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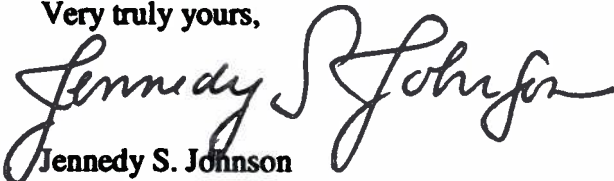
Rosemary Chiavetta, Secretary
Pennsylvania Public Utility Commission
Commonwealth Keystone Building
400 North Street, 2nd Floor
Harrisburg, PA 17120

**Re: Review of Universal Service and Energy Conservation Programs
Docket No. M-2017-2596907**

Dear Secretary Chiavetta:

Attached please find the *Reply Comments of PECO Energy Company* in the above captioned matter. The comments have been served in accordance with the attached Certificate of Service. Thank you for your attention to this matter.

Very truly yours,



Jennedy S. Johnson

/adz

Attachments

c: Certificate of Service
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**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

**REVIEW OF UNIVERSAL SERVICE :
AND ENERGY CONSERVATION : DOCKET NO. M-2017-2596907
PROGRAMS :**

REPLY COMMENTS OF PECO ENERGY COMPANY

I. INTRODUCTION

On August 8, 2017, PECO Energy Company (“PECO” or “the Company”) filed its Initial Comments (“Initial Comments”) in accordance with the May 10, 2017 Opinion and Order issued by the Pennsylvania Public Utility Commission (“the Commission”) in this proceeding, which initiated a comprehensive review of Universal Service and Energy Conservation Programs (“USECPs”) in the Commonwealth of Pennsylvania. In its Initial Comments, PECO expressed its support for the Commission’s consideration of how USECPs can work more effectively for both low-income customers who need assistance with energy costs and customers who pay the costs of USECP implementation.

The comments filed by twenty other stakeholders and statements made in the September 2017 stakeholder meetings coordinated by the Bureau of Consumer Services (“BCS”) provide a wide variety of perspectives on how the Commission and utilities should address USECP design. To the extent a consensus among stakeholders exists, PECO believes there is general agreement among the commenters that the Commission’s new initiative is timely, and that real opportunities exist to improve low-income customer programs and procedures even if there are significant differences regarding the specific changes the Commission should adopt.

PECO’s Initial Comments emphasized three practical policy issues that are particularly important in light of the comments received by the Commission. First, the Commission should

make clear that any USECP changes arising from these proceedings should build on the new Commission-approved programs that utilities are now implementing with customers. Ensuring that USECP programs evolve in a manner consistent with prior Commission approvals is essential for PECO's Customer Assistance Program Fixed Credit Option ("CAP FCO"), which only began enrolling customers in October 2016. This program implemented an entirely new structure for PECO's low-income customers as a result of a comprehensive settlement approved by the Commission, with a detailed timetable for evaluation that requires two full calendar years of operational data (through December 2018) and a six-month period (concluding in June 2019) for analysis.¹ Continuing CAP FCO without change through its review and analysis period will not only avoid disruption of a program in which PECO, stakeholders and customers are already invested, but will also provide extensive new data that the Commission can rely upon in considering future USECP innovations.

The second practical policy issue that PECO highlighted is that the challenge of providing affordable, cost-effective utility service for low-income customers involves not only utilities, but also a number of government agencies, non-governmental organizations, and other entities with time and resources, as reflected in the variety of stakeholders submitting comments to the Commission. Utilities and their customers have key roles to play in the delivery of utility service to low-income customers, but the Commission should underscore that utilities cannot be the "ultimate backstop" for implementing the broader responsibilities and policies of federal, state and local governments and advocacy organizations. As noted by the Energy Association of Pennsylvania ("EAP"), Pennsylvania utilities and their residential customers already spend

¹ *PECO Energy Company Universal Service and Energy Conservation Plan for 2013-2015 Submitted in Compliance with 52 Pa. Code §§ 54.74 and 62.4*, Docket No. M-2012-2290911 (Order entered July 8, 2015) (adopting Recommend Decision of Administrative Law Judge Cynthia Williams Fordham dated June 11, 2015).

approximately \$400 million on energy assistance and \$50 million on weatherization services (via the low-income usage reduction program (“LIURP”)) each year.²

Finally, the Commission should recognize that the flexibility under the current USECP framework has fostered different program designs for different utilities. The implementation of more rigid programming requirements or statewide USECP administration would create significant transition costs and impact the coordination of services (e.g., energy weatherization) for existing programs. As discussed in Section II.C *infra*, PECO agrees with other commenters that opportunities for increased coordination among USECPs exist, but also urges the Commission to carefully analyze statewide administration proposals for the associated costs to achieve and benefits to customers.

In these Reply Comments, PECO addresses several key issues presented in the comments of other stakeholders, specifically (i) the Commission’s determination of household energy burden; (ii) allocation of USECP costs; (iii) increased coordination of USECPs and potential statewide administration of USECP components; (iv) LIURP measure payback periods; (v) the USECP plan approval process and filing cycle; (vi) retail shopping by customers participating in low-income customer assistance programs (“CAP shopping”); and (vii) USECP reporting requirements.

II. REPLY COMMENTS

A. The Commission Should Defer Substantive Changes To USECP Requirements Until The Investigation Of Energy Burden Is Complete

Many commenters noted the importance of the Commission’s investigation of energy burden,³ and several recommended a maximum combined energy burden of six percent.⁴ Both

² Comments of EAP, pp. 5-6.

³ *Energy Affordability for Low Income Customers*, Docket No. M-2017-2587711 (Order entered May 5, 2017).

Duquesne Light Company (“Duquesne”) and the EAP recommended that the Commission wait until the Commission’s home energy burden study is complete before implementing CAP changes.⁵ Metropolitan Edison Company, Pennsylvania Electric Company, Pennsylvania Power Company and West Penn Power Company (the “FirstEnergy Companies”) also cautioned the Commission to carefully evaluate proposed USECP changes (including a revised energy burden) “to ensure the benefits of the change to low-income and payment-troubled customers are not created in exchange for unreasonable cost increases to be experienced by other residential customers.”⁶

PECO agrees that the energy burden serves as a key affordability benchmark for universal service programs and looks forward to working with other stakeholders as the Commission’s study regarding home energy burdens progresses. PECO also urges the Commission to consider how changing the energy burden will impact the cost of CAPs and USECPs as a whole. If the six percent recommendation were implemented by the Commission, the cost of PECO’s CAP discounts would increase by approximately \$86 million (\$72 million for electric and \$14 million for gas), more than doubling the current CAP discount cost of \$84 million (\$81 million for electric and \$3 million for gas). If the \$86 million increase were recovered from customers through the Universal Services Fund Charge (“USFC”) as part of the CAP shortfall (i.e., the CAP costs not otherwise recovered through distribution base rates), it

⁴ See, e.g., Comments of the Coalition for Affordable Utility Services and Energy Efficiency, Tenant Union Representative Network, and Action Alliance of Senior Citizens of Greater Philadelphia (collectively, the “Low-Income Advocates”), pp. 17-19; Comments of the Weatherization and Conservation Collaborative, p. 6; Comments of the Pennsylvania Departments of Aging, Community and Economic Development, Environmental Protection, and Health and Human Services, p. 2 (recommending that the Commission establish energy burdens that are “on par” with states that have a six percent burden).

⁵ Comments of Duquesne, pp. 10-11 (questioning “the amount of changes that can be made to CAP without having the energy burden piece of the puzzle settled”); Comments of EAP, p. 21 (“EAP cautions against any immediate action under this docket before [the energy burden report] can be fully reviewed and vetted”).

⁶ Comments of the FirstEnergy Companies, p. 4; see also Initial Comments of PECO, pp. 4 & 15 (explaining that USECP costs are recovered from all residential customers, including low-income customers).

would add \$49.80 annually to the bill of an average residential electric customer (700 kWh) and \$38.52 annually to the bill of an average residential gas customer (8 MCF).

In light of the potential for significant financial impacts resulting from revised energy burdens, PECO believes that the Commission should defer any substantive changes to USECP requirements, including but not limited to CAP requirements, until the energy burden recommendations resulting from the Commission's investigation have been finalized. Once the Commission, utilities, and other stakeholders know the energy burden and related cost impacts, then all parties can more meaningfully consider many of the key issues that have been raised by stakeholders in this proceeding, such as cost allocation, administration of USECPs, and the structure of individual USECP programs. Process-oriented changes, such as a standard enrollment form, USECP reporting requirements, and data sharing, need not be deferred and could be considered in the coming months while the energy burden study is still in process.

B. When Addressing Cost Allocation, The Commission Should Consider The Impact Of Customer Bill Increases

Several commenters proposed changing the existing allocation of USECP costs so that all customer classes pay a portion of those costs, asserting that such programs provide societal benefits and are a public good that is properly a cost for all electric distribution customers.⁷ Other commenters supported the continued recovery of USECP costs exclusively from residential customers, emphasizing that only those customers are eligible to participate in universal service programs.⁸

⁷ See, e.g., Comments of the Low-Income Advocates, pp. 51-61; Comments of the Office of Consumer Advocate ("OCA"), pp. 35-40.

⁸ Comments of the Met-Ed Industrial Users Group, Penelec Industrial Customer Alliance, Philadelphia Area Industrial Energy Users Group, the PP&L Industrial Customers Alliance, and the West Penn Power Industrial Intervenors, pp. 2-6.

PECO does not have a specific recommendation regarding the allocation of USECP costs among customer classes. However, PECO does share the concerns of some commenters that approval of a significant increase in USECP costs in order to reduce the energy burden of low-income customers or to expand USECP offerings could have a material negative impact on other residential customers,⁹ and PECO is particularly concerned about lower-income customers who are not eligible for USECP programs. As noted in the Company's Initial Comments, any change to the Commission's energy burden requirement would be automatically implemented under PECO's CAP FCO.

For illustrative purposes, if PECO's USECP were implemented with a six percent energy burden, and USECP costs were allocated among all customer classes consistent with the revenue requirement distribution in PECO's 2015 electric base rate proceeding (Docket No. R-2015-2468981), the GS customer class (gas and electric) would be allocated approximately \$33 million (comprising 14 percent of its overall revenue requirement), and the HT customer class (gas and electric) would be allocated approximately \$22 million (comprising 14.3 percent of its overall revenue requirement).

C. PECO Supports Increased Coordination Among USECPs And The Pennsylvania Department Of Human Services, But Statewide Administration Proposals Must Be Analyzed For Costs To Achieve And Benefits To Customers

Several commenters recommended increased coordination among individual USECPs, including the development of a common enrollment form and standard income eligibility requirements, as well as an exploration of the possibility of sharing customer data with the Pennsylvania Department of Humans Services ("DHS") to facilitate customer enrollment.¹⁰

⁹ See, e.g., Comments of the FirstEnergy Companies, p. 4.

¹⁰ See, e.g., Comments of Duquesne, pp. 7-8; Comments of Columbia Gas of Pennsylvania, Inc., pp. 5-7; Comments of Philadelphia Gas Works, pp. 2-3.

PECO agrees that better USECP coordination in the areas of enrollment and income eligibility would be beneficial and that such efforts could be explored by a stakeholder working group. The Company also supports bi-directional data sharing with DHS as long as affirmative customer consent is obtained. In order to facilitate customer enrollment, PECO recommends that the following items be part of any data sharing arrangement: (1) name, birthdate and phone number of each household member; (2) household address; (3) income of each household member; and (4) household income as a percentage of the Federal Poverty Income Guidelines.

Several commenters recommended that the Commission transition, or consider transitioning, the administration of USECPs from the utilities to a statewide administrator.¹¹ Under the current administration model, utilities use dedicated call centers and embedded programming staff to implement their USECPs. It would take a significant amount of time and effort on the part of the Commission, each utility, and interested stakeholders to transition the implementation of these individual programs in a way that ensures that customers are not negatively impacted.

PECO urges the Commission to carefully consider the costs to achieve such a transition, how those costs would be recovered from customers, and the potential benefits to customers. Any customer benefits that may be generated from a statewide administration model should be considered in the context of the substantial costs that may be incurred to make a smooth transition for customers. If the Commission decides to revise energy burdens in a way that materially increases the size of USECP budgets, and USECPs begin to function more as general

¹¹ See, e.g., Comments of the Low-Income Advocates, pp. 61-68; Comments of the Keystone Energy Efficiency Alliance, Housing Alliance of Pennsylvania, Green and Healthy Homes Initiative, National Consumer Law Center, National Housing Trust, and Natural Resources Defense Council (collectively, "PA-EEFA"), pp. 3-5; Comments of Philadelphia Gas Works, pp. 6-7.

social service programs instead of utility programs, a statewide administration model with a different cost recovery mechanism may be appropriate.

D. LIURP Regulations Should Be Modified To Permit Measures With A Payback Period Up To The Useful Life Of The Measure

Under LIURP, utilities implement “measures” such as direct weatherization or the replacement of old, inefficient appliances to help low-income customers reduce their energy usage. Many commenters emphasized the importance of implementing cost-effective LIURP measures, and PA-EEFA joined PECO in proposing that cost-effectiveness be based on the full life of a measure that is installed.¹² Specifically, the Company supports replacing the fixed seven- and twelve-year payback requirements¹³ with a payback period that is equal to the median number of years that a measure is in place and operable (e.g., the number of years that a new gas furnace is expected to operate). As PECO explained in its Initial Comments, the existing payback periods are often significantly shorter than the useful life of the measure, which can preclude utilities from implementing some measures that would provide long-term energy savings for customers. This is particularly true for gas customers, since gas costs are comparatively low but measure costs can be high with payback requirements that are often significantly shorter than the useful life of the measure. Customers would benefit from utilities having the flexibility to install measures that, over their useful lives, are warranted by the energy savings that will be obtained.

E. BCS Should Continue Its Role In The Plan Approval Process, And The USECP Filing Cycle Should Be Extended To Five Or Six Years

Both the Low Income Advocates and the Commission on Economic Opportunity recommended that the triennial USECP filings be immediately referred to the Office of

¹² See Comments of PA-EEFA, p. 9.

¹³ See 52 Pa. Code § 58.11.

Administrative Law Judge (“OALJ”), instead of being considered by BCS, based on a belief that stakeholders need more access to data and time to review and analyze USECP proposals.¹⁴ In contrast, many utilities and EAP expressed support for the current approval process, emphasizing the long-standing subject-matter expertise of BCS on universal services issues and the ability of BCS to refer issues to the OALJ under the existing process.¹⁵

PECO agrees that BCS is the appropriate entity to manage the USECP approval process because it has significant institutional knowledge of individual USECPs, not only from previous approval proceedings but also from its review of third-party evaluations of USECPs and its day-to-day work with utilities during USECP implementation. In addition, an automatic referral of USECPs to the OALJ would lengthen USECP proceedings, imposing significant and unnecessary costs on stakeholders, utilities, and the Commission – and, ultimately, on customers. Nothing in the current approval process prevents BCS from referring USECP issues to the OALJ if it determines that such a referral is appropriate.

While many utilities support preserving the existing approval process, they also recommend extending the length of USECPs from three years to between four and six years to alleviate delays that sometimes occur during the approval process.¹⁶ PECO also supports an extension of the current USECP filing schedule. As explained in the Company’s Initial Comments, PECO believes that extending the filing cycle to five or six years would be beneficial because it will reduce the Commission’s overall workload (because only one-fifth or one-sixth of

¹⁴ Comments of The Low Income Advocates, pp. 71-72; Comments of the Commission on Economic Opportunity, pp. 2-3.

¹⁵ See, e.g., Comments of Peoples Natural Gas Company LLC and Peoples Gas Company LLC, f/k/a Peoples TWP LLC, p. 9; Comments of UGI Distribution Companies, p. 3; Comments of EAP, pp. 15-16.

¹⁶ See, e.g., Comments of Duquesne, pp. 8-9; Comments of the FirstEnergy Companies, pp. 7-8; Comments of UGI Distribution Companies, p. 5; Comments of EAP, p. 9.

USECPs would need to be reviewed each year) and better coordinate USECPs with their external evaluations (which take place at least every six years).

F. The Commission Should Not Consider CAP Shopping Proposals Before The Commonwealth Court Of Pennsylvania's Issuance Of A Decision In *Retail Energy Supply Ass'n v. Pa. P.U.C.*¹⁷

The OCA and Low-Income Advocates each proposed that the Commission explore requiring certain protections for CAP shopping customers.¹⁸ As the Commission is aware, issues relating to the ability of low-income customers to shop for electric generation supply are currently before the Commonwealth Court as a result of the appeal of the Commission's decision in PPL Electric's most recent default service proceeding.¹⁹ PECO believes that the Commission should not consider any CAP shopping-related proposals until a decision is issued by the Commonwealth Court in the PPL CAP Shopping Appeal. Deferral of CAP shopping issues is also consistent with the recent stay of proceedings concerning CAP shopping in PECO's service territory pending the outcome of the PPL CAP Shopping Appeal.²⁰

G. PECO Supports A Review Of the Current Universal Service Reporting Requirements For Clarity And Consistency

Several commenters supported a review of existing universal service reporting requirements "to achieve consistency in reporting and confirm the value of data being

¹⁷ 230 C.D. 2017 ("PPL CAP Shopping Appeal").

¹⁸ Comments of OCA, p. 45; Comments of the Low-Income Advocates, p. 26.

¹⁹ On October 27, 2016, the Commission approved a Joint Petition for Settlement in the PPL DSP IV proceeding, and, separate from the Settlement, approved a form of a CAP standard offer program. See *Petition of PPL Elec. Utils. Corp. for Approval of a Default Serv. Program and Procurement Plan for the Period June 1, 2017 through May 31, 2022*, Docket No. P-2016-2526627 (Opinion and Order entered Oct. 27, 2016) (the "PPL DSP IV Order"). Following denial of its Petition for Reconsideration of the *PPL DSP IV Order*, the Retail Energy Supply Association filed the PPL CAP Shopping Appeal on February 27, 2017.

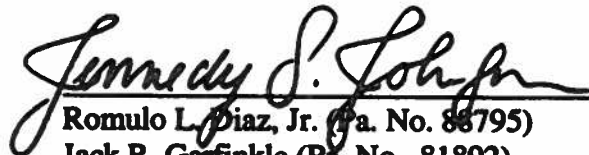
²⁰ See Prehearing Order #4 issued June 5, 2017, *Petition of PECO Energy Company for Approval of its Default Service Program (Customer Assistance Program Shopping Plan) (DSP II)*, at Docket No. P-2012-2283641; and *Petition of PECO Energy Company for Approval of its Default Service Program from the Period June 1, 2017 through May 31, 2021 (DSP IV)*, at Docket No. P-2016-2534980.

reported.”²¹ PECO supports such a review, and, in particular, emphasizes the need for clear definitions and statewide application of reporting requirements in order to ensure that utility reports provide a meaningful basis to review and compare USECPs.

III. CONCLUSION

PECO appreciates the opportunity to provide these Reply Comments on universal service programming and looks forward to continuing to working with the Commission and interested stakeholders on this important initiative.

Respectfully submitted,



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Dated: October 16, 2017

²¹ Comments of EAP, pp. 11-12; *see also* Comments of Philadelphia Gas Works, pp. 3-4; Comments of Duquesne, pp. 9-10.

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Review of Universal Service :
And Energy Conservation Programs : **Docket No. M-2017-2596907**
:

CERTIFICATE OF SERVICE

I hereby certify and affirm that I have this day served a copy of the foregoing Reply Comments of PECO Energy Company in the matter specified in accordance with the requirements of 52 Pa. Code § 1.54:

via first class mail and/via email (where noted)

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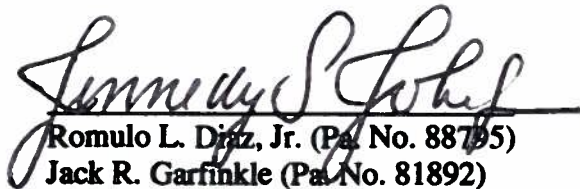
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