

Legal Department
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Philadelphia, PA 19101-8699

Direct Dial: 215-841-4353

September 22, 2017

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

**RE: PECO 2016-2018 USECP at M-2015-2507139
Proposed Addendum F: PECO *De Facto* Heating Pilot Program**

Dear Secretary Chiavetta:

On September 5, 2017, you issued a Secretarial Letter in which you directed PECO to: “meet with Commission staff and the parties within ten (10) days to try to reach agreement relative to administrative costs and implementation of the *de facto* heating program.” You further noted, “[i]f the parties and staff cannot reach agreement on the details of the *de facto* heating pilot program, the matter will be referred to the Office of Administrative Law Judge to address it in the context of the prior settlement.”

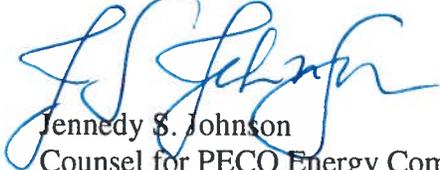
PECO held the meeting with Commission staff and the parties on September 14, 2017, and presented them with the information contained in the presentation that is attached to this letter. In that presentation and discussion, PECO explained that its start-up costs for the *de facto* heating pilot will be significantly less than originally anticipated and that its ongoing administrative costs for the *de facto* heating program will be less than 15% of the total program budget on an annual basis. In addition, PECO committed that, if either of those costs exceeds the estimates set forth in the presentation, it will not seek recovery of such excess costs through its USFC rider (the mechanism that is being used to recover the costs of the *de facto* heating pilot). PECO also explained that any funds not spent on the pilot will be applied to the installation of other LIURP measures.

At the close of the meeting, Commission staff and the parties verbally represented to PECO that their concerns regarding administrative costs were resolved by PECO’s

presentation and commitment. PECO therefore does not believe that there is a need to refer this matter to the Office of Administrative Law Judge.

Please contact me with any questions.

Very truly yours,



Kennedy S. Johnson
Counsel for PECO Energy Company

JJ/ab
Enclosure

cc: Certificate of Service
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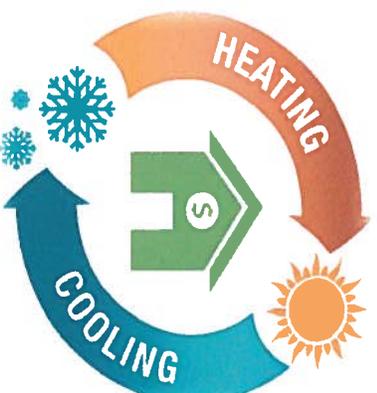


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PECO

De-facto Heating Pilot



Harrisburg, PA

Corrected Version, September 18, 2017

De-facto Heating Pilot Agenda

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- ✓ Review & clarify the administrative expenses included in the De-facto Heating Program filing and Supplemental Reply Comments
- ✓ Demonstrate that excluding the initial start-up costs, the administrative expenses will not exceed 15% (consistent with our LIURP program)



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PECO De-facto Heating Pilot: Overview & Funding

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- PECO CAP Re-Design Settlement agreement in 2015 allocated \$700K per year for three (3) consecutive years, commencing October 2017 to address PECO De-facto heating customers
- PECO CAP Re-Design Settlement agreement also allocated an additional \$1M per year for three (3) consecutive years, commencing October 2017, to be spent on additional LIURP measures (*Note: These monies could also be used for De-facto Heating Pilot*)
- PECO made a decision to spend the additional \$1M for the 2017 / 2018 program year on De-facto Heating
- Therefore, the total 2017 / 2018 De-facto Heating Pilot funding allocation is \$1.7M

Note: De-facto Heating describes the use of portable space heaters as a residential primary heating source. The situation often occurs when the customer's central heating system is non-functioning, when natural gas service has been terminated, or when deliverable heating fuel has been depleted.



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2017 / 2018 De-facto Heating Pilot: Addendum F

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- August 11, 2016, the Commission approved “in concept” PECO’s De-facto Heating Pilot that was filed in conjunction with PECO’s 2016-2018 Three-Year Plan
- PECO was ordered to file an addendum to its 2016-2018 Three-Year Plan to provide implementation details on the De-facto Heating Pilot
- PECO filed Addendum F on June 23, 2017
- Specifically, in its Secretarial letter dated September 5, 2017, the Commission questioned the administration costs in PECO’s De-facto Heating budget siting:

“PECO initially provided budget figures just for the 2017-2018 De-facto pilot program year, which showed the \$700,000 of De-Facto heating pilot program funding to have an administrative cost of \$251,796, and the \$1,000,000 of additional funding to have an administrative cost of \$620,000. This represents administrative fees of 36% and 62% respectively. The projected administrative costs for both funds far exceed LIURP norms. LIURP has a cap on administrative fees of 15%.”



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2017 / 2018 De-facto Heating Pilot: Budget

6/23 Submission	Total	Start Up Costs	Admin	Conservation	Weatherization
LIURP Supplement	\$1,000K	\$ 300K	\$ 320K	\$ 65K	\$ 315K
De-facto Heating Pilot	\$ 700K	- - -	\$ 252K	\$ 149K	\$ 299K
Total De-facto Heating Spend	\$1,700K	\$ 300K	\$ 572K	\$ 214K	\$ 614K
		17.6%	33.6%		

Corrected Budget	Total	Start Up Costs*	Admin**	Conservation	Weatherization
LIURP Supplement	\$1,000K	\$ 300K	\$ 133K	\$ 158K	\$ 409K
De-facto Heating Pilot	\$ 700K	- - -	\$ 119K	\$ 141K	\$ 440K
Total De-facto Heating Spend	\$1,700K	\$ 300K	\$ 252K	\$ 299K	\$ 849K
		17.6%	14.8%		

* Actual Start-up costs are now estimated to come in at \$220K (12.9%)

**Our contract with G&C is for \$20,900/mo or \$252K/year for Admin Exp.



2017/2018 De-facto Heating Pilot: Admin Costs Explained

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- Total spend is \$1,700,000 – includes start-up costs, ongoing administration, conservation and weatherization, and Program Evaluation costs
- **The total on-going annual administration costs for both programs is \$252K (~\$21K per month), which represent 14.8% of the total \$1.7M spend**
 - In the initial filing, PECO inadvertently double counted the required spend from the new De-facto Heating contractor and the existing LIURP contractor
- Additionally, for the first program year (Oct 2017 – Sept 2018), PECO anticipates there will be start up costs totaling approximately \$220K (approximately \$80K less than filed). *A portion of the savings will be used to cover program evaluation, and the remainder for additional LIURP measures*



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De-facto Heating Pilot: Reporting Commitments

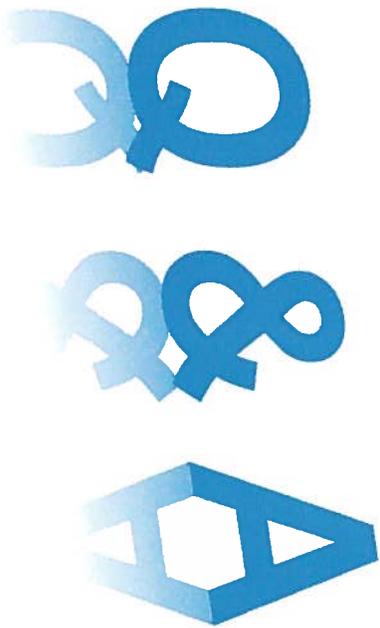
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PECO commits to:

- ❑ Respond to the September 5 Secretarial Letter by COB, Friday September 22
- ❑ Maintain on-going administrative costs at or below 15% for the duration of the De-facto Heating Pilot
- ❑ Provide updates at the USAC meeting that will include:
 - Number of De-Facto Heating audits performed
 - Number of customers receiving De-facto Heating measures
 - Program year-to-date spend
- ❑ Update BCS on program status during our regularly scheduled meetings
- ❑ Include program updates annually as part of the cover letter with PECO's Annual LIURP Evaluation report
 - Include breakout of administrative, weatherization, and conservation expenses



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APPENDIX

De-facto Heating Pilot: Administrative Expenses

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On-going Administrative Expenses

- Customer Service and Outreach (contracted vendor)
- Appointment Scheduling
- Data Collection
- Data Analysis
- Customer Education Materials

Start-up Costs

- Technical Training/Certification
- Telephony Setup
- Development of Performance Standards
- IT system job-related measures, inspections, remediation tasks and costs and other documentation
- General Project Planning & Oversight

Independent Evaluation of the Program*

*Savings from start-up costs will be used to cover evaluation expenses



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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

CERTIFICATE OF SERVICE

I, Jennedy S. Johnson, hereby certify that I have this day served a copy of PECO Energy Company's response to Commissions' September 5, 2017 Secretarial Letter, in the matter specified in accordance with the requirements of 52 Pa. Code § 1.54:

via electronic mail and/or first class mail

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Dated: September 22, 2017



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