUMENTS AGAINST CEO’S**  
21 **PROPOSAL FOR AN EXPANDED CBO ROLE IN OUTREACH AND**  
22 **PROGRAM PLANNING EFFORTS.**

1 A. CEO is puzzled by the Company's apparent rejection of its proposals to assist in  
2 program outreach and planning. CEO notes that it brings a unique perspective in  
3 that it deals with low-income clients on a daily basis, and as such understands the  
4 program needs of these clients. CEO maintains that the effectiveness of program  
5 design and outreach would only benefit from the formal input from CBOs.

6 **Q. WHAT ARE YOUR COMMENTS REGARDING WRAP FUNDING?**

7 A. Mr. Dahl recommends a three-year ramp-up of proposed new WRAP  
8 expenditures. CEO notes that it stands ready to implement the program  
9 immediately at the increased funding level and that the ramp-up period is  
10 unnecessary. The sooner the work is completed the sooner customers begin to  
11 realize savings.

12 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

13 A. Yes.

SEF Statement No. 1  
Docket No. R-00049255  
Witness: Thomas J. Tuffey, Ph.D.

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AUG 18 2004

SUSTAINABLE ENERGY FUND OF  
CENTRAL EASTERN PENNSYLVANIA

Prepared Rebuttal Testimony of  
Thomas J. Tuffey, Ph.D.  
(Prepared July 2004)

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1 executive officer of their organizations and are either in or being groomed for top  
2 leadership positions. Two-thirds of the candidates must come from outside the  
3 United States.

4 From 1973 to 1976, I was an Assistant Professor, Water Resources  
5 Research Institute and the Bureau of Engineering Research with Faculty  
6 appointment in Chemical Engineering at Rutgers University. From 1976 to 1992,  
7 I was employed by Roy F. Weston, Inc. where I held many positions in this 3,000  
8 person *Environmental Engineering firm including Executive Vice President,*  
9 *Marketing, and President of Weston International.*

10 In 1992, I founded EMAX Solution Partners, a 100-person firm  
11 specializing in information management systems for drug discovery and  
12 technologies for chemicals management. During this period beginning in 1992  
13 and continuing to 1996, I was also affiliated with Safeguard Scientifics, the  
14 leading *venture capital organization in Southeastern Pennsylvania,* and  
15 participated as an equity investor in several environmental, health and safety  
16 related companies.

17 From 1996 to 2000, I was President of EMIS Tech Publishing, Inc. EMIS  
18 Tech focused on information systems and technologies for environmental, health  
19 and safety managers. EMIS Tech published the EMIS Tech Newsletter and  
20 produced EMIS (Environmental, Health & Safety Management Information  
21 Systems) Conferences. During this period, I also maintained a private  
22 management and consulting practice, T.J.Tuffey and Associates, providing  
23 management and technical consulting expertise, and was retained as a  
24 consultant to Oracle Corporation.

1                   In 2000, I accepted the position of Executive Director of the Sustainable  
2 Energy Fund of Central Eastern Pennsylvania.

3  
4           Q.    ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS?

5           A.    Yes, I am. I am a member of the Executive Committee of the Clean Energy  
6 States Alliance ("CESA"), a multi-state trade organization of clean energy funds  
7 working together to develop and promote clean energy technologies and to  
8 create and expand the markets for these technologies. I am a member of the  
9 Pennsylvania Energy Advisory Board which was recently formed by Department  
10 of Environmental Protection ("DEP") Secretary Kathleen McGinty to assist DEP  
11 in developing various clean energy initiatives such as advanced energy portfolio  
12 standards, energy technology development and deployment and energy  
13 efficiency/conservation practices. At the invitation of Secretary McGinty, I am  
14 also participating in advisory group meetings concerning the Pennsylvania  
15 Energy Development Authority ("PEDA").

16  
17           **II. The Sustainable Energy Fund of Central Eastern Pennsylvania**

18           Q.    WHAT IS THE SEF?

19           A.    SEF is a Pennsylvania non-stock, non-profit corporation and an exempt  
20 organization under Section 501(c)(3) of the Internal Revenue Code, 26 U.S.C.  
21 §501(c)(3), formed at the conclusion of PPL's Restructuring Proceeding in  
22 accordance with the terms of the Joint Settlement of that Proceeding approved  
23 by the Order of the Pennsylvania Public Utility Commission ("Commission")  
24 entered August 27, 1998, at Case No. R-00973954.

1 SEF's mission is to promote, research, and invest in clean and renewable  
2 energy technologies, energy conservation, energy efficiency, and sustainable  
3 energy enterprises that provide opportunities and benefits for PPL ratepayers.  
4 Unlike a government agency as I explain later in my testimony, the SEF  
5 operates in an entrepreneurial, opportunistic fashion to provide loans and grants  
6 to clean energy projects within the PPL service territory.

7 SEF receives all of its funding through the application of the Sustainable  
8 Energy Fund Rider found at Second Revised Page No. 19K of PPL's presently  
9 effective Tariff No. 201. The Sustainable Energy Fund Rider of 0.01 cents (0.1  
10 mill) per KWH is scheduled to expire on December 31, 2004.

### 11 12 **III. Purpose of Testimony**

13 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

14 A. PPL has proposed in its Supplement No. 38, Third Revised Page No. 19K, to  
15 continue the Sustainable Energy Fund Rider at the current rate of 0.01 cents per  
16 KWH until not later than December 31, 2009. Other parties are opposing  
17 continued funding or proposing changes or commenting upon SEF structure and  
18 accountability. In my rebuttal testimony, I will address the positions of these  
19 other parties, specifically the testimony of Office of Trial Staff ("OTS") witness  
20 Michael J. Gruber, PPL Industrial Customer Alliance ("PPLICA") witness  
21 Stephen J. Baron, United States Department of Defense/Federal Agency  
22 ("DOD") witness Thomas J. Prisco, Commission on Economic Opportunity  
23 ("CEO") witnesses Eugene Brady and John Howatt, PPL Public Lighting Users  
24 Group ("PLUG") witnesses John E. Bradley, Joseph V. Link, PE, and Michael G.

1 Musser, II, and Office of Small Business Advocate ("OSBA") witness Andrew M.  
2 Schwarz. I will also address the testimony of John Hanger, the witness for  
3 Citizens for Pennsylvania's Future ("PennFuture") who recommends a doubling  
4 of the proposed SEF funding level from .1 mill to .2 mill.

5  
6 **IV. Continued Funding**

7 Q. HAVE YOUR REVIEWED THE TESTIMONY OF OTS WITNESS GRUBER,  
8 PPLICA WITNESS BARON AND DOD WITNESS PRISCO?

9 A. Yes, I have. Witnesses Gruber, Baron and Prisco oppose the proposal in PPL's  
10 Supplement No. 38 for continued funding of SEF. Mr. Gruber states that SEF  
11 funding was established with a limited time period in the Restructuring  
12 Settlement and that PPL should adhere to that Settlement. He opines that the  
13 proposed funding is a hidden tax for research which should be accounted for in  
14 Governor Rendell's budget proposal and not electric rates. Mr. Baron opposes  
15 "the inclusion of SEF funding as an *element of distribution cost of service.*" He  
16 challenges proponents of SEF funding to establish that the SEF is related to  
17 distribution costs or service and that it provides demonstrable benefits to  
18 distribution service customers. Mr. Prisco proposes the elimination of further  
19 SEF funding because SEF programs have not been shown to meet the criteria  
20 of Executive Order 13123, Sec 203. He states further that there appears to be  
21 adequate funding already accrued to sustain the current rate of operation for  
22 several years.

23  
24 Q. IS THE SEF FUNDING PROPOSAL A DEPARTURE FROM THE TERMS OF

1 THE RESTRUCTURING SETTLEMENT AS MR. GRUBER SUGGESTS?

2 A. I am not an attorney so I cannot comment on the legality of the present proposal  
3 vis a vis the terms of the Restructuring Settlement. It seems to me, however,  
4 that the proposal in Supplement No. 38 is not precluded by the existing tariff  
5 language at currently effective Second Revised Page No. 19K. The existing  
6 Rider expires on December 31, 2004. Supplement No. 38 proposes a  
7 continuation of the Rider until not later than December 31, 2009.

8  
9 Q. IS THE SEF FUNDING PROPOSAL A HIDDEN TAX FOR CONTINUED  
10 RESEARCH WHICH SHOULD BE ELIMINATED AND INCLUDED IN THE  
11 GOVERNOR'S BUDGET AS MR. GRUBER SUGGESTS?

12 A. No, it is not and I would respectfully submit that Mr. Gruber's characterization of  
13 the Fund is inaccurate.

14 First of all, whether one characterizes it as a "tax" or in some other  
15 fashion, the SEF funding provision is not "hidden." On the contrary, as I  
16 mentioned above, the present funding provision of 0.01 cents per KWH is  
17 separately identified and publicly displayed in PPL's published tariff at Second  
18 Revised Page No. 19K of PPL's presently effective tariff. The proposed funding  
19 provision is, likewise, separately identified and publicly displayed on PPL's  
20 proposed Third Revised Page No. 19K of its proposed Supplement No. 38. The  
21 SEF's use of funding is, likewise, available to the public and not "hidden." The  
22 SEF maintains a public website at [www.sustainableenergyfund.org](http://www.sustainableenergyfund.org) where  
23 anyone can go to find information about the SEF, including annual and semi  
24 annual reports filed by the SEF with the Public Utility Commission concerning

1 SEF operations. The Public Utility Commission's website has a link to SEF's  
2 website at [http://puc.paonline.com/electric/electric\\_renew\\_sus\\_energy.aspx](http://puc.paonline.com/electric/electric_renew_sus_energy.aspx).

3 As an example of the openness with which the SEF operates, I have  
4 attached the SEF's annual report to the Public Utility Commission for the period  
5 July 1, 2002 - June 30, 2003 to my testimony as Attachment A. I return to this  
6 annual report for further discussion later in my testimony where I address the  
7 testimony of other witnesses.

8 Secondly, characterization of SEF funding as a "tax" suggests a  
9 connection with government which the SEF simply does not have. SEF is a  
10 private organization. Its staff is made up of people with private sector, business  
11 experience. It's Board does not have governmental officials on it. It invests in  
12 projects, including Demand Side Management projects that reduce base load  
13 and benefit the transmission and distribution system.

14 Thirdly, the SEF does not fund research. The "research" that is part of  
15 the SEF mission statement is "research" done by SEF to identify technologies  
16 and business models suitable for SEF funding. The SEF, in other words,  
17 investigates or attempts to identify technologies suitable for funding. This is an  
18 *important point to understand about the SEF. It does not fund energy research.*  
19 As explained on our website, the SEF has no money available for research or  
20 development. The SEF funds early stage, but already developed, commercial  
21 products to help move those products closer to the marketplace.

22 The SEF's efforts to "research" and identify technologies suitable for  
23 funding include attempts to ally itself with organizations that do provide research  
24 and development funding. An example of how this has worked for SEF is SEF's

1 relationship with the New York State Energy Research and Development Agency  
2 ("NYSERDA").

3 NYSERDA is a government agency that has a staff of 225 and disburses  
4 approximately \$130 million a year, principally as grants and subsidies. SEF has  
5 an open alliance dialog with NYSERDA and I have visited NYSERDA in Albany  
6 several times and have met at least twice a year with NYSERDA representatives  
7 at CESA activities.

8 SEF portfolio companies or prospects, including wind farms, green  
9 certificate marketing, consumer education, energy efficiency on farms, energy  
10 efficiency in sewage treatment plants, fuel cells and more, have directly  
11 benefitted from SEF's relationship with NYSERDA through funding, sharing  
12 research findings of NYSERDA and in some cases NYSERDA funding activities.  
13 *SEF is currently exploring means to finance an early commercial company in the*  
14 *agricultural energy efficiency business to enter the PPL territory. NYSERDA has*  
15 *funded this company for many years and introduced SEF to them.*

16 Finally, I would respectfully disagree with Mr. Gruber's suggestion that  
17 Governor Rendell's budget proposals should be viewed as a replacement for  
18 SEF funding. Let me say, first of all, that I have not examined the Governor's  
19 budget proposals in any detail. I am, however, as I said above, a member of  
20 DEP's Energy Advisory Board and I am aware that the DEP's budget request  
21 does seek increased funding for its Energy Harvest Grant program. It is also my  
22 understanding that DEP's budget proposal contains seed funding for PEDDA.  
23 These are budget proposals only, however, with no guarantee of actual funding.  
24

1           In the opinion of SEF, whatever is in the Governor's budget and proposed  
2 by DEP should be viewed as a complement to SEF funding, not a replacement.  
3           Bordering states like New York and New Jersey are financing sustainable energy  
4 at rates at least 5 to 6 times greater than Pennsylvania. The Governor's budget  
5 request would close the gap somewhat, if funded, but would still be below the  
6 effort of neighboring states to develop not only the sustainable energy  
7 infrastructure but the associated job creation of an emerging technology sector.

8           Even if the budget matches or exceeded that of neighboring states, the  
9 enabling legislation and authority of the proposed entities does not obviate SEF  
10 market positioning. PEDA is intended to finance secure projects with revenue  
11 bonds. Energy Harvest is a grant program sponsored by DEP. Neither DEP  
12 *program should be viewed as a replacement for SEF funding. The projects*  
13 *appropriate for PEDA are wholly dissimilar from the projects appropriate for the*  
14 *SEF. In the past, PEDA principally funded projects that were large scale waste*  
15 *coal to power projects, characterized by secure revenue streams, associated*  
16 *with PURPA pricing requirements. The SEF, moreover, already works hand in*  
17 *hand with DEP on Energy Harvest, not for Energy Harvest to replace SEF but*  
18 *to structure SEF financing to enable project managers to take best advantage*  
19 *of Energy Harvest financing structures: In the past, Energy Harvest grant*  
20 *support has been disbursed in the form of reimbursements once a project has*  
21 *reached defined milestones. SEF can provide initial, working capital to move a*  
22 *project towards successful completion in the period before Energy Harvest funds*  
23 *are available to the project.*

1 Q. BOTH MR. GRUBER AND MR. BARON RAISE THE INCLUSION OF SEF  
2 FUNDING IN PPL'S TARIFF AND MR. BARON CHALLENGES PROPONENTS  
3 OF THE FUNDING PROPOSAL TO ESTABLISH THAT THE SEF IS RELATED  
4 TO DISTRIBUTION COSTS OR SERVICE AND PROVIDES DEMONSTRABLE  
5 BENEFITS TO DISTRIBUTION SERVICE CUSTOMERS. DOES SEF  
6 PROVIDE DEMONSTRABLE BENEFITS TO DISTRIBUTION SERVICE  
7 CUSTOMERS?

8 A. Yes, it does. SEF invests, whether grants or program related investments, in  
9 either projects or organizations. If a project, it must be in the PPL service  
10 territory. If an organization, whether for-profit or not-for-profit, its product or  
11 service must be able to benefit PPL ratepayers. The SEF either rejects projects  
12 outside the PPL service territory or refers them to the other regional funds. This  
13 assures SEF that the benefit accrues to the PPL ratepayer.

14 The SEF website contains a complete description of SEF's mission,  
15 preferred technologies, how to apply for SEF funding and how projects will be  
16 evaluated. Through information submitted by and dialogue with the applicant,  
17 SEF evaluates each proposal and quantifies the benefit to PPL ratepayers in  
18 terms of mission metrics as below:

- 19 • KWHs renewable or clean energy generated;
  - 20 • KWHs conventional energy saved;
  - 21 • jobs created;
  - 22 • money leveraged;
  - 23 • environmental benefit, and
  - 24 • people educated
- 25  
26

1 Below I illustrate with three examples: two program related investments  
2 and one grant; how the SEF uses performance metrics to assure benefits to the  
3 PPL ratepayer.

4 Bear Creek Wind Farm

- 5 • Kwhs renewable energy generated/yr 55,000,000
- 6 • Kwhs convention energy saved/yr N/A
- 7 • Jobs created 397 job years over 20  
8 year life
- 9
- 10 • Money leveraged \$30,500,000
- 11 • Environmental Benefit 30,195 tons/year CO<sup>2</sup>  
12 avoided  
13 7,590 homes  
14 equivalent  
15 209 tons/year SO<sup>2</sup>  
16 avoided
- 17
- 18 • People educated Unknown

19 Bear Creek is a wind farm sited within the PPL territory with 20.5 MW  
20 nameplate capacity and .36 capacity factor. The SEF commitment of  
21 \$1,500,000 in debt leverages an additional \$3,000,000 from the other  
22 Pennsylvania funds, \$2,000,000 in production rebates from the PECO  
23 settlement funds managed by the Sustainable Development Fund, and  
24 \$24,000,000 from private sources including the developer, institutions that can  
25 utilize the tax credit, and an investment bank.

26 The estimate of job years is over the projected 20 year life of the project.  
27 Several sources were considered including, FPL experiences, Lawrence  
28 Livermore National Laboratory, and the March 2004 report by Black & Veatch  
29 entitled *Economic Impact on Renewable Energy in Pennsylvania* (available at:  
30 [www.cfalleghenies.org/images/EnergyStudy1.pdf](http://www.cfalleghenies.org/images/EnergyStudy1.pdf)). The Black & Veatch Report

1 was ultimately relied on to estimate job years due to its currency and  
 2 Pennsylvania specificity. The years estimated are for manufacture, construction,  
 3 and operation, the latter two hopefully provided within the PPL territory. The  
 4 *environmental benefit is estimated based on pollution avoided from the*  
 5 Pennsylvania source generation mix of fossil, nuclear and other. Homes  
 6 equivalent is the estimate of the number of average residences within the PPL  
 7 territory that would have full consumption provided by the project.

8 Londonderry School

- 9 • Kwhs renewable energy generated/yr N/A
- 10 • Kwhs conventional energy saved/yr 67,860
- 11 • Jobs created not estimated
- 12 • Money leveraged \$2,100,000
- 13 • Environmental Benefit 37 tons/yr. CO2  
 14 avoided  
 15 9 houses
- 16 • People educated 850 students

17 Londonderry School is a private school in Harrisburg that has built a new  
 18 Leadership in Energy and Environmental Design (“LEED”) Silver school. SEF  
 19 agreed to take \$500,000 debt subordinated to Waypoint Bank. Waypoint was  
 20 not familiar with LEED construction standards and the associated energy and  
 21 environmental benefits. By subordinating to Waypoint, SEF took on the “green”  
 22 risk and Waypoint made the greater loan. The estimate of students is over the  
 23 projected 20 year life of a school with a capacity for just over 200 students.

24 Clean Energy Expo- Penn State Convention Center

- 25 • Kwhs renewable energy generated/yr N/A
- 26 • Kwhs conventional energy saved/yr N/A
- 27 • Job created Not estimated

- 1 • Money leverage \$120,000
- 2 • Environmental Benefit N/A
- 3 • People educated 10,000 to
- 4 11,000

5 SEF provided a \$10,000 grant to the West Penn SEF to sponsor The  
6  
7 Clean Energy Expo which was held approximately 6 months ago. SEF made the  
8 commitment early to provide support for the first Expo. The West Penn SEF, as  
9 host, granted \$25,000. Each of the other Pennsylvania funds also provided  
10 \$10,000, and other grants were made by public and private sources. The two-  
11 day Expo was very successful. Over 150 exhibits were presented and close  
12 to 11,000 people visited the exhibit area and attended workshops.

13  
14 Q. IS IT APPROPRIATE TO INCLUDE FUNDING FOR SEF IN PPL'S  
15 DISTRIBUTION TARIFF?

16 A. As I said earlier, I am not a lawyer, but I believe SEF funding belongs in the  
17 distribution tariff for the following reasons:

18 *First, SEF's energy conservation and demand management projects have*  
19 *undeniable distribution benefits. The reduction of customer load, or the shifting*  
20 *of that load to lower-peak periods, reduces the loading and stress on the*  
21 *distribution system, extending its life and ending or delaying the need for*  
22 *expensive distribution system upgrades.*

23 The distribution benefits of energy conservation and demand  
24 management are widely recognized. A good summary of these benefits is found  
25 in an October 2003 report prepared for the Regulatory Assistance Project by  
26 Synapse Energy entitled *Portfolio Management: How to Procure Electricity*

1 *Resources to Provide Reliable, Low-Cost, and Efficient Electricity Services to All*  
2 *R e t a i l C u s t o m e r s ( a v a i l a b l e a t*  
3 [http://www.raonline.org/showpdf.asp?PDF\\_URL=Pubs/PortfolioManagement](http://www.raonline.org/showpdf.asp?PDF_URL=Pubs/PortfolioManagement)  
4 [/SynapsePMpaper.pdf](#)). That report notes on pages 29-30:

5 Many efficiency measures cost significantly less than generating,  
6 transmitting and distributing electricity. Thus, energy efficiency programs  
7 offer a huge potential for lowering system-wide electricity costs and  
8 reducing customers' electricity bills ...

9  
10 In addition to lowering electricity costs and customers' bills, energy  
11 efficiency offers a variety of benefits to utilities, their customers, and  
12 society in general.

- 13  
14 • Energy efficiency can help reduce the risks  
15 associated with fossil fuels and their inherently  
16 unstable price and supply characteristics and avoid  
17 the costs of unanticipated increases in future fuel  
18 prices.
- 19  
20 • Energy efficiency can reduce the risks associated  
21 with environmental impacts. By reducing a utility's  
22 environmental impacts, energy efficiency programs  
23 can help utilities and their ratepayers avoid the  
24 hard to predict costs of complying with potential  
25 future environmental regulations, such as CO2  
26 regulation.
- 27  
28 • Energy efficiency can improve the overall reliability  
29 of the electricity system. First, efficiency programs  
30 can have a substantial impact on peak demand,  
31 during those times when reliability is most at risk.  
32 Second, by slowing the rate of growth of electricity  
33 peak and energy demands, energy efficiency can  
34 provide utilities and generation companies more  
35 time and flexibility to respond to changing market  
36 conditions, while moderating the "boom-and-bust"  
37 effect of competitive market forces on generation  
38 supply.
- 39  
40 • Since efficiency programs have a substantial  
41 impact on peak demand, they help reduce the  
42 stress on local transmission and distribution  
43 systems, potentially deferring expensive T&D

1 upgrades or mitigating local transmission  
2 congestion problems.

- 3
- 4 • Energy efficiency can result in significant benefits  
5 to the environment. Every kWh saved through  
6 efficiency results in less electricity generation, and  
7 thus less pollution.
  - 8
  - 9 • Energy efficiency can also promote local economic  
10 development and job creation by increasing the  
11 *disposable income of citizens and making*  
12 *businesses and industries more competitive,*  
13 *compared to importation of power plant equipment,*  
14 *fuel, or purchased power from outside the utility*  
15 *service territory.*
  - 16
  - 17 • Energy efficiency can help a utility, state and region  
18 increase its energy independence, by reducing the  
19 amount of fuels (coal, gas, oil, nuclear) and  
20 electricity that are imported from other regions or  
21 even from other countries.
  - 22

23 Some examples of SEF's energy conservation and demand management  
24 projects are:

- 25 • PowerWeb, debt with payback via royalty payments on products  
26 sold, and warrants for stock purchase. PowerWeb "Omni Link"  
27 software is a Demand Side Management application that allows  
28 large, complex industrial users to manage their load demand  
29 during peak periods. During the 2003 SEF reporting period, in the  
30 Middle Atlantic Region, PowerWeb had 770 MW of load potential  
31 under contract. This is equivalent to a nuclear power plant of  
32 power that can be adjusted during critical peaking periods, clearly,  
33 a system benefit.
- 34 • The Twin Valley School Districts green, Leadership in Energy and  
35 Environmental Design ("LEED") silver school will save 172,200  
36 KWhs per year of base load.
- 37 • The advanced energy control system for Allentown Technology  
38 Center, an in town business incubator, is saving 1,325,050 Kwhs

1 per year of energy, and creating much needed jobs in a critical  
2 urban renewal zone.

- 3 • Grant support for the Green Building Association of Central  
4 Pennsylvania is designed to build capacity of professionals and  
5 building owners to upgrade beyond current building code to the  
6 advanced energy standards of the US Building Association  
7 Leaderships in Energy and Environmental Designer, typically a  
8 30-40% improvement. It has been highly successful as  
9 evidenced by the growth in green buildings in PPL territory,  
10 including PPL headquarters as one of the few Gold LEED  
11 standard commercial buildings in the country.

12 Second, SEF's distributed generation projects also provide direct benefit  
13 to the distribution system. Just like energy conservation, distributed generation  
14 projects reduce the loading and stress on the distribution system, extending its  
15 life and ending or delaying the need for expensive distribution system upgrades.

16 The distribution benefits of distributed generation projects are widely  
17 recognized. An A.D. Little whitepaper entitled *Reliability and Distributed*  
18 *Generation* (available at [www.encorp.com/dwnld/pdf/whitepaper/wp\\_ADL\\_4.pdf](http://www.encorp.com/dwnld/pdf/whitepaper/wp_ADL_4.pdf))

19 notes:

20 DG can provide policymakers, regulators, wires  
21 companies, and customers with multiple options to  
22 increase reliability. The potential benefits of DG in  
23 addressing reliability concerns were specifically recognized  
24 in the DOE POST study as a way to "respond more rapidly  
25 to an increased demand for electricity in areas where  
26 demand is already high. DG can be installed within the  
27 distribution system or at a customer's site, as a separate  
28 solution or in combination with market-driven incentives  
29 such as interruptible programs, to improve reliability by:

- 30 • Adding generation capacity at the customer site for  
31 continuous power and backup supply  
32  
33

- Adding system generation capacity
- Freeing up additional system generation, transmission and distribution capacity
- Relieve a transmission and distribution bottlenecks
- Supporting power system maintenance or restoration operations with generation of temporary backup power. (*Reliability and Distributed Generation* at 16).

The reference to the DOE POST study in the preceding cite is the March 2000 report of the US DOE Power Outage Study Team (POST) entitled *Findings and Recommendations to Enhance Reliability from the Summer of 1999* (available at [http://certs.lbl.gov/pdf/POST\\_Final.pdf](http://certs.lbl.gov/pdf/POST_Final.pdf)). The third recommendation of that report was to remove barriers to distributed generation.

That POST report noted:

During periods of peak demand, load reduction could improve reliability by reducing demand on stressed electric systems. The federal government should support state efforts to identify and address mismatches between traditional ratemaking approaches and public policies appropriate for reliability-enhancing distributed energy resources in a restructured electric industry. (p. 20).

A good example of SEF's smaller distributed generation projects is the Oregon Farm biomass digester and power generation project which is projected to both save system demand and put excess power on the grid of 960,000 Kwhs per year.

1 Third, the purest "generation" project SEF has financed, the Wind Park  
2 Bear Creek, has transmission and distribution benefits to the PPL system  
3 because it is located east of the bottleneck in PJM and, thus, relieves congestion  
4 in the grid.

5 Fourth, I do not think the generation/distribution impact is controlling in  
6 determining whether it is appropriate to include SEF funding in the tariff. There  
7 are other costs, such as the economic development riders, that are part of the  
8 distribution and transmission tariffs. The Systems Benefits Charge that finance  
9 the clean energy funds around the country are part of the distribution and  
10 transmission tariff. If Pennsylvania were to apply the distribution benefit test to  
11 SEF funding, it would stand alone in this view. The benefits of SEF funded  
12 projects in the form of job creation, clean air, less emissions and more, flow to  
13 all PPL ratepayers. It would seem to be appropriate that all ratepayers  
14 contribute to funding through the proposed Rider.

15  
16 Q. IS THE SEF A RESEARCH AND DEVELOPMENT FUND AS MR. BARON  
17 STATES IN HIS TESTIMONY?

18 A. SEF is not a research and development fund. This is, once again, a matter that  
19 I addressed earlier in my testimony in my response to OTS witness Gruber. I  
20 will not repeat that testimony here but rather refer back to it. As presented on  
21 our SEF website, the SEF has no money available for research or development.  
22 The SEF funds early stage, but already developed, commercial products to help  
23 move those products closer to the marketplace.

24

1 Q. TURNING TO THE TESTIMONY OF MR. PRISCO, WHAT IS EXECUTIVE  
2 ORDER 13123?

3 A. I have attached a copy of Executive Order 13123 to my testimony as Attachment  
4 B. Executive Order 13123 is a Presidential Order titled "Greening The  
5 Government Through Efficient Energy Management." In its preamble, section  
6 101, the Order states that "the Federal Government, as The Nation's largest  
7 energy consumer, shall significantly improve its energy management in order to  
8 save taxpayer dollars and reduce omissions that contribute to air pollution and  
9 global climate change." It applies to all federal Executive Agencies, including the  
10 Department of Defense. Section 203 specifically addresses "Industrial and  
11 Laboratory Facilities." It states that through life cycle cost-effective measures  
12 each agency will reduce energy consumption in its industrial and laboratory  
13 facilities by 20 percent by 2005 and 25 percent by 2010.

14  
15 Q. DO SEF PROJECTS MEET THE CRITERIA OF EXECUTIVE ORDER 13212,  
16 SEC 203?

17 A. It is not clear how Mr. Prisco applies Section 203 of Executive Order to come to  
18 a conclusion that SEF projects do not meet the criteria of that Section. I,  
19 however, find nothing inconsistent with the Executive Order and the SEF  
20 mission. I view the SEF as a possible means for DOD to achieve the energy  
21 efficiency goals presented in Section 203. SEF exists to encourage the  
22 development of a sustainable energy infrastructure. This includes investing in  
23 companies whose products and services include energy efficiency. The federal  
24 facilities within the PPL service territory will certainly benefit from such

1 development of energy efficiency. SEF, moreover, is certainly available to  
2 consider grant or financing requests from the federal agencies or their vendors  
3 relative to their Section 203 "Industrial and Laboratory Facilities."

4  
5 Q. DO SEF PROJECTS MEET THE CRITERIA OF THE OTHER SECTIONS OF  
6 EXECUTIVE ORDER 13123?

7 A. Yes, Executive Order 13123 has seven separately identified goals of which  
8 Section 203 is only one. The other goals are:

9 *Section 201 Greenhouses Gases Reduction Goal*

10 *Section 202 Energy Efficiency Improvement Goals*

11 *Section 204 Renewable Energy*

12 *Section 205 Petroleum*

13 *Section 206 Source Energy*

14 *Section 207 Water Conservation*

15 SEF projects are wholly consistent with and supportive of Executive  
16 Order 13123, including benefits to the Department of Defense. Part III  
17 Organization and Accountability addresses such things as interagency  
18 coordination and public/private advisories. SEF in cooperation with DEP has  
19 hosted a Pennsylvania Fuel Cell Workshop, which included DOD fuel cell  
20 program managers. SEF participated in a three-day, twenty-five person  
21 workshop in Washington D.C., hosted by CESA, as a national fuel cell  
22 consortium. DOD was represented at the workshop.

23 Part IV of the Executive Order focuses on promoting Federal Leadership  
24 in Energy Management. Section 403 of the Order states that "agencies shall  
25 use a variety of energy management strategies and tools." This could easily

1 include the energy load management products of the SEF investment in  
2 PowerWeb.

3 In section 403(d), SEF's leadership in sustainable building design, as  
4 evidenced by many state of the art projects, is clearly supportive. Section 403(h)  
5 addresses off grid generation, an identified target technology. Section 404  
6 Electricity Use emphasizes purchasing electricity for Renewable Energy  
7 Sources. SEF has participated in both wind farm project financing and financing  
8 Community Energy to market wind power. It is safe to say that as DOD facilities  
9 in Pennsylvania purchase wind energy, a significant portion will be supported by  
10 SEF financing of either the wind farm or the marketing entity making wind power  
11 available to DOD.

12  
13 Q. IS THERE ADEQUATE ACCRUED FUNDING ALREADY AVAILABLE TO SEF  
14 FOR IT TO SUSTAIN ITS CURRENT RATE OF OPERATION FOR SEVERAL  
15 YEARS?

16 A. SEF could sustain its current rate of operations for 2 to 3 years with  
17 already available funding. As of June 30, 2003, SEF had Current Assets on its  
18 audited year end financial statement of \$2,606,347 in cash and cash equivalents  
19 and \$8,355,053 in investments (equities and fixed assets managed by two  
20 private Asset Management Firms). Of these Current Assets, approximately \$3  
21 million was committed but not disbursed (\$1,500,000 loan for the Bear Creek  
22 Wind Farm, \$250,000 loan to Advantek for an advanced technology wind blade,  
23 \$72,000 in grants to Pine Street Hazleton "Energy Star" affordable housing  
24 \$500,000 loan to Londonderry School for Green Building finance, \$200,000 loan

1 to Energy Unlimited to finance interconnection costs for the Mountaintop Wind  
2 Farm, \$200,000 reserve for a \$250,000 Line of Credit to Community Energy, and  
3 over \$100,000 in grants not yet disbursed.) In other words, as of the end of its  
4 2003 fiscal year, SEF had approximately \$8 Million in current, available assets,  
5 not reserved for commitments already made. At that time, SEF also had an  
6 approved plan to fund \$3,300,000 in grants and program related investments  
7 starting July 1, 2003.

8 Because SEF funding could only be reasonably forecast to December 31,  
9 2004, SEF, since inception, has always had a goal of maintaining two years of  
10 disbursements, approximately \$6.5 Million budget as a reserve. Hence, as of  
11 June 30, 2003, SEF had available its forecast two year reserve and  
12 approximately one half year of funds to satisfy its current year disbursement  
13 plan, including expected volatility in requests. These are the appropriate  
14 reserves to support a constrained business plan but it will not support the current  
15 rate of operations beyond 2 to 3 years.

#### 16 17 **V. Increased Funding**

18 Q. HAVE YOU REVIEWED THE TESTIMONY OF PENNFUTURE WITNESS  
19 HANGER?

20 A. Yes, I have. Mr. Hanger supports the continuation of SEF funding with  
21 increased funding so that SEF may more effectively serve its mission. He  
22 proposes a doubling of funding from \$.01 cents (0.1 mill) per kwh to \$.02 cents  
23 (0.2 mill) per kwh.

1 Q. DOES SEF SUPPORT MR. HANGER'S TESTIMONY AN INCREASE IN  
2 FUNDING?

3 A. SEF supports the Sustainable Energy Fund Rider as proposed by PPL, but, if  
4 the Public Utility Commission were to increase the funding level as PennFuture  
5 proposes, SEF would be able to put the additional funding to good use. SEF  
6 funding is far less than funding provided for in peer states as shown on the table  
7 attached to my testimony as Attachment C.

8 With additional funding, the SEF could fund more projects like those it  
9 has done to date as well as fund projects that its currently constrained business  
10 model does not allow. These might include:

- 11 • subsidy for fuel cells and the Hydrogen Economy
- 12 • subsidy to continue Wind Farm Development in Pennsylvania and  
13 PPL service territory
- 14 • subsidy for residential photovoltaic generation
- 15 • funding for Research and Development
- 16 • Consumer Education
- 17 • subsidy for Agriculture Biomass
- 18 • ability to provide long term loans

19  
20 **VI. SEF Structure And Accountability**

21 Q. HAVE YOU REVIEWED THE TESTIMONY OF PLUG WITNESSES BRADLEY,  
22 LINK AND MUSSER CONCERNING THE SEF?

23 A. Yes, I have. Mr. Bradley is interested in incentives to implement or assist  
24 Hampden Township in conversion to Light Emitting Diodes ("LED"). He states  
25 that he was unaware of SEF and that SEF must make substantial efforts to  
26 make the public aware of its existence and mission and commit to assuring

1 governmental entities a share of funds, as long as projects advance SEF  
2 mission and goals. Mr. Link presents similar testimony and advocates that the  
3 Commission set standards for the administration of the Fund, reviewing and  
4 evaluating directors' compensation, as an example. Mr. Musser concurs in Mr.  
5 Link's testimony and states that accountability and transparency are critically  
6 important anytime public/ratepayer funds are involved.

7  
8 Q. DOES SEF MAKE THE PUBLIC AWARE OF ITS EXISTENCE, MISSION AND  
9 FUNDING OPPORTUNITIES?

10 A. Yes, let me explain. SEF has had a web site at [www.sustainableenergyfund.org](http://www.sustainableenergyfund.org)  
11 for three years. In January 2004, SEF expanded its staff and undertook an  
12 expanded marketing effort. During the second quarter of 2004 (the SEF's fourth  
13 fiscal quarter of 2003/2004), SEF began sending all of its news releases to some  
14 300 entities. In this same quarter, SEF made presentations to the regional  
15 economic development organizations in greater Harrisburg, Scranton, The  
16 Lehigh Valley and the 11 county region of SEDA Council of Governments in  
17 Lewisburg. Newspaper, radio and television have covered dedications of  
18 completed fund projects.

19  
20 Q. CAN GOVERNMENTAL ENTITIES SUCH AS THE PLUG MEMBERS APPLY  
21 FOR SEF FUNDS?

22 A. Most certainly. In fact, the SEF has a grant agreement for an LED traffic lighting  
23 demonstration with the City of Lancaster. One of the requirements of that grant  
24 agreement is that the City conduct a workshop for other municipal officials in

1 PPL's territory. SEF is very interested in promoting the adoption of LED traffic  
2 signals. LED traffic signals are an example of a sound technology, ready for  
3 wide spread application and capable of 85%-90% energy savings. The  
4 technology has been only slowly adopted in Central Pennsylvania and the SEF  
5 would like to advance the rate of adoption. The SEF recently had several  
6 meetings with Spring Township for that purpose and began a dialogue with the  
7 City of Bethlehem.

8  
9 Q. DOES THE PUBLIC UTILITY COMMISSION HAVE AN OPPORTUNITY TO  
10 REVIEW AND EVALUATE DIRECTORS' COMPENSATION?

11 A. Yes, it does. A representative of the Commission monitors SEF Board and  
12 Committee meetings. Additionally, the SEF By-Laws allow Directors to receive  
13 a stipend for their efforts. This By-Law was submitted to and approved by the  
14 Commission in 2000. Directors may also submit appropriate expenses for  
15 reimbursement. Related party transactions where a Director is involved in a  
16 contract or a grant to a related organization are disclosed in the SEF's audited  
17 financial statements which are submitted annually to the Commission and the  
18 Joint Petitioners to the PPL Restructuring Proceeding.

19  
20 Q. ARE PUBLIC REPORTS PRODUCED OF THE FUND'S USE OF ITS  
21 FUNDING?

22 A. Yes, there are. There are numerous reports available to the public on the SEF  
23 website. One good example of public reports available on the website is the  
24 SEF's annual report to the Public Utility Commission for the period July 1, 2002 -

1 June 30, 2003, which I referred to earlier in my testimony in response to OTS  
2 witness Gruber. The SEF's use of funding is addressed throughout the report  
3 with a specific list of grants and program related investments in Section 2. This  
4 report and other similar reports are available on the SEF website to anyone who  
5 wishes to learn about the SEF, the funding it receives and how it uses that  
6 funding. In addition, anyone who visits the public website can learn the process  
7 for applying for SEF funding and the criteria used by SEF to evaluate  
8 applications. The use of funding is in other words wholly transparent to the  
9 public.

10  
11 Q. HOW ARE MR. MUSSER'S CONCERNS ABOUT ACCOUNTABILITY AND  
12 TRANSPARENCY ADDRESSED?

13 A. I believe SEF is both accountable and transparent. Grant and program related  
14 investments are posted publicly on the SEF web site. SEF submits a 6-month  
15 and an annual report to the Commission and the Joint Petitioners to the PPL  
16 Restructuring Proceeding, the latter of which includes audited financial  
17 statements. The SEF Annual Meeting in October is open to the public and  
18 posted as such on the SEF website and by notice to the Joint Petitioners. A  
19 representative of the Commission monitors Board and Committee meetings.  
20 Directors are nominated by certain of the Joint Petitioners, and the Pennsylvania  
21 Statewide Sustainable Energy Board ("PASEB") has instituted quarterly data  
22 reporting of commitments made.

23 One area of public information disclosure that the SEF believes it can  
24 improve concerns the clarification of committed and disbursed funds. For

1 example, the annual report to Commission published October 7, 2003, for the  
2 reporting period July 1, 2002 to June 30, 2003, states that the SEF made  
3 \$3,005,000 in program related investments ("PRI"). The audited financial  
4 statements for the same period indicate only \$355,000 in PRI. Both are correct.  
5 The audited financial statements report funds disbursed rather than  
6 commitments made. Funds are not disbursed until all project requirements and  
7 contingencies are satisfied. The commitments made for that period included:

- 8 • \$180,000 loan to Allentown Technology Center for a state of the  
9 art energy control system.
- 10 • \$500,000 loan to Londonderry School for an LEED Building
- 11 • \$250,000 line of credit for Community Energy, the wind power  
12 marketing and development company.
- 13 • \$125,000 loan with royalty paybacks and warrants to Nova Cruz,  
14 the electric vehicle company that relocated to Scranton
- 15 • \$200,000 loan to Energy Unlimited for the interconnection costs  
16 for the Mountaintop Wind Farm
- 17 • \$250,000 loan to Advantek for wind blade technology, and  
18 • \$1,500,000 subordinated debt to Community Energy for the Bear  
19 Creek Wind Farm

20 Of the above, those that closed in the reporting period and funds were  
21 disbursed were:

- 22 • Only \$50,000 of The Community Energy line of credit was drawn  
23 by June 31, 2003,
- 24 • \$125,000 Nova Cruz and
- 25 • \$180,000 Allentown Technology Center,

26 for a total of \$355,000 of the \$3,005,000 in commitments.

27

1 Of the remaining commitments, all are accounted for as follows:

- 2 • the total \$500,000 was disbursed to Londonderry in early 2004.  
3 The school is built and open.
- 4 • The remaining \$200,000 of The Community Energy line of credit  
5 was drawn, replaced and drawn again in the period July 2003 to  
6 June 31, 2004. It has been fully paid and retired in July 2004.
- 7 • The \$200,000 loan to Energy Unlimited was disbursed in the fall  
8 of 2003.
- 9 • The \$250,000 loan to Advantek has not yet closed. Advantek did  
10 not meet required contingencies and incurred a change in  
11 financial status. Conoco, Inc. terminated its agreement to share  
12 *technology costs*. *Sufficient change occurred that the SEF*  
13 *required Advantek to submit a new Business Plan which it did in*  
14 *June 2004.*
- 15 • The \$1,500,000 debt for the Bear Creek Wind Farm has not  
16 closed, awaiting passage of the federal production tax credit.  
17 *When the act passes, the funds will move to an escrow account.*  
18 *Final disbursement will be made upon successful construction*  
19 *and power production.*

20 Beginning with Fiscal Year 2004, committed funds will be identified on the  
21 balance sheet as Designated Assets. If a committed project subsequently  
22 cancels, the canceled project will be reported as canceled on the annual report.

23  
24 Q. HAVE YOU REVIEWED THE TESTIMONY OF CEO WITNESSES EUGENE M.  
25 BRADY AND JOHN HOWATT?

26 A. Yes, I have. CEO "wholeheartedly supports" the continued funding of the SEF.  
27 SEF appreciates CEO's support for continued funding and I agree with CEO  
28 witness Brady that consumers want clean, environmentally benign energy. Mr.

1 Brady and CEO witness Howatt recommend that SEF funds be dedicated and  
2 allocated among rate classes according to the pro rata share of electricity sales  
3 to each rate class; that significant new SEF funding be mandated as grants for  
4 new photovoltaic installations in low income households as well as to the general  
5 residential rate class through a one-to-one matching grant; that SEF funds  
6 collected from ratepayers be expeditiously used in the community and not held  
7 by the Fund for its own financial gain; that there be a greater emphasis on  
8 *investments in direct installations that benefit residential customers; and that the*  
9 SEF Board of Directors include a representative of the low income Community  
10 Action network.

11  
12 Q. SHOULD FUNDS BE DEDICATED AND ALLOCATED AMONG RATE  
13 CLASSES ACCORDING TO SALES AND MANDATED AS GRANTS FOR NEW  
14 PHOTOVOLTAIC INSTALLATIONS AS PROPOSED BY CEO?

15 A. I cannot agree with Messrs. Brady and Howatt that the constraint they propose  
16 for the use of SEF funds is a reasonable thing to do. The best return on SEF  
17 mission objective given limited funding is a continuation of the SEF's existing  
18 opportunistic and enterprise seeking business model. The model has provided  
19 excellent stewardship for SEF funds. We should always be on the look out for  
20 opportunities that benefit each customer class, but a rigid percentage allocation  
21 would be a mistake.

22 Given the funding SEF now has and the funding proposed in this rate  
23 proceeding, the SEF does not believe a large photovoltaic program as proposed  
24 by Mr. Howatt, which would cost approximately \$1.2 million annually, is the best

1 use of fund. Photovoltaics are a very expensive form of renewable energy  
2 generation and the SEF gets much more bang for the buck with investments in  
3 other renewable resources. SEF has funded a limited number of photovoltaic  
4 demonstrations in the PPL service territory, and it will continue to do so, but it  
5 does not believe that the CEO proposal to annually dedicate 36% of funds to a  
6 mandated photovoltaic residential program is a good use of limited SEF funding.  
7

8 Q. DOES THE FUND RETAIN FUNDS FOR FINANCIAL GAIN?

9 A. No, it does not. Funds are retained for four reasons:

- 10 • to meet operating expenses
- 11 • to provide a reserve of 2 years disbursement plans
- 12 • as funds designated for specific projects that have not yet fulfilled  
13 agreed to milestones (funds committed, but not yet disbursed),  
14 and
- 15 • when project opportunities presented in a given year are not as  
16 attractive as those in the expected pipeline

17  
18 Q. SHOULD THE SEF BOARD OF DIRECTORS INCLUDE A REPRESENTATIVE  
19 OF THE LOW INCOME COMMUNITY ACTION NETWORK?

20 A. I believe it already does. The SEF current Board President, Mr. Gary Lamont,  
21 who is in his second term as a Director, was originally nominated for the Board  
22 by Mr. Eugene Brady of the CEO representing the Weatherization Task Force.  
23 In accordance with the SEF Board procedure for nominating Directors, upon  
24 expiration of Mr. Lamont's term, the entity that originally nominated him,  
25 presumably Mr. Brady, will be asked to nominate his replacement. Should that  
26 nominee be acceptable to the SEF Board, his or her name will be forwarded to

1 the Commission as the SEF nominee and Commission approval requested.

2  
3 **VII. Best Practices And PEDAs Management**

4 Q. HAVE REVIEWED THE TESTIMONY OF OSBA WITNESS SCHWARZ  
5 CONCERNING THE SEF?

6 A. Yes, I have. Mr. Schwarz is not proposing any changes to the management of  
7 funds contributed through year end 2004 under the PPL Restructuring  
8 Settlement. Mr. Schwarz proposes two accountability recommendations going  
9 forward that he characterizes as recommendations for improving administration  
10 of the fund. He recommends, first, that better and more formal coordination be  
11 established between the "utility funds" including the SEF and the  
12 Commonwealth. He states that a "revitalized" PEDAs is the appropriate office to  
13 manage this coordination. His second recommendation concerns the  
14 establishment of best management practices. "To ensure that the PPL  
15 ratepayers and the general public are best served by the use of the monies  
16 distributed by the SEF," he recommends that management of the fund be turned  
17 over to PEDAs with PEDAs being given the responsibility for determining how it  
18 can best use the existing SEF management apparatus.

19  
20 Q. TAKING THE SECOND RECOMMENDATION FIRST, SHOULD  
21 MANAGEMENT OF NEW FUNDING MONIES BE TURNED OVER TO PEDAs?

22 A. No, they should not. Mr. Schwarz is concerned with the establishment of best  
23 management practices. By these practices I assume he means those that he  
24 lists at pages 5 and 6 of his testimony as follows:

- 1 • The administrator should have renewable energy expertise.
- 2 • The administrator should be an able fund manager.
- 3 • Conflicts of interest should be minimized.
- 4 • Public accountability should be ensured and proper oversight
- 5 *provided. The administrator should have transparent processes,*
- 6 *allowing for public oversight.*
- 7 • Geographic scope should be as large as possible. The report
- 8 notes that limiting the geographic scope of the funds to utility
- 9 service territories can be "quite restrictive in a large state like
- 10 Pennsylvania."

11 I believe that all of the above, with the exception of the last point, are  
12 appropriate management policies for the SEF and, based on the testimony  
13 above which I am presenting, already in place at the SEF. As to the last point,  
14 the four years of operating experience at the SEF have demonstrated that a  
15 regional presence of the SEF has benefitted the PPL ratepayers more than  
16 would a state wide scope. The five regional funds certainly provide the potential  
17 for more intimate contact with the ratepayers than would a single state agency.  
18 To date, the SEF has made close to 70 commitments intended to benefit the  
19 PPL ratepayers.

20 Mr. Schwarz' testimony also addresses best practices for agencies  
21 providing grants, including pre-award, award, and post award and closeout  
22 phases. I believe the SEF pre-award and award activities, procedures and  
23 documents, whether for grants, loans or equity investments are in close accord  
24 with Mr. Schwarz' comments. The SEF has clearly established criteria (mission  
25 fit, evaluation of financial risk versus reward, consideration of other societal  
26 benefits such as job creation or use of brownfield sites and, finally, metric

1 analysis) by which it will judge proposals. Concerning the post award or post  
2 contract phase for loans and equity investments, the SEF receives regular  
3 financial and/or board reports from funding recipients and disburses funds  
4 against mission and performance milestones achieved by the funding recipient.  
5 The standard SEF grant is a reimbursement grant where funds are disbursed  
6 only upon proof that a milestone has been achieved. For grants, if an  
7 organization does not have adequate cash flow, SEF will advance funds, but  
8 against an identified work plan and milestone.

9 Mr. Schwarz' suggestions for post award and close out evaluation based  
10 on his experience with large federal government, program model organizations  
11 are not well suited to SEF which operates under an enterprise business model.  
12 CESA is conducting performance monitoring and evaluation research the results  
13 of which will be more appropriate guidance for the SEF in this area than Mr.  
14 Schwarz' suggestions.

15 Lastly, PEDDA is a state agency under the management of DEP, a several  
16 thousand person regulatory agency. The skill sets, core capabilities and primary  
17 focus of DEP are quite different than SEF. I do not believe that placing new  
18 funds under management of PEDDA would be an improved means to effectively  
19 accomplish the SEF mission.

- 20
- 21 Q. RETURNING TO MR. SCHWARZ' FIRST RECOMMENDATION, SHOULD A  
22 REVITALIZED PEDDA SERVE AS A STATEWIDE COORDINATOR?
- 23 A. Mr. Schwarz's testimony states that "PEDDA is charged with coordinating energy  
24 research and promotion activities across the state." Mr. Schwarz does not

1 provide a citation for this "charge." While one may exist, I have reviewed the  
2 enabling legislation, Pennsylvania Statutes, Title 71, State Government, I, the  
3 Administrative Codes and Related Provisions, Chapter 2, the Administrative  
4 Code of 1929, Article XXVIII-C, Energy Development Authority and Emergency  
5 Powers, 71 P.S. §720.1, and I do not find the authority for his statement. Maybe  
6 more importantly, as I already explained in my testimony, at the invitation of  
7 Secretary McGinty, I participated in recent advisory meetings concerning PEDDA.  
8 I also attended the Governor's signing of the PEDDA reauthorization as an invited  
9 guest. Until I read Mr. Schwarz' statement, I have never heard a state official or  
10 a private party represent PEDDA's charge, scope or authority as Mr. Schwarz has.  
11 I do not believe statewide coordination is either the authority or intention of  
12 PEDDA, nor do I believe that PEDDA has the authority or intention to begin to  
13 manage new SEF type funding.

14  
15 Q. DOES THIS COMPLETE YOUR REBUTTAL TESTIMONY?

16 A. Yes, it does.

**ATTACHMENT A**



**SUSTAINABLE ENERGY FUND  
OF CENTRAL EASTERN PENNSYLVANIA**  
*(As Established by the PUC-PP&L Utilities Settlement Agreement)*  
*Docket # R-0093954*

**Annual Report**

**RECEIVED**

**To The**

AUG 16 2004

**Pennsylvania Public Utility Commission**

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

**And To The**

**Joint Petitioners**

**For the Period  
July 1, 2002 – June 30, 2003**

**DOCUMENT**

**October 7, 2003**

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**Thomas J. Tuffey, Ph.D.  
Executive Director**



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***Our mission is to promote, research, and invest in clean and renewable energy technologies, energy conservation, energy efficiency, and sustainable energy enterprises that provide opportunities and benefits for PPL ratepayers.***

## **1.0 OVERVIEW ON MISSION PROGRESS**

This is The Sustainable Energy Fund of Central Eastern Pennsylvania's (SEF) third annual report to the Pennsylvania Public Utility Commission (PUC) and to the joint petitioners in the PPL Utilities restructuring proceeding (Docket # R-0093954). It discusses the progress that SEF has made in the period from July 1, 2002 through June 30, 2003.

Our principal measure of impact relates to mission accomplishment, what we are doing to promote, research, and invest in clean and renewable energy technologies, energy conservation, energy efficiency, and sustainable energy enterprises that provide opportunities and benefits for PPL ratepayers. As we complete our third year of operation, we can report that we are making significant progress.

Several specific areas are noteworthy:

- Wind power development in Pennsylvania and elsewhere in PPL territory
- Significant growth in Leadership in Energy and Environmental Design (LEED)-certified green buildings
- Emerging electric technologies
- Community economic development
- Sustainable energy education

### **Wind Powering Pennsylvania**

Encouragement and support of wind power development has been a major theme for SEF. We believe we are a key factor in Pennsylvania's emergence as the major wind power state east of the Mississippi, and in PPL's having the highest concentration of wind farms in the state. Our wind power strategy has been comprehensive, involving financial support on both the supply and demand sides, leadership in organizing public/private partnering, creative structuring to address financial risk sharing (particularly relative to green certificates), and education.

We are pleased to have been singularly recognized for our role in furthering wind power in Pennsylvania at the Penn Future "Getting to 10 Percent" annual conference of sector leaders.

By the end of 2004, we expect three major new wind farms to be operational in PPL's territory, with some degree of SEF involvement in all. They are as follows:

- Bear Creek @ 20 MW
- Undisclosed @ 40 MW
- Waymart @ 61.5MW

We played the strongest role in the Bear Creek project, less than 10 miles southeast of Wilkes-Barre. We championed support amongst the other Pennsylvania Funds and helped to broker the power purchase agreement by PPL. Made a \$1.5 million subordinated debt commitment, complementing a further \$3 million syndication, in process, by the other Pennsylvania Funds. Sustainable Development Fund (SDF) made a \$2 million subsidy rebate commitment from the dedicated wind funds from the PECO/Utilicom merger. Community Energy, Inc. (CEI), in which SEF holds equity and debt position, is the co-developer of this site.

The undisclosed project, is being developed by Energy Unlimited. SEF has been a debt financier of Energy Unlimited since 2001, with this site as the primary Pennsylvania site for which the funds were provided. Additionally, in April 2003, we made a \$200,000 loan commitment to the company to fund the interconnection studies. We met routinely with the developer over the last year to understand how to best support the project. We expect that Energy Unlimited will soon publicly announce the site.

Lastly, the Waymart project will be operational before year-end 2003. Our involvement is indirect, although we did consider other options. CEI has the exclusive marketing rights on power produced, a key factor in securing the power purchase agreement and decision to build.

We previously reported on our \$1,150,000 subordinated debt commitment to the Somerset Wind Project. That 9MW project is operational.

On the demand side, we hold an equity position in CEI and provide debt financing and a line of credit. We are one of CEI's founding investors, and the only Clean Energy Fund that has a program-related investment. A number of state funds have, however, provided grants, including New York, New Jersey, Massachusetts, Connecticut, and Illinois, and CEI also received \$3.5 million in grants from the PECO merger. We have a Board monitoring seat and regularly meet with CEI.

CEI has emerged as a critical player in wind power success throughout the country. Through its wind power marketing business, it has been responsible for 310,000 MWhr of purchases in the past year, enough to power 30,000 residential households. This business is growing at a 100% rate. CEI has expanded its business model to include selective development roles in which its marketing

expertise can be a critical factor in successfully completing a commercial wind farm.

Other dimensions of our wind power focus include providing debt financing to Advantek, an engineering and material sciences company in its early stages that is focused on next-generation blade technology. Advantek has moved its operations from Delaware to Pennsylvania. SEF made a \$250,000 loan commitment to Advantek.

The wind power market is still very new in the East. SEF has attempted to utilize its national network of Clean Energy Funds, as organized in the national association of state sustainable energy funds, the Clean Energy States Alliance (CESA), to determine what is working and what is not working throughout the country in regard to the wind power market. To determine how to best structure wind power programs in Pennsylvania, through CESA we initiated and are co-directing a Lawrence Livermore National Laboratory project to investigate case studies on various state wind power incentive programs.

SEF is also a participant in a second CESA project on small wind power incentive programs, in anticipation of greater demand as the utility-grade projects bring greater attention to wind power. During the past year, the need to consider further risk reduction as a means of encouraging power purchase agreements emerged. We began communicating with other states, particularly Massachusetts, to evaluate green certificate trading and/or insurance programs. Green certificate trading has been an active subject in our public/private "Wind Powering Pennsylvania" workshops, as well as the need to recruit more funds to wind power development.

Relating to education, at HersheyPark, which receives 2.4 million visitors a year, we inaugurated, with PA DEP, the park's wind and solar power exhibit and theater performance. Through our grantee EFMR Monitoring Group, we completed a wind power educational curriculum, available to grades K through 12, within SEF territory and public schools across Pennsylvania.

### **Growth in LEED-Certified Green Buildings**

Pennsylvania has the second highest number of LEED-certified buildings in the country. We are supporting an abundance of activity in PPL territory in various ways, as follows:

- \$500,000 loan to the Londonderry School, Harrisburg, toward construction of a new LEED Silver school. Our commitment enabled the school to acquire a \$2 million loan from Waypoint Bank. We attended groundbreaking of the school in January 2003.

- \$25,000 grant to St. Stephens Cathedral School, Harrisburg, toward construction of a LEED Silver school addition. We have since committed additional funds for a photovoltaic system.
- \$19,510 grant to Eastern York School District toward construction of a LEED-certified school and a PV installation.
- Disbursed an additional \$25,000 grant to the Green Building Association of Central Pennsylvania as a result of its significant progress in educating professionals and building owners in green building design.
- PPL has opened a new company headquarters building that we hope will win LEED Gold certification, which would make it one of only two such commercial buildings in the U.S. Although we did not participate in the construction financing, we believe that our work with PPL executives in support of clean energy initiatives was a contributing factor in this project's success.
- \$1,060 grant to SEDA-COG, an 11-county community development organization in Lewisburg, to explore green building options. This grant has contributed to SEDA-COG's decision to build an Energy Resources Center, a LEED Silver office building. It is through this energy center that SEDA-COG delivers energy audit and other services to the residential and small business sectors. SEF is currently leading the \$2.1 million finance syndication of this new building with the West Penn and Penelec Sustainable Energy Funds and a local bank.

### Emerging Technologies

- Our financing of PowerWeb, in collaboration with SDF as the lead, has produced valuable products. PowerWeb designed the technology for the new Westinghouse Lighting Retrolux t-5 wireless light bulb. This highly efficient technology is a 30% improvement over current state-of-the-art commercial lighting and is the first of a class of *smart building* lighting technologies. It is progressing through UL approval, and a contract for the first 10,000 units has been awarded. PowerWeb load management software, a separate business line focused on demand side management, was installed in over 100 major industrial sites in PJM Territory, covering some 800 mW of contracted controllable load during times of peak demand.
- In collaboration with PA DEP, SEF sponsored a grant to facilitate technology transfer of the application of microturbine technology for conversion of municipal sewage treatment digester gases to electric power and heat. This application indicated that the technology is not yet

ready for broad distribution. We are therefore redirecting those funds to another municipal clean energy application in Lancaster.

- The promotion of light-emitting diode (LED) technology in traffic signal applications has begun. Such applications have been found to result in 80 to 90% energy savings, reduced maintenance, enhanced safety benefits, and a 2- to 3-year payback time. We have committed to a \$21,000 grant to the City of Lancaster, Department of Public Works to conduct a demonstration project and associated technology transfer assistance to encourage the adoption of LED technology throughout central Pennsylvania.
- We have been an early member and financial supporter of the Alternative Fuels Council as it seeks to further the Commonwealth's position to reduce dependency on foreign fuel. SEF is a sponsor of the Alternative Fuels Council's first conference.
- We are committed to wind power next-generation blade technology, through Advantek, as mentioned previously.
- We are encouraging photovoltaic power generation for appropriate applications. Our HersheyPark project has a strong PV footprint. SEF has entered into another cooperative agreement with the Sustainable Development Fund, our long-term partner on several activities, to co-fund several PV demonstration projects. SEF has made commitments for PV demonstration grants to Illicks Mills in Bethlehem, Souderton Area School District, Eastern York School District, and St. Stephen's Cathedral School in Harrisburg.
- See next section for our efforts in electric vehicle technology in Scranton.

### **Community Economic Development**

Our financing of the following projects is representative of our progress in community economic development, and a further means to benefit the residential community:

- The SEDA-COG financing activity, a \$2.1 million syndication being developed, supports community economic development in eight counties in the northwest sector of our territory. We hope to have the financing activity completed before the end of 2003. SEDA-COG is an 80 person organization delivery service to the residential and business community. 30% of those services are energy related.
- We provided an \$180,000 loan to the Allentown Technology Center, a business incubator anchoring a critical boundary to the downtown

Allentown revitalization effort, to improve energy efficiency with a state-of-the-art computerized energy control system.

- In Lower Windsor Township, we assisted with a grant for a new LEED-certified township building.
- In Lancaster, we are providing grant funding to Community Basics, Inc. (Lancaster Housing and Community Development) to evaluate the use of deep quarry water as a specialized heat exchange medium for a 300-unit residential housing project that the city has committed to make as green as possible.
- In Hazelton, we are providing grant funding to the Pine Street Project, which consists of 24 units of residential housing built to Energy Star standards.
- We have been very active in Scranton. Last year we reported on our success in recruiting and relocating an emerging electric vehicle company, Nova Cruz LLC, from New Hampshire to Scranton. Unfortunately, the company's new product did not achieve the market acceptance hoped for and the company discontinued operations. SEF was the largest secured creditor with fiduciary responsibility of recovering funds on behalf of all creditors and shareholders.

We were equally committed to make every effort to recruit a new electric vehicle company to the area, to preserve both jobs and the technology footprint. We are pleased to report that with participation from Scranton Chamber of Commerce, DCED, and Ben Franklin Technology Partners, we were able to recruit Oxygen SpA, a leading electric vehicle manufacturer in Italy, to Scranton. Although Oxygen SpA is still in its early stages, it has selected Scranton as its North American headquarters. (The sale of assets was completed in August 2003; beyond this reporting period, however, it is appropriate to note that we were also instrumental in the development of a new entity, Xootr LLC, that purchased assets of the company and has also indicated its intention to remain in Scranton.)

### **Education:**

SEF has a significant commitment to sustainable energy education in PPL territory and Pennsylvania. We believe our current portfolio upon fulfillment will result in over 10,000 student-learning experiences per year. We have determined, however, that a far greater need must be addressed, which involves opportunities to educate tomorrow's consumers and decision makers. We intend to continue our education program, as evidenced by the following.

- \$84,000 grant to HersheyPark for wind energy and photovoltaic exhibits and associated sustainable energy theater production. The family theme and clean environment focus of the park, coupled with its high-volume exposure, provide a wonderful opportunity to educate. This year, with our partner, PA DEP, we were able to establish our education foothold. We are currently in discussions with HersheyPark for future opportunities to educate the public on the benefits of green energy.
- Wilson College has an existing environmental focus, The Fulton Center for Sustainable Development. Wilson College requires that all of its undergraduates take at least one environmental course. It also operates a sustainable farm that supplies a significant part of the college's cafeteria needs, an adult education program, and a summer camp for children focused on environmental learning. We have committed to a \$25,000 grant, which will allow Wilson College to include sustainable energy topics in all of its programs, particularly those addressing residential consumers. Wilson College has agreed to include sustainable energy topics in a fashion that will allow adoption by others.
- SEF has made commitments for PV demonstration grants to the following:
  - Illicks Mills for Bethlehem Schools
  - Souderton Area School District
  - Eastern York School District
  - St. Stephen's Cathedral School, Harrisburg
  - Grant support to the Clean Air Council in developing an interactive program to teach renewable energy in Pennsylvania
  - EFMR wind energy curriculum development for grades K through 12 (completed)

We hope to add a full-time Education Director to our staff.

**Summary:**

We are very satisfied with our contribution to date in building a new sustainable energy environment within PPL territory and throughout Pennsylvania. We also understand there is much more to do. Our balance sheet and our market position in developing sustainable energy technologies, businesses, and capabilities remain strong.

As we enter our fourth year, we are preparing to expand our capabilities and market influence as reported (see Section 4). We believe we are well-positioned to have a major influence on developing an improved, sustainable energy environment in Pennsylvania.

## **2.0 ACCOMPLISHMENTS**

### **2.1 Program-Related Investment and Grant Commitments**

We received close to 200 inquiries and/or financing requests during the subject period. Each financing request was reviewed by Staff against the Board-approved investment criteria. The investment criteria guidelines are presented in our Annual Plan and on the web site [www.SustainableEnergyFund.org](http://www.SustainableEnergyFund.org). The status of all inquiries and requests is reported to the Board quarterly.

Financing requests that score favorably against our investment criteria, fit the requirements of the Annual Plan, and are supported by available funding are presented to the Investment Committee for review and analysis. Financing requests approved by the Investment Committee are recommended to the full Board. The Board, either at quarterly meetings or by special session, makes the final decision on all grants and program-related investments.

During the subject period SEF made \$3,226,234 in commitments, of which \$221,234 were grants and \$3,005,000 were program-related investments.

#### **▪ Grants \$221,234**

- \$25,000 to Lower Windsor Township to finance energy modeling, LEED energy documentation, and building commissioning for a new green municipal building.
- \$19,510 to Eastern York School District to finance installation of a donated solar photovoltaic system (2 kw) and to develop supportive curriculum materials.
- \$20,000 to Community Basics, Inc., to fund a feasibility study on the application of a deep quarry reservoir as a source of heating/cooling for a community development project.
- \$21,000 to the City of Lancaster, Department of Public Works to support a demonstration project for the use of LED technology for traffic lights within the city, with resultant energy savings of 90% and a 2-year payback time.
- \$16,000 to HersheyPark for the development of the Sustainable Energy Green Team Theater production that accompanies the Renewable Energy Exhibit, partnered with equal contribution from PA DEP.
- \$10,500 to Illicks Mill Partnership for Environmental Education to support the installation of PV on the roofs of several new entrance canopies planned for the mill.
- \$15,000 to St. Stephens Cathedral and School to install up to 6 kW of roof-mounted photovoltaic panels on the existing buildings as part of the grades K through 8 project underway at the site.

- \$7,500 to the Clean Air Council to develop an interactive, renewable energy education kiosk and web site for use in museums and schools.
  - \$1,500 to the Pennsylvania Alliance for Environmental Education (PAEE) to support its annual conference.
  - \$500 to the Earth Charter Summit for meeting support.
  - \$17,250 to EFMR Monitoring Group (Phase II) to field test, revise, and enable wind energy lesson plans for web site deployment.
  - \$25,000 to Wilson College to develop sustainable energy curriculum to extend to its current field programs and summer camp.
  - \$10,000 to PPL Environmental Education Centers at Lake Wallenpaupak and Montour to incorporate wind education into the curriculum and to install demonstration wind turbines.
  - \$5,000 to Souderton Area School District for installation of solar PV panels donated by Community Energy, Inc.
  - \$5,000 to the Alternative Fuels Council to fund conferences focused on alternative fuels.
  - \$9,433 to CESA for our membership support to the nationwide alliance of state clean energy funds.
  - \$2,000 to Penn Future to support the Getting to 10% Conference.
  - \$1,000 to Elizabethtown College for solar panels to incorporate into a semester-long project.
  - \$5,000+ installation inspection to Geisinger Medical Center to install solar-powered lighting at the patients and visitors bus shelters.
  - \$1,000 to CH&E Construction to install PV lighting for a project sign at the St. Stephens Cathedral and School green building project.
  - \$1,500 to Nature's Grace Store to install photovoltaic solar panels at the store.
  - \$980 to the Unitarian Church of Bethlehem for an energy audit on its historic church.
  - \$1,061 to SEDA-COG for an energy audit on its headquarters building.
  - \$500 to Ben Franklin Technology Partners for conference support.
- **Program-Related Investments: \$3,005,000**
    - \$180,000 loan to Allentown Technology Center to finance a state-of-the-art building energy control system for this technology incubator located in downtown Allentown.
    - \$500,000 loan to Londonderry School in Harrisburg for construction of a LEED Silver building for the school and development of a sustainable energy curriculum.
    - \$250,000 line of credit to Community Energy, Inc., to further finance its very successful program of wind energy marketing and development in Pennsylvania.

- \$125,000 loan to Nova Cruz LLC with royalty payback and warrants for dealer development of electric vehicle.
- \$200,000 loan to Energy Unlimited, Inc. (Mountaintop Wind Farm Project) to help fund interconnection costs.
- \$250,000 loan to Advantek to purchase, install, and grid connect two 450-kW wind turbines at Energy Unlimited's Mountaintop Wind Farm to test Advantek's IPC technology.
- \$1,500,000 subordinated debt to Community Energy, Inc., for the Bear Creek Wind Farm project located in Luzerne County

There is some delay between Board commitments and cash disbursements as the legal documents are drafted, further negotiations are conducted, and project conditions are satisfied. Additionally, a recipient may choose to cancel or delay a project or finance it through other means. Most of our current-year commitments have not yet been disbursed.

From previous years' commitments, the \$1,150,000 loan commitment to the Somerset Wind Farm, part of a \$4.5 million syndicated commitment amongst the Pennsylvania Funds, was not completed. The project sponsors chose comprehensive funding from FPL (previously Florida Power and Light).

During the subject period, one of our portfolio companies failed. Nova Cruz LLC was unsuccessful in introducing its "Voloci" electric vehicle to market. The company did request additional funding from us, but our due diligence indicated that additional funds from us would not be adequate to stabilize the company. The company chose to discontinue operations; see note of the Auditors, Appendix B for financial details.

Although we realize that electric vehicle introductions are difficult, we nonetheless were disappointed with the failure of the Voloci product. As Nova Cruz's principal creditor, SEF became responsible for the sale of assets on behalf of all creditors and shareholders. This activity gave us the opportunity to recruit two new firms to Scranton to continue Nova Cruz's objectives. Oxygen, SpA, a leading Italian developer of electric vehicles, chose Scranton as its North American headquarters. In addition, Xootr LLC formed and located in Scranton to purchase a portion of Nova Cruz company assets and continue the non-electric operations. We successfully completed the sale of assets to best satisfy our fiduciary responsibilities and believe that our mission objectives remain intact.

## **2.2 Operation**

Several areas of SEF operations were enhanced during the year as follows:

- Organized and hosted the annual 3-day Sustainable Energy Partners Retreat, including all Pennsylvania Funds, and some 70 participants. SEF also hosted two quarterly meetings of the Funds.

- Assisted PA DEP in development of the Energy Harvest Grant Program, worth \$5 million. We also assisted eight entities with 13 projects in submitting materials for funding consideration.
- On behalf of the Pennsylvania Funds, prepared and submitted the "Blueprint for Sustainable Energy Development in Pennsylvania" to the new Administration Energy Transition Team. This established a good foundation for subsequent activities with agencies, particularly PA DEP, with whom we continue to enjoy a strong partnering relationship.
- With PA DEP, SEF hosted the first workshop "Commercialization of Stationary Fuel Cells and Hydrogen Economy in Pennsylvania."
- SEF hosted the public/private workshop on "Wind Powering Pennsylvania," the first of a planned series of three workshops continuing through 2004. We consider this a key Commonwealth activity to ensure continued success.
- SEF has been a regular participant in CESA. Our Executive Director is on the Executive Committee of CESA. Activities included a 2-day visit with the National Renewable Energy Laboratory, Colorado, to strengthen our ties to the national leading technical center for sustainable energy.

During the subject period, because of staffing shortages, we experienced periods in which we found it difficult to satisfy the opportunities presented. Although we added two positions in October 2002, our current staff complement has only 3.5 FTE (Full Time Equivalent), which has proved inadequate. To address this situation, the Board has approved three additional positions that are described in Section 4.

### **2.3 Governance**

Within Pennsylvania, there are four regional Sustainable Energy Funds, each created by PUC order as a result of deregulation settlements for specific electric utilities, and their respective territories. The Boards of the three other Pennsylvania Funds, representing PECO, GPU (now First Energy), and West Penn Power, chose to contract their administration of their funds to existing institutions.

The SEF Board chose a more direct and active form of involvement by recruiting an Executive Director and building its own staff and organization, which we believe is proving to be very effective in accomplishing our mission. However, it does place a greater burden of involvement on our Directors.

During the year, the Board reviewed not only operations, but also governance policy and structure against both current and projected needs. As a result, the Board decided to expand the committee structure and the frequency of meetings, and to enhance the governance processes and documentation. Much of the governance restructuring dovetailed to operational improvements.

As a result of our self-appraisal, we enhanced programs in the following areas:

- Process and documentation for grants and program-related investments
- Filing systems and funding request documentation
- Human Resource systems
- Standard Operating Practices on financial work processes
- Financial forecasting and reporting

The Board had previously operated with an Administration/Finance and an Investment Committee. Its new structure has Finance, Human Resources and Administration, and a Grant and Program-Related Investments Committee (the Investment Committee). The Finance Committee also functions as our Board Audit Committee. We also developed an Organizational Design document, which defines the duties and responsibilities of the Board, its Committees, and staff.

Our Board met five times during the subject period, conducted an additional 11 Committee meetings, and was well-represented at both our Partners Retreat III and the Penn Future "Getting to 10%" Conference. (As we begin the new year and prepare for our funding renewal, in the first quarter of the new fiscal year, the Board and Committees have already met six times.)

Our Board clearly takes its responsibilities seriously and is actively involved in direction and oversight of the SEF. We are fortunate to have a diverse, fully involved Board and are grateful for all they do.

### **3.0 FINANCIAL REPORTS**

The SEF completed its third full year of operations with over \$12 million in net assets and an additional \$5 million in projected ratepayer income through 2004.

The results of our financial activities and balance sheet for this reporting year are presented below. Further details are presented in the Independent Auditors Report, Appendix B.

### **3.1 Income**

#### **PPL Ratepayers**

As ordered by the PUC, we receive a monthly transfer of money from PPL, as a system benefit charge, dependent on electric usage during the prior month. During the subject period we received \$3,416,050.

#### **Royalties and Interest Payments from Program-Related Investments**

We are a non-profit foundation organized in accordance with section 501(c)(3) of the Internal Revenue code. As such, our program-related investments are focused on our charitable mission of assisting in the creation of a sustainable energy environment, with financial reward not the prime purpose. Our financial reward expectations and "deal structure" must be more favorable to the recipient than normal commercial terms.

Additionally, we attempt to structure investments so that we may "recycle" funds to other worthy applicants. As a result, we structure a transaction to favor short-term over long-term returns; we favor a royalty payment during the life of a transaction, versus holding out for higher equity returns, but only upon a liquidity event after many years. Conversely, we will stagger interest and/or royalty payments to be "back end loaded" to provide the recipient greater internal cash flow in its early stages. The terms of each deal are structured to balance the needs of the specific project with that of the greater good, all to accomplish our sustainable energy market development mission.

Our early-stage companies can experience cash flow and other operational difficulties. We attempt to work with them through such problematic periods.

During the subject year, our royalty and dividend payments received were \$10,714, and our interest payments received were \$27,026.

#### **Recruiting External Funds**

During the year, we began to explore the potential of recruiting external funds to SEF as a means to further leverage our ratepayer capital. We solicited experienced Board participation, retained a consultant, prepared proposals, visited three of the largest Foundations, and joined in similar activities sponsored by CESA. We also successfully submitted for the PA DEP "Energy and Environmental Challenge Grants."

In general, the major Foundations, our principal focus, are not prepared to participate at this time. They have all suffered setbacks in their funds resulting from a 3-year decline in the equity markets. Additionally, the concept of making program-related investments, versus grants, is still new to them. However, we did

find long-term interest and a commitment to continue a dialogue. SEF and SDF are amongst the five funds from across the country that have been invited to a 3-day workshop, hosted by the Rockefeller Foundation with CESA participating, which includes over two dozen Foundation and Venture firms that will address the topic in depth. Until the Foundations recover, we will focus our efforts on relationship development through the CESA activity.

We received two grant agreements from PA DEP with a total potential funding of \$135,000. The use of funds is intended to supplement SEF funding to worthy projects. During the subject year \$37,842 was expended on the following projects:

- HersheyPark Renewable Energy Exhibit
- The SEF-sponsored "Wind Powering Pennsylvania" public/private workshops
- The PA DEP/SEF-sponsored workshop on "Commercialization of Stationary Fuel Cells and Hydrogen Energy in Pennsylvania"

### **Leveraging the Funds of Others**

Our intent is to jumpstart the marketplace development of sustainable energy within PPL's territory and the Commonwealth. Two key objectives include leveraging additional, external funds into projects and reducing project hurdles so that a project with marginal financial returns can be approved. Our stated objective is to push "but for us" projects.

In these areas, it is difficult to measure our market impact, but we understand its importance and continue to invest time and effort in areas in which our involvement, often our willingness to finance, provides the needed confidence for decision makers to proceed, although they may choose other financing. This was the case for the Somerset Wind Farm Project. Also, we worked with two school districts that were considering green building projects in which we believe our willingness to finance loans to cover upfront costs with payback from future energy savings was instrumental in project approval, but wrapped into overall project bond financing.

Virtually all of our program-related investments leverage other funding. We believe we are achieving \$3 of other funds for each \$1 we invest.

### **3.2 Asset Management**

For portfolio planning purposes, our "assets" fall into four categories as follows:

- Interest-bearing cash in bank, which we use to meet operating costs and program-related investment commitments, as well as to build reserves.

- PPL ratepayers commitment, which acts as a fixed rate security, yielding a predictable future funding stream. Although not strictly an asset, in accounting terms, we recognize its positive attributes in our portfolio planning.
- Program-related investments, which are mission-oriented and carry a higher risk profile than would be found in a commercial portfolio.
- An investment portfolio of marketable debt and equity securities, managed by two professional investment managers.

Our Finance Committee conducted a review of our Investment Policy in December 2002 and reviewed the performance of the two Asset Managers. As a result of the review, modest changes were made to the policy and procedure, relative to screening and monitoring of investments in support of our environmental/social mission. The portfolio mix was revised to 65% equities and 35% fixed income securities. During the year we terminated the relationship of one manager, and retained the services of Delta Capital Management of New York City.

The combination of a strong cash position, monthly income from the ratepayers, and an untapped \$750,000 line of credit at Wachovia are deemed adequate to meet our currently planned operating costs and program-related investments. Our current 5-year financial forecasts recognize actual portfolio performance to date, and project future market returns at a 7% annual rate.

During the year, at various times, we moved \$1 million into the investment portfolio. At period end, invested securities are valued at \$8,355,053. With net of fees and new capital, the assets increased by \$196,881.

### **3.3 Operating Expenses**

At the October 2002 Annual Meeting, the SEF Board approved an annual budget of \$622,314 for the year ended June 30, 2003. This included both program costs and management and general expenses. Actual operating expenses for the period were \$518,772, approximately 15% under budget. Of this amount, \$191,114 was for management and general expenses.

### **3.4 Program-Related Investments**

As reported in section in Section 2.1, during the year SEF made program-related investment commitments of \$3,226,234.

### **3.5 Health of Balance Sheet**

The SEF completed the year with net assets of \$12,203,454.

At the end of the year, cash and equivalents and accrued PPL income totaled \$2,866,518. We judged this level of cash necessary and adequate to support our commitments, not yet disbursed.

Total liabilities were \$103,397.

#### **4.0 NEXT STEPS**

The SEF is at its critical development stage. Our funding has been ordered by the PUC through December 2004.

PPL has announced that it will seek a T&D rate adjustment at that time. We are pleased to report that PPL has requested that we submit a proposal for consideration as part of its rate submittal. The Board has accepted this offer and we are in the process of preparing the proposal. We have also retained legal counsel, Thomas, Thomas, Armstrong, and Niesen to represent SEF as a potential intervener in support of that component of the rate case. The Board has also examined any potential conflict of interest among Staff and Board Members. As a result, two Board Members have recused themselves from renewal deliberations.

Success in renewal ensures our continuance and mission fulfillment. Without renewal, we forecast need to exit operations in 2007. We enjoy significant support from many parties and are optimistic that our funding will be renewed. We believe it is critical to continue to build operations to meet both today and tomorrow's opportunities and demands. In that regard, the Board has approved and we are recruiting three new full-time positions; bringing us to 6.5 Full-Time Equivalents, as follows:

- Managing Director Operations — reporting to the Executive Director, responsible for day-to-day operations
- Loan Officer
- Entry-Level Professional with sustainable energy training, to assist in both marketing and program areas

Assuming funding renewal, and that our funds continue to leverage applicants and other private and public funds, and that we continue to recycle funds over an average 5-year cycle, we believe we will accomplish a \$1 billion infusion of new capital to this mission in our territory. We believe this will create a 1,000-mW equivalent of sustainable energy over a 20-year forecasted life of SEF\*.

We believe we have a clear vision of the sustainable energy marketplace and have achieved a position of influence. We understand the challenge, and we understand our job. We intend to accomplish it.

---

\* \$60m rate payer and other seed funds X 4 fold leverage X 5 year cycle time/20 years horizon=\$1 Billion. \$1M is roughly equivalent to 1 MW sustainable energy installed capacity.

Appendix A

**Board Membership**

<p><b>Eric J. Epstein</b>          Board President          EFMR Monitoring Group          4100 Hillsdale Road          Harrisburg, PA 17712-1419</p>	<p><b>Andrew McElwaine</b>          Member, Human Resource Committee          PA Environmental Council          130 Locust St., Suite 200          Harrisburg, PA 17101</p>
<p><b>Marcus Sheffer</b>          Board Vice President          Member, Investment Committee          Energy Opportunities, Inc.          1200 East Camping Area Road          Wellsville, PA 17365-9783</p>	<p><b>Arthur Morris</b>          Chair, Human Resource Committee          Members, Finance and Investment          Committees          Utilities Solutions          222 West Orange Street          Lancaster, PA 17603</p>
<p><b>Gary F. Lamont</b>          Board Secretary &amp; Treasurer          Chair, Finance Committee          Conyngham Pass          SR93, P.O. Box 702          Conyngham, PA 18219-1170</p>	<p><b>Brian C. Nagle</b>          Chair, Investment Committee          Member, Human Resource Committee          PPL, Services Corporation          Two North Ninth St. GENTW17          Allentown, PA 18101-1170</p>
	<p><b>Craig C. Onori</b>          Member, Investment and Finance          Committees          AGERE Systems          Room 12B 155          1110 American Parkway NE          Allentown, PA 18109</p>

**THE SUSTAINABLE ENERGY FUND OF  
CENTRAL EASTERN PA  
(A Not-for Profit Corporation)**

**Financial Statements and Auditors' Report**

**June 30, 2003**

**CAMPBELL, RAPPOLD & YURASITS LLP**  
Certified Public Accountants  
1033 SOUTH CEDAR CREST BOULEVARD  
ALLENTOWN, PA 18103

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
(A Not-for Profit Corporation)**

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**CAMPBELL, RAPPOLD & YURASITS LLP**  
Certified Public Accountants

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SUSAN S. KOSS, CPA  
FRANK S. RICICKI, CPA  
HEIDI D. WOJCIECHOWSKI, CPA

CONSULTANT  
DALLAS C. HENNINGER, CPA

INDEPENDENT AUDITORS' REPORT

Board of Directors  
The Sustainable Energy Fund Central Eastern PA  
Allentown, PA

We have audited the accompanying statement of financial position of The Sustainable Energy Fund of Central Eastern PA (A Not-for-Profit Corporation) as of June 30, 2003 and 2002 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Sustainable Energy Fund of Central Eastern PA as of June 30, 2003 and 2002, and the results of its operations and changes in net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Campbell, Rappold & Yurasits LLP*

Certified Public Accountants

September 8, 2004

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
(A Not-for Profit Corporation)**

**STATEMENTS OF FINANCIAL POSITION**

	<u>June 30</u>	
	<u>2003</u>	<u>2002</u>
<b><u>ASSETS:</u></b>		
Cash and Cash Equivalents	\$ 2,606,347	\$1,066,685
Ratepayer's Contribution Receivable	260,171	292,833
Grant Receivable	37,842	-
Royalty Receivable	-	7,094
Investments (Note 3)	8,355,053	7,160,876
Program Related Investments, Net (Note 4)	986,853	1,367,005
Office Equipment, Net (Note 5)	17,760	6,090
Prepaid Expense and Deposits	4,958	2,475
Investments - Deferred Compensation Plan (Note 8)	<u>37,867</u>	<u>-</u>
 Total Assets	 <u>\$12,306,851</u>	 <u>\$9,903,058</u>
<b><u>LIABILITIES:</u></b>		
Accounts Payable	\$ 58,321	\$ 21,691
Accrued Employee Benefits	7,209	28,957
Deferred Compensation Liability (Note 8)	<u>37,867</u>	<u>-</u>
Total Liabilities	<u>103,397</u>	<u>50,648</u>
<b><u>NET ASSETS:</u></b>		
Unrestricted Net Assets	<u>12,203,454</u>	<u>9,852,410</u>
 Total Liabilities and Net Assets	 <u>\$12,306,851</u>	 <u>\$9,903,058</u>

See accompanying notes to financial statements.

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA**  
**(A Not-for Profit Corporation)**

**STATEMENT OF ACTIVITIES**

	<u>Year Ended June 30</u>	
	<u>2003</u>	<u>2002</u>
<i><u>Revenues and Gains:</u></i>		
PP&L Ratepayers' Contribution (Note 8)	\$ 3,416,050	\$3,252,679
Grant Revenue	37,842	-
Interest Income - Operating and Money Market	23,869	17,715
Investment Return (Note 3)	196,881	(718,680)
Interest-Program Loans	27,026	15,794
Royalties and Dividends	10,714	16,342
Other	<u>2,500</u>	<u>10,125</u>
Total Revenue and Gains	<u>3,714,882</u>	<u>2,593,975</u>
<i><u>Expenses:</u></i>		
Program Services		
Grants Awarded	157,698	73,999
Loss Reserve	687,368	236,250
Operating Expenses	<u>327,658</u>	<u>188,396</u>
	1,172,724	498,645
Management and General	<u>191,114</u>	<u>151,189</u>
Total Expenses	<u>1,363,838</u>	<u>649,834</u>
Increase in Unrestricted Net Assets	2,351,044	1,944,141
Unrestricted Net Assets, Beginning	<u>9,852,410</u>	<u>7,908,269</u>
Unrestricted Net Assets, Ending	<u><u>\$12,203,454</u></u>	<u><u>\$9,852,410</u></u>

See accompanying notes to financial statements.

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA**  
**(A Not-for Profit Corporation)**

**STATEMENT OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30, 2003**

**With Comparative Totals for 2002**

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Total</u>	
			<u>2003</u>	<u>2002</u>
Grants Awarded	\$ 157,698	\$ —	\$ 157,698	\$ 73,999
Program Related Investments' Loss Allowance	<u>687,368</u>	<u>—</u>	<u>687,368</u>	<u>236,250</u>
Operating Expenses:				
Salaries and Wages	90,165	78,839	169,004	146,226
Fringe Benefits	19,808	17,862	37,670	33,610
Payroll Taxes	7,058	6,365	13,423	12,418
Contract Managers	88,454	10,424	98,878	—
Training and Recruiting	<u>330</u>	<u>297</u>	<u>627</u>	<u>340</u>
Subtotal Staff	<u>205,815</u>	<u>113,787</u>	<u>319,602</u>	<u>192,594</u>
Rent	18,474	9,040	27,514	15,755
Insurance	2,456	1,202	3,658	3,544
Depreciation	<u>3,214</u>	<u>1,572</u>	<u>4,786</u>	<u>3,320</u>
Subtotal Occupancy	<u>24,144</u>	<u>11,814</u>	<u>35,958</u>	<u>22,619</u>
Board Stipends and Expenses	19,168	19,168	38,336	23,467
Dues and Publications	—	1,538	1,538	2,075
Marketing	4,143	7,084	11,227	22,750
Office Supplies	3,052	1,493	4,545	3,022
Wind Value and Education Consulting	9,882	—	9,882	—
Audit	—	9,000	9,000	6,900
Legal	18,546	2,061	20,607	4,373
Due Diligence	17,006	—	17,006	2,635
Organization Design	—	1,602	1,602	13,684
System Support	—	11,636	11,636	16,819
Printing and Postage	2,159	1,056	3,215	4,511
Telephone	4,176	2,044	6,220	5,092
Travel	7,486	3,663	11,149	8,673
MIS Support/Web Hosting	1,786	1,786	3,572	6,328
Director and Officer Insurance	—	2,738	2,738	2,400
Workout Expenses	8,976	—	8,976	—
Miscellaneous	<u>1,319</u>	<u>644</u>	<u>1,963</u>	<u>1,643</u>
Subtotal Other	<u>97,699</u>	<u>65,513</u>	<u>163,212</u>	<u>124,372</u>
Total Operating Expenses	<u>327,658</u>	<u>191,114</u>	<u>518,772</u>	<u>339,585</u>
Totals	<u>\$1,172,724</u>	<u>\$191,114</u>	<u>\$1,363,838</u>	<u>\$ 649,834</u>

See accompanying notes to the financial statements.

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA**  
**(A Not-for Profit Corporation)**

**STATEMENT CASH FLOWS**

	<u>Year Ended June 30,</u>	
	<u>2003</u>	<u>2002</u>
<i><u>Cash Flows from Operating Activities:</u></i>		
Increase in Net Assets	\$2,351,044	\$1,944,141
Adjustments to Reconcile Change in Net Assets to Net Cash Used by Operating Activities:		
Depreciation	4,786	3,320
Loss Reserve	687,368	236,250
Net Realized and Unrealized (Gains) Losses on Investments	(45,822)	836,030
Changes in Assets and Liabilities:		
Decrease (Increase) in Accounts Receivables	1,914	(31,663)
(Increase) in Prepaid Expense and Deposits	(2,483)	(1,600)
Increase (Decrease) in Account Payable	36,630	(3,398)
Increase in Employee Benefit Liabilities	<u>16,119</u>	<u>10,706</u>
<b>Net Cash Provided by Operating Activities</b>	<u><b>3,049,556</b></u>	<u><b>2,993,786</b></u>
<i><u>Cash Flows from Investing Activities:</u></i>		
Purchase of Office Equipment and Furniture	(16,456)	-
Net Purchase of Investments	(1,148,356)	(1,470,054)
Additions to Deferred Comp. Plan Investments	(37,867)	-
Increase in Program Related Investments	(355,000)	(1,300,000)
Return of Program Related Investments	<u>47,785</u>	<u>30,912</u>
<b>Net Cash Used in Investing Activities</b>	<u><b>(1,509,894)</b></u>	<u><b>(2,739,142)</b></u>
Increase in Cash and Cash Equivalents	1,539,662	254,644
Cash and Cash Equivalents, Beginning of Year	<u>1,066,685</u>	<u>812,041</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><b>\$2,606,347</b></u>	<u><b>\$1,066,685</b></u>

See accompanying notes to financial statements.

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
(A Not-for Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**1. Nature of Organization**

PP&L Sustainable Energy Fund, d/b/a Sustainable Energy Fund of Central Eastern PA (the Fund) is a Pennsylvania non-profit corporation formed to promote, research and invest in clean and renewable energy technologies, energy conservation, energy efficiency and sustainable energy enterprises that provide opportunities and benefits for PP&L ratepayers.

The Fund was formed pursuant to a joint settlement agreement arising from the Pennsylvania Utility Commission (PUC) electric utility deregulation proceedings in 1998. The agreement provides, in part, a rate surcharge on electric power consumers (ratepayers) through 2004. The surcharge is collected from the ratepayers by the power distribution entity, PPL Electric Utilities for this local service area, and remitted to the Fund for investment.

The Fund is managed by an executive director who reports to a Board of Directors. The PUC also maintains oversight of the Fund.

**2. Summary of Significant Accounting Policies**

**Basis of Accounting**

The financial statements of the Fund have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

**Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Fund is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At June 30, 2003 and 2002, all net assets are unrestricted.

**Cash and Cash Equivalents**

For purposes of the Statement of Cash Flows, the Fund considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
(A Not-for Profit Corporation)

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Concentration of Revenue

The Fund receives a substantial amount of its support from the PPL ratepayers contributions, as more fully described in Note 1, which expires December 31, 2004. Management and the Board of Directors believe that at least the current level of funding will be renewed beyond 2004.

Donated Services

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, individuals volunteer their time and perform a variety of tasks that assist the Organization with specific investment programs, and various committee assignments.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Investments in Marketable Securities

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Program Related Investments

(a) Loans

Loans are stated at their outstanding unpaid principal balance. Interest income is recognized as revenue when received.

(b) Allowance for Loan Losses

The allowance for loan losses has been established through provisions for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance and subsequent recoveries, if any, are credited to the allowance. The allowance is maintained at a level considered adequate to provide for potential loan losses. In making this determination, management takes into consideration the results of internal review procedures, prior loan loss experience, an assessment of the effect of current and anticipated future economic conditions, the financial condition of the borrower and such other factors that, in management's judgement, deserve consideration. The determination of the adequacy of the allowance is inherently subjective, as it requires material estimates including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

(c) Nonmarketable Equity Securities

Nonmarketable equity investments are holdings of less than 20% of the voting stock of investors and are carried at cost. The shares carry various conditions or restrictions on transfers and redemptions. Cost is reduced for permanent declines in value, as estimated by management, and dividends, if any, are treated as income when received. Investees are typically start-up developmental activities and as such are highly speculative. The determination of write-downs, if any, or ultimate realization of the investment is inherently subjective and as such, it requires material estimates regarding their valuation that are susceptible to significant change.

Concentration of Credit and Market Risk

Financial instruments that potentially expose the Fund to concentrations of credit and market risk consist primarily of cash equivalents and investments. The Fund places its cash at a high credit quality financial institution. From time to time, deposits at the institution exceed federal depository insurance limits. The Fund has significant investments in stocks and bonds. Though the market value of investments is subject to fluctuations, management believes the investment policy is prudent for the long-term welfare of the Fund. In addition, investments do not represent significant concentrations of market risk in as much as the Fund's investment portfolio is adequately diversified among issuers. Concentrations of credit risk with respect to program related investments are subject to the individual credit worthiness of the borrowers and investees, who are predominately located in Central Eastern Pennsylvania and associated with early stage sustainable or alternate energy endeavors. Consequently, the ability to realize the amounts may be affected by economic and political fluctuations in the power industry in this geographic region. The Fund performs ongoing credit evaluations and reserves for estimated and known uncollectibles.

Office Equipment

Office equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets of three to five years and computed on straight-line and accelerated methods.

Additions and betterments of \$500 or more are capitalized, while maintenance and repairs that do not improve or extend the original useful lives of the assets are expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred.

3. **Investments**

Investments are managed by professional investment managers. The investment managers are subject to the Fund's investment policies which contain objectives, guidelines and restrictions designed to complement the Fund's activities and mission. Investments at fair value at June 30, are comprised of the following:

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
(A Not-for Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**3. Investments (continued)**

	<u>2003</u>	<u>2002</u>
U.S. Government Obligations	\$2,006,910	\$1,324,330
Corporate Bonds	526,694	490,638
Equity Securities	5,648,202	5,164,458
Temporary Cash and Money Market	<u>173,247</u>	<u>181,450</u>
	<u>\$8,355,053</u>	<u>\$7,160,876</u>

Investment return is summarized as follows:

Interest and Dividend Income	\$ 199,469	\$ 162,871
Net Realized and Unrealized Gains (Losses) On Investments	<u>45,822</u>	<u>(836,030)</u>
	245,291	(673,159)
Less Investment Advisory and Custodian Fees	<u>(48,410)</u>	<u>(45,521)</u>
Total Investment Return	<u>\$ 196,881</u>	<u>\$ (718,680)</u>

**4. Program Related Investments**

Program related investments consist of loans to and equity investments in entities to assist them in pursuing sustainable energy opportunities.

<u>Loans</u>	<u>2003</u>	<u>2002</u>
Powerweb Technologies, Inc. - due in monthly principal repayments of \$1,042 through April 2003, \$3,125 through April 2003 and \$7,500 thereafter, due April 2008. Royalties payable at 3% of borrower's gross revenue, up to a maximum of \$650,000. Secured by assets of the borrower.	\$459,376	\$480,710

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
(A Not-for Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**4. Program Related Investments (continued)**

	<u>2003</u>	<u>2002</u>
<u>Loans (continued)</u>		
Energy Unlimited, Inc. - interest only due monthly at 10%, due February, 2006.	\$ 100,000	\$ 100,000
Community Energy, Inc. - due in monthly installments of \$3,042, including interest at 8%, due December 2006.	111,095	137,545
Community Energy, Inc. - \$250,000 line of credit, interest only due monthly at prime plus 1%, due June, 2004.	50,000	-
Allentown Technology Center - interest only due monthly at 6% through May, 2004, thereafter, monthly installments of \$3,207, including interest at 6%, due November, 2009.	180,000	-
Nova Cruz, Products, Inc. - due March 2007, royalties payable at 3% of net factoring sales, up to a maximum of \$487,500, secured by assets of the borrower. Foreclosed in August 2003, reduced to expected net realizable value.	104,882	325,000
	<u>1,005,353</u>	<u>1,043,255</u>
Less Loss Reserve	<u>(268,500)</u>	<u>(251,250)</u>
Total Loans, Net	<u>736,853</u>	<u>792,005</u>
<u>Nonmarketable Equity Securities</u>		
250,000 Shares Community Energy, Inc. Series A Preferred	250,000	250,000
124,521 Shares Nova Cruz Products, Inc. Series A Convertible Preferred. Foreclosed in August 2003 written down to estimated fair value	<u>-</u>	<u>325,000</u>
Total Equity Investments	<u>250,000</u>	<u>575,000</u>
Total Program Related Investments	<u>\$ 986,853</u>	<u>\$1,367,005</u>

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA**  
**(A Not-for Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**5. Office Equipment**

	2003	2002
Furniture	\$ 15,818	\$ 6,904
Computer and Phone Equipment	<u>12,077</u>	<u>4,535</u>
	27,895	11,439
Less Accumulated Depreciation	<u>(10,135)</u>	<u>(5,349)</u>
	<u>\$ 17,760</u>	<u>\$ 6,090</u>

**6. Lease**

The Fund leases its office facilities under a non-cancellable operating lease expiring September 30, 2005. The lease provides for monthly base rent of \$2,467 through September 30, 2003 and annual adjustments thereafter based on the consumer price index. The former lease required monthly rent of \$1,400 through September 2002. Future minimum lease payments are:

Years ended	<u>Amount</u>
<u>June 30:</u>	
2004	\$29,604
2005	29,604
2006	7,401

Total rents charged to expense under the leases were \$26,403 and \$15,755 for the years ended June 30, 2003 and 2002, respectively.

**7. Retirement Plan**

The Fund has a defined contribution retirement plan (the Plan) covering all full time employees having attained 21 years of age with three months of service. The Fund makes contribution to the Plan each year equal to 10% of all participants compensation plus 4.3% of compensation in excess of \$33,960 through December 2002 and \$35,120 effective January, 2003, being 40% of the social security taxable wage base in effect on the first day of each Plan year. Total expense was \$19,858 and \$13,720 for the years ended June 30, 2003 and 2002, respectively.

**THE SUSTAINABLE ENERGY FUND OF CENTRAL EASTERN PA  
(A Not-for Profit Corporation)**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2003**

**8. Deferred Compensation Plan**

The Fund provides a key employee a non-qualified deferred compensation retirement plan. The liability is financed with contributions to Fund owned, participant directed, mutual funds. The assets are payable to the participant upon retirement. At June 30, 2003, total Fund contributions and net investment gain or loss were \$37,867.

**9. Line of Credit**

The Fund has a \$750,000 Line of Credit with a bank, expiring February 2004. Interest on borrowings is payable at the bank's prime rate minus .75%. There were no borrowings on the line as of or during the periods ended June 30, 2003 and 2002.

**10. Related Party Transactions**

The Organization awarded \$42,125 and \$43,000 of program grants in 2003 and 2002, respectively, to two organizations, each of which has a director who is a board member of the Fund.

# **ATTACHMENT B**

Registered Trademark

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Tuesday  
June 8, 1999

DOCUMENT RECEIVED  
AUG 16 2004

PA PUBLIC UTILITY COMMISSION  
SECRETARY'S BUREAU

DOCKETED  
AUG 18 2004

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Part IV

## The President

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Executive Order 13123—Greening the  
Government Through Efficient Energy  
Management

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**Presidential Documents**

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Title 3—

Executive Order 13123 of June 3, 1999

The President

**Greening the Government Through Efficient Energy Management**

By the authority vested in me as President by the Constitution and the laws of the United States of America, including the National Energy Conservation Policy Act (Public Law 95-619, 92 Stat. 3206, 42 U.S.C. 8252 *et seq.*), as amended by the Energy Policy Act of 1992 (EPACT) (Public Law 102-486, 106 Stat. 2776), and section 301 of title 3, United States Code, it is hereby ordered as follows:

**PART 1—PREAMBLE**

**Section 101. *Federal Leadership.*** The Federal Government, as the Nation's largest energy consumer, shall significantly improve its energy management in order to save taxpayer dollars and reduce emissions that contribute to air pollution and global climate change. With more than 500,000 buildings, the Federal Government can lead the Nation in energy efficient building design, construction, and operation. As a major consumer that spends \$200 billion annually on products and services, the Federal Government can promote energy efficiency, water conservation, and the use of renewable energy products, and help foster markets for emerging technologies. In encouraging effective energy management in the Federal Government, this order builds on work begun under EPACT and previous Executive orders.

**PART 2—GOALS**

**Sec. 201. *Greenhouse Gases Reduction Goal.*** Through life-cycle cost-effective energy measures, each agency shall reduce its greenhouse gas emissions attributed to facility energy use by 30 percent by 2010 compared to such emissions levels in 1990. In order to encourage optimal investment in energy improvements, agencies can count greenhouse gas reductions from improvements in nonfacility energy use toward this goal to the extent that these reductions are approved by the Office of Management and Budget (OMB).

**Sec. 202. *Energy Efficiency Improvement Goals.*** Through life-cycle cost-effective measures, each agency shall reduce energy consumption per gross square foot of its facilities, excluding facilities covered in section 203 of this order, by 30 percent by 2005 and 35 percent by 2010 relative to 1985. No facilities will be exempt from these goals unless they meet new criteria for exemptions, to be issued by the Department of Energy (DOE).

**Sec. 203. *Industrial and Laboratory Facilities.*** Through life-cycle cost-effective measures, each agency shall reduce energy consumption per square foot, per unit of production, or per other unit as applicable by 20 percent by 2005 and 25 percent by 2010 relative to 1990. No facilities will be exempt from these goals unless they meet new criteria for exemptions, as issued by DOE.

**Sec. 204. *Renewable Energy.*** Each agency shall strive to expand the use of renewable energy within its facilities and in its activities by implementing renewable energy projects and by purchasing electricity from renewable energy sources. In support of the Million Solar Roofs initiative, the Federal Government shall strive to install 2,000 solar energy systems at Federal facilities by the end of 2000, and 20,000 solar energy systems at Federal facilities by 2010.

**Sec. 205. Petroleum.** Through life-cycle cost-effective measures, each agency shall reduce the use of petroleum within its facilities. Agencies may accomplish this reduction by switching to a less greenhouse gas-intensive, nonpetroleum energy source, such as natural gas or renewable energy sources; by eliminating unnecessary fuel use; or by other appropriate methods. Where alternative fuels are not practical or life-cycle cost-effective, agencies shall strive to improve the efficiency of their facilities.

**Sec. 206. Source Energy.** The Federal Government shall strive to reduce total energy use and associated greenhouse gas and other air emissions, as measured at the source. To that end, agencies shall undertake life-cycle cost-effective projects in which source energy decreases, even if site energy use increases. In such cases, agencies will receive credit toward energy reduction goals through guidelines developed by DOE.

**Sec. 207. Water Conservation.** Through life-cycle cost-effective measures, agencies shall reduce water consumption and associated energy use in their facilities to reach the goals set under section 503(f) of this order. Where possible, water cost savings and associated energy cost savings shall be included in Energy-Savings Performance Contracts and other financing mechanisms.

### PART 3—ORGANIZATION AND ACCOUNTABILITY

**Sec. 301. Annual Budget Submission.** Each agency's budget submission to OMB shall specifically request funding necessary to achieve the goals of this order. Budget submissions shall include the costs associated with: encouraging the use of, administering, and fulfilling agency responsibilities under Energy-Savings Performance Contracts, utility energy-efficiency service contracts, and other contractual platforms for achieving conservation goals; implementing life-cycle cost-effective measures; procuring life-cycle cost-effective products; and constructing sustainably designed new buildings, among other energy costs. OMB shall issue guidelines to assist agencies in developing appropriate requests that support sound investments in energy improvements and energy-using products. OMB shall explore the feasibility of establishing a fund that agencies could draw on to finance exemplary energy management activities and investments with higher initial costs but lower life-cycle costs. Budget requests to OMB in support of this order must be within each agency's planning guidance level.

**Sec. 302. Annual Implementation Plan.** Each agency shall develop an annual implementation plan for fulfilling the requirements of this order. Such plans shall be included in the annual reports to the President under section 303 of this order.

**Sec. 303. Annual Reports to the President.** (a) Each agency shall measure and report its progress in meeting the goals and requirements of this order on an annual basis. Agencies shall follow reporting guidelines as developed under section 306(b) of this order. In order to minimize additional reporting requirements, the guidelines will clarify how the annual report to the President should build on each agency's annual Federal energy reports submitted to DOE and the Congress. Annual reports to the President are due on January 1 of each year beginning in the year 2000.

(b) Each agency's annual report to the President shall describe how the agency is using each of the strategies described in Part 4 of this order to help meet energy and greenhouse gas reduction goals. The annual report to the President shall explain why certain strategies, if any, have not been used. It shall also include a listing and explanation of exempt facilities.

**Sec. 304. Designation of Senior Agency Official.** Each agency shall designate a senior official, at the Assistant Secretary level or above, to be responsible for meeting the goals and requirements of this order, including preparing the annual report to the President. Such designation shall be reported by each Cabinet Secretary or agency head to the Deputy Director for Management of OMB within 30 days of the date of this order. Designated officials shall participate in the Interagency Energy Policy Committee, described in section

306(d) of this order. The Committee shall communicate its activities to all designated officials to assure proper coordination and achievement of the goals and requirements of this order.

**Sec. 305. *Designation of Agency Energy Teams.*** Within 90 days of the date of this order, each agency shall form a technical support team consisting of appropriate procurement, legal, budget, management, and technical representatives to expedite and encourage the agency's use of appropriations, Energy-Savings Performance Contracts, and other alternative financing mechanisms necessary to meet the goals and requirements of this order. Agency energy team activities shall be undertaken in collaboration with each agency's representative to the Interagency Energy Management Task Force, as described in section 306(e) of this order.

**Sec. 306. *Interagency Coordination.*** (a) *Office of Management and Budget.* The Deputy Director for Management of OMB, in consultation with DOE, shall be responsible for evaluating each agency's progress in improving energy management and for submitting agency energy scorecards to the President to report progress.

(1) OMB, in consultation with DOE and other agencies, shall develop the agency energy scorecards and scoring system to evaluate each agency's progress in meeting the goals of this order. The scoring criteria shall include the extent to which agencies are taking advantage of key tools to save energy and reduce greenhouse gas emissions, such as Energy-Savings Performance Contracts, utility energy-efficiency service contracts, ENERGY STAR® and other energy efficient products, renewable energy technologies, electricity from renewable energy sources, and other strategies and requirements listed in Part 4 of this order, as well as overall efficiency and greenhouse gas metrics and use of other innovative energy efficiency practices. The scorecards shall be based on the annual energy reports submitted to the President under section 303 of this order.

(2) The Deputy Director for Management of OMB shall also select outstanding agency energy management team(s), from among candidates nominated by DOE, for a new annual Presidential award for energy efficiency.

(b) *Federal Energy Management Program.* The DOE's Federal Energy Management Program (FEMP) shall be responsible for working with the agencies to ensure that they meet the goals of this order and report their progress. FEMP, in consultation with OMB, shall develop and issue guidelines for agencies' preparation of their annual reports to the President on energy management, as required in section 303 of this order. FEMP shall also have primary responsibility for collecting and analyzing the data, and shall assist OMB in ensuring that agency reports are received in a timely manner.

(c) *President's Management Council.* The President's Management Council (PMC), chaired by the Deputy Director for Management of OMB and consisting of the Chief Operating Officers (usually the Deputy Secretary) of the largest Federal departments and agencies, will periodically discuss agencies' progress in improving Federal energy management.

(d) *Interagency Energy Policy Committee.* This Committee was established by the Department of Energy Organization Act. It consists of senior agency officials designated in accordance with section 304 of this order. The Committee is responsible for encouraging implementation of energy efficiency policies and practices. The major energy-consuming agencies designated by DOE are required to participate in the Committee. The Committee shall communicate its activities to all designated senior agency officials to promote coordination and achievement of the goals of this order.

(e) *Interagency Energy Management Task Force.* The Task Force was established by the National Energy Conservation Policy Act. It consists of each agency's chief energy manager. The Committee shall continue to work toward improving agencies' use of energy management tools and sharing information on Federal energy management across agencies.

**Sec. 307. *Public/Private Advisory Committee.*** The Secretary of Energy will appoint an advisory committee consisting of representatives from Federal agencies, State governments, energy service companies, utility companies, equipment manufacturers, construction and architectural companies, environmental, energy and consumer groups, and other energy-related organizations. The committee will provide input on Federal energy management, including how to improve use of Energy-Savings Performance Contracts and utility energy-efficiency service contracts, improve procurement of ENERGY STAR® and other energy efficient products, improve building design, reduce process energy use, and enhance applications of efficient and renewable energy technologies at Federal facilities.

**Sec. 308. *Applicability.*** This order applies to all Federal departments and agencies. General Services Administration (GSA) is responsible for working with agencies to meet the requirements of this order for those facilities for which GSA has delegated operations and maintenance authority. The Department of Defense (DOD) is subject to this order to the extent that it does not impair or adversely affect military operations and training (including tactical aircraft, ships, weapons systems, combat training, and border security).

#### **PART 4—PROMOTING FEDERAL LEADERSHIP IN ENERGY MANAGEMENT**

**Sec. 401. *Life-Cycle Cost Analysis.*** Agencies shall use life-cycle cost analysis in making decisions about their investments in products, services, construction, and other projects to lower the Federal Government's costs and to reduce energy and water consumption. Where appropriate, agencies shall consider the life-cycle costs of combinations of projects, particularly to encourage bundling of energy efficiency projects with renewable energy projects. Agencies shall also retire inefficient equipment on an accelerated basis where replacement results in lower life-cycle costs. Agencies that minimize life-cycle costs with efficiency measures will be recognized in their scorecard evaluations.

**Sec. 402. *Facility Energy Audits.*** Agencies shall continue to conduct energy and water audits for approximately 10 percent of their facilities each year, either independently or through Energy-Savings Performance Contracts or utility energy-efficiency service contracts.

**Sec. 403. *Energy Management Strategies and Tools.*** Agencies shall use a variety of energy management strategies and tools, where life-cycle cost-effective, to meet the goals of this order. An agency's use of these strategies and tools shall be taken into account in assessing the agency's progress and formulating its scorecard.

(a) ***Financing Mechanisms.*** Agencies shall maximize their use of available alternative financing contracting mechanisms, including Energy-Savings Performance Contracts and utility energy-efficiency service contracts, when life-cycle cost-effective, to reduce energy use and cost in their facilities and operations. Energy-Savings Performance Contracts, which are authorized under the National Energy Conservation Policy Act, as modified by the Energy Policy Act of 1992, and utility energy-efficiency service contracts provide significant opportunities for making Federal facilities more energy efficient at no net cost to taxpayers.

(b) ***ENERGY STAR® and Other Energy Efficient Products.***

(1) Agencies shall select, where life-cycle cost-effective, ENERGY STAR® and other energy efficient products when acquiring energy-using products. For product groups where ENERGY STAR® labels are not yet available, agencies shall select products that are in the upper 25 percent of energy efficiency as designated by FEMP. The Environmental Protection Agency (EPA) and DOE shall expedite the process of designating products as ENERGY STAR® and will merge their current efficiency rating procedures.

(2) GSA and the Defense Logistics Agency (DLA), with assistance from EPA and DOE, shall create clear catalogue listings that designate these

products in both print and electronic formats. In addition, GSA and DLA shall undertake pilot projects from selected energy-using products to show a "second price tag", which means an accounting of the operating and purchase costs of the item, in both printed and electronic catalogues and assess the impact of providing this information on Federal purchasing decisions.

(3) Agencies shall incorporate energy efficient criteria consistent with ENERGY STAR® and other FEMP-designated energy efficiency levels into all guide specifications and project specifications developed for new construction and renovation, as well as into product specification language developed for Basic Ordering Agreements, Blanket Purchasing Agreements, Government Wide Acquisition Contracts, and all other purchasing procedures.

(4) DOE and OMB shall also explore the creation of financing agreements with private sector suppliers to provide private funding to offset higher up-front costs of efficient products. Within 9 months of the date of this order, DOE shall report back to the President's Management Council on the viability of such alternative financing options.

(c) *ENERGY STAR® Buildings.* Agencies shall strive to meet the ENERGY STAR® Building criteria for energy performance and indoor environmental quality in their eligible facilities to the maximum extent practicable by the end of 2002. Agencies may use Energy-Savings Performance Contracts, utility energy-efficiency service contracts, or other means to conduct evaluations and make improvements to buildings in order to meet the criteria. Buildings that rank in the top 25 percent in energy efficiency relative to comparable commercial and Federal buildings will receive the ENERGY STAR® building label. Agencies shall integrate this building rating tool into their general facility audits.

(d) *Sustainable Building Design.* DOD and GSA, in consultation with DOE and EPA, shall develop sustainable design principles. Agencies shall apply such principles to the siting, design, and construction of new facilities. Agencies shall optimize life-cycle costs, pollution, and other environmental and energy costs associated with the construction, life-cycle operation, and decommissioning of the facility. Agencies shall consider using Energy-Savings Performance Contracts or utility energy-efficiency service contracts to aid them in constructing sustainably designed buildings.

(e) *Model Lease Provisions.* Agencies entering into leases, including the renegotiation or extension of existing leases, shall incorporate lease provisions that encourage energy and water efficiency wherever life-cycle cost-effective. Build-to-suit lease solicitations shall contain criteria encouraging sustainable design and development, energy efficiency, and verification of building performance. Agencies shall include a preference for buildings having the ENERGY STAR® building label in their selection criteria for acquiring leased buildings. In addition, all agencies shall encourage lessors to apply for the ENERGY STAR® building label and to explore and implement projects that would reduce costs to the Federal Government, including projects carried out through the lessors' Energy-Savings Performance Contracts or utility energy-efficiency service contracts.

(f) *Industrial Facility Efficiency Improvements.* Agencies shall explore efficiency opportunities in industrial facilities for steam systems, boiler operation, air compressor systems, industrial processes, and fuel switching, including cogeneration and other efficiency and renewable energy technologies.

(g) *Highly Efficient Systems.* Agencies shall implement district energy systems, and other highly efficient systems, in new construction or retrofit projects when life-cycle cost-effective. Agencies shall consider combined cooling, heat, and power when upgrading and assessing facility power needs and shall use combined cooling, heat, and power systems when life-cycle cost-effective. Agencies shall survey local natural resources to optimize use

of available biomass, bioenergy, geothermal, or other naturally occurring energy sources.

(h) *Off-Grid Generation.* Agencies shall use off-grid generation systems, including solar hot water, solar electric, solar outdoor lighting, small wind turbines, fuel cells, and other off-grid alternatives, where such systems are life-cycle cost-effective and offer benefits including energy efficiency, pollution prevention, source energy reductions, avoided infrastructure costs, or expedited service.

**Sec. 404. *Electricity Use.*** To advance the greenhouse gas and renewable energy goals of this order, and reduce source energy use, each agency shall strive to use electricity from clean, efficient, and renewable energy sources. An agency's efforts in purchasing electricity from efficient and renewable energy sources shall be taken into account in assessing the agency's progress and formulating its score card.

(a) *Competitive Power.* Agencies shall take advantage of competitive opportunities in the electricity and natural gas markets to reduce costs and enhance services. Agencies are encouraged to aggregate demand across facilities or agencies to maximize their economic advantage.

(b) *Reduced Greenhouse Gas Intensity of Electric Power.* When selecting electricity providers, agencies shall purchase electricity from sources that use high efficiency electric generating technologies when life-cycle cost-effective. Agencies shall consider the greenhouse gas intensity of the source of the electricity and strive to minimize the greenhouse gas intensity of purchased electricity.

(c) *Purchasing Electricity from Renewable Energy Sources.*

(1) Each agency shall evaluate its current use of electricity from renewable energy sources and report this level in its annual report to the President. Based on this review, each agency should adopt policies and pursue projects that increase the use of such electricity. Agencies should include provisions for the purchase of electricity from renewable energy sources as a component of their requests for bids whenever procuring electricity. Agencies may use savings from energy efficiency projects to pay additional incremental costs of electricity from renewable energy sources.

(2) In evaluating opportunities to comply with this section, agencies should consider: my Administration's goal of tripling nonhydroelectric renewable energy capacity in the United States by 2010; the renewable portfolio standard specified in the restructuring guidelines for the State in which the facility is located; GSA's efforts to make electricity from renewable energy sources available to Federal electricity purchasers; and EPA's guidelines on crediting renewable energy power in implementation of Clean Air Act standards.

**Sec. 405. *Mobile Equipment.*** Each agency shall seek to improve the design, construction, and operation of its mobile equipment, and shall implement all life-cycle cost-effective energy efficiency measures that result in cost savings while improving mission performance. To the extent that such measures are life-cycle cost-effective, agencies shall consider enhanced use of alternative or renewable-based fuels.

**Sec. 406. *Management and Government Performance.*** Agencies shall use the following management strategies in meeting the goals of this order.

(a) *Awards.* Agencies shall use employee incentive programs to reward exceptional performance in implementing this order.

(b) *Performance Evaluations.* Agencies shall include successful implementation of provisions of this order in areas such as Energy-Savings Performance Contracts, sustainable design, energy efficient procurement, energy efficiency, water conservation, and renewable energy projects in the position descriptions and performance evaluations of agency heads, members of the agency energy team, principal program managers, heads of field offices, facility managers, energy managers, and other appropriate employees.

(c) *Retention of Savings and Rebates.* Agencies granted statutory authority to retain a portion of savings generated from efficient energy and water management are encouraged to permit the retention of the savings at the facility or site where the savings occur to provide greater incentive for that facility and its site managers to undertake more energy management initiatives, invest in renewable energy systems, and purchase electricity from renewable energy sources.

(d) *Training and Education.* Agencies shall ensure that all appropriate personnel receive training for implementing this order.

(1) DOE, DOD, and GSA shall provide relevant training or training materials for those programs that they make available to all Federal agencies relating to the energy management strategies contained in this order.

(2) The Federal Acquisition Institute and the Defense Acquisition University shall incorporate into existing procurement courses information on Federal energy management tools, including Energy-Savings Performance Contracts, utility energy-efficiency service contracts, ENERGY STAR® and other energy efficient products, and life-cycle cost analysis.

(3) All agencies are encouraged to develop outreach programs that include education, training, and promotion of ENERGY STAR® and other energy-efficient products for Federal purchase card users. These programs may include promotions with billing statements, user training, catalogue awareness, and exploration of vendor data collection of purchases.

(e) *Showcase Facilities.* Agencies shall designate exemplary new and existing facilities with significant public access and exposure as showcase facilities to highlight energy or water efficiency and renewable energy improvements.

#### **PART 5—TECHNICAL ASSISTANCE**

**Sec. 501.** Within 120 days of this order, the Director of OMB shall:

(a) develop and issue guidance to agency budget officers on preparation of annual funding requests associated with the implementation of the order for the FY 2001 budget;

(b) in collaboration with the Secretary of Energy, explain to agencies how to retain savings and reinvest in other energy and water management projects; and

(c) in collaboration with the Secretary of Energy through the Office of Federal Procurement Policy, periodically brief agency procurement executives on the use of Federal energy management tools, including Energy-Savings Performance Contracts, utility energy-efficiency service contracts, and procurement of energy efficient products and electricity from renewable energy sources.

**Sec. 502.** Within 180 days of this order, the Secretary of Energy, in collaboration with other agency heads, shall:

(a) issue guidelines to assist agencies in measuring energy per square foot, per unit of production, or other applicable unit in industrial, laboratory, research, and other energy-intensive facilities;

(b) establish criteria for determining which facilities are exempt from the order. In addition, DOE must provide guidance for agencies to report proposed exemptions;

(c) develop guidance to assist agencies in calculating appropriate energy baselines for previously exempt facilities and facilities occupied after 1990 in order to measure progress toward goals;

(d) issue guidance to clarify how agencies determine the life-cycle cost for investments required by the order, including how to compare different energy and fuel options and assess the current tools;

(e) issue guidance for providing credit toward energy efficiency goals for cost-effective projects where source energy use declines but site energy use increases; and

(f) provide guidance to assist each agency to determine a baseline of water consumption.

**Sec. 503.** Within 1 year of this order, the Secretary of Energy, in collaboration with other agency heads, shall:

(a) provide guidance for counting renewable and highly efficient energy projects and purchases of electricity from renewable and highly efficient energy sources toward agencies' progress in reaching greenhouse gas and energy reduction goals;

(b) develop goals for the amount of energy generated at Federal facilities from renewable energy technologies;

(c) support efforts to develop standards for the certification of low environmental impact hydropower facilities in order to facilitate the Federal purchase of such power;

(d) work with GSA and DLA to develop a plan for purchasing advanced energy products in bulk quantities for use in by multiple agencies;

(e) issue guidelines for agency use estimating the greenhouse gas emissions attributable to facility energy use. These guidelines shall include emissions associated with the production, transportation, and use of energy consumed in Federal facilities; and

(f) establish water conservation goals for Federal agencies.

**Sec. 504.** Within 120 days of this order, the Secretary of Defense and the Administrator of GSA, in consultation with other agency heads, shall develop and issue sustainable design and development principles for the siting, design, and construction of new facilities.

**Sec. 505.** Within 180 days of this order, the Administrator of GSA, in collaboration with the Secretary of Defense, the Secretary of Energy, and other agency heads, shall:

(a) develop and issue guidance to assist agencies in ensuring that all project cost estimates, bids, and agency budget requests for design, construction, and renovation of facilities are based on life-cycle costs. Incentives for contractors involved in facility design and construction must be structured to encourage the contractors to design and build at the lowest life-cycle cost;

(b) make information available on opportunities to purchase electricity from renewable energy sources as defined by this order. This information should accommodate relevant State regulations and be updated periodically based on technological advances and market changes, at least every 2 years;

(c) develop Internet-based tools for both GSA and DLA customers to assist individual and agency purchasers in identifying and purchasing ENERGY STAR® and other energy efficient products for acquisition; and

(d) develop model lease provisions that incorporate energy efficiency and sustainable design.

#### **PART 6—GENERAL PROVISIONS**

**Sec. 601.** *Compliance by Independent Agencies.* Independent agencies are encouraged to comply with the provisions of this order.

**Sec. 602.** *Waivers.* If an agency determines that a provision in this order is inconsistent with its mission, the agency may ask DOE for a waiver of the provision. DOE will include a list of any waivers it grants in its Federal Energy Management Programs annual report to the Congress.

**Sec. 603.** *Scope.* (a) This order is intended only to improve the internal management of the executive branch and is not intended to create any right, benefit, or trust responsibility, substantive or procedural, enforceable by law by a party against the United States, its agencies, its officers, or any other person.

(b) This order applies to agency facilities in any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, Guam,

American Samoa, the United States Virgin Islands, the Northern Mariana Islands, and any other territory or possession over which the United States has jurisdiction. Agencies with facilities outside of these areas, however, are encouraged to make best efforts to comply with the goals of this order for those facilities. In addition, agencies can report energy improvements made outside the United States in their annual report to the President; these improvements may be considered in agency scorecard evaluations.

**Sec. 604. Revocations.** Executive Order 12902 of March 9, 1994, Executive Order 12759 of April 17, 1991, and Executive Order 12845 of April 21, 1993, are revoked.

**Sec. 605. Amendments to Federal Regulations.** The Federal Acquisition Regulation and other Federal regulations shall be amended to reflect changes made by this order, including an amendment to facilitate agency purchases of electricity from renewable energy sources.

#### **PART 7—DEFINITIONS**

For the purposes of this order:

**Sec. 701. "Acquisition"** means acquiring by contract supplies or services (including construction) by and for the use of the Federal Government through purchase or lease, whether the supplies or services are already in existence or must be created, developed, demonstrated, and evaluated. Acquisition begins at the point when agency needs are established and includes the description of requirements to satisfy agency needs, solicitation and selection of sources, award of contracts, contract financing, contract performance, contract administration, and those technical and management functions directly related to the process of fulfilling agency needs by contract.

**Sec. 702. "Agency"** means an executive agency as defined in 5 U.S.C. 105. For the purpose of this order, military departments, as defined in 5 U.S.C. 102, are covered under the auspices of DOD.

**Sec. 703. "Energy-Savings Performance Contract"** means a contract that provides for the performance of services for the design, acquisition, financing, installation, testing, operation, and where appropriate, maintenance and repair, of an identified energy or water conservation measure or series of measures at one or more locations. Such contracts shall provide that the contractor must incur costs of implementing energy savings measures, including at least the cost (if any) incurred in making energy audits, acquiring and installing equipment, and training personnel in exchange for a predetermined share of the value of the energy savings directly resulting from implementation of such measures during the term of the contract. Payment to the contractor is contingent upon realizing a guaranteed stream of future energy and cost savings. All additional savings will accrue to the Federal Government.

**Sec. 704. "Exempt facility" or "Exempt mobile equipment"** means a facility or a piece of mobile equipment for which an agency uses DOE-established criteria to determine that compliance with the Energy Policy Act of 1992 or this order is not practical.

**Sec. 705. "Facility"** means any individual building or collection of buildings, grounds, or structure, as well as any fixture or part thereof, including the associated energy or water-consuming support systems, which is constructed, renovated, or purchased in whole or in part for use by the Federal Government. It includes leased facilities where the Federal Government has a purchase option or facilities planned for purchase. In any provision of this order, the term "facility" also includes any building 100 percent leased for use by the Federal Government where the Federal Government pays directly or indirectly for the utility costs associated with its leased space. The term also includes Government-owned contractor-operated facilities.

**Sec. 706. "Industrial facility"** means any fixed equipment, building, or complex for production, manufacturing, or other processes that uses large amounts of capital equipment in connection with, or as part of, any process

or system, and within which the majority of energy use is not devoted to the heating, cooling, lighting, ventilation, or to service the water heating energy load requirements of the facility.

**Sec. 707.** "Life-cycle costs" means the sum of the present values of investment costs, capital costs, installation costs, energy costs, operating costs, maintenance costs, and disposal costs, over the lifetime of the project, product, or measure. Additional guidance on measuring life-cycle costs is specified in 10 C.F.R. 436.19.

**Sec. 708.** "Life-cycle cost-effective" means the life-cycle costs of a product, project, or measure are estimated to be equal to or less than the base case (i.e., current or standard practice or product). Additional guidance on measuring cost-effectiveness is specified in 10 C.F.R. 436.18 (a), (b), and (c), 436.20, and 436.21.

**Sec. 709.** "Mobile equipment" means all Federally owned ships, aircraft, and nonroad vehicles.

**Sec. 710.** "Renewable energy" means energy produced by solar, wind, geothermal, and biomass power.

**Sec. 711.** "Renewable energy technology" means technologies that use renewable energy to provide light, heat, cooling, or mechanical or electrical energy for use in facilities or other activities. The term also means the use of integrated whole-building designs that rely upon renewable energy resources, including passive solar design.

**Sec. 712.** "Source energy" means the energy that is used at a site and consumed in producing and in delivering energy to a site, including, but not limited to, power generation, transmission, and distribution losses, and that is used to perform a specific function, such as space conditioning, lighting, or water heating.

**Sec. 713.** "Utility" means public agencies and privately owned companies that market, generate, and/or distribute energy or water, including electricity, natural gas, manufactured gas, steam, hot water, and chilled water as commodities for public use and that provide the service under Federal, State, or local regulated authority to all authorized customers. Utilities include: Federally owned nonprofit producers; municipal organizations; and investor or privately owned producers regulated by a State and/or the Federal Government; cooperatives owned by members and providing services mostly to their members; and other nonprofit State and local government agencies serving in this capacity.

**Sec. 714.** "Utility energy-efficiency service" means demand side management services provided by a utility to improve the efficiency of use of the commodity (electricity, gas, etc.) being distributed. Services can include, but are not limited to, energy efficiency and renewable energy project auditing, financing; design, installation, operation, maintenance, and monitoring.



THE WHITE HOUSE,  
June 3, 1999.

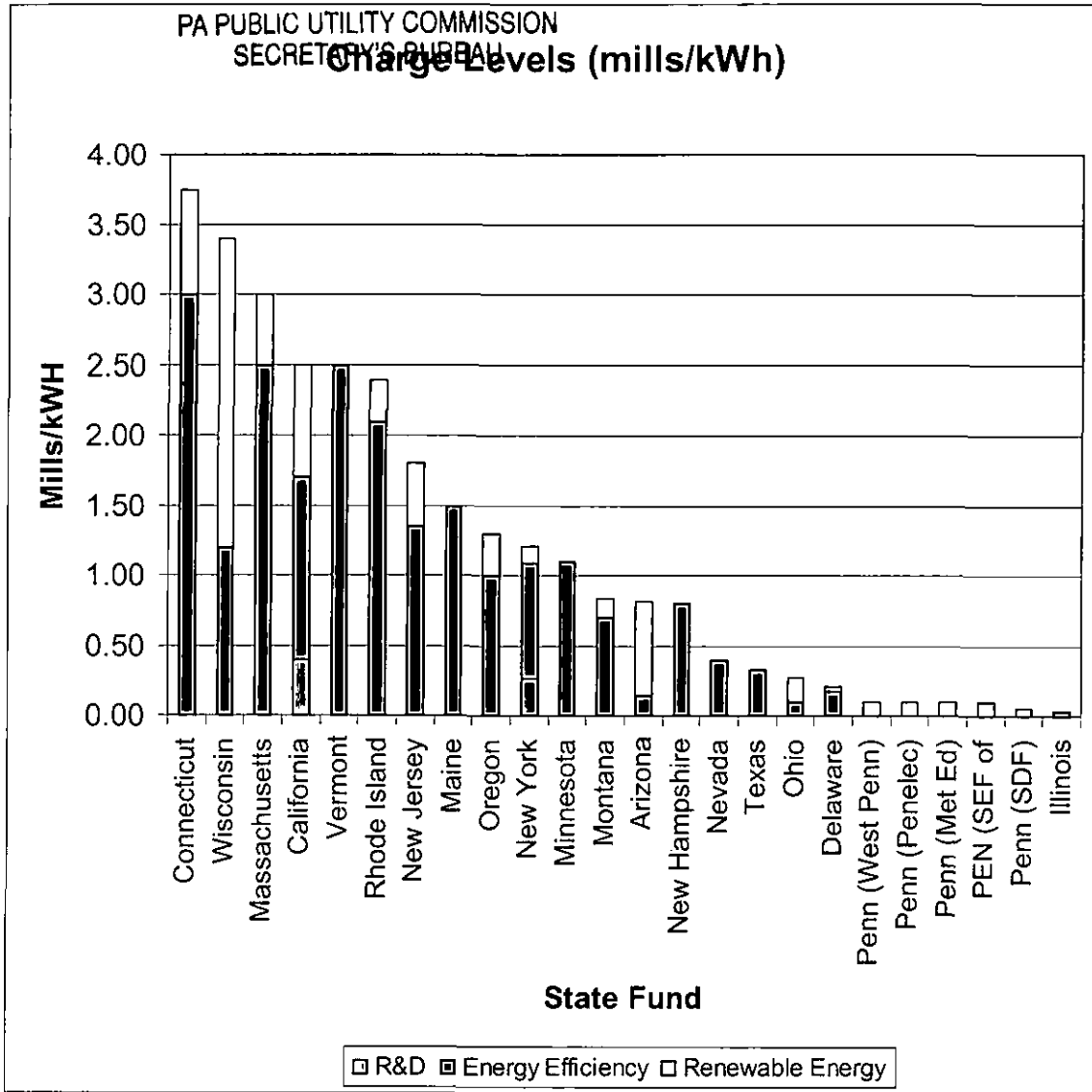
# **ATTACHMENT C**

DOCUMENT

COMPARISON OF MILLAGE RATES FOR STATE SBC FUNDS

RECEIVED

AUG 16 2004



DOCKETED

AUG 18 2004

**DOCUMENT**

PPL Electric Utilities Corporation  
 Response to Interrogatories of the  
 Clean Air Council, Set 2,  
 Dated June 3, 2004  
 Docket No. R-00049255

SD  
 8-11-04  
 Hgj

Q.CAC2-4. Since the SEF is funded from the transmission and distribution rate, which will continue to be a regulated aspect of service beyond the lifting of the generation rate cap, please provide PPL's rationale for termination of SEF funding in 2009.

A.CAC2-4. The Sustainable Energy Fund ("SEF" or "Fund") of Central Eastern Pennsylvania established an objective to operate in a sustainable manner. The Fund decided to focus on issuing loans, making equity/royalty investments and providing grants on a limited basis. However, this does not mean that the SEF has achieved a fully sustainable funding program. Although the Fund has made investments that are returning money on a regular basis, the largest returns generally are not realized for several years. Most fledgling companies need time to establish themselves.

The SEF's strategy has been to focus on larger projects in order to leverage funds with other sustainable energy funds, state agencies, banks and investors. This collaborative approach allows the Fund to obtain multiple returns on its investments. PPL Electric believes that the SEF can achieve full sustainability by December 31, 2009.

The Fund has made solid progress in establishing itself as an effective organization. The SEF has expanded its staff, promoted a variety of renewable energy projects and partnered effectively with state government. In fact, the SEF received the Governor's Award for Environmental Excellence in 2002. The Fund also has shown effective management and stewardship of its funding.

From PPL Electric's perspective, the whole arena of renewable energy technologies is still an evolving industry in Pennsylvania. As such, the SEF needs additional time to further enhance its capabilities, pursue new areas of environmental interest and expand its working relationships with state government and other partners. The Company believes that a period of ten years (2000 through 2009) is a sufficient amount of time for the SEF to establish its long-term viability and permanency.

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AUG 18 2004

T. R. Dahl

**PPL Electric Utilities Corporation  
Response to Interrogatories of the  
Office of Consumer Advocate, Set XII,  
Dated June 2, 2004**

**Docket No. R-00049255**

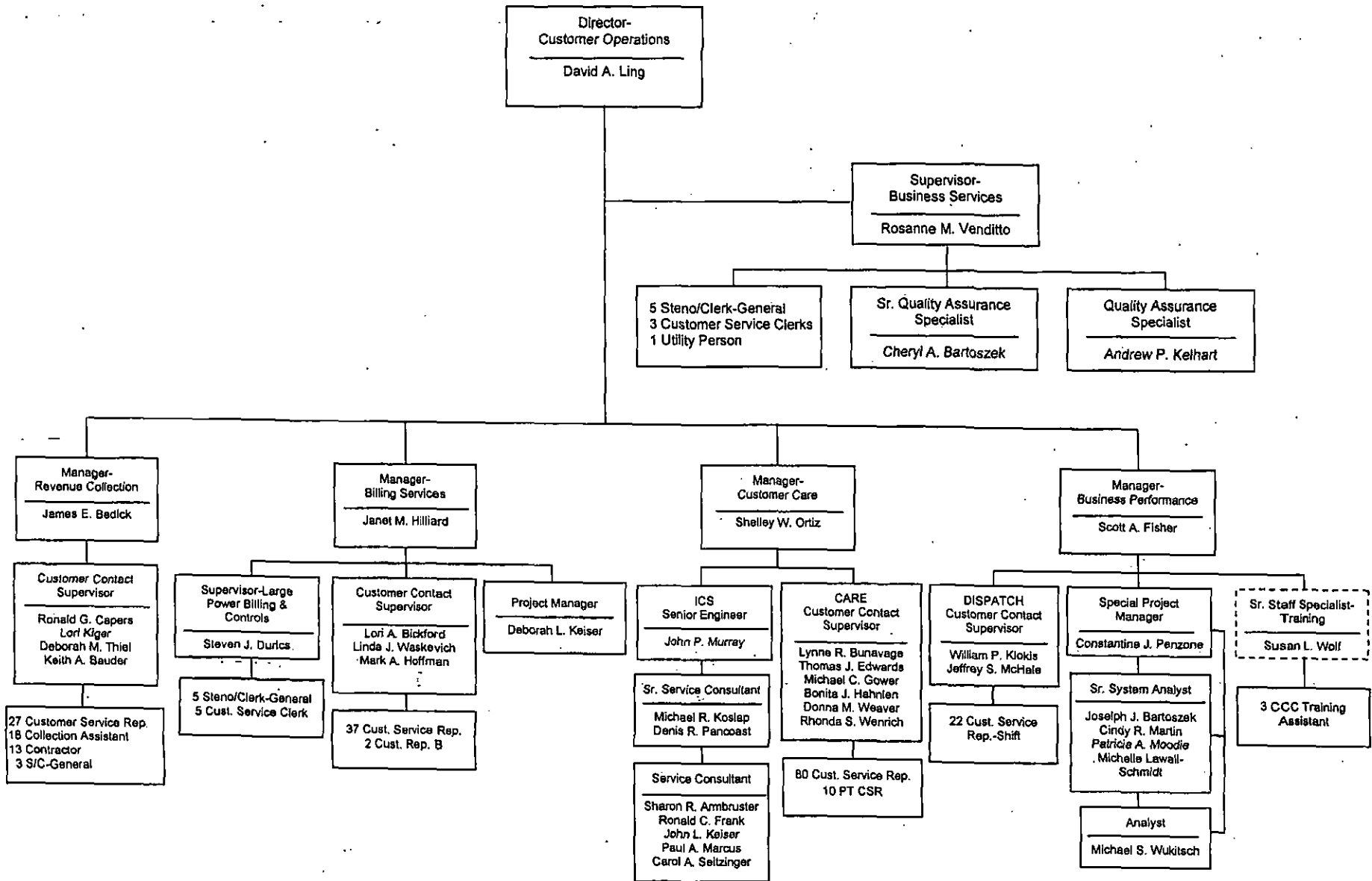
- Q.2. Please provide an organization chart for the Company's call center operations, including staff salaries for each call center employee class.
- A.2. See Attachment 1. It should be noted that the salary data for PPL Electric's call center employees reflects the midpoint salary level for management employees and the final salary step per the contract agreement for bargaining unit members.

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RC 0707



<b>Customer Contact Center -- 2004 Annual Salaries by Employee Class</b>						
<b>Employee Class</b>						
				<b>Annual Salary</b>		
Analyst				56,786		
Customer Contact Supv				66,029		
Director-Customer Operations				117,940		
Mgr-Billing Services				86,151		
Mgr-Business Performance				85,750		
Mgr-Customer Care				91,122		
Mgr-Revenue Collection				94,095		
Project Manager				77,618		
Quality Assurance Specialist				57,020		
Senior Engineer				81,402		
Service Consultant				53,095		
Special Project Manager				83,517		
Sr Quality Assurance Specialist				61,377		
Sr Service Consultant				67,650		
Sr Systems Analyst				69,864		
Supv-Business Services				77,200		
Supv-Large Pwr Billing/Controls				73,390		
CCC Training Assistant				54,760		
Collection Assistant				30,882		
Cust Service Clerk				36,049		
Customer Representative B				42,709		
Customer Service Repr				47,615		
Customer Service Repr-Shift				50,178		
Steno Clerk General-Incumbent				47,615		
Steno/Clerk-General				42,709		
Utility Person				44,250		

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. 1

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8-11-04  
HJ

Interrogatories and Requests for Production of Documents  
Propounded by PP&L Industrial Customer Alliance to Sustainable Energy  
Fund of Central Eastern Pennsylvania – Set I

Item: Interrogatory No. 1

Refer to SEF Statement No. 1, page 13, lines 18-23. For each SEF project authorized to date, please provide any and all studies conducted by or available to SEF demonstrating the resulting elimination or delay of a distribution system upgrade. Include the cost of the SEF project and the anticipated cost that PPL would have paid for the upgrade absent the SEF project. If no such studies exist, state so.

Response:

The SEF has no studies "for each SEF project" as requested in the Interrogatory.

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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. 2

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8-11-04  
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Interrogatories and Requests for Production of Documents  
Propounded by PP&L Industrial Customer Alliance to Sustainable Energy  
Fund of Central Eastern Pennsylvania – Set I

Item: Interrogatory No. 2

Refer to SEF Statement No. 1, page 14, lines 40-43. For each SEF project authorized to date, please provide any and all studies conducted by or available to SEF demonstrating the resulting elimination or delay of a distribution system upgrade. Include the cost of the SEF project and the anticipated cost that PPL would have paid for the upgrade absent the SEF project. If no such studies exist, state so.

Response:

The SEF has no studies "for each SEF project" as requested in the Interrogatory.

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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. 3

SM  
8-11-04  
HJG

Interrogatories and Requests for Production of Documents  
Propounded by PP&L Industrial Customer Alliance to Sustainable Energy  
Fund of Central Eastern Pennsylvania – Set I

Item: Interrogatory No. 3

Refer to SEF Statement No. 1, page 18, lines 1-4. Please provide the following:

- A. Please identify the specific PJM transmission line for which congestion is claimed to be remediated by Bear Creek Wind Park.
- B. What type of congestion is being remediated (e.g., thermal limits, reactive constraints, etc.)?
- C. Please provide any and all studies conducted by or relied upon by SEF demonstrating the difference in locational marginal prices across the constraint or otherwise supporting and quantifying the claimed congestion relief of Bear Creek Wind Park. If no such studies exist or have been conducted, so state.

Response:

The SEF has no knowledge of the specific PJM transmission line or type of congestion, nor does it have any studies, as requested in the Interrogatory.

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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

SM  
8-11-04  
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Interrogatories and Requests for Production of Documents  
Propounded by PP&L Industrial Customer Alliance to Sustainable Energy  
Fund of Central Eastern Pennsylvania – Set I

Item: Interrogatory No. 4

Refer to SEF Statement No. 1, page 11. For Bear Creek Wind Farm and the other wind generation resources located within PJM, please provide the following (for each individual project, if available):

- A. Nameplate capacities
- B. Average capacity factors
- C. Actual availability and capacity factors during each of the 2003 PPL zonal five coincident peaks.

**DOCUMENT**

Response:

The testimony at SEF Statement No. 1, page 11, concerns the Bear Creek Wind Farm and not other wind generation resources within PJM. The nameplate capacity and capacity factor for the Bear Creek Wind Farm is presented at page 11, lines 19 and 20. They are 20.5 MW and .36 capacity factor, respectively. The SEF has no knowledge of the actual availability and capacity factors during coincident peaks as requested in the Interrogatory.

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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. 5

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8-11-04  
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Interrogatories and Requests for Production of Documents  
Propounded by PP&L Industrial Customer Alliance to Sustainable Energy  
Fund of Central Eastern Pennsylvania – Set I

Item: Interrogatory No. 5

Please state whether any wind generation projects listed in the prior question are claimed as capacity resources in PJM for the purpose of the Installed Capacity obligation and, if so claimed, the PJM Capacity Factor for the project, as defined in PJM Manual 21 "Rules and Procedures for Determination of Generating Capability" (Revision 03 effective 4/30/04).

Response:

The SEF has no knowledge of whether wind generation projects are claimed as capacity resources in PJM for the purpose of the Installed Capacity obligation as requested in the Interrogatory.

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John Hanger, President and CEO

**Citizens for Pennsylvania's Future  
Response to Interrogatories of  
PP&L Industrial Customer Alliance—Set 1  
Dated July 13, 2004  
Docket No. R-00049255**

SM  
8-11-04  
HWS

Q.1. With regard to the testimony of John Hanger on page 6 at lines 8 to 11, please provide all economic studies performed by or for PennFuture or available to Mr. Hanger that measures the economic costs and benefits to PPL from any SEF investment or grant made to date. If no such quantification based study has been conducted, please so state.

A.1. The referenced testimony refers to the benefits of renewable energy and energy efficiency for utilities and ratepayers generally and does not refer to either PPL or SEF specifically. I am aware of no such studies.

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SECRETARY'S BUREAU  
PUC

**John Hanger, President and CEO**

**DOCUMENT**

**Citizens for Pennsylvania's Future  
Response to Interrogatories of  
PP&L Industrial Customer Alliance--Set I  
Dated July 13, 2004  
Docket No. R-00049255**

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*8-11-04*  
*Hbg*

Q.2. With regard to the testimony of John Hanger on page 6 at lines 8 to 11, please provide all economic studies performed by or for PennFuture or available to Mr. Hanger that measures the economic costs and benefits to PPL ratepayers from any SEF investment or grant made to date. If no such quantification based study has been conducted, please so state.

A.2. The referenced testimony refers to the benefits of renewable energy and energy efficiency for utilities and ratepayers generally and does not refer to either PPL or SEF specifically. I am aware of no such studies.

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John Hanger, President and CEO

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**Citizens for Pennsylvania's Future  
Response to Interrogatories of  
PP&L Industrial Customer Alliance--Set I  
Dated July 13, 2004  
Docket No. R-00049255**

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8-11-04  
Hlf*

Q.6. For the wind generation resources located within PJM, please provide the following (for each individual project, if available):  
A. Nameplate capacities  
B. Average capacity factors  
C. Actual availability and capacity factors during each of the 2003 PPL zonal five coincident peaks.

A.6. The operating windfarms and capacities in PJM include the following:

1. Green Mountain--10.4 MW
2. Somerset--9 MW
3. Mill Run--15 MW
4. Waymart--64.5 MW
5. Meyersdale--30MW
6. Mountaineer--66MW

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AUG 18 2004

PennFuture does not know the availability and capacity factor for individual projects; this information is generally not publicly available.

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John Hanger, President and CEO

**Citizens for Pennsylvania's Future  
Response to Interrogatories of  
PP&L Industrial Customer Alliance—Set I  
Dated July 13, 2004  
Docket No. R-00049255**

32

8-11-04

Hbg

Q.7. In a recent report prepared for the New York State Energy Research and Development Authority titled "The Effects of Integrating Wind Power on Transmission System Planning, Reliability, and Operations—Report on Phase 1: Preliminary Overall Reliability Assessment" dated February 2, 2004 (available at <http://www.nyserda.org/energyresources/prelimoverallreliability.pdf>), on page 2.6 the authors concluded that "Wind generation patterns within New York State demonstrate much lower levels of output in the summertime (Figure 2.2), and within the day they tend to peak in the morning, with afternoon and evening outputs roughly half of the morning levels (Figure 2.3). This provides little reliability benefit to a system that typically experiences its greatest need for capacity in late afternoon and early evening in the summer." Does Mr. Hanger agree that wind patterns in PPL's territory would demonstrate similar seasonal and hourly fluctuations? If the response to this question is anything except an unqualified "yes," provide all studies conducted by or relied upon by Mr. Hanger or PennFuture in support of the response.

A.7. Mr. Hanger is not an expert on wind patterns and has no direct response to the question. By way of further information, Mr. Hanger notes that wind resources in Pennsylvania generally are stronger in the winter and that PPL is a winter peaking or dual peaking utility.

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AUG 18 2004

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**Pennsylvania Public Utility Commission**

**v.**

**PPL Electric Utilities Corporation**

:  
:  
: **Docket No. R-00049255**  
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**DOCUMENT**

**DIRECT TESTIMONY AND EXHIBITS OF  
ROGER D. COLTON  
ON UNIVERSAL SERVICE ISSUES**

**OCA Statement No. 5**

*SM*  
*8-11-04*  
*HBS*

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

**Harrisburg, Pennsylvania**

**June 29, 2004**

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

5 A. I am a principal in the firm of Fisher Sheehan & Colton, Public Finance and General  
6 Economics. In that capacity, I provide technical assistance to a variety of public utilities,  
7 state agencies and consumer organizations on rate and customer service issues involving  
8 telephone, water/sewer, natural gas and electric utilities.

9

10 **Q. FOR WHOM ARE YOU TESTIFYING IN THIS PROCEEDING?**

11 A. I am testifying on behalf of the Pennsylvania Office of Consumer Advocate.

12

13 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL BACKGROUND.**

14 A. I work primarily on low-income energy issues. This work involves not only rate and  
15 customer service work, but involves the design and implementation of low-income energy  
16 assistance programs as well. At present, I am working on various projects in the states of  
17 Pennsylvania, Michigan, Missouri, Louisiana, Indiana and Colorado. My clients include  
18 state agencies (e.g., the New Hampshire Public Utilities Commission, the Pennsylvania  
19 Office of Consumer Advocate, the New Jersey Division of Ratepayer Advocate, the  
20 Maryland Office of People's Counsel), federal agencies (e.g., the U.S. Department of Health  
21 and Human Services, Oak Ridge National Laboratory), community-based organizations  
22 (e.g., the Indiana Community Action Association, Colorado Energy Assistance Foundation,  
23 Detroit's Heat and Warmth Foundation), and private utilities (e.g., Entergy Services,  
24 Citizens Gas and Coke Company, Empire District Company).

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**Q. HAVE YOU EVER PUBLISHED ON PUBLIC UTILITY REGULATORY ISSUES?**

A. Yes. A list of my publications is attached as Appendix A.

**Q. HAVE YOU EVER TESTIFIED BEFORE THIS OR OTHER UTILITY COMMISSIONS?**

A. Yes. A list of proceedings in which I have appeared as an expert witness is attached as Appendix A as well.

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

A. The purpose of my testimony today is to review the universal service program component of PPL Electric Corporation (PPL). I will consider the following aspects of the PPL universal service filing:

- Are there ways in which the universal service program can be made to operate more effectively or efficiently?
- Is the Company's proposed cost recovery for its OnTrack program reasonable?
- Can the Company take reasonable actions to improve the collection of funds to be distributed through its hardship fund, Operation HELP?
- Is the Company's proposal to implement its Community Betterment Initiative reasonable?

*I will consider each of these issues in more detail below.*

1 **PART 1.**

2 **PPL's Existing Universal Service Programs**

3  
4 **Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?**

5 A. In this section of my testimony, I review the structure and operations of the PPL OnTrack  
6 program. My objective is to determine whether the OnTrack program is operating within  
7 the directive that the Company offer a Customer Assistance Program (CAP) that is  
8 available to all low-income customers that require it. My review also considers whether  
9 the program is adequately funded. For purposes of my testimony, I consider PPL's  
10 OnTrack program to be a CAP program within the meaning of the Public Utility  
11 Commission's CAP Policy Statement. After describing the program generally, I will  
12 address three issues with respect to the OnTrack program:

- 13       ➤ eligibility criteria associated with maintaining participation in the OnTrack  
14       program;
- 15       ➤ continuing expansion of the enrollment of eligible low-income customers into  
16       the OnTrack program; and
- 17       ➤ the increasing arrears that are being experienced by low-income customers, as  
18       well as by customers bringing arrears into the OnTrack program.

19  
20 **A. General Program Description.**

21 **Q. PLEASE DESCRIBE THE ON-TRACK PROGRAM AS YOU UNDERSTAND IT?**

22 A. The PPL OnTrack program is a rate affordability program directed toward eligible low-  
23 income customers. The program offers a reduced monthly payment, along with a chance  
24 to erase the participant's arrears. To be eligible for the OnTrack program, a customer  
25 must be a BCS Level 1 (0 – 110% Poverty Level) or Level 2 (111 – 150% Poverty Level)

1 customer. The customer must also have an overdue balance of \$150 or more and have  
2 defaulted on one or more payment plans in a 12-month period in order to qualify for the  
3 program. A customer initially enrolls in the OnTrack program until their entire pre-  
4 program debt is retired. Even after a participant retires his or her debt, however, that  
5 customer may stay in OnTrack if he or she remains income-eligible. To remain in the  
6 program, the customer must annually recertify that he or she is income eligible.

7  
8 **Q. HOW ARE THE AFFORDABLE PAYMENTS CALCULATED PURSUANT TO**  
9 **THE ON-TRACK PROGRAM?**

10 A. The Company calculates an affordable payment under one of four scenarios. The four  
11 scenarios include a minimum payment, a percent of bill payment, a percent of income  
12 payment, or an annualized average payment. The Company seeks to select which of  
13 these payments is closest to the annualized average payment calculation. The annualized  
14 average payment shows what the OnTrack participant had actually paid to PPL within the  
15 past 12 months.

16  
17 **Q. IS THIS STRUCTURE OF THE PPL ON-TRACK PROGRAM A REASONABLE**  
18 **PAYMENT STRUCTURE?**

19 A. Yes. I believe the payment structure under which the optional payment possibilities are  
20 evaluated to determine the payment most closely approximating the annualized average  
21 payment is a reasonable program structure for PPL.

1 **B. Criteria to Maintain On-going Program Participation.**

2 **Q. DO YOU HAVE INITIAL CONCERNS ABOUT ANY ASPECT OF THE PPL ON-**  
3 **TRACK PROGRAM?**

4 A. In the Company's "Fact Sheets on Universal Service Programs" filed as Exhibit TRD-1  
5 (attached to the testimony of Mr. Dahl), the Company poses the question: "after enrolled,  
6 what are the rules to stay on the OnTrack program?" In response, the Company's fact  
7 sheet indicates that an OnTrack customer must "keep electric use at or below your usage  
8 limit." The Company further indicates that the OnTrack customer must "apply for energy  
9 assistance (if eligible) and send the grant to PPL." These conditions to OnTrack  
10 participation are unacceptable limitations on OnTrack participation.

11  
12 **Q. WHY DO YOU NOT ADDRESS THESE ELIGIBILITY PROBLEMS IN YOUR**  
13 **DIRECT TESTIMONY BELOW?**

14 A. I conclude that the Company's "Fact Sheets on Universal Service Programs" misstate the  
15 actual operating rules of the PPL OnTrack program. OCA specifically asked PPL to  
16 provide the numbers of OnTrack participants that have been dismissed for failing to  
17 apply for LIHEAP and/or failing to assign their LIHEAP grant to PPL. The Company  
18 specifically stated: "PPL Electric does not dismiss OnTrack participants for not having  
19 applied for LIHEAP assistance or for not having assigned their grant to the Company."  
20 (OCA-VI-2). When asked to provide the policy basis for dismissing customers for these  
21 LIHEAP-related issues, the Company referred back to its statement that it does not do so.  
22 (OCA-VII-3). I conclude that the Fact Sheet attached to Mr. Dahl's testimony is either  
23 out-of-date, misworded, or in error.

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In addition, OCA requested that PPL provide the number of customers dismissed from the OnTrack program by reason for dismissal. The Company indicated that “the reasons for dismissal from OnTrack include missed payments or failure to follow through with the annual re-certification process.” (OCA-VI-15). The Company told OCA that it does not track OnTrack participants defaulted from the program for exceeding 110 percent kWh consumption limit. (OCA-VI-10). Nor does the Company track the number of OnTrack customers that reach the 110% consumption limit. (OCA-VI-8, OCA-VI-9). PPL told the OCA that “the Company is reluctant to remove customers from OnTrack if the program is working effectively for them.” (OCA-VII-2). Based on these representations, I conclude further that the Fact Sheet attached to Mr. Dahl’s direct testimony regarding dismissal of customers for exceeding consumption caps is either out-of-date, misworded, or in error.

**Q. SHOULD THE BROCHURE BE REWORDED?**

A. Yes. The Fact Sheet should accurately reflect the operation of OnTrack program as it is actually being implemented.

**Q. OUTSIDE OF THESE ELIGIBILITY REQUIREMENTS, DO YOU HAVE CONCERNS ABOUT THE OPERATION OF THE PPL ON-TRACK PROGRAM?**

A. Yes. I have two concerns. My first concern is that the program is not adequately available to low-income customers throughout the Company’s service territory. Second, my concern is that the Company’s OnTrack customers are bringing increasingly high

1 arrears into the program, thus increasing the total costs of the program and decreasing the  
2 capacity of the Company to serve all eligible participants. I will address each of these  
3 concerns separately below.

4  
5 **C. Expanding Program Enrollment.**

6 **Q. HAS THE ON-TRACK PROGRAM HISTORICALLY HAD DIFFICULTIES**  
7 **WITH ON-GOING PROGRAM ENROLLMENT?**

8 A. Yes. In its 2003 PPL decision (Docket No. M-00031698), the Pennsylvania PUC found  
9 that the PPL OnTrack program was neither appropriately funded nor available throughout  
10 the Company's service territory. (Final Order, at 3). In addition, in its January 3, 2003  
11 review of the evaluation of the PPL OnTrack program, the Bureau of Consumer Services  
12 stated as follows:

13 RETEC [the Company's evaluator] finds the largest barrier to participation  
14 appears to be the lack of awareness of the program by eligible households.  
15 Moreover, RETEC reports that PPL's Customer Call Center (CCC) does not  
16 refer many of the Level 1 and Level 2 customers who call to make payment  
17 arrangements. Customers who appear to be eligible are not being informed  
18 of their OnTrack eligibility when making a payment arrangement at the CCC.  
19 PPL instructs call center staff not to refer a customer who has received a  
20 referral in the last six months. Only 20% of customers who call to make  
21 arrangements enroll in OnTrack; another 10% apply but are found to be  
22 ineligible when they verify financial details in a face-to-face interview.  
23 RETEC suggests that CCC representatives are not effective in describing or  
24 promoting the program. RETEC found that 52% of Level 1 and Level 2  
25 customers who called to make payment arrangements had an overdue balance  
26 of at least \$150 and no record of participation in OnTrack during the past 12  
27 months. ***Because so many Level 1 and Level 2 customers who call for***  
28 ***arrangements are not being enrolled in the program, RETEC concludes***  
29 ***that OnTrack has not saturated its market. BCS' own data supports***  
30 ***RETEC's findings.*** In 2002, BCS made referrals to universal service for  
31 66% of PPL's Level 1 customers and for 59% of PPL's Level 2 customers  
32 (emphasis added).  
33

1 (OCA-VI-39). In responding to the BCS comments, the Company said that “given the  
2 CAP funding levels established in its Settlement Agreement (a maximum of \$11.7  
3 million in 2002), PPL will attempt to enroll as many customers as allowed under its  
4 annual budget. Through process improvements and a reduction in administrative costs,  
5 the company hopes to increase the number of active OnTrack participants.”  
6

7 **Q. DO YOU HAVE ADDITIONAL CONCERNS ABOUT EXPANDING**  
8 **ENROLLMENT FOR THE ON-TRACK PROGRAM?**

9 A. Yes. In addition to the findings of the Company’s own evaluator, as well as BCS, I  
10 conclude that the Company is not adequately positioned to qualify its low-income  
11 customers for the OnTrack program.  
12

13 **Q. HOW DOES PPL QUALIFY LOW-INCOME CUSTOMERS FOR ON-TRACK?**

14 A. PPL’s OnTrack program is available to low-income customers that are payment troubled.  
15 The Company defines a “payment-troubled” customer as one that has broken at least one  
16 payment plan and has an arrearage of \$150 at the time of enrollment into OnTrack.  
17 However, the Company has identified 123,839 low-income customers in its service territory.  
18 According to the Company, “to determine the number of confirmed low-income customers,  
19 the Company uses financial information stored in its customer information system.  
20 Customers provide this financial information to PPL Electric when they call to make  
21 payment arrangements.” (OCA-VII-4). In addition, the PPL customer information system  
22 stores information about customers who received assistance through the various universal  
23 service programs (OnTrack, WRAP, Operation HELP, LIHEAP).

1  
2 The Company states that its strategy to target low-income customers that are overdue and  
3 payment-troubled is to rely on its customer service representatives and local community-  
4 based organizations. According to the Company, "most referrals to OnTrack come from its  
5 Customer Service Representatives (CSRs) who handle collection calls from low-income  
6 customers with overdue bills." (OCA-VI-1). In addition, the Company states:

7 The Company's Customer Programs Directors, who have the day-to-day  
8 responsibility for OnTrack, have established effective working relationships  
9 with the CBOs that administer the program. These CBOs, which provide a  
10 variety of services for low-income households, have daily contact with  
11 customers who might qualify for OnTrack and other services. When  
12 appropriate, caseworkers from the CBOs refer customers to OnTrack.  
13

14 (OCA-VI-1). The Company states that it makes "regular contact" with "residential  
15 customers who meet the income guidelines." (Universal Service Program, OnTrack, page  
16 10). These "regular contacts," however, are not proactive. Instead, the Company waits for a  
17 low-income customer to contact the Company. When asked to detail these "regular  
18 contacts," the Company responded:

19 A payment-troubled customer usually has an overdue balance and receives a  
20 termination notice from PPL Electric. As a result, the customer calls the  
21 Company to set up a payment plan. During this process, PPL Electric's  
22 Customer Service Representative (CSR) determines the customer's level of  
23 income. If the customer indicates that his or her annual household income is  
24 at or below 150 percent of the federal poverty level, has a history of missed  
25 payment, and an overdue balance that exceeds \$150, the CSR will discuss  
26 the OnTrack program and make a referral if the customer agrees. The CSR  
27 uses the Company's customer information system to send an electronic  
28 message directly to the OnTrack agency nearest to the customer's location.  
29

30 (CEO-43). (The Company's CSR may also refer the customer to the Company's WRAP  
31 or CARES program, or to LIHEAP, as appropriate.) It is these customer calls responding

1 to shutoff notices to which the Company refers as the “regular contacts.” (OCA-VI-18;  
2 OCA-VI-19).

3  
4 **Q. WHY DOES THIS ENROLLMENT PROCESS CONCERN YOU?**

5 A. One fundamental assumption underlying PPL’s universal service program is that the  
6 Company adequately identifies low-income customers and provides an opportunity for those  
7 customers to enter into the program. If, however, enrollment into the program is structured  
8 in such a way so as to exclude identified low-income customers because they have not  
9 received termination notices or contacted the company to make a payment arrangement, the  
10 program fails to achieve its objectives. That is precisely what is occurring with OnTrack.  
11 Identified low-income customers who are substantially in arrears continue to face  
12 unaffordable bills, and continue to fall increasingly further behind, primarily because they  
13 have not (or cannot) enter into payment arrangements.

14  
15 **Q. UPON WHAT DO YOU BASE YOUR CONCLUSION THAT THE COMPANY IS**  
16 **NOT ENROLLING CONFIRMED LOW-INCOME CUSTOMERS IN TO**  
17 **PAYMENT PLANS?**

18 A. We know that PPL places only a small portion of its low-income customers in payment  
19 plans when they are in arrears to the Company. In 2003, for example, the Company had an  
20 average of 48,724 identified low-income customers in arrears in any given month. Of those  
21 identified low-income customers, only 17,553 (36.0%) were on payment arrangements.  
22 Two years earlier, of the 57,514 identified low-income customers in arrears, only 15,678  
23 (27.3%) were on payment arrangements. We know that these customers are not simply

1 customers who fall slightly behind on their bills. In 2003, the average arrears for those  
2 identified low-income customers in arrears, but not on payment arrangements, was \$528.  
3 Indeed, the Company does not report a customer as being in arrears to BCS unless the  
4 customer is at least 60 days behind.

5  
6 We know further that there has been a steady increase in the dollars of arrearage for  
7 identified low-income customers in arrears but not on payment plans, from \$318 in 2001 to  
8 \$528 in 2003. We know that higher bills are not causing the increase in arrears. In 2001,  
9 average annual bills for identified PPL low-income customers were \$1,204, while in 2003,  
10 the average annual bill for identified low-income customers was \$1,127. Despite the higher  
11 2001 bills, PPL's identified low-income customers were 3.2 bills behind (on average) in  
12 2001, compared to being 5.6 bills behind in 2003. "Bills behind" is a statistic first developed  
13 by the Pennsylvania Bureau of Consumer Services (BCS). It allows an analyst to normalize  
14 arrears for changes in bills attributable to differences in time periods, differences in weather,  
15 or differences in company rates.

16  
17 We know finally that the decreasing rate at which identified low-income customers enter  
18 into payment arrangements is not attributable to the successful completion of those  
19 arrangements. In 2003, PPL entered into 172,912 payment arrangements with its low-  
20 income customers, only 23,279 (13.5%) of which were successfully completed. The  
21 proportion of confirmed PPL low-income customers that are in arrears but that do not have  
22 payment arrangements is set forth in Schedule RDC-1.

1 Q. **WHAT IMPACT DOES THE FAILURE TO MOVE THESE CONFIRMED LOW-**  
2 **INCOME CUSTOMERS INTO ON-TRACK HAVE?**

3 A. The failure identified above has at least three impacts:

4 > First, it has an impact on the finances of the Company. The average arrears for  
5 confirmed low-income customers in arrears but not on payment plans has increased  
6 nearly 70%, from \$318 in 2001 to \$528 in 2003.

7 > Second, it has an impact on the maintenance of service to low-income households. In  
8 2001, PPL disconnected 4,088 confirmed low-income customers, a termination rate  
9 of 3.63%. In 2002, the number of disconnected confirmed low-income customers fell  
10 to 3,054 (a termination rate of 2.47%). In 2003, however, the number of confirmed  
11 low-income customers subject to service termination had again risen to 3,959 (a  
12 termination rate of 3.2%).

13 > Finally, it has an impact on the customers. In research I recently completed (June  
14 2004) for the National Low-Income Energy Consortium (NLIEC), I examined the  
15 consequences of inability to pay among low-income customers in Missouri. I found  
16 that customers facing unaffordable home energy bills not only fail to make bill  
17 payments, but are also forced to make substantial quality-of-life choices. Many  
18 customers go without food, health care, and necessary clothes and books for their  
19 children. Other customers abandon their homes and decrease their home energy  
20 usage to unsafe and unhealthy levels. The results I found for Missouri were  
21 confirmed, as well, by the National Energy Assistance survey (NEA) released by the  
22 National Energy Assistance Directors Association (NEADA) in April, 2004.

23

1 **Q. HOW DO YOU PROPOSE TO REMEDY THE PROBLEM IDENTIFIED ABOVE?**

2 A. I propose that the Company modify its approach to placing confirmed low-income  
3 customers in arrears on payment arrangements. Currently, as I describe in detail above, low-  
4 income customers must, in essence, "opt-in" to a payment arrangement. I propose that the  
5 Company move to an opt-out procedure for payment plans.

6  
7 **Q. PLEASE EXPLAIN THE DIFFERENCE.**

8 A. Under the payment plan process as it works today, even if a customer is in arrears, the  
9 Company continues to bill that customer in the same way the customer has always been  
10 billed. The bill will likely contain a notice that the customer is in arrears and a request that the  
11 customer contact the Company to negotiate a payment arrangement. Eventually, the  
12 customer will go into the collection process and face the termination of service. Unless the  
13 customer affirmatively takes action to contact the Company and enter into a payment  
14 arrangement, however, no arrangement is made. That is one reason that more than 40,000  
15 of the nearly 58,000 confirmed low-income customers in arrears to PPL, owing more than  
16 \$500 on average, do not have payment plans.

17  
18 One impact of this process is that confirmed low-income customers that may benefit from  
19 being placed on the Company's OnTrack program will never come into contact with the  
20 Company's Customer Service Representatives and thus never be referred to the programs  
21 which may help resolve their payment problems. These customers also fail to be referred to  
22 CARES or WRAP as appropriate as well.

23

1 **Q. HOW DO YOU PROPOSE THE OPT-OUT PAYMENT ARRANGEMENT WORK?**

2 A. I propose that with each May's bill, the Company annually identify all confirmed low-  
3 income customers in arrears that are not on payment plans. The Company tracks these  
4 customers on a monthly basis and reports them to BCS in any event. For these confirmed  
5 low-income customers that are in arrears but not on payment plans, I recommend that the  
6 Company unilaterally *impose* a payment plan consisting of two components.

7       ➤ First, these low-income customers would be placed onto levelized budget billing  
8 plans.

9       ➤ Second, these customers would have their arrears spread over a period of time  
10 consistent with an arrearage payment equal to the average payment required  
11 under the BCS informal payment plan guidelines for the income tier to which the  
12 customer belongs.<sup>1</sup>

13 I will refer below to these automatic payment plans as a "standard payment plan."  
14

15 **Q. WILL SOME LOW-INCOME CUSTOMERS OBJECT TO BEING PLACED ON A**  
16 **LEVELIZED BUDGET BILLING PLAN?**

17 A. Perhaps. Remember, however, that these are customers who are in arrears that have failed  
18 to contact the Company to make arrangements for a payment plan. Should the customers  
19 find the standard payment plans to be unaffordable or unacceptable in any regard, they  
20 would need to contact the Company to opt out of the standard payment plan and to negotiate  
21 a payment arrangement consistent with Bureau of Consumer Service (BCS) guidelines.  
22

---

<sup>1</sup> Since I propose this occur for identified low-income customers, we know that the Company will have income data on the customer in its customer information system and will know into which BCS tier the customer falls.

1 **Q. HOW WOULD THIS REQUIREMENT INTERACT WITH THE PUC'S 2003**  
2 **DECISION IN *FRAYNE V. PECO ENERGY*?**

3 A. In 2003, the PUC held in *Frayne v. PECO Energy* (Docket No. C-20029005) that  
4 Pennsylvania utilities did not have to offer more than one payment plan, and that BCS  
5 was not to offer more than one payment plan unless the customer could demonstrate a  
6 change in circumstances. The standard payment plan I recommend should not be  
7 confused with the negotiated plan in *Frayne*. The payment agreements contemplated in  
8 *Frayne* are the result of personal contact between the Company and the customer. The  
9 customer has specifically negotiated a payment plan and agreed to it. In contrast, my  
10 recommendation is the Company make clear at the time that it places a customer on a  
11 "standard payment plan" that the customer has the right to contact the Company in order  
12 to individually negotiate a payment plan. So long as the customer retains that right, as  
13 well as the right to demonstrate a change in circumstances as allowed by *Frayne*, my  
14 recommendation should not be in conflict with the *Frayne* decision.

15

16 **Q. WHAT WILL THE IMPACT OF THIS PROCESS BE?**

17 A. Some customers will find that the standard payment agreement will allow them to retire  
18 their arrears and to rehabilitate their payment patterns. Some customers will find the  
19 standard payment plans to be unacceptable and call to make alternative arrangements with  
20 the Company. Some customers will default on the standard agreement, thus becoming  
21 eligible for OnTrack. Some customers will continue to ignore their payment responsibilities  
22 and continue through the collection process.

23

1 **Q. IS THE PURPOSE OF THIS APPROACH TO MAKE ADDITIONAL**  
2 **CUSTOMERS ELIGIBLE FOR THE PPL ON-TRACK PROGRAM?**

3 A. *No. The failure to comply with one of these standard payment plans would certainly fulfill*  
4 *the eligibility requirement of the OnTrack program. The intent behind my recommendation,*  
5 *however, is to gain the dual advantages of levelized budget billing plans along with payment*  
6 *arrangements. The levelized budget billing plan would have affordability advantages to low-*  
7 *income customers. It would, however, offer substantive advantages to the Company as*  
8 *well. Schedule RDC-2 presents the average monthly arrears for identified low-income*  
9 *customers in arrears for the year 2003. As is evident from Schedule RDC-2, monthly*  
10 *arrears dip somewhat in months in which customers receive bills for shoulder months.*  
11 *Arrears for the months of May, June, July and October (reflecting bills for the months of*  
12 *April, May, June and September) are noticeably lower than months reflecting higher usage.*  
13 *The point of placing customers on budget billing will be to help customers prepay some of*  
14 *their bill that begins to become delinquent during the December through March period.*

15  
16 **Q. DO YOU RECOMMEND THAT THE COMPANY IMMEDIATELY IMPLEMENT**  
17 **THIS PAYMENT PLAN RECOMMENDATION?**

18 A. No. PPL should develop an appropriate consumer education campaign that would inform  
19 consumers of the new Company policy. The new policy should be implemented only after  
20 that reasonable education campaign is completed.

21  
22 **Q. CAN YOU SUMARIZE THE OBJECTIVE AND OPERATION OF YOUR FIRST**  
23 **RECOMMENDATION?**

1 A. Yes. PPL needs to ensure that eligible low-income customers have the opportunity to enroll  
2 in its OnTrack program. In its 2003 PPL decision, the PUC found that the Company's  
3 OnTrack program was not adequately available. The basis for this decision was confirmed  
4 by the Company's own impact evaluation. BCS, also, concluded (based on its own data)  
5 that the Company needs to take greater steps to make its OnTrack program available. One  
6 problem with the program enrollment process is that the Company limits OnTrack  
7 participation to low-income customers with arrears greater than \$150 that have defaulted on  
8 one or more payment plans in the past 12 months. PPL, however, has a tremendous  
9 population of confirmed low-income customers in arrears that are not on payment plans. As  
10 a result, these low-income customers do not meet the OnTrack eligibility guidelines. The  
11 process I outline above will facilitate increasing the number of confirmed low-income  
12 customers in arrears moving into the OnTrack program when a reasonable bill structure is  
13 arranged and it is determined that the customer cannot keep current under this structure.

14  
15 **D. Addressing Increasing Arrearage Amounts.**

16 **Q. WHAT IS THE ON-TRACK CONCERN THAT YOU ADDRESS IN THIS**  
17 **SECTION OF YOUR TESTIMONY?**

18 A. One of the many factors that will affect the finances of OnTrack in the near-term is the  
19 increasing level of arrears being experienced by PPL's confirmed low-income customers.  
20 To the extent that these arrears go unaddressed, there will be an increased demand on the  
21 OnTrack participation, as well as an increased level of preprogram arrears that will be  
22 brought into the program. In this section of my testimony, I recommend that PPL take  
23 reasonable actions to generate additional resources to help resolve those arrears before a

1 low-income customer needs to enroll in the OnTrack program. Resolving arrears through  
2 application of these outside resources will also help these low-income customers avoid  
3 the need to enroll in OnTrack.

4  
5 **Q. WHAT LEVEL OF ARREARAGE IS PPL FACING AMONG ITS IDENTIFIED**  
6 **LOW-INCOME POPULATION?**

7 A. As I describe above, PPL is facing increasing levels of arrearages within its low-income  
8 population. Schedule RDC-1 and Schedule RDC-2 show the increases both in the  
9 number of low-income customers in arrears, and in the average level of arrears, over the  
10 past three years. Schedule RDC-3 focuses on the immediate past year. As Schedule  
11 RDC-3 shows, PPL will experience another year where total arrears among confirmed  
12 low-income customers will be greater at the end of the year than they were at the  
13 beginning of the year.

14  
15 **Q. WHY ARE THESE ARREARS OF CONCERN TO THE OPERATION OF THE**  
16 **ON-TRACK PROGRAM?**

17 A. These arrears pose two concerns to the operation of the OnTrack program. First, as BCS  
18 notes in its 2002 universal service report (the most recent available), "as [CAP] programs  
19 become established, it should be rare that a customer comes into the program with a large  
20 arrearage because a utility should enroll a customer into CAP at the initial signs that a  
21 low income customer is payment-troubled." (BCS Report, at 40). Without question, the  
22 arrears that PPL's low-income customers have been bringing to OnTrack have been

1 decreasing. While annual arrearage forgiveness was \$656 in 2000, it had decreased to  
2 \$437 in 2001, and to \$240 in 2001.

3  
4 Despite these decreases in annual arrearage forgiveness, PPL still has the highest level of  
5 annual arrearage forgiveness for CAP customers of any utility in the state. While the  
6 Company rightfully notes that its preprogram arrears may be higher than other electric  
7 companies because of its high penetration of electric heating, the PPL OnTrack annual  
8 arrearage forgiveness is substantially higher than most natural gas companies as well.  
9 Only Columbia Gas, with its annual forgiveness of \$222, is equivalent to PPL's annual  
10 forgiveness of \$223. (PGW's annual arrearage forgiveness amount has not yet been  
11 published by BCS.)

12  
13 **Q. CAN YOU SUMMARIZE YOUR CONCERN?**

14 **A.** Yes. My concern with OnTrack operations is two-fold. First, by design, there will be a  
15 substantive increase in OnTrack participation over the next several years. To the extent  
16 that this new enrollment brings high preprogram arrears, yielding high annual forgiveness  
17 amounts, to the program, the program will be accordingly more expensive. Second,  
18 PPL's confirmed low-income customers appear to be entering a period in which their  
19 arrearages are increasing. This trend has adverse consequences to the OnTrack program,  
20 adverse consequences to the Company (with respect to low-income customers who do not  
21 enter OnTrack), and adverse consequences to the low-income customers themselves.

1 **Q. WHAT DO YOU RECOMMEND AS A RESPONSE TO THIS TREND IN**  
2 **ARREARS?**

3 A. *I recommend that the Company undertake a pilot outreach program directed toward*  
4 *assisting its low-income customers in arrears to claim the federal Earned Income Tax Credit*  
5 *to which they are entitled. This outreach program would be directed toward those*  
6 *households known to have wage income during the previous calendar year. The outreach*  
7 *program will notify the customers of the EITC, will seek to educate those customers of the*  
8 *means by which they may obtain tax preparation assistance to claim the Earned Income Tax*  
9 *Credit, and will seek to facilitate the preparation of needed tax returns.*

10  
11 **Q. CAN YOU BRIEFLY EXPLAIN THE EARNED INCOME TAX CREDIT?**

12 A. Yes. The federal Earned Income Tax Credit (EITC) is a means-tested refundable tax credit  
13 that is made available to households that have earned income during the previous tax year.  
14 A household need not owe taxes in order to obtain the EITC. If a person owes taxes, he or  
15 she will receive a refund of the taxes paid along with the remaining amount of the EITC  
16 credit. If a person does not owe taxes, he or she will receive a check for the entire EITC  
17 credit. The average EITC benefit nationwide is roughly \$2,000. As can be seen, the EITC  
18 can place actual cash in the pockets of low-income households.

19  
20 **Q. WHAT IS THE OBJECTIVE OF YOUR PILOT EITC OUTREACH PROGRAM?**

21 A. I propose that the Company intervene to promote the EITC to bring new dollars to bear on  
22 helping confirmed low-income customers resolve their outstanding arrears. By using these  
23 additional resources to help low-income customers resolve their arrears, the Company can

1 help these customers avoid the need to enroll in a program such as OnTrack. This outreach  
2 should be proactive and Company-initiated.

3  
4 **Q. DOES THE COMPANY ENGAGE IN PROACTIVE, COMPANY-INITIATED**  
5 **OUTREACH TODAY?**

6 A. The Company engages, to a limited extent, in proactive outreach toward its confirmed low-  
7 income customers today. The Company reports, however, that *most* OnTrack referrals come  
8 from calls to CSRs from customers with overdue bills (OCA-VI-2). While the Company  
9 states that it makes “regular contact” with its low-income customers, that regular contact is  
10 through the telephone calls that low-income customers make to the Company upon receipt  
11 of a shutoff notice. (OCA-CEO-43). Moreover, the Company acknowledges that “PPL  
12 Electric’s regular contacts with these low-income customers do not involve any written  
13 materials.” (OCA-VI-18). There is, in other words, no outgoing proactive letters, notices, or  
14 materials other than shutoff notices.

15  
16 **Q. DOES THE COMPANY ENGAGE IN ANY SPECIFIC EITC OUTREACH?**

17 A. The Company does not engage in targeted EITC outreach to low-income customers, let  
18 alone to low-income customers with wage income. The Company states that it annually  
19 promotes the EITC through a bill insert. “The Company does not participate in any other  
20 EITC activities.” (OCA-VII-15).

21  
22 **Q. DOES PPL HAVE THE CAPACITY TO ENGAGE IN PROACTIVE, COMPANY-**  
23 **INITIATED OUTREACH?**

1 A. Yes. The Company states that, on occasion, it engages in precisely this type of targeted  
2 outreach for its OnTrack program:

3 As needed, PPL Electric conducts outreach efforts to inform low-income  
4 customers about the availability of OnTrack. The primary outreach efforts  
5 include using the monthly bill insert and calling low-income customers  
6 directly to explain the OnTrack program and to encourage their enrollment.  
7 The Company develops this list from customers who have payment plans  
8 and have indicated that they are low-income (i.e., total household income at  
9 or below 150 percent of the federal poverty level).

10  
11 (OCA-VI-1). This response has several significant components to it. First, it states that the  
12 Company initiates the outreach contact. Second, it indicates that the outreach is targeted to  
13 customers having predetermined characteristics. Third, it indicates that the Company has  
14 the capacity to screen its customers to develop lists of customers exhibiting predetermined  
15 characteristics. These lists can then be used in proactive outreach efforts.

16  
17 **Q. DOES THE COMPANY KNOW WHO ITS LOW-INCOME CUSTOMERS WITH**  
18 **WAGE INCOME ARE?**

19 A. The Company has no reason to know who *all* of its low-income customers with wage  
20 income are. But it certainly knows a substantial population of low-income customers with  
21 wage income. The Company provided its 2003 universal service report filed with the  
22 Bureau of Consumer Services on or about April 20, 2004. (CEO-48). According to the  
23 Company's 2003 report, nearly 6,400 of its OnTrack participants would have been eligible  
24 to receive the EITC. The Company stated that 5,622 OnTrack participants had income from  
25 employment, while an additional 748 had income from unemployment compensation  
26 (indicating previous employment) (6,370 total). (Annual Report, Question 32). In addition,  
27 nearly 1,300 of the Company's hardship fund recipients would have qualified for the EITC

1 (1,096 with employment income; 183 with unemployment compensation) (1,279 total).

2 (Annual Report, Question 71).

3

4 **Q. HOW WOULD THE RESOURCES GENERATED THROUGH AN EITC**  
5 **OUTREACH PROGRAM COMPARE TO THE BILL DISCOUNTS THAT**  
6 **WOULD BE AVAILABLE SHOULD THESE CUSTOMERS ENROLL IN ON-**  
7 **TRACK?**

8 A. The average annual EITC credit is roughly \$2,000. In addition, research by the Internal  
9 Revenue Service indicates that more than 90% of all EITC recipients also qualify for the  
10 federal Child Tax Credit (CTC), another refundable credit. The CTC is an additional annual  
11 tax benefit of more than \$1,000. This means that if a hypothetical low-income household  
12 has a tax bill of \$400 and a combined EITC/CTC of \$3,000, the federal government will pay  
13 the tax bill and send a check for \$2,600 to the household. (If the household has already paid  
14 the tax bill, the federal government will send a check for the full \$3,000.) In contrast,  
15 according to the most recent BCS universal service report, the average PPL OnTrack benefit  
16 for 2002 was \$639 (\$801 in 2001). Helping a low-income customer access the EITC rather  
17 than enrolling that customer in OnTrack would thus involve the customer giving up \$639 in  
18 order to gain \$3,000. (Remember, however, that the \$3,000 is an average. Some customers  
19 receive more; others receive less.) In essence, by helping the customer access the EITC, the  
20 Company gets paid, OnTrack can serve other low-income customers not receiving earned  
21 income, and the low-income household walks away with more money in its pocket than it  
22 would have had that customer simply enrolled in OnTrack.

23

1 **Q. IS THERE ANY OTHER ASPECT OF THE EITC THAT MAKES IT AN**  
2 **ATTRACTIVE SOURCE OF SUPPLEMENTAL BENEFITS TO HELP PEOPLE**  
3 **AVOID THE NEED TO ENROLL IN ON-TRACK?**

4 A. Two aspects of the EITC are noteworthy in this regard:

- 5 ➤ First, to the extent that a household claims its EITC during the tax season, the money  
6 comes right at the time that arrears are becoming large. While I only have one year of  
7 data,<sup>2</sup> the 2003 data (filed in April 2004) shows a surge in arrears in April. Given PPL's  
8 definition of overdue accounts (60 days past due), this means the January usage, billed  
9 in February, was not paid. The EITC comes just at the time necessary to pay those bills.
- 10 ➤ Second, even for households not filing in the tax season, the EITC can be claimed year  
11 round. A customer need only file a new return (or an amended return) to claim the  
12 EITC for the prior tax year. Indeed, EITC credits can be claimed retroactively for three  
13 years. Unlike LIHEAP, therefore, which is seasonal, EITC can be claimed year round.

14  
15 **Q. HOW DOES PPL BENEFIT FROM HAVING ITS PAYMENT-TROUBLED**  
16 **CUSTOMERS RECEIVE THE EARNED INCOME TAX CREDIT?**

17 A. A 1994 study of New Jersey EITC recipients found that 90 percent of EITC recipients in  
18 that state used their tax credit to pay household living expenses. One-third of all  
19 recipients used their EITC to pay *past-due* bills and one-quarter used part of the refund to  
20 pay utility bills. Research by the Internal Revenue Service, as well as research by  
21 Syracuse University, has confirmed this New Jersey conclusion. Moreover, one should  
22 note that these percentages are of *all* EITC recipients. EITC recipients, who have been

---

<sup>2</sup> The Company mistakenly indicated in response to discovery that its annual BCS universal service filings were available on-line.

1 targeted because they have a past due utility bill, and who have been assisted in claiming  
2 their credit by the local utility, can be expected to use their EITC benefits to pay past due  
3 utility bills to an even greater extent.

4  
5 **Q. CAN THE COMPANY TAKE ANY SPECIFIC ACTION TO FACILITATE AN**  
6 **ASSURANCE THAT IT WILL BE PAID FROM THE EITC?**

7 A. Yes the Company can. The Company could request that customers who are assisted in  
8 obtaining the EITC to which they are entitled authorize the automatic payment of arrears  
9 upon the receipt of the EITC. If the customer has no bank account, PPL should explore a  
10 partnership with a local bank to establish such an account.

11  
12 The Company would clearly need prior authorization from the customer to make the  
13 payment request. However, the process of establishing the bank account and obtaining the  
14 EITC credit could contain the prior authorization needed for PPL to make such a direct call  
15 on the customer's funds. Even if payments are spread over several months, PPL would not  
16 be required to gain customer approval in each subsequent month.

17  
18 **Q. WOULD THERE BE AN ADMINISTRATIVE COST TO THIS EITC**  
19 **OUTREACH AS YOU PROPOSE?**

20 A. Yes. However, the EITC could be administratively less expensive than OnTrack. Assume  
21 that the Company wants to facilitate the EITC to the point that it will pay for the tax return  
22 preparation. At an average tax preparation cost of \$75 to \$100, the administrative cost of

1 facilitating claiming the EITC is still less than the 2003 OnTrack administrative cost of  
2 \$147. (CEO-46).

3  
4 **Q. CAN YOU SUMMARIZE YOUR RECOMMENDATION?**

5 A. As Pennsylvania's CAP programs (such as OnTrack) become increasingly bigger and  
6 more expensive, it is incumbent upon the companies, the OCA, and others to explore  
7 ways to reduce the costs and to bring other money to bear on the payment-troubles of  
8 low-income customers. By bringing in additional money to help a specific subpopulation  
9 within the Company's population of identified low-income customers (i.e., low-income  
10 customers with earned income), the Company could help those specific low-income  
11 customers resolve their payment troubles without the need to enroll in OnTrack. As the  
12 number of low-income customers in arrears, as well as average arrears per low-income  
13 customer in arrears, trend upward, implementation of efforts to generate additional  
14 resources for these low-income customers is merited.

15  
16 **PART 2:**  
17 **UNIVERSAL SERVICE COST RECOVERY**

18  
19 **Q. PLEASE EXPLAIN THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?**

20 A. In this section of my testimony, I review two aspects of the Company's proposed cost  
21 recovery for its OnTrack program. The first cost recovery issue I address is the Company's  
22 proposal to allocate universal service costs exclusively to residential customers. The second  
23 issue I address is the Company's proposal to collect OnTrack costs on an eight-year  
24 normalized basis.

1                                   **A. The Allocation of Universal Service Costs.**

2   **Q. PLEASE EXPLAIN YOUR RECOMMENDATION AS TO THE ALLOCATION OF**  
3   **UNIVERSAL SERVICE COSTS BETWEEN CUSTOMER CLASSES?**

4   A. I recommend that the Company allocate its universal service costs over all customer classes.  
5   This allocation is necessary to ensure that all customer classes that benefit from the  
6   universal service programs will help financially pay for those programs.

7  
8   **Q. WHAT IS THE GENERAL STATUTORY FRAMEWORK FOR ALLOCATING**  
9   **UNIVERSAL SERVICE COSTS?**

10   A. Section 2804(9) of the Act provides that universal service program costs are to be  
11   recovered through a “nonbypassable, competitively neutral” mechanism in the  
12   Pennsylvania utility’s rates. The common understanding of the bypass problem is that  
13   some customers will either leave the system entirely (and leave their share of system  
14   costs behind) or that those customers will negotiate a discount off their charges by raising  
15   the threat that they will leave the system entirely. Use of the term “nonbypassable,”  
16   therefore, incorporates the concept that all customers should help pay for universal  
17   service costs.

18  
19   **Q. DO ALL CUSTOMERS DERIVE BENEFITS FROM A UNIVERSAL SERVICE**  
20   **PROGRAM?**

21   A. Yes. One well-accepted tenet of utility ratemaking is that certain expenses incurred by a  
22   public utility are for “public goods.” Due to the nature of public goods, all customers  
23   receive benefits from public goods and, accordingly, the costs of such goods are spread

1 over all customer classes. Each end-user makes a financial contribution to the utility's  
2 delivery of public goods. The "public goods" doctrine is applied in a variety of settings  
3 as a justification to spread designated utility costs over all customer classes. Fire  
4 hydrants, for example, have been found to be public goods. Subway service has been  
5 found to be a public good. The basic telecommunications network has been found to be a  
6 "public good" as a justification for spreading network costs over all customer classes.

7  
8 **Q. DO COMMERCIAL AND INDUSTRIAL CUSTOMERS DERIVE BENEFITS**  
9 **FROM THESE PUBLIC GOODS?**

10 A. Yes. A product can represent a "public good" even though the direct service is provided  
11 to an individual. For example, businesses do not go to school, individuals do. Businesses  
12 do not go to doctors, individuals do. Businesses do not place their children in day care,  
13 individuals do. Despite this, in each of these instances, the direct benefits to business  
14 from the affordable provision of these "public goods" have been documented. Affordable  
15 health care and child care are all akin to affordable home energy in their nature as public  
16 goods which provide direct and substantial benefits to business as well as individuals.

17  
18 **Q. WHAT IS THE POLICY OF PENNSYLVANIA WITH RESPECT TO**  
19 **UNIVERSAL SERVICE AS A PUBLIC GOOD?**

20 A. The Pennsylvania legislature declared universal service programs to be a "public good"  
21 when it stated in Section 2802(17) that the public purpose is to be promoted by continuing  
22 universal service and energy conservation policies, protections and services; and full  
23 recovery of such costs is to be permitted through a non-bypassable rate mechanism.

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**Q. WOULD ALL CUSTOMER CLASSES DERIVE BENEFIT FROM THE COMPANY'S UNIVERSAL PROGRAM IN PARTICULAR?**

A. Yes. For example, child care is an important analogy to affordable energy because of the direct benefits it has been found to provide to business. The Committee on Economic Development<sup>3</sup> has quantified the beneficial impacts to business from reducing the causes of employee absenteeism and employee turnover associated with unaffordable child care. According to the Committee:

Many businesses also find that helping parents meet their child care needs can potentially reduce absenteeism and employee turnover. The 1990 *National Child Care Survey* (NCCS) found that 15 percent of the mothers in its sample who worked outside the home reported losing some time from work (including arriving late, leaving early, or having to take a full day off) during the previous month because of a failure in their regular child care arrangement. Studies have found that employee turnover produces disruption and inefficiency in the work environment and that the cost of replacing employees is high. For example, Merck & Co., Inc. found that it costs . . . about 75 percent of salary to replace a clerical or technical employee. It also found that it may take considerable time to fill a vacant position and an average of 12.5 months for a new employee to become adjusted to the job.<sup>4</sup>

**Q. HOW DOES THIS RELATE TO AFFORDABLE HOME ENERGY?**

A. There is a direct relationship between the offer of an electric affordability program and economic benefits to local commercial and industrial customers. For example:

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<sup>3</sup> CED is a national business-academic partnership. One objective of CED is "to unite business judgment and experience with scholarship in analyzing the issues and develop recommendations to resolve the economic problems that constantly arise in a dynamic and democratic society." *Objectives of the Committee for Economic Development*. The Research and Policy Committee of the CED is directed under the organization's bylaws to "initiate studies into the principles of business policy and of public policy which will foster the full contribution by industry and commerce to the attainment and maintenance" of the objectives of the organization.

<sup>4</sup> Research and Policy Committee (1993). *Why Child Care Matters: Preparing Young Children for a More Productive America, A Statement by the Research and Policy Committee of the Committee for Economic Development*, at 1, Committee for Economic Development: New York.

- 1           ➤ Turnover costs business money. We know that unaffordable home energy bills lead to  
2           the frequent mobility of households.  
3  
4           ➤ Time missed due to family care provision costs businesses money. We know that  
5           unaffordable home energy leads to more frequent childhood illnesses.  
6  
7           ➤ Time missed due to lack of employee productivity and employee illness costs  
8           businesses money. We know that the inability to stay warm due to unaffordable home  
9           energy bills leads to increased illnesses.  
10

11           In sum, we know that increasing employee productivity directly contributes to the  
12           increased profitability of firms. We know that with low-wage employees, in particular,  
13           unaffordable home energy directly contributes to lowered productivity. Increased  
14           personal illness, increased employee turnover, and increased family care responsibilities  
15           are but three of the factors contributing to lower employee productivity. The provision of  
16           affordable energy through the Company's proposed universal service program positively  
17           affects each of these productivity factors.  
18

19   **Q.    PLEASE DESCRIBE THE SPECIAL BENEFITS THAT THE UNIVERSAL**  
20   **SERVICE PROGRAM PROVIDES TO SMALL BUSINESSES IN PARTICULAR.**

21   A.    As elsewhere, small business fills a unique role in the Pennsylvania economy. Small  
22   business disproportionately offers employment opportunities to Pennsylvania residents  
23   who have limited employment skills. Small firms disproportionately pay wages that do  
24   not allow a household to economically exist without public assistance.  
25

26   **Q.    WHAT DO YOU CONCLUDE BASED ON THIS INFORMATION?**

27   A.    There is a reciprocal relationship between small businesses and low-wage employees.  
28   On the one hand, without small business offering low-wage employment, many of the

1 persons who are employed in such establishments would not find job opportunities. On  
2 the other hand, without the low-wage employee, many of the small businesses that  
3 produce goods and services within Pennsylvania would not be able to economically  
4 survive. The small business establishments providing low-wage employment would not  
5 be able to survive if they were required to pay higher wages.

6  
7 **Q. IS THERE ANY ADDITIONAL BENEFIT TO ALL CUSTOMER CLASSES**  
8 **THAT YOU HAVE DOCUMENTED IN YOUR WORK ON LOW-INCOME**  
9 **ENERGY ISSUES?**

10 A. Yes. Work that I performed for Entergy Services Corporation (looking at the states of  
11 Arkansas, Louisiana, Mississippi and Texas) found that energy assistance is a significant  
12 contributor to economic development. Because energy assistance contributes to  
13 additional disposable income within the low-income population, it helps drive additional  
14 job creation, income generation, and economic activity, all of which benefit businesses  
15 both large and small.

16  
17 In my report looking at the Entergy Service Corporation service territory, I  
18 found:<sup>5</sup>

19 *The distribution of energy assistance first creates economic activity for the*  
20 *Entergy states through the direct delivery of benefit dollars. In addition to*  
21 *the dollars of cash benefits, however, the delivery of energy assistance*  
22 *will also free up household dollars that would have been devoted to the*  
23 *costs arising from the payment and behavior consequences of energy bill*  
24 *unaffordability. These dollars, too, can then instead be spent (and*  
25 *circulated) in the local economy.*  
26

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<sup>5</sup> Roger Colton (August 2003). *The Economic Impacts of Home Energy Assistance: The Entergy States*. Entergy Services Corp: Little Rock (AR).

1  
2 While the discussion of the economic impacts of energy assistance looks  
3 at economic benefits on a statewide basis, in fact, the economic impacts  
4 provide particular advantage to low-income communities. Existing  
5 research indicates that low-income households tend to shop at local retail  
6 establishments. For food in particular, low-income households tend to  
7 shop at small, local food stores. Moreover, not only are low-income  
8 *households* more likely to shop locally, but the *businesses* serving low-  
9 income households are more likely to shop locally as well. It is clear,  
10 therefore, that not only will the provision of energy assistance provide  
11 income and employment to low-income households, but the earnings and  
12 employment that are delivered to such households will likely be spent,  
13 *retained and recirculated within the low-income community as well.*

14  
15 The delivery of energy assistance in the four Entergy states accomplishes  
16 far more for those states than simply helping low-income residents avoid  
17 arrears on home energy bills and preventing the potential loss of home  
18 energy service due to nonpayment. The delivery of home energy  
19 assistance also serves as a substantial economic stimulant for the  
20 economies of the Entergy states.  
21

22 **Q. IS THERE ANY FINAL WAY IN WHICH ALL CUSTOMER CLASSES**  
23 **BENEFIT FROM THE ON-TRACK AND OTHER UNIVERSAL SERVICE**  
24 **PROGRAMS?**

25 A. The argument against allocating universal service costs over all customer classes  
26 misstates the purpose of a program such as OnTrack. To insist that the purpose of  
27 OnTrack is exclusively to reduce the collection and other costs associated with low-  
28 income nonpayment is conceptually wrong. The issue is, instead, whether the low-  
29 income rate will generate benefits for other customers. One aspect of these benefits is the  
30 reduction of the costs associated with nonpayment (such as collection costs, working  
31 capital, bad debt, and the like). These cost reductions, however, are only *one* of the  
32 benefits to be delivered to nonparticipating customers.  
33

1 An additional benefit, for example, is the increased efficiency of the Company's use of its  
2 own credit and collection personnel. The Company's monthly data on service  
3 discussions, for example, clearly shows that the part of the year in which it disconnects  
4 delinquent customers is during the non-heating months. In contrast, the Company  
5 disconnects virtually no one during the winter heating months. That does not mean that  
6 the Company lays off those workers, however. Instead, what the Company does is to  
7 redirect these workers into other necessary jobs that need to be done for the Company.  
8 The ability to generate such efficiencies is substantial. Low-income rate affordability  
9 programs have been found to reduce the number of disconnections for a utility by more  
10 than 70%.

11  
12 Likewise, a substantial portion of the inbound telephone calls handled by the Company's  
13 call center deal directly with "credit and collection." A portion of the in-bound calls  
14 about "billing" also can be attributed to unaffordable bills. When a person receives a  
15 \$300 winter bill they cannot afford to pay, they call the Company and ask, "why is my  
16 bill so high." These "billing" calls represent a portion of the calls that the in-bound  
17 calling center handles.

18  
19 By reducing the incidence of these in-bound calls from low-income customers, the  
20 Company would not necessarily reduce its staff costs. If it were possible to reduce 2,000  
21 staff hours of work because of a reduction in the number of in-bound phone calls, for  
22 example, the Company would not layoff 2,000 staff hours. Instead, that staff time would  
23 be redirected into other necessary activities that the Company needs to have done.

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It is a certainty that low-income programs will reduce the need for collection activities.

Based on my own recent work in Missouri, I found:

- ELIR (the Missouri affordability program) improved the completeness of bill payment, as measured by the incidence and level of arrears.
- ELIR improved the promptness of bill payment, as measured by a weighted arrears (“bills behind”) statistic.
- While ELIR did not improve the regularity of bill payment as measured by a payments-per-bill statistic, ELIR did improve the extent to which payments reduced account balances to \$0.
- ELIR improved the “automaticness” of bill payment, as measured by collection activities and returned checks.

Importantly, there are any number of ways in which these improvements in the payment status of low-income customers help improve the efficiency of Company operations and reduce costs in other aspects of the Company’s operations. For example, the extent to which field shutoff needs vary according to the time of year, the Company’s arrears profiles, and the availability of staff. To the extent that OnTrack frees up staff, the Company can “work” other accounts.

In addition to freeing up staff because of the reduced workload imposed by low-income payment troubles, a low-income program frees up staff because it makes the low-income accounts less risky, thus allowing the Company to address other pressing needs. To the extent that OnTrack will improve payment practices –which every study to look at the

1 issue has indicated it will do—the Company’s total customer base will benefit by the  
2 improved efficiency of the total Company credit and collection effort.

3  
4 To the extent that low-income payment histories are improved (as every study of low-  
5 income programs has shown will happen), in other words, the Company will need to  
6 devote fewer resources to the collection processes directed toward those customers. This  
7 occurs not only because there are fewer delinquent accounts, but also because the  
8 Company perceives less risk in the accounts and reallocates its resources. These  
9 resources would be redirected into other collection activities.

10  
11 Where the argument that only residential customers benefit goes wrong is in its inability  
12 to see the OnTrack program as anything but a *social welfare program*. Instead, OnTrack  
13 is a way for the Company to increase the efficiency of its credit and collection activities  
14 and its credit and collection resources. If the Company had unlimited resources to direct  
15 to its total credit and collection needs, perhaps the position that residential customers,  
16 alone, should shoulder the costs would be understandable. This is, however, not the case.

17  
18 The additional accounts that can be worked for credit and collection purposes need not be  
19 low-income accounts. Indeed, they need not even be residential accounts. The benefits  
20 that flow from the implementation of the OnTrack go far beyond the direct benefits that  
21 flow to the participating customers. The benefits go far beyond the reduction in costs that  
22 directly flow from the reduction in the costs of nonpayment by those program  
23 participants. The benefits are systemwide. They are substantial.

1 **Q. WHAT DO YOU CONCLUDE FROM THIS DISCUSSION?**

2 A. *All customer classes will benefit from the proposed universal service program.*

3 Commercial and industrial customers, as well as small businesses, will gain direct  
4 benefits from the proposed program.

5

6 **Q. SETTING ASIDE THE EMPIRICAL QUESTION OF WHETHER BUSINESS**  
7 **BENEFITS FROM UNIVERSAL SERVICE PROGRAMS, IS THERE ANY**  
8 **CONCEPTUAL FLAW IN THE ARGUMENT THAT UNIVERSAL SERVICE**  
9 **COSTS SHOULD BE ALLOCATED TO RESIDENTIAL CUSTOMERS**  
10 **BECAUSE ONLY RESIDENTIAL CUSTOMERS BENEFIT?**

11 A. Yes. The assertion that all universal service costs should be assigned to residential  
12 customers because only residential customers (that is low-income customers) benefit from  
13 the program proves too much (even accepting solely for purposes of analysis the premise  
14 that only low-income customers benefit). If we assume that only low-income customers  
15 benefit, and we follow the rule that costs in this case should be allocated only to those who  
16 directly benefit, we are brought to the conclusion that universal service costs should be  
17 directly assigned pro rata to customers who participate in the universal service programs.  
18 Clearly this would be an absurd result, and one that could not logically have been intended  
19 by the legislature. In addition, there is no more reason to allocate costs to non-low-income  
20 residential customers under this reasoning than there is to allocate them to non-residential  
21 customers.

22

23

1                    **B.      The Normalization of Universal Service Costs**

2   **Q.      PLEASE EXPLAIN YOUR RECOMMENDATION ON THE NORMALIZATION**  
3   **OF PPL'S ON-TRACK UNIVERSAL SERVICE COSTS.**

4   **A.**      The Company proposes to normalize its OnTrack universal service costs. According to  
5   Company witness Dahl (Dahl Direct Testimony, at 11 – 12), the Company proposes to  
6   begin immediately collecting an eight-year normalized universal service expense.  
7   According to Witness Dahl, the Company would “escrow the difference (total revenue  
8   minus program expenditures) and would spend it in future years.”(Dahl Direct, at page 12).

9  
10      I do not conceptually object to the request to have universal service program expenditures  
11      normalized over an appropriate period of time. Ensuring program expenditures over a set  
12      period of time allows the Company, as well the community-based organizations upon which  
13      the Company relies, to plan for program operations, hire and train staff for the long-term,  
14      and provide program continuity to affected customers. However, there is no reason to  
15      normalize expenditures over an eight-year period as proposed by the Company in this  
16      proceeding. Normalization should occur over a reasonable planning horizon. According to  
17      the Company’s normalization of rate case expenses, the Company fully expects to file for a  
18      new base rate case within a two-year period. Given that anticipated base rate filing, a two-  
19      year normalization period is more appropriate. At the time of the Company’s next rate  
20      filing, the issue of what represents a reasonable period over which to normalize universal  
21      service expenses can be revisited. OCA witness Morgan has reflected the revenue  
22      requirement effect of my recommendation in his testimony.

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**PART 3:  
FUNDRAISING FOR OPERATION HELP: THE PPL HARDSHIP FUND.**

**Q. PLEASE EXPLAIN THE OBJECTIVE OF THIS PORTION OF YOUR TESTIMONY?**

A. In this portion of my testimony, I make recommendations on initiatives that PPL can and should undertake to increase funding for its hardship fund, Operation HELP. As the Company's own universal service program filing acknowledges, "the need for energy assistance clearly exceeds the resources currently available through Operation HELP." (Universal Service Program, Operation HELP, page 5). While the Company "has no information regarding the number of eligible applicants turned away due to a lack of funding for Operation HELP," (OCA-VI-25), the Company acknowledges that "the program cannot serve all eligible households." (Universal Service Program, Operation HELP, at 5). The Company, quite rightly, notes that Operation HELP was "never intended to be a stand-alone program that would serve a large number of customers." (OCA-VI-24). Instead, Operation HELP is intended to supplement other programs, such as LIHEAP, OnTrack and WRAP. (OCA-VI-24).

**Q. HOW DOES PPL SOLICIT FUNDS FOR ITS OPERATION HELP PROGRAM?**

A. PPL conducts an annual fund-raising campaign for Operation HELP each December. (OCA-VI-21). The campaign targets PPL Corporation's Pennsylvania employees and retirees. The Company solicits donations via a bill insert. Customers may contribute by adding an extra \$1, \$2 or \$5 to their monthly bill or by submitting a lump-sum payment. In addition, the Company sends a letter directly to employees and retirees encouraging

1 them to contribute through payroll deduction or pension reduction. They, too, may  
2 contribute by making a lump sum payment. Finally, the Company conducts an annual  
3 golf tournament for employees and their friends and families to raise funds for Operation  
4 HELP. The program receives the net proceeds (about \$4,000) from the golf tournament.  
5

6 **Q. HAS THE COMPANY MAINTAINED ITS LEVEL OF CONTRIBUTION TO**  
7 **OPERATION HELP OVER THE YEARS?**

8 A. No. While the contribution from PPL customers were higher in 2003 than in 2000, the  
9 Company has seen a modest decline in contributions since 2001. Contribution peaked in  
10 2001 at \$392,625, and have fallen each year since, falling to \$378,640 in 2003. This  
11 decline arises even though the year-end number of residential customers has increased  
12 from 1,136,316 in December 2001 to 1,164,393 in December 2003. Annual residential  
13 revenues have also steadily increased from 2001 through 2003. (OCA-VI-23).  
14

15 **Q. HAS THE COMPANY PLANNED ANY NEW SOLICITATION IN LIGHT OF**  
16 **DECLINING CONTRIBUTIONS?**

17 A. No. The Company states that it plans simply to continue its December bill insert and news  
18 release to solicit donations from customers. Employees and retirees will continue to receive  
19 a letter from the Company president. The Company will continue its annual golf  
20 tournament. (OCA-VI-22).  
21

22 **Q. IS THIS CONTINUATION OF BUSINESS AS USUAL CONSISTENT WITH THE**  
23 **COMPANY'S INTERNAL GOAL-SETTING?**

1 A. No. As early as the Company's annual meeting for 2001, it articulated a goal to "increase  
2 customer and employee donations for Operation HELP and obtain additional LIHEAP  
3 funding." (OCA-VI-28). Again, in its presentation to the annual meeting, PPL set in its  
4 "goals, tasks and challenges for 2002," the objective to "raise \$440,000 in donations from  
5 customers, employees, and retirees for Operation HELP." (OCA-VI-28). This goal of  
6 raising \$440,000 for Operation HELP was restated in the Company's 2004 business plan  
7 (dated December 2003). (OCA-VI-28). The Company continues to fall more than 15%  
8 short of its own repeatedly-stated fundraising goal for its hardship fund program.

9  
10 **Q. HOW DOES PPL COMPARE TO OTHER PENNSYLVANIA ELECTRIC  
11 UTILITIES IN THE GENERATION OF HARDSHIP FUND CONTRIBUTIONS?**

12 A. As Schedule RDC-4 shows, PPL is in a middle tier (along with Allegheny Power) of  
13 generating hardship fund contributions. Unfortunately, as Schedule RDC-4 shows, the  
14 hardship fund contributions per customer have steadily fallen for the top three electric  
15 companies in Pennsylvania. If a deterioration in the ability of hardship funds to serve is to  
16 be prevented, these companies (including PPL) must develop new approaches to fundraising  
17 for their hardship funds. For PPL, it is not simply a matter of preventing continuing  
18 deterioration in performance, however. It is a matter of meeting internally-prescribed  
19 performance goals.

20  
21 **Q. IS THERE ANY FINAL ASPECT OF THE OPERATION HELP PROGRAM  
22 THAT RAISES CONCERNS?**

1 A. Yes. The contribution which PPL shareholders make to the Operation HELP program  
2 has declined in recent years. This has occurred even though each dollar of shareholder  
3 contribution provides less effective benefit because of a decline in purchasing power.  
4

5 **Q. WHAT IS THE HISTORY OF PPL CONTRIBUTIONS TO ITS OPERATION  
6 HELP HARDSHIP FUND?**

7 A. According to the BCS annual reports on universal service, PPL contributed \$601,358 to  
8 Operation HELP in 2000. The Company's contribution increased to \$655,643 in 2001,  
9 but then decreased to \$438,138 in 2002.  
10

11 **Q. HOW DOES THIS COMPARE TO THE ASSISTANCE THAT IS BEING  
12 PROVIDED?**

13 A. I discuss in detail above the fact that the Company, itself, acknowledges that Operation  
14 HELP has insufficient resources to meet the need that it is designed to serve. I discuss in  
15 detail above, also, the fact that arrearage levels for PPL's confirmed low-income  
16 customers have been increasing in the recent past. Despite this, the average Operation  
17 HELP grant has significantly declined in the past year. While the average grant was \$292  
18 in 1999/2000 and \$283 in 2000/2001, the grant declined to only \$174 in 2001/2002. In  
19 2002/2003, the average Operation HELP grant of \$215 remained significantly below  
20 prior levels.  
21

22 **Q. WHAT DO YOU RECOMMEND?**

1 A. I recommend that the Company submit a plan to BCS within ninety days after a final  
2 disposition in this rate case detailing a work plan through which the Company will seek to  
3 increase its hardship fund contributions by 20%. This workplan should contain strategies  
4 and tactics beyond simply “doing more” of what the Company has historically undertaken to  
5 do. For example, a report I recently (June 2004) completed in the state of Missouri,<sup>6</sup>  
6 *recommended the following examples of new fundraising strategies for hardship funds:*

- 7 ➤ Utilities can engage in direct outreach to their customers on a periodic basis. Many  
8 utilities provide fuel fund solicitation no fewer than four times a year, at least one of  
9 which is not a bill insert.
- 10  
11 ➤ Utilities can seek to enroll customers in regular contribution programs rather than  
12 merely seek one-time contributions. Program enrollment involves customers  
13 agreeing to donate on a regular basis through a line-item on the bill. Once enrolled,  
14 the participation continues until the customer asks to be unenrolled.
- 15  
16 ➤ Utilities can adopt fuel fund contribution mechanisms to be used during on-line  
17 payment. As an increasing number of customers move to on-line payment of bills,  
18 the proportion of contributions decreases in the absence of a specific on-line  
19 contribution mechanism. A fuel fund contribution screen, requiring a person to make  
20 an affirmative choice about whether or not to contribute, is a useful mechanism.  
21

22 In addition, some utilities have successfully approached their own vendors (ranging from  
23 tree trimming vendors to legal vendors to vendors providing office supplies) for  
24 assistance in funding the local fuel fund.

25  
26 My recommendation in this case is not for the Commission to direct that specific action  
27 steps occur. My recommendation is for the Commission to direct the Company to  
28 develop a plan that will contain its own action steps. My recommendation is for the  
29 Company to commit to taking those action steps necessary to ensure that its hardship

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<sup>6</sup> Roger Colton (June 2004). *Paid but Unaffordable: Home Energy Insecurity in Missouri*, National Low-Income Energy Consortium: Washington D.C.

1 fund remains adequately funded and available, and that no deterioration in hardship fund  
2 fundraising is allowed to occur. This is akin, for example, to Entergy's commitment in  
3 2003 to double its fuel fund customer contributions within one year.

4  
5 Finally, while I acknowledge that the Commission cannot *direct* PPL shareholders to  
6 increase shareholder contributions to the Operation HELP hardship fund, I recommend  
7 that PPL increase its Operation HELP shareholder contribution to its 2001 level, and  
8 index that contribution so that it increases annually to reflect changes in the Consumer  
9 Price Index. This commitment, for example, could be used as a "challenge" in a  
10 fundraising campaign directed toward customers, employees and retirees.

11  
12 **PART 4:**  
13 **PPL'S COMMUNITY BETTERMENT INITIATIVE.**  
14

15 **Q. PLEASE EXPLAIN THE PURPOSE OF THIS SECTION OF YOUR**  
16 **TESTIMONY?**

17 A. In this section of my testimony, I review the Company's proposal to implement what the  
18 Company refers to as its Community Betterment Initiative (CBI). I endorse that  
19 proposal.

20  
21 **Q. PLEASE EXPLAIN THE COMMUNITY BETTERMENT INITIATIVE.**

22 A. According to Company witness Dahl, the Community Betterment Initiative (CBI) is  
23 designed to be a two-pronged program targeting community economic development  
24 programs and affordable housing. The Company proposes to use a competitive process

1 whereby community organizations would submit detailed responses to a PPL-initiated  
2 request for proposals (RFP). The Company would provide funding based on  
3 predetermined criteria. (Dahl Direct, at 19). These criteria include being responsive to  
4 the RFP, having a comprehensive community plan, demonstrating a proven track record  
5 of implementation success in community programs, and demonstrating a solid reputation  
6 and credibility within the community. The Company states that the “key features” of the  
7 CBI would be two-pronged: economic development and affordable housing. (Dahl  
8 Direct, at 18). The Company states with respect to its affordable housing component, that  
9 “CBI funding would leverage state funding earmarked for affordable housing initiatives  
10 by providing much needed matching funds.” (Dahl Direct, at 18).

11  
12 **Q. HAVE YOU EVER HAD OCCASION TO STUDY A MATCHING GRANT**  
13 **PROGRAM SUCH AS THAT REPRESENTED BY THE COMPANY’S**  
14 **PROPOSED COMMUNITY BETTER INITIATIVE?**

15 A. I have never been involved with the *exact* program proposal advanced by PPL. However,  
16 in the spring of 2003, I had occasion to research a matching grant program proposal for  
17 the State of Colorado. This proposal, first articulated by the Colorado Energy Assistance  
18 Foundation (CEAF), would have provided matching funds to help implement energy  
19 efficiency investments in affordable housing developments throughout the State of  
20 Colorado.

21  
22 **Q. WHAT DID YOU FIND?**

1 A. My study concluded that a matching grant program designed to incentivize and facilitate  
2 the implementation of energy efficiency in affordable housing development would have  
3 substantial positive impacts. The delivery of low-income home energy efficiency  
4 assistance through such a program, I found, would serve an important affordable housing  
5 function in Colorado. I found that efficiency investments would:

- 6 ➤ Increase the number of low-income households that qualify for first time home  
7 ownership opportunities, while holding income and purchase prices constant;
- 8 ➤ Increase the value of the home (and thus presumably the size or quality of the  
9 home) that a low-income first time home owner can afford to buy, holding income  
10 constant;
- 11 ➤ Increase the safety of the financial institution's investments in first time  
12 homebuyers through increased home value, decreased default rates, and  
13 *protections against price volatility; and*
- 14 ➤ Provide substantial economic subsidies to first time homebuyers not only by  
15 providing positive cash flow on a month-to-month basis, but also by effectively  
16 reducing interest rates or effectively reducing the overall purchase price of the  
17 home.

18  
19 **Q. EXPLAIN HOW THIS DISCUSSION OF AFFORDABLE HOUSING IN**  
20 **COLORADO IS RELEVANT TO THE PPL PROPOSAL FOR A COMMUNITY**  
21 **BETTERMENT INITIATIVE.**

22 A. As FSC found in Colorado, utility costs pose a significant barrier to affordable  
23 homeownership. When utility costs are taken into account, low-income first time

1 homebuyers experience both a reduction in their home purchasing power and a reduction in  
2 the number of affordable units that might otherwise be available. My work around the  
3 country leads me to conclude that this problem is generic. The problem would be as  
4 substantial in PPL's service territory as it is in any of the various other jurisdictions in which  
5 I have performed work.

6  
7 Public partnerships exist, however, that can help redress the additional affordability  
8 problems posed by utility costs. One such partnership involves the combined investment  
9 of the financial institution, the homebuyer, and a third party in energy efficiency  
10 investments. The implementation of a program such as the Community Betterment  
11 Initiative that PPL has proposed is a program that will generate these same types of  
12 impacts.

13  
14 **Q. HOW DOES SUCH A PROGRAM BENEFIT UTILITY RATEPAYERS?**

15 A. FSC found in its Colorado study that the energy efficiency partnership would result in  
16 positive cash flows to the household beginning in Year 1 for each of four scenarios  
17 studied. A positive cash flow in Year One means that the customer is better off  
18 financially, from the very beginning, by pursuing the efficiency investment in their  
19 housing compared to not pursuing the investment. Because of these impacts, any number  
20 of ratepayer benefits can be expected to arise out of a program increasing energy efficiency  
21 within first time homeownership programs.

- 1           ➤ Energy efficiency measures implemented in the homes of these first time  
2           homebuyers will generate the same avoided cost savings generated by the  
3           Company's own low-income efficiency program (WRAP).
- 4           ➤ In fact, the energy efficiency measures implemented in the homes of first time  
5           homebuyers will generate greater benefits than WRAP. This is true because a  
6           CBI-supported first time homebuyer program will leverage additional private  
7           dollars directed toward energy efficiency investments. The same avoided cost  
8           savings will thus arise through a smaller investment by the Company.
- 9           ➤ The energy efficiency measures implemented in the homes of first time  
10          homebuyers will have the same arrearage avoidance benefits as does the  
11          Company's own WRAP program. WRAP has a demonstrated success in  
12          reducing arrears. A CBI-supported first time homebuyer program will help  
13          avoid arrears. Again, these benefits will be more significant because the  
14          Company will be using leveraged dollars to help generate the benefits.
- 15          ➤ The energy efficiency measures implemented in the homes of first time  
16          homebuyers will help low-income ratepayers build assets. A growing body of  
17          opinion and research supports the conclusion that in addition to providing  
18          income supplements on an ongoing basis, helping low-income customers buy  
19          homes (and thus increase their wealth) will have both short- and long-term  
20          benefits in reducing poverty. These impacts are the basis for the growing  
21          number of state and federal Individual Development Account (IDA)  
22          programs, directed at increasing savings amongst public assistance recipients,  
23          which savings are then used for first time home purchases and other "wealth

1 building” activities. This will help reduce the need for, and costs of, programs  
2 such as OnTrack. It will, in addition, help reduce the overall costs of collection  
3 directed toward low-income customers generally.  
4

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

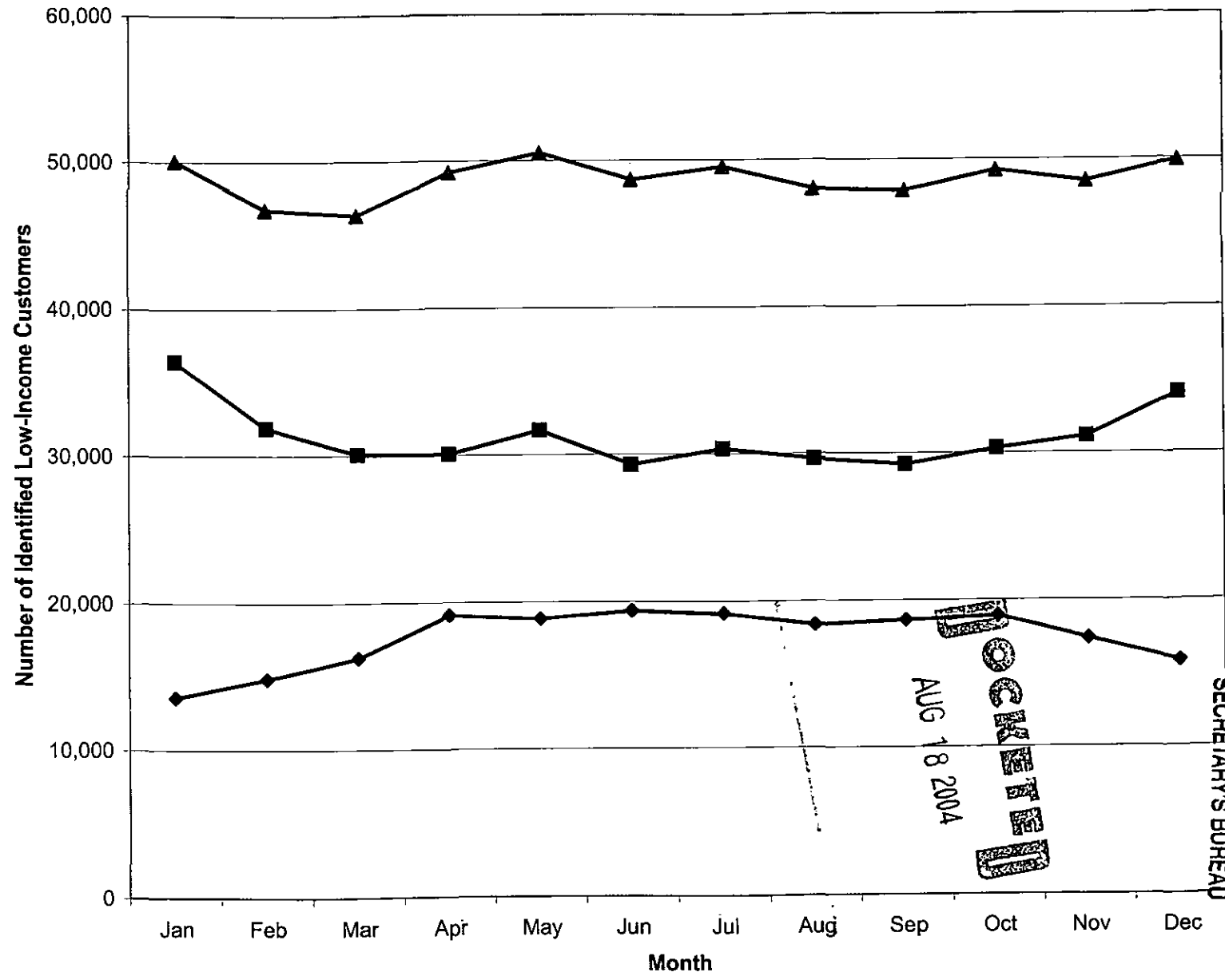
6 A. The CBI initiative is a reasonable approach for the Company to use to address the  
7 underlying problems imposed by structural poverty in its service territory. While the  
8 program certainly will not “solve” the poverty problem, it would be an important tool in  
9 helping to address the need for universal service programs and the costs of collection. At the  
10 same time, a CBI-supported energy efficiency program directed toward first time  
11 homebuyers will generate the same avoided cost benefits as does the LIURP program.  
12 These benefits will be more significant, however, because they will be generated using  
13 leveraged funds. By design, the Company’s CBI-supported investment will generate  
14 matching public and private investment that will generate benefits to Company ratepayers.  
15

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

17 A. Yes, it does.

18 00080018  
19

Schedule RDC-1  
 Identified Low-Income Customers in Arrears by DPA or Not (2003)



DOCUMENT

◆ On DPA  
 ■ Not on DPA  
 ▲ Total in Debt

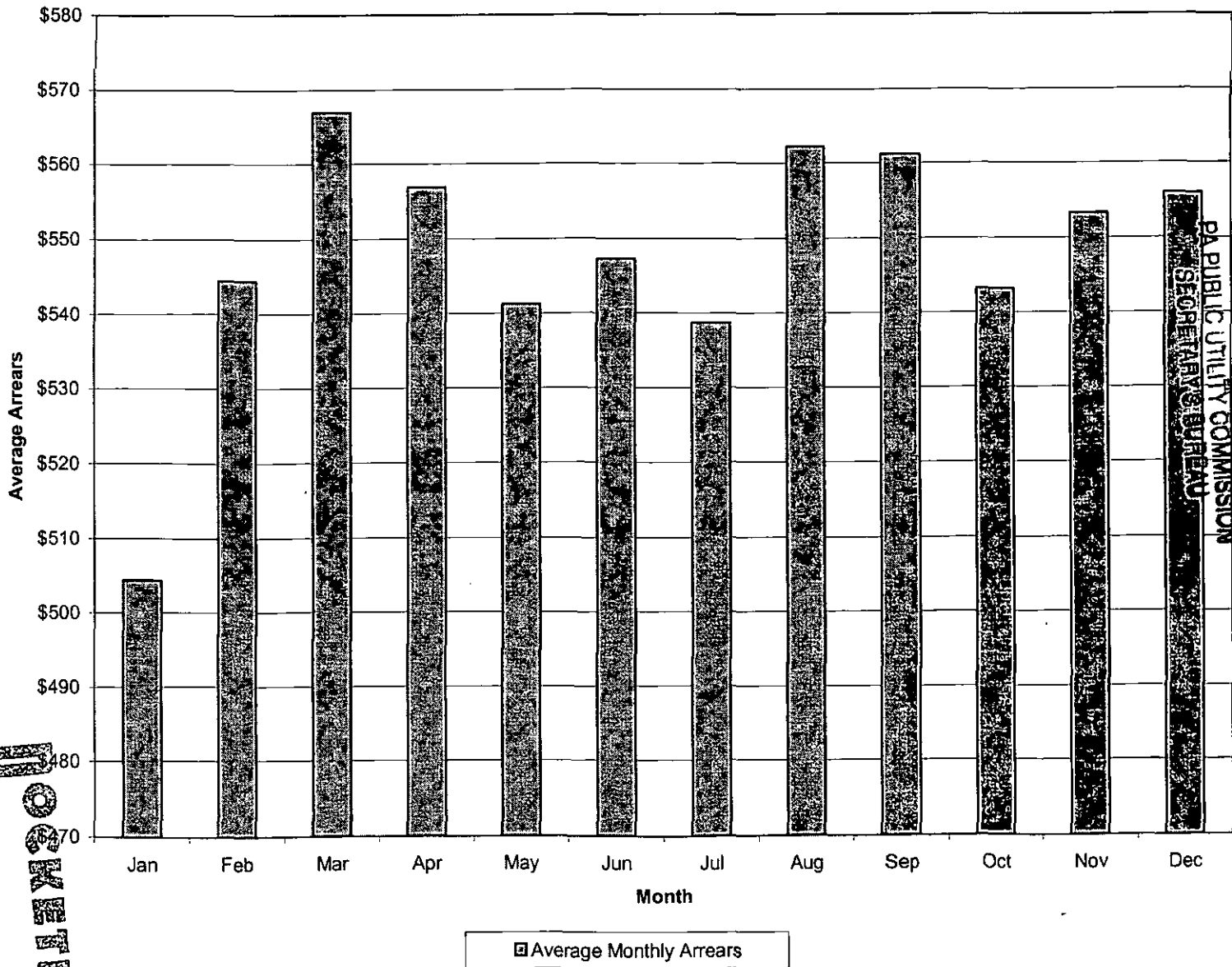
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**Schedule RDC-2**  
**Identified Low-Income Customers: Average Monthly Arrears of Accounts in Arrears (2003)**



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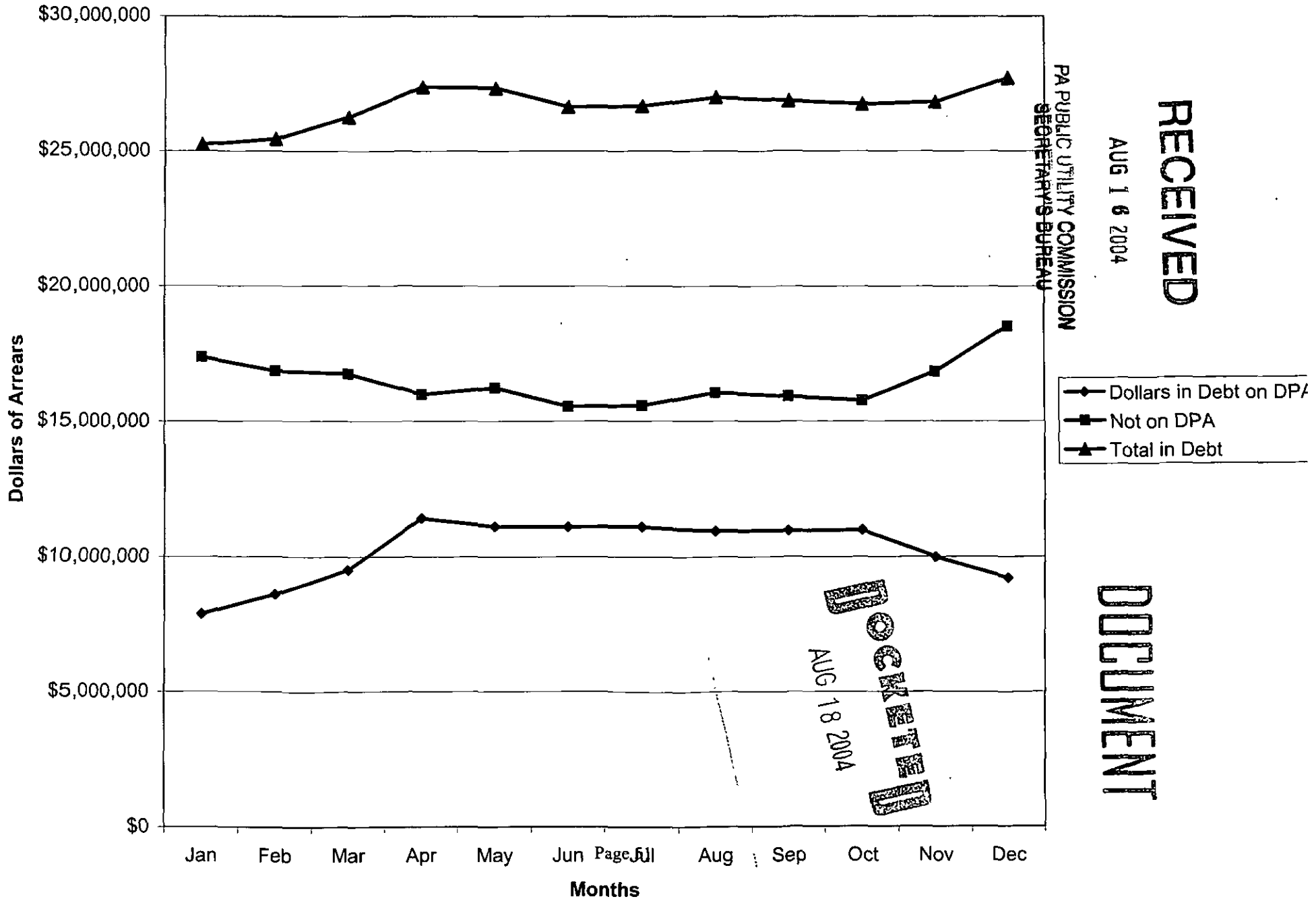
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**Schedule RDC-3  
Monthly Arrears for PPL Confirmed Low-Income Customers**



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Schedule RDC-4

Pennsylvania Electric Utility Hardship Funds Contributions on a Per-Customer Basis by Year and Company (BCS Universal Service Report)						
	2000		2001		2002	
	Per Customer	Rank	Per Customer	Rank	Per Customer	Rank
GPU	\$0.15	6	\$0.15	6	\$0.15	6
PECO	\$0.21	5	\$0.20	5	\$0.20	5
Allegheny	\$0.34	4	\$0.35	4	\$0.34	4
PPL	\$0.42	3	\$0.38	3	\$0.38	3
Penn Power	\$0.44	2	\$0.43	2	\$0.40	2
Duquesne	\$0.68	1	\$0.52	1	\$0.47	1

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