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August 21, 2017

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

**RE: PECO Energy Company Universal Service and Energy Conservation Plan
for 2016-2018 Submitted in Compliance with 52 Pa. Code §§ 54.74 and 62.4
Docket No. M-2015-2507139**

Dear Ms. Chiavetta:

Enclosed for filing with the Commission are *PECO Energy Company's Supplemental Reply Comments with Respect to its Addendum F Compliance Filing Establishing PECO's De Facto Heating Pilot.*

Very truly yours,

A handwritten signature in black ink, appearing to read "Ward L. Smith".

Ward L. Smith
Counsel for PECO Energy Company

WS/ab
Enclosure

cc: Certificate of Service
Joseph Magee, BCS
Sarah Dewey, BCS
Louise Frank Smith, Law Bureau

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PECO Energy Company Universal :
Service and Energy Conservation Plan : M-2015-2507139
for 2016-2018 Submitted in Compliance :
with 52 Pa. Code §§ 54.74 and 62.4 :

CERTIFICATE OF SERVICE

I, Ward L. Smith, hereby certify that I have this day served a copy of PECO Energy Company's Supplemental Reply Comments with Respect to its Addendum F Compliance Filing Establishing PECO'S *De Facto* Heating Pilot via e-mail to:

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Dated at Philadelphia, Pennsylvania, August 21, 2017



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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

PECO Energy Company Universal :
Service and Energy Conservation Plan : M-2015-2507139
for 2016-2018 Submitted in Compliance :
with 52 Pa. Code §§ 54.74 and 62.4 :

**PECO Energy Company’s Supplemental Reply Comments with Respect to its Addendum F
Compliance Filing Establishing PECO’s *De Facto* Heating Pilot**

I. Introduction

On August 14, 2017, PECO filed its Reply Comments in this docket. For one of the questions addressed in the Reply Comments, PECO stated that it would provide the requested information at a later date. That section of PECO’s Reply Comments states:

2. Why do both programs [de facto heating and supplemental LIURP] report high overheads?

PECO is reviewing the submitted budget figures and will provide BCS with either revised figures or a more detailed explanation of how the funds are applied.

The purpose of these Supplemental Reply Comments is to provide the information noted above.

II. Supplemental Reply Comments with respect to budget overheads

In Addendum F, PECO provided pro forma budgets for both the de facto pilot and supplemental LIURP programs for one year. Those budgets showed high rates of administrative spend in that year. There are three reasons for the high administrative spend in year one.

First, PECO categorized an estimated \$400,000 to \$500,000 in start-up costs – IT coding, training, integration with a new vendor, etc. – as administrative costs to be incurred during the first project year, charged to the supplemental LIURP budget. For these Supplemental Reply Comments, PECO has attached pro forma budgets for years two and three of the both programs, so that the normal “run rate” after start-up costs can be seen in years two and three. The additional years’ budgets demonstrate that, on a run-rate basis, PECO projects a 15.6% administrative rate for supplemental LIURP.

Second, LIURP costs are typically reported in only three categories – administrative, weatherization, and conservation – and when PECO attempted to categorize the costs of the new and innovative de facto heating program, some costs did not obviously fit into one category vs another – and PECO placed those costs in the administrative category. For example, PECO’s reported administrative costs for the de facto budget include all appointment scheduling activities, customer service and outreach, and the costs of data collection, data analysis, and an independent evaluation of the program. Any or all of these costs could be shifted into one of the two remaining categories. To give but two examples, the cost of scheduling appointments to weatherize the home could be categorized as weatherization, and the cost of customer service and outreach could be treated as an extension of conservation education (which is reported in the conservation category). PECO did not categorize these costs as weatherization or conservation; it simply placed all back office costs in the administrative category, even if those tasks are integral to the provision of weatherization or conservation services.

Third, because this is a pilot, PECO will not capture economies of scale in program costs, especially administrative costs. For example, the administrative costs to maintain a call center function for a group of call takers and schedulers who are trained in the de facto program will

cost about the same whether the call center requires 5, 10, 20, or 50 call takers. Of course, the ongoing employee costs (salaries, benefits, etc.) will be scalably higher with more employees, because of the need to pay more salaries and benefits – but the administrative costs of having a call center function don't scale in the same manner, or at least not to the same magnitude. These costs are effectively fixed, and are spread across a smaller base than in a full-scale program, thus increasing the percentage of costs that are applied to administrative functions.

This phenomenon is in the nature of pilot programs. All pilot programs limit programmatic risk by testing new ideas on a small scale, but the flip side of using the pilot approach is that, because the program is begun on a smaller scale, any fixed administrative costs will be a higher percentage of program expenditures. This is a known and accepted characteristic of pilot programs, and there is no reason to expect that PECO's de facto pilot program could escape this phenomenon.

These questions regarding costs were originally raised in the comments of CAUSE-PA (pp. 15-16), where CAUSE-PA requests that “any administrative expenses in excess of 15% of the annual cost should be disallowed without specific approval by the Commission.” In reply, PECO notes that, for the reasons discussed above, the costs under discussion cannot be avoided – start-up costs will be incurred, and ongoing administrative costs will exist and will not attain economies of scale. Consequently, an order telling PECO not to spend start-up costs, or to limit its administrative spend to a percentage appropriate for a full-scale program that has attained economies of scale, is essentially a directive telling PECO to run the program on half a shoestring. That is not in anyone's interests, and the Commission should not accept CAUSE-PA's recommendation.

III. Conclusion

Based on the foregoing, PECO requests that the Commission approve its Addendum F as filed.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ward L. Smith". The signature is written in a cursive style with a large initial "W" and a stylized "S".

Ward L. Smith
Assistant General Counsel
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Month Work Completed
Electric Defacto/Supp
LIURP - 2018-19

OCT'18 NOV'18 DEC'18 JAN'19 FEB'19 MAR'19

Administration

Electric - Budget	\$13,000	\$13,000	\$13,000	\$13,000	\$13,000	\$13,000
Electric - Actual	\$0	\$0	\$0	\$0	\$0	\$0

Conservation

Electric - Budget	\$6,250	\$6,250	\$6,250	\$6,250	\$6,250	\$6,250
Electric - Actual	\$0	\$0	\$0	\$0	\$0	\$0

Weatherization

Electric - Budget	\$70,587	\$64,583	\$64,583	\$64,583	\$64,583	\$64,583
Electric - Actual	\$0	\$0	\$0	\$0	\$0	\$0

Totals - Electric

Budget	\$89,837	\$83,833	\$83,833	\$83,833	\$83,833	\$83,833
Actual	\$0	\$0	\$0	\$0	\$0	\$0

Variance

APR'19	MAY'19	JUNE'19	JULY'19	AUG'19	SEPT'19	YTD
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\$13,000	\$13,000	\$13,000	\$13,000	\$13,000	\$13,000	\$156,000
\$0	\$0	\$0	\$0	\$0	\$0	\$0

\$6,250	\$6,250	\$6,250	\$6,250	\$6,250	\$6,250	\$75,000
\$0	\$0	\$0	\$0	\$0	\$0	\$0

\$64,583	\$64,583	\$64,583	\$64,583	\$64,583	\$52,583	\$769,000
\$0	\$0	\$0	\$0	\$0	\$0	\$0

\$83,833	\$83,833	\$83,833	\$83,833	\$83,833	\$71,833	\$1,000,000
\$0	\$0	\$0	\$0	\$0	\$0	\$0.00

Month Work Completed
Electric Defacto - Supp
LIURP 2019-20

OCT'19 NOV'19 DEC'19 JAN'20 FEB'20 MAR'20

Administration

Electric - Budget	\$13,000	\$13,000	\$13,000	\$13,000	\$13,000	\$13,000
Electric - Actual	\$0	\$0	\$0	\$0	\$0	\$0

Conservation

Electric - Budget	\$6,250	\$6,250	\$6,250	\$6,250	\$6,250	\$6,250
Electric - Actual	\$0	\$0	\$0	\$0	\$0	\$0

Weatherization

Electric - Budget	\$70,587	\$64,583	\$64,583	\$64,583	\$64,583	\$64,583
Electric - Actual	\$0	\$0	\$0	\$0	\$0	\$0

Totals - Electric

Budget	\$89,837	\$83,833	\$83,833	\$83,833	\$83,833	\$83,833
Actual	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Variance						

APR'20	MAY'20	JUNE'20	JULY'20	AUG'20	SEPT'20	YTD
\$13,000 \$0	\$13,000 \$0	\$13,000 \$0	\$13,000 \$0	\$13,000 \$0	\$13,000 \$0	\$156,000 \$0
\$6,250 \$0	\$6,250 \$0	\$6,250 \$0	\$6,250 \$0	\$6,250 \$0	\$6,250 \$0	\$75,000 \$0
\$64,583 \$0	\$64,583 \$0	\$64,583 \$0	\$64,583 \$0	\$64,583 \$0	\$52,583 \$0	\$769,000 \$0
\$83,833 \$0.00	\$83,833 \$0.00	\$83,833 \$0.00	\$83,833 \$0.00	\$83,833 \$0.00	\$71,833 \$0.00	\$1,000,000 \$0.00

<i>Month Work Completed</i>	OCT'18	NOV'18	DEC'18	JAN'19	FEB'19
Electric Defacto - 2018-19					
Administration					
Electric - Budget	\$20,983.00	\$20,983.00	\$20,983.00	\$20,983.00	\$20,983.00
Electric - Actual	\$0	\$0	\$0	\$0	\$0
Conservation					
Electric - Budget	\$12,450	\$12,450	\$12,450	\$12,450	\$12,450
Electric - Actual	\$0	\$0	\$0	\$0	\$0
Weatherization					
Electric - Budget	\$24,900	\$24,900	\$24,900	\$24,900	\$24,900
Electric - Actual	\$0	\$0	\$0	\$0	\$0
Totals - Electric					
Budget	\$58,333	\$58,333	\$58,333	\$58,333	\$58,333
Actual	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Variance					

YTD

\$251,796.00
\$0

\$149,404
\$0

\$298,800
\$0

\$700,000
\$0.00

<i>Month Work Completed</i>	OCT'19	NOV'19	DEC'19	JAN'20	FEB'20
Electric Defacto - 2019-20					
Administration					
Electric - Budget	\$20,983	\$20,983	\$20,983	\$20,983	\$20,983
Electric - Actual	\$0	\$0	\$0	\$0	\$0
Conservation					
Electric - Budget	\$12,450	\$12,450	\$12,450	\$12,450	\$12,450
Electric - Actual	\$0	\$0	\$0	\$0	\$0
Weatherization					
Electric - Budget	\$24,900	\$24,900	\$24,900	\$24,900	\$24,900
Electric - Actual	\$0	\$0	\$0	\$0	\$0
Totals - Electric					
Budget	\$58,333	\$58,333	\$58,333	\$58,333	\$58,333
Actual	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Variance					

YTD

\$251,796
\$0

\$149,404
\$0

\$298,800
\$0

\$700,000
\$0.00