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Via Electronic Filing
Rosemary Chiavetta, Secretary
PA Public Utility Commission
PO Box 3265
Harrisburg, PA 17105-3265

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

Dear Secretary Chiavetta:

Enclosed for electronic filing please find Philadelphia Gas Works' Reply Comments In Response Comments to Opinion and Order Entered May 10, 2017 and Stakeholder Meetings Held September 13 and 14, 2017, with regard to the above-referenced matter.

Sincerely,

Deanne M. O'Dell

Deanne M. O'Dell

DMO/lww
Enclosure

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BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

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

PHILADELPHIA GAS WORKS REPLY COMMENTS IN RESPONSE TO COMMENTS TO OPINION AND ORDER ENTERED MAY 10, 2017 AND STAKEHOLDER MEETINGS HELD SEPTEMBER 13 & 14, 2017

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Date: October 16, 2017

TABLE OF CONTENTS

I. INTRODUCTION

The Commission initiated a comprehensive review of the entire Universal Service and Energy Conservation ("USEC") model in its Order entered May 10, 2017 ("*USEC Investigation Order*"). As part of this investigation the Commission: (1) published a Staff Report on July 14, 2017; (2) received comments from interested stakeholders on August 8, 2017; (3) conducted stakeholder meetings on September 13-14, 2017; and, (4) invited reply comments from interested stakeholders due October 16, 2017. In the *USEC Investigation Order*, the Commission also stated that it is including as part of its investigation at this docket the currently pending review of the regulations governing low-income usage reduction programs ("LIURPs")[1] as well as the recently initiated study regarding home energy burdens in Pennsylvania.[2]

Philadelphia Gas Works ("PGW") submitted initial comments, participated in the stakeholder meetings and offers these reply comments for the Commission further consideration. As a city-owned natural gas distribution company ("NGDC"), PGW has offered a low income customer responsibility program ("CRP") to customers since at least 1989 and has the largest natural gas customer assistance program ("CAP") in the Commonwealth, the largest natural gas Universal Service spend in the Commonwealth, and the largest Universal Service per customer spend in the Commonwealth.[3] As such, this proceeding is of significant importance to PGW and

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1 *Initiative to Review and Revise the Existing Low-Income Usage Reduction Program Regulations*, Docket No. L-2016-2557886, 46 Pa.B. 8188 (Secretarial Letter Inviting Comments dated December 16, 2016) ("LIURP Docket").

2 *Energy Affordability for Low Income Customers*, Docket No. M-2017-2587711, Opinion and Order entered May 5, 2017.

3 Pennsylvania Public Utility Commission 2015 Report on Universal Service Programs and Collections Performance at 7-8 and Appendix 5 ("Universal Service Report 2015").

its ratepayers, and PGW appreciates this opportunity to provide further feedback regarding the comments submitted to date as well as the discussions held during the stakeholder collaborative.[4]

While PGW provides its perspective on many of the issues raised, not every issue is addressed and the preferred resolution of some of the issues is dependent on how the Commission ultimately addresses the issue of energy affordability and the overall net impact of costs resulting from any final approved requirements/regulations. Importantly, (i) decreases in the amount low-income CAP customers will be asked-to-pay for their share of their bills, and (ii) increased requirements related to new Commission required Universal Service program elements will directly impact the universal service costs imposed on all other firm ratepayers. Such result could have an outsized impact on PGW and its customers because PGW has the highest percentage of confirmed low income customers in the Commonwealth (gas and electric) who are already funding the largest natural gas CAP in the Commonwealth (by dollar and per individual customer spend). Thus, PGW respectfully requests that the Commission bear this in mind when considering PGW's feedback on any particular issue – the greater the increase in costs PGW will be required to incur for its universal service programs, the bigger the burden that will be placed on its other (largely low and lower-income) customers who do not participate in the programs but must pay the costs for them.

II. REPLY COMMENTS – CUSTOMER ASSISTANCE PROGRAMS ("CAPS")

A. Eligibility

Issues raised regarding the eligibility for CAPs include: (1) distinctions between payment troubled vs. all low-income; (2) whether low-income consumers should be required to apply for Low-Income Home Heating Assistance Program ("LIHEAP") and Hardship Funds prior to CAP

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4 As this is an evolving process, PGW reserves its right to modify or revise its views as set forth herein as may be appropriate in any future rulemaking or further proceeding regarding these issues.

enrollment; (3) what income (i.e. annualized) should be utilized and how should households with zero income be treated; (4) whether social security numbers should be required; and, (5) whether an asset test should be utilized.

1. **Payment Troubled**

Subject to the Commission's resolution of other potentially costly requirements such as reducing the energy burden percentage,[5] PGW could support utilizing "payment troubled" as a condition of enrollment in its CAP (referred to as the customer responsibility program, or CRP). PGW does not currently have this requirement and, therefore, PGW would likely incur costs to make this change. PGW recommends that determining how "payment troubled" would be re-defined in the future should be included as part of the resolution of this proceeding.

2. **LIHEAP Requirements**

PGW could support requiring a low-income customer to apply for LIHEAP and Hardship Funds prior to CAP enrollment (which is required in many other states) but believes this issue should be reviewed carefully. Under its current CAP, CAP enrollment is allowed without application for any such grant[6]; PGW has concerns with limiting its CAP enrollment, particularly given the size of PGW's low income customer population. However, if the Commission makes significant changes to Universal Service programs, these changes could result in a program that places a heavy financial burden on non-CAP customers that many non-CAP customers would not be able to meet. Further, including this requirement could add administrative costs to the program, given that CAP is not currently a statewide program and there would need to be

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[5] As noted in the introduction, PGW requests that the Commission be mindful of the sum total of all such changes so that the costs to implement do not have an outsized impact on PGW and its ratepayers. These changes would likely require PGW to incur additional costs to implement for which PGW should be entitled to cost recovery.

[6] Application is a requirement of participation, but PGW does not remove customers from CRP for failure to apply.

systematic coordination with the Pennsylvania Department of Human Services ("DHS") – the state agency that administers LIHEAP.

3. CAP Income Calculations

PGW currently uses annualized income for self-employed customers and allows CAP enrollment for "zero income" customers on the condition that these zero-income customers must recertify every six months. Requiring recertification is an important feature to prevent fraud. Customers with "zero income" should not be allowed – on a permanent basis – to continue to receive the benefits of CAP given that the customer must have some income source in order to retain a home. PGW does not agree that a "zero income" customer should be allowed to continue to participate in CAP beyond six months. Allowing participation with zero income on a permanent basis encourages and authorizes fraud – with other ratepayers bearing the costs of this fraud. For customers who subsidize CRP, the optics of such a rule are poor.

4. Requiring Social Security Identification

PGW does not require social security numbers as a condition for CAP enrollment. However, PGW does ask for an applicant's social security number and if the applicant refuses, then PGW permits other alternatives to verify identity. For fraud prevention purposes, PGW may require documentation supporting a social security number or other identification as part of its periodic review of CRP applications. PGW finds this process fair and supports the continued ability to request a social security number or some form of legal identification as a way to protect the integrity of CAP. The ability to require a social security number and/or some other legal identification number is essential when conducting fraud audits. Given the significant benefits offered by CAP (and paid for by other ratepayers), it is essential that a utility have the ability to use any and all tools available to investigate suspected fraud and confirm identity.

5. Use of Asset Tests

PGW does not support the use of asset tests for CAP enrollment (though PGW does support the use of asset tests for LIURP services) as it would likely result in unnecessary administrative costs and be difficult to administer on a wide scale. However, PGW does support asset valuation (e.g. determining real property ownership and value of real property) for investigating potential CAP fraud. Given the significant Universal Service spending that utilities and their ratepayers provide in the Commonwealth, it is essential that the Commission allow the utilities to utilize tools that can assist them in discovering/preventing fraud.

B. Percentage of Income Payment Plans vs. Multiple Payment Options

Issues raised regarding CAP payment plans include: (1) how to determine minimum payments/the structure of CAPs; and, (2) the calculation of arrearage co-payments and minimum bills and CAP Plus (for CAP Plus see section E.3. below).

1. The Structure of CAPs

Although, in compliance with the Commission's directive in its recently approved Universal Service & Energy Conservation Plan 2017-2020, PGW is in the process of revising its current percentage of income payment plan (PIPP) CAP to allow participants to pay less than their calculated energy burden payment (by adding an "average bill" option to its CAP), PGW does not support such approach. In PGW's view, the Commission should set its policy regarding energy affordability as part of this proceeding. Based on this policy, the appropriate energy burden levels that low-income consumers will be required to pay would be fixed, and all low-income CAP customers would pay those policy-based percentages. For now, under the new PIPP plus Average Bill program, PGW's CAP customers will be paying various energy burdens – those on PIPP will pay the Commission set energy burdens and those on the Average Bill will pay a lower energy burden (even though the customer could have paid the full bill – including arrears – on their own, without other ratepayer subsidization). This is not good policy, and is not an efficient use of other ratepayers' subsidization.

2. Minimum Bills for Very Low/No Income Customers and Arrearage Co-payments

Regarding very low/no-income customers, PGW supports the continued use of a minimum bill and the suggestion to engage in a stakeholder process to develop the factors that could be used to set the minimum bill amount. Requiring the customer to pay some minimum amount in recognition of the usage of energy is important and also lessens the cost impact on other ratepayers. For similar reasons, PGW supports continuing to require CAP participants to make some type of co-payment on arrears. PGW currently requires a co-payment amount of $5. Requiring the customer to take responsibility for his/her energy usage and contribute toward the outstanding payment obligation is reasonable and appropriate policy. Universal Service programs do not function in a vacuum and PGW believes it is critical that ratepayers who fund Universal Service programs see that there are policies and requirements that are fair and rational, and that maintain program integrity.

C. Energy Burden

Issues raised regarding the energy burden calculation for CAPs include: (1) recommendations to utilize a 6% energy burden (4% for gas heating and 2% for gas non-heat); and (2) the impact on CAP costs from decreasing the energy burden level.

As a preliminary matter, it is essential to recognize that Universal Service programs are not government programs designed to address every impact of poverty, or to solve the problem of poverty in Pennsylvania, and these programs should not be expanded to include such a scope. Utility bills should not be used as a mechanism to cure poverty in Pennsylvania, and regulated utilities should not be obligated to take on a role that should be left to government.

Further, approximately one third of PGW's ratepayers are low income[7] with a substantial proportion of the rest just above the poverty level – the working poor. All changes under consideration in this docket should be reviewed in a rulemaking and in light of the financial impact on non-participating customers who are subsidizing these programs, and who will become overburdened if program costs are too high (and, in PGW's service territory, who will also be subsidizing PECO's programs). This review should be done on a utility by utility basis and on a service territory basis. A failure to take into consideration the composition and size of a utility's ratepayer base and the existing surcharges or rates borne by the utility's ratepayers, would result in certain Pennsylvania ratepayers being financially "punished" for the composition of a utility's service territory. In such an instance, the ratepayers would be required to subsidize a massive Universal Service program simply because a significant percentage of the utility's customers are low income.

Regarding the costs to PGW ratepayers to reduce the energy burden, as reflected in the PUC's Universal Service Programs & Collections Performance Report,[8] in calendar year 2011 the average annual Universal Service spend per residential customer was $214.83 with 80,298 CAP participants;[9] in 2010 it was $200.58 with 82,544 CAP participants;[10] in 2009 it was

7 Approximately 30.8% of PGW's customers are confirmed low-income and this is the highest proportionate number of low income customers of all Pennsylvania electric and gas utilities. *Pennsylvania Public Utility Commission 2014 Report on Universal Service Programs and Collections Performance*, October 2015 at 7. Available at: http://www.puc.pa.gov/General/publications_reports/pdf/EDC_NGDC_UniServ_Rpt2014.pdf

8 In recent years, the average cost per residential customer has been lower (in 2015 it was $138.24, which is still the highest in the Commonwealth) but PGW has provided historical costs since depending on factors such as the cost of gas and CAP participation levels, the costs have been much higher.

9 Pennsylvania Public Utility Commission 2011 Report on Universal Service Programs and Collections Performance at 60 and 40.

10 Pennsylvania Public Utility Commission 2010 Report on Universal Service Programs and Collections Performance at 70 and 40.

$225.90 with 81,905 CAP participants;[11] in 2008 it was $220.05 with 78,190 CAP participants;[12] in 2007 it was $224.94 with 76,235 CAP participants.[13]

PGW has performed a preliminary analysis of estimated costs of changes to the energy burden and estimates the additional costs would be substantial (at the least in the tens of millions). It must be noted that these estimates were based on current gas costs and if the cost of gas increases, these estimates would increase. Further, PGW reasonably expects that the size of its CAP would grow, depending on the level set for the energy burden (and the state of the economy) – and thus any estimate would have to account for an increased number of customers participating and the fact that these customers would also receive arrearage forgiveness, and both of these costs would be passed on to non-CAP customers. The PGW confirmed low income population in 2016 was 148,995. PGW believes it is premature to estimate the expected costs of energy burden changes without the benefit of the energy burden study and the Commission's proposed resolution regarding the energy burden study's recommendations and cost recovery for changes, as well as an understanding of the resolution of numerous proposals at this docket and their related costs.

The energy burden study should provide sufficient detail for utilities to analyze the potential costs of the recommended changes. The outcome of the Commission's energy burden study could further impact PGW's view on this issue. PGW supports the creation of an initial stakeholder group to fully examine this issue and the related ramifications to other customers, and, potentially, to entire service territories. As part of this review and depending on the energy

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11 Pennsylvania Public Utility Commission 2009 Report on Universal Service Programs and Collections Performance at 69 and 39.

12 Pennsylvania Public Utility Commission 2008 Report on Universal Service Programs and Collections Performance at 66 and 43.

13 Pennsylvania Public Utility Commission 2007 Report on Universal Service Programs and Collections Performance at 67 and 38.

burden policy established, the PUC should examine the use of a statewide program (administration and funding) so that ratepayers in certain service territories are not overburdened with Universal Service costs.[14] Such a program would establish a uniform benefit for low income customers, based upon the Commission's determination of an acceptable "energy burden." The difference between the amount of a CAP participant's energy burden and the full bill – the CAP subsidy – would be remitted collectively by all remaining Pennsylvania electric and natural gas distribution company customers. The fund could be administered on a statewide basis by the Commission, or an outside vendor. Such a fund could deal with only one utility type (i.e., natural gas or electric only) or multiple utility services (e.g., electric and natural gas, or even water).

There is precedent for the establishment of such a fund. For example, since 1998, the Commission has allocated the costs of the statewide electric choice education program to all customers. Initially, the funding was received through a Competitive Transition Charge assessed on all consumers as a distribution charge. In 2007, the Commission initiated a statewide consumer education campaign that was funded by allocating $5 million from the assessments paid by the electric distribution companies ("EDCs") to the Commission.[15] As a complement to the statewide consumer education campaign, the Commission required each EDC to file a consumer education plan with the Commission which is funded through a non-bypassable

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14 See PGW Comments at 6-7. Notably, if income thresholds are raised so that more low-income consumers qualify for CAP programs, the result would be significant increases in participation which would place more financial pressure on the non-participating ratepayers to fund the increased participation rates. Such a result would disproportionately affect service territories in which there is a disproportionate number of low income customers – like PGW's – resulting in burdensome and unreasonable increases for non-low income customers.

15 *Policies to Mitigate Potential Electricity Price Increases*, Docket No. M-00061957, Final Order entered February 13, 2007 at 9-12